KEYCORP /NEW/
Form 10-K
March 02, 2015
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT

PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended

December 31, 2014

Commission file number: 1-11302

Exact name of Registrant as specified in its charter:

Ohio	**34-6542451**
State or other jurisdiction of incorporation or organization:	**IRS Employer Identification Number:**
127 Public Square, Cleveland, Ohio	**44114-1306**
Address of Principal Executive Offices:	**Zip Code:**

(216) 689-3000
Registrant s Telephone Number, including area code:

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	**Name of each exchange on which registered**
Common Shares, $1 par value	New York Stock Exchange

7.750% Non-Cumulative Perpetual Convertible Preferred Stock, Series A	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ü No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No ü

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 ü No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ü No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

Large accelerated filer ü	Accelerated filer	Non-accelerated filer	Smaller reporting company
		(Do not check if a 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 ü

The aggregate market value of voting stock held by nonaffiliates of the Registrant was $12,564,866,525 (based on the June 30, 2014, closing price of KeyCorp common shares of $14.33 as reported on the New York Stock Exchange). As of February 26, 2015, there were 855,324,689 common shares outstanding.

Certain specifically designated portions of KeyCorp s definitive Proxy Statement for its 2015 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

Table of Contents

Forward-looking Statements

From time to time, we have made or will make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements do not relate strictly to historical or current facts. Forward-looking statements usually can be identified by the use of words such as goal, objective, plan, expect, assume, anticipate, intend, project, believe, estimate, or other words of similar me Forward-looking statements provide our current expectations or forecasts of future events, circumstances, results or aspirations. Our disclosures in this report contain forward-looking statements. We may also make forward-looking statements in other documents filed with or furnished to the Securities and Exchange Commission (the SEC). In addition, we may make forward-looking statements orally to analysts, investors, representatives of the media and others.

Forward-looking statements, by their nature, are subject to assumptions, risks, and uncertainties, many of which are outside of our control. Our actual results may differ materially from those set forth in our forward-looking statements. There is no assurance that any list of risks and uncertainties or risk factors is complete. Factors that could cause actual results to differ from those described in forward-looking statements include, but are not limited to:

¿ deterioration of commercial real estate market fundamentals;

¿ defaults by our loan counterparties or clients;

¿ adverse changes in credit quality trends;

¿ declining asset prices;

¿ our concentrated credit exposure in commercial, financial, and agricultural loans;

¿ the extensive and increasing regulation of the U.S. financial services industry;

¿ changes in accounting policies, standards, and interpretations;

¿ breaches of security or failures of our technology systems due to technological or other factors and cybersecurity threats;

¿ operational or risk management failures by us or critical third-parties;

¿ negative outcomes from claims or litigation;

¿ the occurrence of natural or man-made disasters or conflicts or terrorist attacks;

¿ increasing capital and liquidity standards under applicable regulatory rules;

¿ unanticipated changes in our liquidity position, including but not limited to, changes in the cost of liquidity, our ability to enter the financial markets and to secure alternative funding sources;

¿ our ability to receive dividends from our subsidiary, KeyBank;

¿ downgrades in our credit ratings or those of KeyBank;

¿ a reversal of the U.S. economic recovery due to financial, political or other shocks;

¿ our ability to anticipate interest rate changes and manage interest rate risk;

¿ deterioration of economic conditions in the geographic regions where we operate;

¿ the soundness of other financial institutions;

¿ our ability to attract and retain talented executives and employees and to manage our reputational risks;

¿ our ability to timely and effectively implement our strategic initiatives;

¿ increased competitive pressure due to industry consolidation;

Table of Contents

¿ unanticipated adverse effects of strategic partnerships or acquisitions and dispositions of assets or businesses; and

¿ our ability to develop and effectively use the quantitative models we rely upon in our business planning.

Any forward-looking statements made by us or on our behalf speak only as of the date they are made, and we do not undertake any obligation to update any forward-looking statement to reflect the impact of subsequent events or circumstances. Before making an investment decision, you should carefully consider all risks and uncertainties disclosed in our SEC filings, including this report on Form 10-K and our subsequent reports on Forms 10-Q and 8-K and our registration statements under the Securities Act of 1933, as amended, all of which are or will upon filing be accessible on the SEC s website at www.sec.gov and on our website at www.key.com/ir.

Table of Contents

KEYCORP

2014 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. BUSINESS

Overview

KeyCorp, organized in 1958 under the laws of the State of Ohio, is headquartered in Cleveland, Ohio. We are a bank holding company under the Bank Holding Company Act of 1956, as amended (BHCA), and are one of the nation s largest bank-based financial services companies, with consolidated total assets of approximately $93.8 billion at December 31, 2014. KeyCorp is the parent holding company for KeyBank National Association (KeyBank), its principal subsidiary, through which most of our banking services are provided. Through KeyBank and certain other subsidiaries, we provide a wide range of retail and commercial banking, commercial leasing, investment management, consumer finance, commercial mortgage servicing and special servicing, and investment banking products and services to individual, corporate, and institutional clients through two major business segments: Key Community Bank and Key Corporate Bank.

As of December 31, 2014, these services were provided across the country through KeyBank s 994 full-service retail banking branches and a network of 1,287 automated teller machines (ATMs) in 12 states, as well as additional offices, online and mobile banking capabilities, and a telephone banking call center. Additional information pertaining to our two business segments is included in the Line of Business Results section in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of this report, and in Note 23 (Line of Business Results) of the Notes to Consolidated Financial Statements presented in Item 8. Financial Statements and Supplementary Data, which are incorporated herein by reference. KeyCorp and its subsidiaries had an average of 13,853 full-time equivalent employees for 2014.

In addition to the customary banking services of accepting deposits and making loans, our bank and trust company subsidiaries offer personal, securities lending and custody services, personal financial services, access to mutual funds, treasury services, investment banking and capital markets products, and international banking services. Through our bank, trust company, and registered investment adviser subsidiaries, we provide investment management services to clients that include large corporate and public retirement plans, foundations and endowments, high-net-worth individuals, and multi-employer trust funds established for providing pension or other benefits to employees.

We provide other financial services both within and outside of our primary banking markets through various nonbank subsidiaries. These services include community development financing, securities underwriting, and brokerage. We also provide merchant services to businesses directly and through an equity participation in a joint venture.

KeyCorp is a legal entity separate and distinct from its banks and other subsidiaries. Accordingly, the right of KeyCorp, its security holders and its creditors to participate in any distribution of the assets or earnings of its banks and other subsidiaries is subject to the prior claims of the creditors of such banks and other subsidiaries, except to the extent that KeyCorp s claims in its capacity as a creditor may be recognized.

Important Terms Used in this Report

As used in this report, 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 solely to KeyCorp s subsidiary bank, KeyBank National Association. KeyBank (consolidated) refers to the consolidated entity consisting of KeyBank and its subsidiaries.

The acronyms and abbreviations identified in Part II, Item 8. Note 1 (Summary of Significant Accounting Policies) hereof are used throughout this report, particularly in the Notes to Consolidated Financial Statements as well as in Management s Discussion and Analysis of Financial Condition and Results of Operations. You may find it helpful to refer to that section as you read this report.

4

Table of Contents

Demographics

We have two major business segments: Key Community Bank and Key Corporate Bank.

Key Community Bank serves individuals and small to mid-sized businesses by offering a variety of deposit, investment, lending, credit card, and personalized wealth management products and business advisory services. These products and services are provided through our relationship managers and specialists working in our 12-state branch network, which is organized into eight internally defined geographic regions: Pacific, Rocky Mountains, Indiana, Western Ohio and Michigan, Eastern Ohio, Western New York, Eastern New York, and New England.

The following table presents the geographic diversity of Key Community Bank s average deposits, commercial loans, and home equity loans.

Year ended December 31, 2014 *dollars in millions*	Geographic Region Pacific	Rocky Mountains	Indiana	West Ohio/ Michigan	East Ohio	Western New York	Eastern New York	New England	NonRegion (a)	Total
Average deposits	$ 11,301	$ 4,984	$ 2,320	$ 4,344	$ 9,026	$ 4,931	$ 7,892	$ 2,895	$ 2,632	$ 50,325
Percent of total	22.5 %	9.9 %	4.6 %	8.6 %	17.9 %	9.8 %	15.7 %	5.8 %	5.2 %	100.0 %
Average commercial loans	$ 3,497	$ 1,702	$ 749	$ 1,138	$ 2,201	$ 573	$ 1,853	$ 745	$ 2,974	$ 15,432
Percent of total	22.7 %	11.0 %	4.8 %	7.4 %	14.3 %	3.7 %	12.0 %	4.8 %	19.3 %	100.0 %
Average home equity loans	$ 3,283	$ 1,580	$ 489	$ 850	$ 1,274	$ 815	$ 1,296	$ 651	$ 102	$ 10,340
Percent of total	31.8 %	15.3 %	4.7 %	8.2 %	12.3 %	7.9 %	12.5 %	6.3 %	1.0 %	100.0 %

(a) Represents average deposits, commercial loan products, and home equity loan products centrally managed outside of our eight Key Community Bank regions.

Key Corporate Bank is a full-service corporate and investment bank focused principally on serving the needs of middle market clients in seven industry sectors: consumer, energy, healthcare, industrial, public sector, real estate, and technology. Key Corporate Bank delivers a broad product suite of banking and capital markets products to its clients, including syndicated finance, debt and equity capital markets, commercial payments, equipment finance, commercial mortgage banking, derivatives, foreign exchange, financial advisory, and public finance. Key Corporate Bank is also a significant servicer of commercial mortgage loans and a significant special servicer of CMBS. Key Corporate Bank delivers many of its product capabilities to clients of Key Community Bank.

Further information regarding the products and services offered by our Key Community Bank and Key Corporate Bank segments is included in this report in Note 23 (Line of Business Results).

Table of Contents

Additional Information

The following financial data is included in this report in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, and Item 8. Financial Statements and Supplementary Data, and is incorporated herein by reference as indicated below:

Our executive offices are located at 127 Public Square, Cleveland, Ohio 44114-1306, and our telephone number is (216) 689-3000. Our website is www.key.com, and the investor relations section of our website may be reached through www.key.com/ir. We make available free of charge, on or through the investor relations section of our website, annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our website, and available in print upon request from any shareholder to our Investor Relations Department, are the charters for our Audit Committee, Compensation and Organization Committee, Executive Committee, Nominating and Corporate Governance Committee, and Risk Committee; our Corporate Governance Guidelines; the Code of Ethics for our directors, officers and employees; our Standards for Determining Independence of Directors; our Policy for Review of Transactions Between KeyCorp and Its Directors, Executive Officers and Other Related Persons; and our Statement of Political Activity. Within the time period required by the SEC and the New York Stock Exchange, we will post on our website any amendment to the Code of Ethics and any waiver applicable to any senior executive officer or director. We also make available a summary of filings made with the SEC of statements of beneficial ownership of our equity securities filed by our directors and officers under Section 16 of the Exchange Act. The Regulatory Disclosure tab of the investor relations section of our website includes public disclosures concerning our annual and mid-year stress-testing activities under the Dodd-Frank Act.

Information contained on or accessible through our website or any other website referenced in this report is not part of this report. References to websites in this report are intended to be inactive textual references only.

Shareholders may obtain a copy of any of the above-referenced corporate governance documents by writing to our Investor Relations Department at Investor Relations, KeyCorp, 127 Public Square, Mailcode OH-01-27-0737, Cleveland, Ohio 44114-1306; by calling (216) 689-3000; or by sending an e-mail to investor_relations@keybank.com.

Table of Contents

Acquisitions and Divestitures

The information presented in Note 13 (Acquisitions and Discontinued Operations) is incorporated herein by reference.

Competition

The market for banking and related financial services is highly competitive. Key competes with other providers of financial services, such as bank holding companies, commercial banks, savings associations, credit unions, mortgage banking companies, finance companies, mutual funds, insurance companies, investment management firms, investment banking firms, broker-dealers, and other local, regional, national, and global institutions that offer financial services. Some of our competitors are larger and may have more financial resources, while some of our competitors enjoy fewer regulatory constraints and may have lower cost structures. The financial services industry is likely to become more competitive as further technology advances enable more companies, including nonbank companies, to provide financial services. Technological advances may diminish the importance of depository institutions and other financial institutions. We compete by offering quality products and innovative services at competitive prices, and by maintaining our products and services offerings to keep pace with customer preferences and industry standards.

Mergers and acquisitions have led to increased concentration in the banking industry, placing added competitive pressure on Key s core banking products and services.

Executive Officers of KeyCorp

KeyCorp s executive officers are principally responsible for making policy for KeyCorp, subject to the supervision and direction of the Board of Directors. All executive officers are subject to annual election at the annual organizational meeting of the Board of Directors held each May.

Set forth below are the names and ages of the executive officers of KeyCorp as of December 31, 2014, the positions held by each at KeyCorp during the past five years, and the year each first became an executive officer of KeyCorp. Because Messrs. Buffie, Devine, Hartmann, and Kimble and Ms. Brady have been employed at KeyCorp for less than five years, information is being provided concerning their prior business experience. There are no family relationships among the directors or the executive officers.

Amy G. Brady (48) Ms. Brady is KeyCorp s Chief Information Officer, serving in that role since May 2012. Prior to joining KeyCorp, Ms. Brady spent 25 years with Bank of America (a financial services institution), where she most recently served as Senior Vice President and Chief Information Officer, Enterprise Technology and Operations, supporting technology delivery and operations for crucial enterprise functions. Ms. Brady has been an executive officer of KeyCorp since she joined in 2012.

Craig A. Buffie (54) Mr. Buffie has been KeyCorp s Chief Human Resources Officer since February 2013. Prior to joining KeyCorp, Mr. Buffie was employed for 27 years with Bank of America (a financial services institution), where he served in numerous human resources positions, including as a human resources executive for technology and operations for consumer and small business, as well as for its corporate and investment bank. Most recently, he was Head of Home Loan Originations for Bank of America. Mr. Buffie has been an executive officer of KeyCorp since joining in 2013.

Edward J. Burke (58) Mr. Burke has been the Co-President, Commercial and Private Banking of Key Community Bank since April 2014 and an Executive Officer of KeyCorp since May 2014. From 2005 until his election as Co-President, Mr. Burke was an Executive Vice President and head of KeyBank Real Estate Capital and Key Community Development Lending.

Table of Contents

Dennis A. Devine (43) Mr. Devine has been the Co-President, Consumer and Small Business of Key Community Bank since April 2014 and an Executive Officer of KeyCorp since May 2014. From 2012 to 2014, Mr. Devine served as Executive Vice President in various roles, including as head of the Consumer & Small Business Segment and head of Integrated Channels and Community Bank Strategy for Key Community Bank. Prior to joining Key in 2012, Mr. Devine served in various executive capacities with Citizens Financial Group and PNC Bank (financial services institutions).

Trina M. Evans (50) Ms. Evans has been the Director of Corporate Center for KeyCorp since August 2012, partnering with Key s executive leadership team and Board of Directors to ensure alignment of strategy, objectives, priorities, and messaging across Key. Prior to this role, Ms. Evans was the Chief Administrative Officer for Key Community Bank and the Director of Client Experience for KeyBank. During her career with KeyCorp, she has served in a variety of senior management roles associated with the call center, internet banking, retail banking, distribution management and information technology. She became an executive officer of KeyCorp in March 2013.

Robert A. DeAngelis (53) Mr. DeAngelis has been the Director of the Enterprise Program Management Office for KeyCorp since November 2011, providing leadership for KeyCorp s large-scale, organization-wide initiatives. He previously served as the Consumer Segment executive with responsibility for developing client strategies and programs for Key s Community Bank Consumer and Small Business segments. He became an executive officer of KeyCorp in March 2013.

Christopher M. Gorman (54) Mr. Gorman has been the President of Key Corporate Bank since 2010. He previously served as a KeyCorp Senior Executive Vice President and head of Key National Banking during 2010. Mr. Gorman was an Executive Vice President of KeyCorp (2002 to 2010) and served as President of KeyBanc Capital Markets (2003 to 2010). He became an executive officer of KeyCorp in 2010.

Paul N. Harris (56) Mr. Harris has been the General Counsel and Secretary of KeyCorp since 2003 and an executive officer of KeyCorp since 2004.

William L. Hartmann (61) Mr. Hartmann has been the Chief Risk Officer of KeyCorp since July 2012. Mr. Hartmann joined KeyCorp in 2010 as its Chief Credit Officer. Prior to joining KeyCorp, Mr. Hartmann spent 29 years at Citigroup (a multinational financial services institution) where his most recent position was global head of Large Corporate Risk Management. While at Citigroup, he held numerous roles with increasing responsibility, including Chief Risk Officer, Asia Pacific, head of Global Portfolio Management, co-head of Leveraged Finance Capital Markets and global head of Loan Sales and Trading. Mr. Hartmann has been an executive officer of KeyCorp since 2012.

Donald R. Kimble (54) Mr. Kimble has been the Chief Financial Officer of KeyCorp since June 2013. Prior to joining KeyCorp, Mr. Kimble served as Chief Financial Officer of Huntington Bancshares Inc., a bank holding company headquartered in Columbus, Ohio, after joining the company in August 2004, and also served as its Controller from August 2004 to November 2009. Mr. Kimble was also President and a director of Huntington Preferred Capital, Inc., a publicly-traded company, from August 2004 until May 2013. Mr. Kimble became an executive officer upon joining KeyCorp in June 2013.

Beth E. Mooney (59) Ms. Mooney has been the Chairman and Chief Executive Officer of KeyCorp since 2011, and an executive officer of KeyCorp since 2006. Prior to becoming Chairman and Chief Executive Officer, she served in a variety of roles with KeyCorp, including President and Chief Operating Officer and Vice Chair and head of Key Community Bank. Prior to joining KeyCorp, she served in a number of executive and senior finance roles with banks and bank holding companies across the United States. She has been a director of AT&T, a publicly-traded telecommunications company, since 2013.

Robert L. Morris (62) Mr. Morris has been the Chief Accounting Officer and an executive officer of KeyCorp since 2006.

Supervision and Regulation

The regulatory framework applicable to BHCs and banks is intended primarily to protect customers and depositors, the DIF, consumers, taxpayers and the banking system as a whole, rather than to protect the security holders and creditors of financial services companies. Comprehensive reform of the legislative and regulatory environment for financial services companies occurred in 2010 and remains ongoing. We cannot predict changes in applicable laws, regulations or regulatory agency policies, but such changes may materially affect our business, financial condition, results of operations, or access to liquidity or credit.

Overview

As a BHC, KeyCorp is subject to regulation, supervision, and examination by the Federal Reserve under the BHCA. Under the BHCA, BHCs generally may not directly or indirectly own or control more than 5% of the voting shares, or substantially all of the assets, of any bank, without prior approval by the Federal Reserve. In addition, BHCs are generally prohibited from engaging in commercial or industrial activities.

Under federal law, a BHC must serve as a source of financial strength to its subsidiary depository institutions by providing financial assistance to them in the event of their financial distress. This support may be required when we do not have the resources to, or would prefer not to, provide it. Certain loans by a BHC to a subsidiary bank are subordinate in right of payment to deposits in, and certain other indebtedness of, the subsidiary bank. In addition, federal law provides that in the bankruptcy of a BHC, any commitment by the BHC to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Federal law establishes a system of regulation under which the Federal Reserve is the umbrella regulator for BHCs, while their subsidiaries are principally regulated by prudential and functional regulators: 1) the OCC for national banks and federal savings associations; 2) the FDIC for non-member state banks and savings associations; 3) the Federal Reserve for member state banks; 4) the CFPB for consumer financial products or services; 5) the SEC and FINRA for securities broker/dealer activities; 6) the SEC, CFTC, and NFA for swaps and other derivatives; and 7) state insurance regulators for insurance activities. Certain specific activities, including traditional bank trust and fiduciary activities, may be conducted in a bank without the bank being deemed a broker or a dealer in securities for purposes of securities functional regulation. Although the states generally must regulate bank insurance activities in a nondiscriminatory manner, the states may continue to adopt and enforce rules that specifically regulate bank insurance activities in certain identifiable risks.

Our national bank subsidiaries and their subsidiaries are subject to regulation, supervision and examination by the OCC. At December 31, 2014, we operated one full-service, FDIC-insured national bank subsidiary, KeyBank, and one national bank subsidiary that is limited to fiduciary activities. The FDIC also has certain regulatory, supervisory and examination authority over KeyBank and KeyCorp under the FDIA and the Dodd-Frank Act.

We have other financial services subsidiaries that are subject to regulation, supervision and examination by the Federal Reserve, as well as other applicable state and federal regulatory agencies and self-regulatory organizations. Because KeyBank engages in derivative transactions, in 2013 it provisionally registered as a swap dealer with the CFTC and became a member of the NFA, the self-regulatory organization for participants in the U.S. derivatives industry. Our securities brokerage and asset management subsidiaries are subject to supervision and regulation by the SEC, FINRA and state securities regulators, and our insurance subsidiaries are subject to regulation by the insurance regulatory authorities of the states in which they operate. Our other nonbank subsidiaries are subject to laws and regulations of both the federal government and the various states in which they are authorized to do business.

Regulatory capital and liquidity

Federal banking regulators have promulgated risk-based capital and leverage ratio requirements applicable to Key and KeyBank (consolidated). The adequacy of regulatory capital is assessed periodically by federal banking agencies in their examination and supervision processes, and in the evaluation of applications in connection with certain expansion activities.

Regulatory capital requirements prior to January 1, 2015

At December 31, 2014, the minimum risk-based capital requirements adopted by federal banking regulators were based on a 1988 international accord (Basel I) developed by the Basel Committee on Banking Supervision (the Basel Committee). Prior to January 2015, Key and KeyBank (consolidated) were generally required to maintain a minimum ratio of total capital to risk-weighted assets of 8%. At least half of the total capital had to be Tier 1 capital, which consists of qualifying perpetual preferred stock, common shareholders equity (excluding AOCI other than the cumulative effect of foreign currency translation), a limited amount of qualifying trust preferred securities, and certain mandatorily convertible preferred securities. The remainder could consist of Tier 2 capital, including qualifying subordinated debt, certain hybrid capital instruments, perpetual debt, mandatory convertible debt instruments, qualifying perpetual preferred stock, and a limited amount of the allowance for credit losses. BHCs and banks with securities and commodities trading activities exceeding specified levels were required to maintain capital to cover their market risk exposure. Federal banking regulators also established a minimum leverage ratio requirement for banking organizations. The leverage ratio is Tier 1 capital divided by adjusted average total assets. At December 31, 2014, the minimum leverage ratio was 3% for BHCs and national banks that are considered strong by the Federal Reserve or the OCC, respectively, 3% for any BHC that had implemented the Federal Reserve s risk-based capital measure for market risk, and 4% for all other BHCs and national banks. At December 31, 2014, the minimum leverage ratio for Key and KeyBank (consolidated) was 3% and 4%, respectively. BHCs and national banks may be expected to maintain ratios well above the minimum levels, depending upon their particular condition, risk profile, or growth plans. As presented in Note 22 (Shareholders Equity), at December 31, 2014, Key and KeyBank (consolidated) had regulatory capital in excess of all applicable minimum risk-based capital (including all adjustments for market risk) and leverage ratio requirements.

Basel III capital and liquidity frameworks

In December 2010, the Basel Committee released its final framework to strengthen international capital regulation of banks, and revised it in June 2011 and January 2014 (as revised, the Basel III capital framework). The Basel III capital framework requires higher and better-quality capital, better risk coverage, the introduction of a new leverage ratio as a backstop to the risk-based requirement, and measures to promote the buildup of capital that can be drawn down in periods of stress. The Basel III capital framework, among other things, introduces a new capital measure, Common Equity Tier 1, to be included in Tier 1 capital with other capital instruments meeting specified requirements, a capital conservation buffer, and a countercyclical capital buffer. The Basel III capital framework is being phased-in over a multi-year period.

In November 2011, the Basel Committee issued its final rule for a common equity surcharge on certain designated global systemically important banks (G-SIBs), which was revised in July 2013 (as revised, Basel G-SIB framework). Under the Basel G-SIB framework, a G-SIB is assessed a progressive 1.0% to 3.5% surcharge to the Common Equity Tier 1 capital conservation buffer based upon the bank s systemic importance score. In December 2014, the Federal Reserve published an NPR (the U.S. G-SIB NPR) that would implement the Basel G-SIB framework for U.S. G-SIBs, but with expected surcharges ranging from 1.0% to 4.5%, and would include a new indicator to address the perceived risks of short-term wholesale funding. At December 31, 2014, and based on 2013 year-end data, there were eight U.S. BHCs (none of which included KeyCorp) designated as G-SIBs under the Basel G-SIB framework. In addition, the U.S. G-SIB NPR would require each

Table of Contents

U.S. top-tier BHC with consolidated total assets of at least $50 billion and not a subsidiary of a foreign banking organization, such as KeyCorp, to determine annually whether it is a U.S. G-SIB by using five categories that measure global systemic importance size, interconnectedness, substitutability, complexity, and cross-jurisdictional activity. Comments on the U.S. G-SIB NPR are due by March 2, 2015.

The Basel Committee published its international liquidity standards in 2010, and revised them in January 2013, January 2014, and October 2014 (as revised, the Basel III liquidity framework). It established quantitative standards for liquidity by introducing a liquidity coverage ratio (Basel III LCR) and a net stable funding ratio (Basel III NSFR).

The Basel III LCR, calculated as the ratio of the stock of high-quality liquid assets (HQLAs) divided by total net cash outflows over 30 consecutive calendar days, must be at least 100%. The implementation of Basel III LCR began on January 1, 2015, with minimum requirements beginning at 60%, rising in annual steps of 10% until full implementation on January 1, 2019.

The Basel III NSFR, calculated as the ratio of the available amount of stable funding divided by the required amount of stable funding, must be at least 100%. The Basel III NSFR becomes effective on January 1, 2018.

U.S. implementation of the Basel III capital framework

In October 2013, the federal banking regulators published the final Basel III capital framework for U.S. banking organizations (the Regulatory Capital Rules), which generally implement the Basel III capital framework as described above in the United States. Under the Regulatory Capital Rules, certain large U.S.-domiciled BHCs and banks (each, an advanced approaches banking organization) must satisfy minimum qualifying criteria using organization-specific internal risk measures and management processes for calculating risk-based capital requirements as well as follow certain methodologies to calculate their total risk-weighted assets. Since neither KeyCorp nor KeyBank has at least $250 billion in total consolidated assets or at least $10 billion of total on-balance sheet foreign exposure, neither KeyCorp nor KeyBank is an advanced approaches banking organization. Instead, each of them is a standardized approach banking organization.

New minimum capital and leverage ratio requirements

Under the Regulatory Capital Rules, a standardized approach banking organization, like KeyCorp, will be required to meet the minimum capital and leverage ratios set forth in the table below. At December 31, 2014, Key had an estimated Common Equity Tier 1 Capital Ratio of 10.7% under Basel III. Also at December 31, 2014, based on the fully phased-in Regulatory Capital Rules, Key estimates that its capital and leverage ratios would be as set forth in the table below.

Estimated Ratios vs. Minimum Capital Ratios Calculated Under the Fully Phased-In

Regulatory Capital Rules

Ratios (including Capital conservation buffer)	**Key December 31, 2014**	**Minimum January 1, 2015**	**Phase-in Period**	**Minimum January 1, 2019**

	Estimated						
Common Equity Tier 1 [a]	10.7	%	4.5	%	None	4.5	%
Capital conservation buffer [b]					1/1/16 - 1/1/19	2.5	
Common Equity Tier 1 + Capital conservation buffer			4.5		1/1/16 - 1/1/19	7.0	
Tier 1 Capital	11.0		6.0		None	6.0	
Tier 1 Capital + Capital conservation buffer			6.0		1/1/16 - 1/1/19	8.5	
Total Capital	13.1		8.0		None	8.0	
Total Capital + Capital conservation buffer			8.0		1/1/16 - 1/1/19	10.5	
Leverage [c]	10.5		4.0		None	4.0	

Table of Contents

(a) See Figure 4 entitled GAAP to Non-GAAP Reconciliations, which presents the computation for estimated Common Equity Tier 1. The table reconciles the GAAP performance measure to the corresponding non-GAAP measure, which provides a basis for period-to-period comparisons.

(b) Capital conservation buffer must consist of Common Equity Tier 1 capital. As a standardized approach banking organization, KeyCorp is not subject to the countercyclical capital buffer of up to 2.5% imposed upon an advanced approaches banking organization under the Regulatory Capital Rules.

(c) As a standardized approach banking organization, KeyCorp is not subject to the 3% supplemental leverage ratio requirement, which becomes effective January 1, 2018. Because KeyCorp has less than $700 billion in consolidated total assets and less than $10 trillion in assets under custody, KeyCorp is not subject to the supplemental leverage buffer requirement of at least 2%, which becomes effective January 1, 2018.

Revised prompt corrective action capital category ratios

Federal prompt corrective action regulations under the FDIA group FDIC-insured depository institutions into one of five prompt corrective action capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. In addition to implementing the Basel III capital framework in the U.S., the Regulatory Capital Rules also revised, effective January 1, 2015, the prompt corrective action capital category threshold ratios applicable to FDIC-insured depository institutions under the federal banking regulators prior prompt corrective action regulations. The Prior and Revised Prompt Corrective Action table, below, identifies the capital category threshold ratios for a well capitalized and an adequately capitalized institution under the prior and the revised prompt corrective action rules.

Well Capitalized and Adequately Capitalized Capital Category Ratios Under Prior and Revised Prompt Corrective Action Rules

	Capital Category			
	Well Capitalized [a]		Adequately Capitalized	
Prompt Corrective Action Ratio	Revised	Prior	Revised	Prior
Common Equity Tier 1 Risk-Based	6.5 %	N/A	4.5 %	N/A
Tier 1 Risk-Based	8.0	6.0 %	6.0	4.0 %
Total Risk-Based	10.0	10.0	8.0	8.0
Tier 1 Leverage [b]	5.0	5.0	4.0	3.0 or 4.0

(a) A well capitalized institution also must not be subject to any written agreement, order or directive to meet and maintain a specific capital level for any capital measure.

(b) As a standardized approach banking organization, KeyBank is not subject to the 3% supplemental leverage ratio requirement, which becomes effective January 1, 2018.

We believe that, as of December 31, 2014, KeyBank (consolidated) would have met all revised well capitalized prompt corrective action capital and leverage ratio requirements under the Regulatory Capital Rules if such requirements had been effective at that time. The prompt corrective action regulations, however, apply only to FDIC-insured depository institutions (like KeyBank) and not to BHCs (like KeyCorp). Moreover, since the regulatory capital categories under these regulations serve a limited supervisory function, investors should not use them as a representation of the overall financial condition or prospects of KeyBank.

U.S. implementation of the Basel III liquidity framework

In October 2014, the federal banking agencies published the final Basel III liquidity framework for U.S. banking organizations (the Liquidity Coverage Rules) that create a minimum liquidity coverage ratio (LCR) for certain internationally active bank and nonbank financial companies (excluding KeyCorp) and a modified version of the LCR (Modified LCR) for BHCs and other depository institution holding companies with over $50 billion in consolidated assets that are not internationally active (including KeyCorp).

KeyBank will not be subject to the LCR or the Modified LCR under the Liquidity Coverage Rules unless the OCC affirmatively determines that application to KeyBank is appropriate in light of its asset size, level of complexity, risk profile, scope of operations, affiliation with foreign or domestic covered entities, or risk to the financial system. The LCR and Modified LCR created by the Liquidity Coverage Rules are also an enhanced prudential liquidity standard consistent with the Dodd-Frank Act.

Because KeyCorp is a Modified LCR BHC under the Liquidity Coverage Rules, Key will be required to maintain its ratio of high-quality liquid assets to its total net cash outflow amount, determined by prescribed assumptions in a standardized hypothetical stress scenario over a 30-calendar day period, at least at 90% by January 1, 2016, and at least at 100% by January 1, 2017. Throughout December 2014, our estimated Modified LCR was approximately in the mid-80% range. To reach the minimum of 90% by January 1, 2016, and to operate with a cushion above the minimum required level, we may change the composition of our investment portfolio, increase the size of the overall investment portfolio, and modify product offerings. Calculation of Key s Modified LCR is required on a monthly basis, unlike on a daily basis for those U.S. banking organizations that are subject to the LCR rather than the Modified LCR.

Capital planning and stress testing

The Federal Reserve s capital plan rule requires each U.S.-domiciled, top-tier BHC with total consolidated assets of at least $50 billion (like KeyCorp) to develop and maintain a written capital plan supported by a robust internal capital adequacy process. The capital plan must be submitted annually to the Federal Reserve for supervisory review in connection with its annual CCAR. The supervisory review includes an assessment of many factors, including Key s ability to maintain capital above each minimum regulatory capital ratio and above a Tier 1 common ratio of 5% on a pro forma basis under expected and stressful conditions throughout the planning horizon. KeyCorp is also subject to the Federal Reserve capital plan rule and supervisory guidance regarding the declaration and payment of dividends and capital redemptions repurchases, including the supervisory expectation in certain circumstances for prior notification to, and consultation with, Federal Reserve supervisory staff.

The Federal Reserve s annual CCAR is an intensive assessment of the capital adequacy of large, complex U.S. BHCs and of the policies and practices these BHCs use to assess their capital needs. Through CCAR, the Federal Reserve assesses the capital plans of these BHCs to ensure that they have both sufficient capital to continue operations throughout times of financial and economic stress and robust, forward-looking capital planning processes that account for their unique risks. The Federal Reserve expects BHCs subject to CCAR to have sufficient capital to withstand a highly adverse operating environment and to be able to continue operations, maintain ready access to funding, meet obligations to creditors and counterparties, and serve as credit intermediaries. In addition, the Federal Reserve evaluates the planned capital actions of these BHCs, including planned capital distributions such as dividend payments or stock repurchases.

KeyCorp filed its 2015 CCAR capital plan on January 5, 2015. Under the Federal Reserve s October 2014 CCAR instructions and guidance, KeyCorp s 2015 capital plan was required to reflect the Regulatory Capital Rules, including their minimum regulatory capital ratios and transition arrangements, as well as Key s Tier 1 common ratio for each quarter of the planning horizon using the definitions of Tier 1 capital and total risk-weighted assets as in effect in 2014, as well as a transition plan for full implementation of the Regulatory Capital Rules.

As part of the annual CCAR, the Federal Reserve conducts an annual supervisory stress test on KeyCorp. As part of this test, the Federal Reserve projects revenue, expenses, losses, and resulting post-stress capital levels, regulatory capital ratios, and the Tier 1 common ratio under conditions that affect the U.S. economy or the financial condition of KeyCorp, including supervisory baseline, adverse, and severely adverse scenarios, that are determined annually by the Federal Reserve. Results from the 2015 CCAR, which will include the annual supervisory stress test methodology and certain firm-specific results for the participating 31 covered companies (including KeyCorp), will be publicly released by the Federal Reserve. The Federal Reserve has announced that the results from the supervisory stress test and the

2015 CCAR will be released on March, 5, 2015, and March 11, 2015, respectively.

KeyCorp and KeyBank must also conduct their own company-run stress tests to assess the impact of stress scenarios (including supervisor-provided baseline, adverse, and severely adverse scenarios and, for KeyCorp, one

KeyCorp-defined baseline scenario and at least one KeyCorp-defined one stress scenario) on their consolidated earnings, losses, and capital over a nine-quarter planning horizon, taking into account their current condition, risks, exposures, strategies, and activities. While KeyBank must only conduct an annual stress test, KeyCorp must conduct both an annual and a mid-cycle stress test. KeyCorp and KeyBank are required to report the results of their annual stress tests to the Federal Reserve and OCC in early January of each year. KeyCorp is required to report the results of its 2015 mid-cycle stress test to the Federal Reserve during the period of July 5, 2015 to August 4, 2015, inclusive. Summaries of the results of these company-run stress tests are disclosed each year under the Regulatory Disclosure tab of Key s Investor Relations website: http://www.key.com/ir.

Dividend restrictions

Federal banking law and regulations impose limitations on the payment of dividends by our national bank subsidiaries (like KeyBank). Historically, dividends paid by KeyBank have been an important source of cash flow for KeyCorp to pay dividends on its equity securities and interest on its debt. Dividends by our national bank subsidiaries are limited to the lesser of the amounts calculated under an earnings retention test and an undivided profits test. Under the earnings retention test, without the prior approval of the OCC, a dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year s net income combined with the retained net income of the two preceding years. Under the undivided profits test, a dividend may not be paid in excess of a bank s undivided profits. Moreover, under the FDIA, an insured depository institution may not pay a dividend if the payment would cause it to be in a less than adequately capitalized prompt corrective action capital category or if the institution is in default in the payment of an assessment due to the FDIC. For more information about the payment of dividends by KeyBank to KeyCorp, please see Note 3 (Restrictions on Cash, Dividends and Lending Activities) in this report.

FDIA, Resolution Authority and Financial Stability

Deposit insurance and assessments

The DIF provides insurance coverage for domestic deposits funded through assessments on insured depository institutions like KeyBank. The amount of deposit insurance coverage for deposits is $250,000 per depository.

The FDIC must assess the premium based on an insured depository intuition s assessment base, calculated as its average consolidated total assets minus its average tangible equity. KeyBank s current annualized premium assessments can range from $.025 to $.45 for each $100 of its assessment base. The rate charged depends on KeyBank s performance on the FDIC s large and highly complex institution risk-assessment scorecard, which includes factors such as KeyBank s regulatory rating, its ability to withstand asset and funding-related stress, and the relative magnitude of potential losses to the FDIC in the event of KeyBank s failure.

Conservatorship and receivership of insured depository institutions

Upon the insolvency of an insured depository institution, the FDIC will be appointed as receiver or, in rare circumstances, conservator for the insolvent institution under the FDIA. In an insolvency, the FDIC may repudiate or disaffirm any contract to which the institution is a party if the FDIC determines that performance of the contract would be burdensome and that disaffirming or repudiating the contract would promote orderly administration of the institution s affairs. If the contractual counterparty made a claim against the receivership (or conservatorship) for breach of contract, the amount paid to the counterparty would depend upon, among other factors, the receivership (or conservatorship) assets available to pay the claim and the priority of the claim relative to others. In addition, the FDIC may enforce most contracts entered into by the insolvent institution, notwithstanding any provision that would terminate, cause a default, accelerate or give other rights under the contract solely because of the insolvency, the appointment of the receiver (or conservator), or the exercise of rights or powers by the receiver (or conservator). The FDIC may also transfer any asset or liability of the insolvent institution without obtaining approval or consent from the institution s shareholders or creditors. These provisions would apply to obligations and liabilities of KeyCorp s insured depository institution subsidiaries, such as KeyBank, including obligations under senior or subordinated debt issued to public investors.

Receivership of certain SIFIs

The Dodd-Frank Act created a new resolution regime, as an alternative to bankruptcy, known as the orderly liquidation authority (OLA) for certain SIFIs, including BHCs and their affiliates. Under the OLA, the FDIC would generally be appointed as receiver to liquidate and wind up a failing SIFI. The determination that a SIFI should be placed into OLA receivership is made by the U.S. Treasury Secretary, who must conclude that the SIFI is in default or in danger of default and that the SIFI s failure poses a risk to the stability of the U.S. financial system. This determination must come after supermajority recommendations by the Federal Reserve and the FDIC, and consultation between the U.S. Treasury Secretary and the President.

If the FDIC is appointed as receiver under the OLA, its powers and the rights and obligations of creditors and other relevant parties would be determined exclusively under the OLA. The powers of a receiver under the OLA are generally based on the FDIC s powers as receiver for insured depository institutions under the FDIA. Certain provisions of the OLA were modified to reduce disparate treatment of creditors claims between the U.S. Bankruptcy Code and the OLA. However, substantial differences between the two regimes remain, including the FDIC s right to disregard claim priority in some circumstances, the use of an administrative claims procedure under OLA to determine creditors claims (rather than a judicial procedure in bankruptcy), the FDIC s right to transfer claims to a bridge entity, and limitations on the ability of creditors to enforce contractual cross-defaults against potentially viable affiliates of the entity in receivership. OLA liquidity would be provided through credit support from the U.S. Treasury and assessments made, first, on claimants against the receivership that received more in the OLA resolution than they would have received in ordinary liquidation (to the full extent of the excess), and second, if necessary, on SIFIs, like KeyCorp, utilizing a risk-based methodology.

In December 2013, the FDIC published a notice for comment regarding its single point of entry resolution strategy under the OLA. This strategy involves the appointment of the FDIC as receiver for the SIFI s top-level U.S. holding company only, while permitting the operating subsidiaries of the failed holding company to continue operations uninterrupted. As receiver, the FDIC would establish a bridge financial company for the failed holding company and would transfer the assets and a very limited set of liabilities of the receivership estate. The claims of unsecured creditors and other claimants in the receivership would be satisfied by the exchange of their claims for the securities of one or more new holding companies emerging from the bridge company. The FDIC has not taken any subsequent regulatory action relating to this resolution strategy under OLA since the comment period ended in March 2014.

Depositor preference

The FDIA provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of its depositors (including claims of its depositors that have subrogated to the FDIC) and certain claims for administrative expenses of the FDIC as receiver have priority over other general unsecured claims. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will be placed ahead of unsecured, nondeposit creditors, including the institution s parent BHC and subordinated creditors, in order of priority of payment.

Resolution plans

BHCs with at least $50 billion in total consolidated assets, like KeyCorp, are required to periodically submit to the Federal Reserve and FDIC a plan discussing how the company could be rapidly and orderly resolved if the company failed or experienced material financial distress. Insured depository institutions with at least $50 billion in total consolidated assets, like KeyBank, are also required to submit a resolution plan to the FDIC. These plans are due annually by December 31 of each year. For 2014, KeyCorp and KeyBank elected to submit a joint resolution plan given Key s organizational structure and business activities and the significance of KeyBank to Key. This resolution plan, the second required from KeyCorp and KeyBank, was submitted on December 2,

2014. In January 2015, the Federal Reserve and FDIC made available on their websites the public sections of resolution plans for the companies, including KeyCorp and KeyBank, that submitted plans in December 2014. The public section of the joint resolution plan of KeyCorp and KeyBank is available at http://www.federalreserve.gov/bankinforeg/resolution-plans.htm.

Financial Stability Oversight Council

The Dodd-Frank Act created the FSOC, a systemic risk oversight body, to (i) identify risks to U.S. financial stability that could arise from the material financial distress or failure, or ongoing activities, of large, interconnected SIFIs, or that could arise outside the financial services marketplace, (ii) promote market discipline by eliminating expectations that the U.S. government will shield shareholders, creditors, and counterparties from losses in the event of failure, and (iii) respond to emerging threats to the stability of the U.S. financial system. The FSOC is responsible for facilitating regulatory coordination, information collection and sharing, designating nonbank financial companies for consolidated supervision by the Federal Reserve, designating systemic financial market utilities and systemic payment, clearing, and settlement activities requiring prescribed risk management standards and heightened federal regulatory oversight, recommending stricter standards for SIFIs, and, together with the Federal Reserve, determining whether action should be taken to break up firms that pose a grave threat to U.S. financial stability.

The Bank Secrecy Act

The BSA requires all financial institutions (including banks and securities broker-dealers) to, among other things, maintain a risk-based system of internal controls reasonably designed to prevent money laundering and the financing of terrorism. It includes a variety of recordkeeping and reporting requirements (such as cash and suspicious activity reporting) as well as due diligence and know-your-customer documentation requirements. Key has established and maintains an anti-money laundering program to comply with the BSA s requirements.

Other Regulatory Developments under the Dodd-Frank Act

Consumer Financial Protection Bureau

Title X of the Dodd-Frank Act created the CFPB, a consumer financial services regulator with supervisory authority over banks and their affiliates with assets of more than $10 billion, like Key, for compliance with federal consumer protection laws. The CFPB also regulates financial products and services sold to consumers and has rulemaking authority with respect to federal consumer financial laws. Any new regulatory requirements promulgated by the CFPB or modifications in the interpretations of existing regulations could require changes to Key s consumer-facing businesses. The Dodd-Frank Act also gives the CFPB broad data collecting powers for fair lending for both small business and mortgage loans, as well as extensive authority to prevent unfair, deceptive and abusive practices.

Debit Card Interchange

Federal Reserve Regulation II Debit Card Interchange Fees and Routing (the Interchange Fee Rule) limits debit card interchange fees and eliminates exclusivity arrangements between issuers and networks for debit card transactions. The relevant portions of the Interchange Fee Rule became effective October 1, 2011. The Interchange Fee Rule allows debit card issuers to recover from merchants an interchange fee of $.21 per transaction, a fee of five basis points of the value of the transaction, and an additional $.01 fraud prevention adjustment. Retail merchants and merchant groups filed suit to challenge the Interchange Fee Rule. Their challenge was unsuccessful.

Volcker Rule

In December 2013, federal banking regulators issued a joint final rule (the Final Rule) implementing Section 619 of the Dodd-Frank Act, known as the Volcker Rule. The Final Rule prohibits banking entities,

Table of Contents

such as KeyCorp, KeyBank and their affiliates and subsidiaries, from owning, sponsoring, or having certain relationships with hedge funds and private equity funds (referred to as covered funds) and engaging in short-term proprietary trading of securities, derivatives, commodity futures and options on these instruments.

The Final Rule excepts certain transactions from the general prohibition against proprietary trading, including: transactions in government securities (e.g., U.S. Treasuries or any instruments issued by the GNMA, FNMA, FHLMC, a Federal Home Loan Bank, or any state or a political division of any state, among others); transactions in connection with underwriting or market-making activities; and, transactions as a fiduciary on behalf of customers. Banking entities may also engage in risk-mitigating hedges if the entity can demonstrate that the hedge reduces or mitigates a specific, identifiable risk or aggregate risk position of the entity. The banking entity is required to conduct an analysis supporting its hedging strategy and the effectiveness of the hedges must be monitored and, if necessary, adjusted on an ongoing basis. Banking entities with more than $50 billion in total consolidated assets and liabilities, like Key, that engage in permitted trading transactions are required to implement enhanced compliance programs, to regularly report data on trading activities to the regulators, and to provide a CEO attestation that the entity s compliance program is reasonably designed to comply with the Final Rule.

Although the Final Rule became effective on April 1, 2014, on December 18, 2014, the Federal Reserve exercised its unilateral authority to extend the compliance deadline until July 21, 2016, with respect to covered funds. The Federal Reserve further indicated its intent to grant an additional one-year extension of the compliance deadline until July 21, 2017, and indicated it would re-evaluate its rules relating to the process by which banking entities would be able to apply for further five-year extensions. Key does not anticipate that the proprietary trading restrictions in the Final Rule will have a material impact on its business, but it may be required to divest certain fund investments as discussed in more detail under the heading Other investments in Item 7 of this report.

Enhanced prudential standards and early remediation requirements

Under the Dodd-Frank Act, the Federal Reserve must impose enhanced prudential standards and early remediation requirements upon BHCs, like KeyCorp, with at least $50 billion in total consolidated assets. Prudential standards must include enhanced risk-based capital requirements and leverage limits, liquidity requirements, risk-management and risk committee requirements, resolution plan requirements, credit exposure report requirements, single counterparty credit limits (SCCL), supervisory and company-run stress test requirements and, for certain financial companies, a debt-to-equity limit. Early remediation requirements must include limits on capital distributions, acquisitions, and asset growth in early stages of financial decline and capital restoration plans, capital raising requirements, limits on transactions with affiliates, management changes, and asset sales in later stages of financial decline, which are to be triggered by forward-looking indicators including regulatory capital and liquidity measures.

The stress test requirements applicable to KeyCorp were implemented by a final rule adopted by the Federal Reserve in 2012. The resolution plan requirements applicable to KeyCorp were implemented by a joint final rule adopted by the Federal Reserve and FDIC in 2011.

In March 2014, the Federal Reserve published a final rule to implement certain of these required enhanced prudential standards. The enhanced prudential standards implemented by this final rule were (i) the incorporation of the Regulatory Capital Rules through the Federal Reserve s previously finalized rules on capital planning and stress tests, (ii) liquidity requirements relating to cash flow projections, a contingency funding plan, liquidity risk limits, monitoring liquidity risks (with respect to collateral, legal entities, currencies, business lines, and intraday exposures), liquidity stress testing, and a liquidity buffer, (iii) the risk management framework, the risk committee, and the chief risk officer as well as the corporate governance requirements as they relate to liquidity risk management, including the requirements that apply to the board of directors, the risk committee, senior management, and the independent review function, and (iv) a 15-to-1 debt-to-equity limit for companies that the FSOC determines pose a grave threat to U.S. financial stability. KeyCorp was required to comply with the final rule starting on January 1, 2015.

Table of Contents

The SCCL and the early remediation requirements published in January 2012 by the Federal Reserve as a proposed rule, however, were not included as part of the March 2014 final rule. The Federal Reserve has indicated that is conducting a quantitative impact study and will take into account the Basel Committee s April 2014 large exposures regime before finalizing the SCCL. It is unclear when the Federal Reserve will finalize the early remediation requirements. No credit exposure reporting requirements, which must be implemented jointly by the Federal Reserve and FDIC, have yet been proposed. The Federal Reserve has indicated that both the Federal Reserve and FDIC recognize that such reports would be most useful and complete if developed in conjunction with the SCCL.

Bank transactions with affiliates

Federal banking law and regulation imposes qualitative standards and quantitative limitations upon certain transactions by a bank with its affiliates, including the bank s parent BHC and certain companies the parent BHC may be deemed to control for these purposes. Transactions covered by these provisions must be on arm s-length terms, and cannot exceed certain amounts which are determined with reference to the bank s regulatory capital. Moreover, if the transaction is a loan or other extension of credit, it must be secured by collateral in an amount and quality expressly prescribed by statute, and if the affiliate is unable to pledge sufficient collateral, the BHC may be required to provide it. These provisions materially restrict the ability of KeyBank to fund its affiliates, including KeyCorp, KeyBanc Capital Markets Inc., certain of the Victory mutual funds with which we continue to have a relationship, and KeyCorp s nonbanking subsidiaries engaged in making merchant banking investments (and certain companies in which these subsidiaries have invested).

Provisions added by the Dodd-Frank Act expanded the scope of (i) the definition of affiliate to include any investment fund having any bank or BHC-affiliated company as an investment adviser, (ii) credit exposures subject to the prohibition on the acceptance of low-quality assets or securities issued by an affiliate as collateral, the quantitative limits, and the collateralization requirements to now include credit exposures arising out of derivative, repurchase agreement, and securities lending/borrowing transactions, and (iii) transactions subject to quantitative limits to now also include credit collateralized by affiliate-issued debt obligations that are not securities. In addition, these provisions require that a credit extension to an affiliate remain secured in accordance with the collateral requirements at all times that it is outstanding, rather than the previous requirement of only at the inception or upon material modification of the transaction. These provisions also raise significantly the procedural and substantive hurdles required to obtain a regulatory exemption from the affiliate transaction requirements. While these provisions became effective on July 21, 2012, the Federal Reserve has not yet issued a proposed rule to implement them.

New assessments, fees and other charges

Certain provisions of the Dodd-Frank Act require or authorize certain U.S. governmental departments, agencies and instrumentalities to collect new or higher assessments, fees and other charges from BHCs and banks, like KeyCorp and KeyBank. The U.S. Treasury has established an assessment schedule to collect from SIFIs, including KeyCorp, based on their average total consolidated assets semiannual assessments to pay the expenses of the OFR, including the expenses of the FSOC and certain expenses for implementing the orderly liquidation activities of the FDIC. The Federal Reserve has established an annual assessment upon SIFIs, including KeyCorp, based on their average total consolidated assets for the Federal Reserve s examination, supervision, and regulation of such companies. The OCC has changed its semi-annual assessment upon large national banks, like KeyBank, to reflect its Dodd-Frank Act authority to do so.

ITEM 1A. RISK FACTORS

As a financial services organization, we are subject to a number of risks inherent in our transactions and present in the business decisions we make. Described below are the primary risks and uncertainties that if realized could have a material and adverse effect on our business, financial condition, results of operations or cash flows, and our access to liquidity. The risks and uncertainties described below are not the only risks we face.

Our ERM program incorporates risk management throughout our organization to identify, understand, and manage the risks presented by our business activities. Our ERM program identifies Key s major risk categories as: credit risk, compliance risk, operational risk, capital and liquidity risk, market risk, reputation risk, strategic risk, and model risk. These risk factors, and other risks we may face, are discussed in more detail in other sections of this report.

I. Credit Risk

Should the fundamentals of the commercial real estate market deteriorate, our financial condition and results of operations could be adversely affected.

The U.S. economy remains vulnerable, and any reversal in broad macro trends would threaten the recovery in commercial real estate. The improvement of certain economic factors, such as unemployment and real estate asset values and rents, has continued to lag behind the overall economy. These economic factors generally affect certain industries like real estate and financial services more significantly. A significant portion of our clients are active in these industries. Furthermore, financial services companies with a substantial lending business, like ours, are dependent upon the ability of their borrowers to make debt service payments on loans.

A portion of our commercial real estate loans are construction loans. Typically these properties are not fully leased at loan origination; the borrower may require additional leasing through the life of the loan to provide cash flow to support debt service payments. If we experienced weaknesses similar to those experienced at the height of the economic downturn, then we would experience a slowing in the execution of new leases, which may also lead to existing lease turnover.

We are subject to the risk of defaults by our loan counterparties and clients.

Many of our routine transactions expose us to credit risk in the event of default of our counterparty or client. Our credit risk may be exacerbated when the collateral held cannot be realized upon or is liquidated at prices insufficient to recover the full amount of the loan or derivative exposure due us. In deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of counterparties and clients, including financial statements, credit reports and other information. We may also rely on representations of those counterparties, clients, or other third parties as to the accuracy and completeness of that information. The inaccuracy of that information or those representations affects our ability to accurately evaluate the default risk of a counterparty or client.

Various factors may cause our allowance for loan and lease losses to increase.

We maintain an ALLL (a reserve established through a provision for loan and lease losses charged to expense) that represents our estimate of losses based on our evaluation of risks within our existing portfolio of loans. The level of the allowance reflects our ongoing evaluation of industry concentrations; specific credit risks; loan and lease loss experience; current loan portfolio quality; present economic, political and regulatory conditions; and incurred losses inherent in the current loan portfolio. The determination of the appropriate level of the ALLL inherently involves a degree of subjectivity and requires that we make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, the stagnation of certain economic indicators that we are more susceptible to, such as unemployment and real estate values, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may recommend an increase in the ALLL. Bank regulatory agencies periodically review our ALLL and, based on judgments that can differ somewhat from those of our own management, may recommend an increase in the provision for loan and lease losses or the recognition of further loan charge-offs. In addition, if charge-offs in future periods exceed the ALLL (i.e., if the loan and lease allowance is inadequate), we will need additional loan and lease loss provisions to increase the ALLL, which would decrease our net income and capital.

Table of Contents

Declining asset prices could adversely affect us.

During the Great Recession, the volatility and disruption that the capital and credit markets experienced reached extreme levels. This severe market disruption led to the failure of several substantial financial institutions, causing the widespread liquidation of assets and constraining the credit markets. These asset sales, along with asset sales by other leveraged investors, including some hedge funds, rapidly drove down prices and valuations across a wide variety of traded asset classes. Asset price deterioration has a negative effect on the valuation of many of the asset categories represented on our balance sheet, and reduces our ability to sell assets at prices we deem acceptable. A further recession would likely reverse recent positive trends in asset prices.

We have concentrated credit exposure in commercial, financial and agricultural loans.

As of December 31, 2014, approximately 72% of our loan portfolio consisted of commercial, financial and agricultural loans, commercial real estate loans, including commercial mortgage and construction loans, and commercial leases. These types of loans are typically larger than residential real estate loans and consumer loans, and have a different risk profile that includes, among other risks, a borrower s failure to comply with applicable environmental laws and regulations. The deterioration of a larger loan or a group of these loans could cause a significant increase in nonperforming loans, which would result in net loss of earnings from these loans, an increase in the provision for loan and lease losses, and an increase in loan charge-offs.

II. Compliance Risk

We are subject to extensive and increasing government regulation and supervision.

As a financial services institution, we are subject to extensive federal and state regulation and supervision, which has increased in recent years due to the implementation of the Dodd-Frank Act and other financial reform initiatives. Banking regulations are primarily intended to protect depositors funds, the DIF, consumers, taxpayers, and the banking system as a whole, not our debtholders or shareholders. These regulations increase our costs and affect our lending practices, capital structure, investment practices, dividend policy, ability to repurchase our common shares, and growth, among other things.

We face increased regulation of our industry as a result of current and future initiatives intended to provide financial market stability and enhance the liquidity and solvency of financial institutions. We expect continued intense scrutiny from our bank supervisors in the examination process and aggressive enforcement of regulations at the federal and state levels, particularly due to KeyBank s and KeyCorp s status as covered institutions under the Dodd-Frank Act s heightened prudential standards and regulations. We also face increased regulation from efforts designed to protect consumers from financial abuse. Although many parts of the Dodd-Frank Act are now in effect, other parts continue to be implemented. As a result, some uncertainty remains as to the aggregate impact upon Key of the Dodd-Frank Act.

Changes to existing statutes, regulations or regulatory policies or their interpretation or implementation, and becoming subject to additional heightened regulatory practices, requirements, or expectations, could affect us in substantial and unpredictable ways. These changes may subject us to additional costs and increase our litigation risk should we fail to appropriately comply. Such changes may also limit the types of financial services and products we may offer, affect the investments we make, and change the manner in which we operate.

Additionally, federal banking law grants substantial enforcement powers to federal banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions against banking organizations and affiliated parties. These enforcement actions may be initiated for violations of laws and regulations, for practices determined to be unsafe or unsound, or for practices or acts that are determined to be unfair, deceptive, or abusive.

For more information, see Supervision and Regulation in Item 1 of this report.

Changes in accounting policies, standards, and interpretations could materially affect how we report our financial condition and results of operations.

The FASB, regulatory agencies, and other bodies that establish accounting standards periodically change the financial accounting and reporting standards governing the preparation of Key s financial statements. Additionally, those bodies that establish and interpret the accounting standards (such as the FASB, SEC, and banking regulators) may change prior interpretations or positions on how these standards should be applied. These changes can be difficult to predict and can materially affect how Key records and reports its financial condition and results of operations. In some cases, Key could be required to retroactively apply a new or revised standard, resulting in changes to previously reported financial results.

III. Operational Risk

Our information systems may experience an interruption or breach in security.

We rely heavily on communications, information systems (both internal and provided by third parties) and the Internet to conduct our business. Our business is dependent on our ability to process and monitor large numbers of daily transactions in compliance with legal, regulatory and internal standards and specifications. In addition, a significant portion of our operations relies heavily on the secure processing, storage and transmission of personal and confidential information, such as the personal information of our customers and clients. These risks may increase in the future as we continue to increase mobile payments and other internet-based product offerings and expand our internal usage of web-based products and applications.

In the event of a failure, interruption or breach of our information systems, we may be unable to avoid impact to our customers. Other U.S. financial service institutions and companies have reported breaches, some severe, in the security of their websites or other systems and several financial institutions, including Key, experienced significant distributed denial-of-service attacks, some of which involved sophisticated and targeted attacks intended to disable or degrade service, or sabotage systems. Other potential attacks have attempted to obtain unauthorized access to confidential information or destroy data, often through the introduction of computer viruses or malware, phishing, cyberattacks, and other means. To date, none of these efforts has had a material adverse effect on our business or operations. Such security attacks can originate from a wide variety of sources, including persons who are involved with organized crime or who may be linked to terrorist organizations or hostile foreign governments. Those same parties may also attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. Our security systems may not be able to protect our information systems from similar attacks due to the rapid evolution and creation of sophisticated cyberattacks. We are also subject to the risk that our employees may intercept and transmit unauthorized confidential or proprietary information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer or third party could result in legal liability, remediation costs, regulatory action, and reputational harm.

We rely on third parties to perform significant operational services for us.

Third parties perform significant operational services on our behalf. These third-party vendors are subject to similar risks as Key relating to cybersecurity, breakdowns or failures of their own systems or employees. One or more of our vendors may experience a cybersecurity event or operational disruption and, if any such event does occur, it may not be adequately addressed, either operationally or financially, by the third-party vendor. Certain of our vendors may have limited indemnification obligations or may not have the financial capacity to satisfy their indemnification obligations. Financial or operational difficulties of a vendor could also impair our operations if those difficulties interfere with the vendor s ability to serve us. Additionally, some of our outsourcing arrangements are located overseas and, therefore, are subject to risks unique to the regions in which they operate. If a critical vendor is unable to meet our needs in a timely manner or if the services or products provided by such a vendor are terminated or otherwise delayed and if we are not able to develop alternative sources for these services and products quickly and cost-effectively, it could have a material adverse effect on our business. Additionally, regulatory guidance adopted by federal banking regulators in 2013 related to how banks select, engage and manage their outside vendors may affect the circumstances and conditions under which we work with third parties and the cost of managing such relationships.

We are subject to claims and litigation.

From time to time, customers, vendors or other parties may make claims and take legal action against us. We maintain reserves for certain claims when deemed appropriate based upon our assessment that a loss is probable, consistent with applicable accounting guidance. At any given time we have a variety of legal actions asserted against us in various stages of litigation. Resolution of a legal action can often take years. Whether any particular claims and legal actions are founded or unfounded, if such claims and legal actions are not resolved in our favor, they may result in significant financial liability and adversely affect how the market perceives us and our products and services as well as impact customer demand for those products and services.

We are also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding our business, including, among other things, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. The number and risk of these investigations and proceedings has increased in recent years with regard to many firms in the financial services industry due to legal changes to the consumer protection laws provided for by the Dodd-Frank Act and the creation of the CFPB.

There have also been a number of highly publicized legal claims against financial institutions involving fraud or misconduct by employees, and we run the risk that employee misconduct could occur. It is not always possible to deter or prevent employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases.

We are subject to operational risk.

We are subject to operational risk, which represents the risk of loss resulting from human error, inadequate or failed internal processes and systems, and external events. Operational risk includes the risk of fraud by employees, clerical and record-keeping errors, nonperformance by vendors, threats to cybersecurity, and computer/telecommunications malfunctions. Operational risk also encompasses compliance and legal risk, which is the risk of loss from violations of, or noncompliance with, laws, rules, regulations, prescribed practices or ethical standards, as well as the risk of our noncompliance with contractual and other obligations. We are also exposed to operational risk through our outsourcing arrangements, and the effect that changes in circumstances or capabilities of our outsourcing vendors can have on our ability to continue to perform operational functions necessary to our business, such as certain loan processing functions. For example, breakdowns or failures of our vendors systems or employees could be a source of operational risk to us. Resulting losses from operational risk could take the form of explicit charges, increased operational costs, harm to our reputation, inability to secure insurance, litigation, regulatory intervention or sanctions or foregone business opportunities.

Our controls and procedures may fail or be circumvented, and our methods of reducing risk exposure may not be effective.

We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. We also maintain an ERM program designed to identify, measure, monitor, report and analyze our risks. Any system of controls and any system to reduce risk exposure, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Additionally, instruments, systems and strategies used to hedge or otherwise manage exposure to various types of market compliance, credit, liquidity, operational and business risks and enterprise-wide risk could be less effective than anticipated. As a result, we may not be able to effectively mitigate our risk exposures in particular market environments or against particular types of risk.

Table of Contents

Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact our business.

Natural disasters, including severe weather events of increasing strength and frequency, acts of war or terrorism and other adverse external events could have a significant impact on our ability to conduct business or upon our customers. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in lost revenue or cause us to incur additional expenses.

IV. Capital and Liquidity Risk

Capital and liquidity requirements imposed by the Dodd-Frank Act require banks and BHCs to maintain more and higher quality capital and higher quality, lower-yielding liquid assets than has historically been the case.

New and evolving capital standards resulting from the Dodd-Frank Act and the Regulatory Capital Rules adopted by our regulators will have a significant impact on banks and BHCs, including Key. For a detailed explanation of the new capital and liquidity rules that became effective for us on a phased-in basis on January 1, 2015, see the section titled Regulatory capital and liquidity under the heading Supervision and Regulation in Item 1 of this report.

The Federal Reserve s new capital standards will require Key to maintain more and higher quality capital and could limit our business activities (including lending) and our ability to expand organically or through acquisitions. They could also result in our taking steps to increase our capital that may be dilutive to shareholders or limit our ability to pay dividends or otherwise return capital to shareholders.

In addition, the new liquidity standards will require us to increase our holdings of higher-quality, lower-yielding liquid assets, may require us to change our mix of investment alternatives, and may impact business relationships with certain customers. They could reduce our ability to invest in longer-term assets even if more desirable from a balance sheet management perspective.

In addition, the Federal Reserve requires bank holding companies to obtain approval before making a capital distribution, such as paying or increasing dividends, implementing common stock repurchase programs, or redeeming or repurchasing capital instruments. The Federal Reserve has detailed the processes that bank holding companies should maintain to ensure they hold adequate capital under severely adverse conditions and have ready access to funding before engaging in any capital activities. These rules could limit Key s ability to make distributions, including paying out dividends or buying back shares. For more information, see Supervision and Regulation in Item 1 of this report.

Federal agencies may take actions that disrupt the stability of the U.S. financial system.

Since 2008, the federal government has taken unprecedented steps to provide stability to and confidence in the financial markets. For example, the Federal Reserve maintains a variety of stimulus policy measures designed to maintain a low interest rate environment. In light of recent moderate improvements in the U.S. economy, federal agencies may no longer support such initiatives. The discontinuation of such initiatives may have a negative impact, perhaps severe, on the financial markets. These effects could include a sudden move to higher debt yields, which could have a chilling effect on borrowing. In addition, new initiatives or legislation may not be implemented, or, if implemented, may not be adequate to counter any negative effects of discontinuing programs or, in the event of an economic downturn, to support and stabilize a troubled economy.

We rely on dividends by our subsidiaries for most of our funds.

We are a legal entity separate and distinct from our subsidiaries. With the exception of cash that we may raise from debt and equity issuances, we receive substantially all of our cash flow from dividends by our subsidiaries. Dividends by our subsidiaries are the principal source of funds for the dividends we pay on our equity securities and interest and principal payments on our debt. Federal banking law and regulations limit the amount of dividends that KeyBank (KeyCorp s largest subsidiary) can pay. For further information on the regulatory restrictions on the payment of dividends by KeyBank, see Supervision and Regulation in Item 1 of this report.

In the event KeyBank is unable to pay dividends to us, we may not be able to service debt, pay obligations or pay dividends on our equity securities. In addition, our right to participate in a distribution of assets upon a subsidiary s liquidation or reorganization is subject to the prior claims of the subsidiary s creditors.

We are subject to liquidity risk, which could negatively affect our funding levels.

Market conditions or other events could negatively affect the level of or cost of funding, affecting our ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, or fund asset growth and new business initiatives at a reasonable cost, in a timely manner and without adverse consequences.

Although we have implemented strategies to maintain sufficient and diverse sources of funding to accommodate planned as well as unanticipated changes in assets, liabilities, and off-balance sheet commitments under various economic conditions (including by reducing our reliance on wholesale funding sources), a substantial, unexpected or prolonged change in the level or cost of liquidity could have a material adverse effect on us. If the cost effectiveness or the availability of supply in these credit markets is reduced for a prolonged period of time, our funding needs may require us to access funding and manage liquidity by other means. These alternatives may include generating client deposits, securitizing or selling loans, extending the maturity of wholesale borrowings, borrowing under certain secured wholesale facilities, using relationships developed with a variety of fixed income investors, and further managing loan growth and investment opportunities. These alternative means of funding may not be available under stressed conditions.

Our credit ratings affect our liquidity position.

The rating agencies regularly evaluate the securities of KeyCorp and KeyBank, and their ratings of our long-term debt and other securities are based on a number of factors, including our financial strength, ability to generate earnings, and other factors. Some of these factors are not entirely within our control, such as conditions affecting the financial services industry and the economy and changes in rating methodologies as a result of the Dodd-Frank Act. We may not be able to maintain our current credit ratings. A downgrade of the securities of KeyCorp or KeyBank could adversely affect our access to liquidity and could significantly increase our cost of funds, trigger additional collateral or funding requirements, and decrease the number of investors and counterparties willing to lend to us, reducing our ability to generate income.

V. Market Risk

A reversal of the U.S. economic recovery and a return to volatile or recessionary conditions in the U.S. or abroad could negatively affect our business or our access to capital markets.

A worsening of economic and market conditions, downside shocks, or a return to recessionary economic conditions could result in adverse effects on Key and others in the financial services industry. Additionally, the prolonged low-interest rate environment, despite a generally improving economy, has presented a challenge for Key and affected our business and financial performance. The low-interest rate environment may persist for some time even as the economy continues to improve, and may continue to have a negative impact on our performance.

In particular, we could face some of the following risks, and other unforeseeable risks, in connection with a downturn in the economic and market environment or in the face of downside shocks or a recession, whether in the United States or internationally:

¿ A loss of confidence in the financial services industry and the equity markets by investors, placing pressure on the price of Key s common shares or decreasing the credit or liquidity available to Key;

Table of Contents

¿ A decrease in consumer and business confidence levels generally, decreasing credit usage and investment or increasing delinquencies and defaults;

¿ A decrease in household or corporate incomes, reducing demand for Key s products and services;

¿ A decrease in the value of collateral securing loans to Key s borrowers or a decrease in the quality of Key s loan portfolio, increasing loan charge-offs and reducing Key s net income;

¿ A decrease in our ability to liquidate positions at market prices;

¿ The extended continuation of the current low-interest rate environment, continuing or increasing downward pressure to our net interest income;

¿ A decrease in the accuracy and viability of our quantitative models;

¿ An increase in competition and consolidation in the financial services industry;

¿ Increased concern over and scrutiny of the capital and liquidity levels of financial institutions generally, and those of our transaction counterparties specifically;

¿ A decrease in confidence in the creditworthiness of the United States or other governments whose securities we hold; and

¿ An increase in limitations on or the regulation of financial services companies like Key.

We are subject to interest rate risk, which could adversely affect net interest income.

Our earnings are largely dependent upon our net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions, the competitive environment within our markets, consumer preferences for specific loan and deposit products and policies of various governmental and regulatory agencies, in particular, the Federal Reserve. Changes in monetary policy, including changes in interest rate controls being applied by the Federal Reserve, could influence the amount of interest we receive on loans and securities, the amount of interest we pay on deposits and borrowings, our ability to originate loans and obtain deposits, and the fair value of our financial assets and liabilities. If the interest we pay on deposits and other borrowings increases at a faster rate than the interest we receive on loans and other investments, net interest income, and therefore our earnings, would be adversely affected. Conversely, earnings could also be adversely affected if the interest we receive on loans and other investments falls more quickly than the interest we pay on deposits and other borrowings.

Our methods for simulating and analyzing our interest rate exposure are discussed more fully under the heading Risk Management Management of interest risk exposure found in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation.

Our profitability depends upon economic conditions in the geographic regions where we have significant operations and on certain market segments with which we conduct significant business.

We have concentrations of loans and other business activities in geographic regions where our bank branches are located Pacific; Rocky Mountains; Indiana; West Ohio/Michigan; East Ohio; Western New York; Eastern New York; and New England and potential exposure to geographic regions outside of our branch footprint. The moderate U.S. economic recovery has been experienced unevenly in the various regions where we operate, and continued improvement in the overall U.S. economy may not result in similar improvement, or any improvement at all, in the economy of any particular geographic region. Adverse conditions in a geographic region such as inflation, unemployment, recession, natural disasters, or other factors beyond our control could impact the ability of borrowers in these regions to repay their loans, decrease the value of collateral securing loans made in these regions, or affect the ability of our customers in these regions to continue conducting business with us.

Additionally, a significant portion of our business activities are concentrated with the real estate, health care and utilities market segments. The profitability of some of these market segments depends upon the health of the overall economy, seasonality, the impact of regulation, and other factors that are beyond our control and may be beyond the control of our customers in these market segments.

An economic downturn in one or more geographic regions where we conduct our business, or any significant or prolonged impact on the profitability of one or more of the market segments with which we conduct significant business activity, could adversely affect the demand for our products and services, the ability of our customers to repay loans, the value of the collateral securing loans, and the stability of our deposit funding sources.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. We have exposure to many different industries and counterparties in the financial services industries, and we routinely execute transactions with such counterparties, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. Defaults by one or more financial services institutions have led to, and may cause, market-wide liquidity problems and losses. Many of our transactions with other financial institutions expose us to credit risk in the event of default of a counterparty or client. In addition, our credit risk may be affected when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivatives exposure due us.

VI. Reputation Risk

Damage to our reputation could significantly harm our businesses.

Our ability to attract and retain customers, clients, investors, and highly-skilled management and employees is affected by our reputation. Public perception of the financial services industry has declined as a result of the Great Recession. We face increased public and regulatory scrutiny resulting from the financial crisis and economic downturn. Significant harm to our reputation can also arise from other sources, including employee misconduct, actual or perceived unethical behavior, litigation or regulatory outcomes, failing to deliver minimum or required standards of service and quality, compliance failures, disclosure of confidential information, significant or numerous failures, interruptions or breaches of our information systems, and the activities of our clients, customers and counterparties, including vendors. Actions by the financial services industry generally or by certain members or individuals in the industry may have a significant adverse effect on our reputation. We could also suffer significant reputational harm if we fail to properly identify and manage potential conflicts of interest. Management of potential conflicts of interests has become increasingly complex as we expand our business activities through more numerous transactions, obligations and interests with and among our clients. The actual or perceived failure to adequately address conflicts of interest could affect the willingness of clients to deal with us, which could adversely affect our businesses.

VII. Strategic Risk

We may not realize the expected benefits of our strategic initiatives.

Our ability to compete depends on a number of factors, including among others, our ability to develop and successfully execute our strategic plans and initiatives. Our strategic priorities include growing profitably and maintaining financial strength; effectively managing risk and reward; engaging a high-performing, talented, and diverse workforce; and embracing the changes required by our clients and the marketplace. Acquiring and expanding customer relationships, including by cross-selling additional or new products to them, is also very important to our business model and our ability to grow revenue and earnings. Our inability to execute on or achieve the anticipated outcomes of our strategic priorities may affect how the market perceives us and could impede our growth and profitability.

Table of Contents

We operate in a highly competitive industry.

We face substantial competition in all areas of our operations from a variety of competitors, some of which are larger and may have more financial resources than us. Our competitors primarily include national and super-regional banks as well as smaller community banks within the various geographic regions in which we operate. We also face competition from many other types of financial institutions, including, without limitation, savings associations, credit unions, mortgage banking companies, finance companies, mutual funds, insurance companies, investment management firms, investment banking firms, broker-dealers and other local, regional, national, and global financial services firms. In addition, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks. Mergers and acquisitions have led to increased concentration in the banking industry, placing added competitive pressure on Key s core banking products and services. We expect the competitive landscape of the financial services industry to become even more intensified as a result of legislative, regulatory, structural and technological changes.

Our ability to compete successfully depends on a number of factors, including: our ability to develop and execute strategic plans and initiatives; our ability to develop, maintain and build long-term customer relationships based on quality service and competitive prices; our ability to develop competitive products and technologies demanded by our customers, maintaining our high ethical standards and safe and sound assets; and industry and general economic trends. Increased competition in the financial services industry, and our failure to perform in any of these areas, could significantly weaken our competitive position, which could adversely affect our growth and profitability.

Maintaining or increasing our market share depends upon our ability to adapt our products and services to evolving industry standards and consumer preferences, while maintaining competitive prices.

The continuous, widespread adoption of new technologies, including internet services and mobile devices (including smartphones and tablets), requires us to evaluate our product and service offerings to ensure they remain competitive. Our success depends, in part, on our ability to adapt our products and services, as well as our distribution of them, to evolving industry standards and consumer preferences. New technologies have altered consumer behavior by allowing consumers to complete transactions such as paying bills or transferring funds directly without the assistance of banks. New products allow consumers to maintain funds in brokerage accounts or mutual funds that would have historically been held as bank deposits. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits and related income generated from those deposits.

The increasing pressure from our competitors, both bank and nonbank, to keep pace and adopt new technologies and products and services requires us to incur substantial expense. We may be unsuccessful in developing or introducing new products and services, modifying our existing products and services, adapting to changing consumer preferences and spending and saving habits, achieving market acceptance or regulatory approval, sufficiently developing or maintaining a loyal customer base or offering products and services at prices lower than the prices offered by our competitors. These risks may affect our ability to achieve growth in our market share and could reduce both our revenue streams from certain products and services and our revenues from our net interest income.

We may not be able to attract and retain skilled people.

Our success depends, in large part, on our ability to attract, retain, motivate, and develop key people. Competition for the best people in most of our business activities is ongoing and can be intense, and we may not be able to retain or hire the people we want or need to serve our customers. To attract and retain qualified employees, we must compensate these employees at market levels. Typically, those levels have caused employee compensation to be our greatest expense.

Table of Contents

Various restrictions on compensation of certain executive officers were imposed under the Dodd-Frank Act and other legislation and regulations. In addition, our incentive compensation structure is subject to review by the Federal Reserve, who may identify deficiencies in the structure, causing us to make changes that may affect our ability to offer competitive compensation to these individuals. Our ability to attract and retain talented employees may be affected by these developments, or any new executive compensation limits and regulations.

Potential acquisitions or strategic partnerships may disrupt our business and dilute shareholder value.

Acquiring other banks, bank branches, or other businesses involves various risks commonly associated with acquisitions or partnerships, including exposure to unknown or contingent liabilities of the target company; diversion of our management s time and attention; significant integration risk with respect to employees, accounting systems, and technology platforms; our inability to realize anticipated revenue and cost benefits and synergies; increased regulatory scrutiny; and, the possible loss of key employees and customers of the target company. We regularly evaluate merger and acquisition and strategic partnership opportunities and conduct due diligence activities related to possible transactions. As a result, mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions may involve the payment of a premium over book and market values. Therefore, some dilution of our tangible book value and net income per common share could occur in connection with any future transaction. Additionally, if an acquisition or strategic partnership were to occur, we may fail to realize the expected revenue increases, cost savings, increases in geographic or product presence, or other projected benefits.

VIII. Model Risk

We rely on quantitative models to manage certain accounting, risk management and capital planning functions.

We use quantitative models to help manage certain aspects of our business and to assist with certain business decisions, including estimating probable loan losses, measuring the fair value of financial instruments when reliable market prices are unavailable, estimating the effects of changing interest rates and other market measures on our financial condition and results of operations, managing risk, and for capital planning purposes (including during the CCAR capital planning process). Our modeling methodologies rely on many assumptions, historical analyses and correlations. These assumptions may be incorrect, particularly in times of market distress, and the historical correlations on which we rely may no longer be relevant. Additionally, as businesses and markets evolve, our measurements may not accurately reflect this evolution. Even if the underlying assumptions and historical correlations used in our models are adequate, our models may be deficient due to errors in computer code, bad data, misuse of data, or the use of a model for a purpose outside the scope of the model s design.

As a result, our models may not capture or fully express the risks we face, may suggest that we have sufficient capitalization when we do not, or may lead us to misjudge the business and economic environment in which we will operate. If our models fail to produce reliable results on an ongoing basis, we may not make appropriate risk management, capital planning, or other business or financial decisions. Furthermore, strategies that we employ to manage and govern the risks associated with our use of models may not be effective or fully reliable, and as a result, we may realize losses or other lapses.

Banking regulators continue to focus on the models used by banks and bank holding companies in their businesses. The failure or inadequacy of a model may result in increased regulatory scrutiny on us or may result in an enforcement action or proceeding against us by one of our regulators.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2. PROPERTIES

The headquarters of KeyCorp and KeyBank are located in Key Tower at 127 Public Square, Cleveland, Ohio 44114-1306. At December 31, 2014, Key leased approximately 686,002 square feet of the complex, encompassing the first 23 floors and the 54th through 56th floors of the 57-story Key Tower. As of the same date, KeyBank owned 450 and leased 544 branches. The lease terms for applicable branches are not individually material, with terms ranging from month-to-month to 99 years from inception.

Branches and ATMs by Region

	Pacific	Rocky Mountains	Indiana	West Ohio/ Michigan	East Ohio	Western New York	Eastern New York	New England	Total
Branches	252	130	65	100	149	83	149	66	994
ATMs	296	164	72	123	249	112	188	83	1,287

ITEM 3. LEGAL PROCEEDINGS

The information in the Legal Proceedings section of Note 20 (Commitments, Contingent Liabilities and Guarantees) of the Notes to Consolidated Financial Statements is incorporated herein by reference.

On at least a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. Where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. These legal reserves may be increased or decreased to reflect any relevant developments on a quarterly basis. Where a loss is not probable or the amount of the loss is not estimable, we have not accrued legal reserves, consistent with applicable accounting guidance. Based on information currently available to us, advice of counsel, and available insurance coverage, we believe that our established reserves are adequate and the liabilities arising from the legal proceedings will not have a material adverse effect on our consolidated 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 operations for a particular period, depending upon the size of the loss or our income for that particular period.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The dividend restrictions discussion in the Supervision and Regulation section in Item 1. Business of this report, and the disclosures included in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to Consolidated Financial Statements contained in Item 8 of this report, are incorporated herein by reference:

	Page(s)
Discussion of our common shares, shareholder information and repurchase activities in the section captioned Capital Common shares outstanding	69
Presentation of annual and quarterly market price and cash dividends per common share and discussion of dividends in the section captioned Capital Dividends	34, 68, 96
Discussion of dividend restrictions in the Liquidity risk management Liquidity for KeyCorp section, Note 3 (Restrictions on Cash, Dividends and Lending Activities), and Note 22 (Shareholders Equity)	85, 130, 210
KeyCorp common share price performance (2010-2014) graph	69

From time to time, KeyCorp or its principal subsidiary, KeyBank, may seek to retire, repurchase, or exchange outstanding debt of KeyCorp or KeyBank, and capital securities or preferred stock of KeyCorp, through cash purchase, privately negotiated transactions, or otherwise. Such transactions, if any, depend on prevailing market conditions, our liquidity and capital requirements, contractual restrictions, and other factors. The amounts involved may be material.

As authorized by our Board of Directors and pursuant to our 2014 capital plan submitted to and not objected to by the Federal Reserve, we have authority to repurchase up to $542 million of our common shares in the open market or through privately negotiated transactions. Share repurchases under the 2014 capital plan began in the second quarter of 2014 and included repurchases to offset issuances of common shares under our employee compensation plans. Common share repurchases under the remaining 2014 capital plan authorization are expected to be executed through the first quarter of 2015.

We completed $128 million of common share repurchases during the fourth quarter of 2014 under our 2014 capital plan authorization.

The following table summarizes our repurchases of our common shares for the three months ended December 31, 2014.

Total number of shares repurchased (a)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares th yet be purchased as publicly announced p pro
2,482,427	$ 12.77	2,560,755	21,5

6,487,088		13.39	6,486,428	14,6
739,781		13.27	738,500	13,4
9,709,296	$	13.22	9,785,683	

(a) Includes common shares repurchased in the open market and common shares deemed surrendered by employees in connection with our stock compensation and benefit plans to satisfy tax obligations.

(b) Calculated using the remaining general repurchase amount divided by the closing price of KeyCorp common shares as follows: on October 31, 2014, at $13.20; on November 30, 2014, at $13.50; and on December 31, 2014, at $13.90.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The information included under the caption Selected Financial Data in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations beginning on page 32 is incorporated herein by reference.

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (the MD&A)

Throughout the Notes to Consolidated Financial Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations, we use certain acronyms and abbreviations. These terms are defined in Note 1 (Summary of Significant Accounting Policies), which begins on page 114.

Table of Contents

Introduction

This section reviews the financial condition and results of operations of KeyCorp and its subsidiaries for each of the past three years. Some tables include additional periods to comply with disclosure requirements or to illustrate trends in greater depth. When you read this discussion, you should also refer to the consolidated financial statements and related notes in this report. The page locations of specific sections that we refer to are presented in the table of contents.

Terminology

Throughout this discussion, references to Key, we, our, us, and similar terms refer to the consolidated entity consist of KeyCorp and its subsidiaries. KeyCorp refers solely to the parent holding company, and KeyBank refers solely to KeyCorp s subsidiary bank, KeyBank National Association. KeyBank (consolidated) refers to the consolidated entity consisting of KeyBank and its subsidiaries.

We want to explain some industry-specific terms at the outset so you can better understand the discussion that follows.

¿ We use the phrase ***continuing operations*** in this document to mean all of our businesses other than the education lending business, Victory, and Austin. The education lending business and Austin have been accounted for as ***discontinued operations*** since 2009. Victory was classified as a ***discontinued operation*** in our first quarter 2013 financial reporting as a result of the sale of this business as announced on February 21, 2013, and closed on July 31, 2013.

¿ Our ***exit loan portfolios*** are separate from our ***discontinued operations***. These portfolios, which are in a run-off mode, stem from product lines we decided to cease because they no longer fit with our corporate strategy. These exit loan portfolios are included in ***Other Segments***.

¿ We engage in ***capital markets activities*** primarily through business conducted by our Key Corporate Bank segment. These activities encompass a variety of products and services. Among other things, we trade securities as a dealer, enter into derivative contracts (both to accommodate clients financing needs and to mitigate certain risks), and conduct transactions in foreign currencies (both to accommodate clients needs and to benefit from fluctuations in exchange rates).

¿ For regulatory purposes, capital is divided into two classes. Federal regulations currently prescribe that at least one-half of a bank or BHC s ***total risk-based capital*** must qualify as ***Tier 1 capital***. Both total and Tier 1 capital serve as bases for several measures of capital adequacy, which is an important indicator of financial stability and condition. As described under the heading Regulatory capital and liquidity Capital planning and stress testing in the section entitled Supervision and Regulation in Item 1 of this report, the regulators are required to conduct a supervisory capital assessment of all BHCs with assets of at least $50 billion, including KeyCorp. As part of this capital adequacy review, banking regulators evaluate a component of Tier 1 capital, known as ***Tier 1 common equity***. The section entitled Capital Capital adequacy in this MD&A provides more information on total capital, Tier 1 capital, and Tier 1 common equity and describes how the three measures are calculated.

Additionally, a comprehensive list of the acronyms and abbreviations used throughout this discussion is included in Note 1 (Summary of Significant Accounting Policies).

Table of Contents

Figure 1. Selected Financial Data

dollars in millions, except per share amounts	**2014**	2013	2012	2011	2010	**Compound Annual Rate of Change (2010-2014)** [a]
YEAR ENDED DECEMBER 31,						
Interest income	**$ 2,554**	$ 2,620	$ 2,705	$ 2,889	$ 3,408	(5.6)%
Interest expense	**261**	295	441	622	897	(21.9)
Net interest income	**2,293**	2,325	2,264	2,267	2,511	(1.8)
Provision (credit) for loan and lease losses	**59**	130	229	(60)	638	(37.9)
Noninterest income	**1,797**	1,766	1,856	1,688	1,954	(1.7)
Noninterest expense	**2,759**	2,820	2,818	2,684	3,034	(1.9)
Income (loss) from continuing operations before income taxes	**1,272**	1,141	1,073	1,331	793	9.9
Income (loss) from continuing operations attributable to Key	**939**	870	835	955	577	10.2
Income (loss) from discontinued operations, net of taxes [b]	**(39)**	40	23	(35)	(23)	N/M
Net income (loss) attributable to Key	**900**	910	858	920	554	10.2
Income (loss) from continuing operations attributable to Key common shareholders	**917**	847	813	848	413	17.3
Income (loss) from discontinued operations, net of taxes [b]	**(39)**	40	23	(35)	(23)	N/M
Net income (loss) attributable to Key common shareholders	**878**	887	836	813	390	17.6
PER COMMON SHARE						
Income (loss) from continuing operations attributable to Key common shareholders	**$ 1.05**	$ .93	$ .87	$ .91	$ .47	17.4%
Income (loss) from discontinued operations, net of taxes [b]	**(.04)**	.04	.02	(.04)	(.03)	N/M
Net income (loss) attributable to Key common shareholders [c]	**1.01**	.98	.89	.87	.45	17.5
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**$ 1.04**	$ .93	$ .86	$ .91	$ .47	17.2%
Income (loss) from discontinued operations, net of taxes assuming	**(.04)**	.04	.02	(.04)	(.03)	N/M

dilution (b)						
Net income (loss) attributable to Key common shareholders assuming dilution (c)	**.99**	.97	.89	.87	.44	17.6
Cash dividends paid	**.25**	.215	.18	.10	.04	44.3%
Book value at year end	**11.91**	11.25	10.78	10.09	9.52	4.6
Tangible book value at year end	**10.65**	10.11	9.67	9.11	8.45	4.7
Market price at year end	**13.90**	13.42	8.42	7.69	8.85	9.4
Dividend payout ratio	**24.8%**	21.9%	20.2%	11.49%	8.89%	N/A
Weighted-average common shares outstanding (000)	**871,464**	906,524	938,941	931,934	874,748	(.1)
Weighted-average common shares and potential common shares outstanding (000) (d)	**878,199**	912,571	943,259	935,801	878,153	
AT DECEMBER 31.						
Loans	**$ 57,381**	$ 54,457	$ 52,822	$ 49,575	$ 50,107	2.7%
Earning assets	**82,269**	79,467	75,055	73,729	76,211	1.5
Total assets	**93,821**	92,934	89,236	88,785	91,843	.4
Deposits	**71,998**	69,262	65,993	61,956	60,610	3.5
Long-term debt	**7,875**	7,650	6,847	9,520	10,592	(5.8)
Key common shareholders equity	**10,239**	10,012	9,980	9,614	8,380	4.1
Key shareholders equity	**10,530**	10,303	10,271	9,905	11,117	(1.1)
PERFORMANCE RATIOS FROM CONTINUING OPERATIONS						
Return on average total assets	**1.08%**	1.03%	1.03%	1.16%	.66%	N/A
Return on average common equity	**9.01**	8.48	8.25	9.17	5.06	N/A
Return on average tangible common equity (e)	**10.04**	9.45	9.16	10.20	5.73	N/A
Net interest margin (TE)	**2.97**	3.12	3.21	3.16	3.26	N/A
Cash efficiency ratio (e)	**66.1**	67.5	67.4	67.3	67.3	N/A
PERFORMANCE RATIOS FROM CONSOLIDATED OPERATIONS						
Return on average total assets	**.99%**	1.02%	.99%	1.04%	.59%	N/A
Return on average common equity	**8.63**	8.88	8.48	8.79	4.78	N/A
Return on average tangible common equity (e)	**9.61**	9.90	9.42	9.78	5.41	N/A
Net interest margin (TE)	**2.94**	3.02	3.13	3.09	3.16	N/A
Loan to deposit (f)	**84.6**	83.8	85.8	87.0	90.3	N/A
CAPITAL RATIOS AT DECEMBER 31,						
Key shareholders equity to assets	**11.22%**	11.09%	11.51%	11.16%	12.10%	N/A
Key common shareholders equity to assets	**10.91**	10.78	11.18	10.83	9.12	N/A
Tangible common equity to tangible assets (e)	**9.88**	9.80	10.15	9.88	8.19	N/A

Tier 1 common equity [e]	**11.17**	11.22	11.36	11.26	9.34	N/A
Tier 1 risk-based capital	**11.90**	11.96	12.15	12.99	15.16	N/A
Total risk-based capital	**13.89**	14.33	15.13	16.51	19.12	N/A
Leverage	**11.26**	11.11	11.41	11.79	13.02	N/A
TRUST AND BROKERAGE ASSETS						
Assets under management	**$ 39,157**	$ 36,905	$ 34,744	$ 51,732	$ 59,815	N/A
Nonmanaged and brokerage assets	**49,147**	47,418	35,550	30,639	28,069	N/A
OTHER DATA						
Average full-time-equivalent employees	**13,853**	14,783	15,589	15,381	15,610	(2.4)%
Branches	**994**	1,028	1,088	1,058	1,033	(.8)

(a) Financial data was not adjusted to reflect the treatment of Victory as a discontinued operation.

(b) In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In February 2013, we decided to sell Victory to a private equity fund. As a result of these decisions, we have accounted for these businesses as discontinued operations. For further discussion regarding the income (loss) from discontinued operations, see Note 13 (Acquisitions and Discontinued Operations).

(c) EPS may not foot due to rounding.

34

Table of Contents

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

(e) See Figure 4 entitled GAAP to Non-GAAP Reconciliations, which presents the computations of certain financial measures related to tangible common equity, Tier 1 common equity, and cash efficiency. The table reconciles the GAAP performance measures to the corresponding non-GAAP measures, which provides a basis for period-to-period comparisons.

(f) Represents period-end consolidated total loans and loans held for sale (excluding education loans in securitizations trusts for periods prior to 2014) divided by period-end consolidated total deposits (excluding deposits in foreign office).

Economic overview

The economy continued its modest recovery in 2014, with overall GDP starting slowly and accelerating as the year progressed, resulting in 2.4% growth. The year began with GDP contracting 2.1% in the first quarter, due to extreme weather halting consumer spending and investment. In the second quarter, growth of 4.6% more than reversed the first quarter s decline. Pent-up consumer demand was the largest contributor to the growth, as the impact of extreme weather conditions in the first quarter faded. In the third quarter, growth accelerated as consumers spent money saved at the gas pump. Oil prices dropped 46% over the last half of the year, giving consumers a boost in discretionary income. The fourth quarter saw growth slow to 2.6% as consumer spending continued to be a bright spot. The stock market continued its climb in 2014, with the S&P 500 equity index increasing 11%, compared to a 30% increase in 2013. Globally, the economic recovery slowed; central banks in developed nations maintained easy money policies. In Europe, the recovery stalled and the risk of deflation rose, leading the European Central Bank to consider further action. Emerging markets struggled as well demand decreased, exports dropped, and China grew at its slowest rate in 24 years.

For 2014, 2.95 million new jobs were added in the U.S. The unemployment rate fell further, from 6.97% at December 31, 2013, to 5.70% at December 31, 2014. While job growth was a factor, the majority of the improvement was driven by a decrease in the labor force participation rate, which declined to its lowest level in over 35 years. Wage growth deteriorated through much of the year and income growth was weak, indicative of slack in the labor market. However, consumer spending held up reasonably well, resulting in a falling savings rate. A slowing rate of inflation supported real incomes, and therefore spending, throughout the year. By December 2014, headline inflation was down to .8%, compared to 1.5% one year ago, mainly due to the decline in fuel prices. Core inflation also remained low throughout the year, ending 2014 at 1.6%, down from 1.7% in 2013.

As the economy expanded further and job growth accelerated, the housing market gained traction, with slight improvement across nearly all metrics in 2014. Slow household formation continues to be a factor, however, and sales growth remains relatively modest. Existing home sales finished 2014 at a seasonally adjusted annual rate of 5.04 million, up slightly from December 2013. New home sales ended the year on a solid note, reaching a seasonally adjusted annual rate of 481,000 in December 2014, up 8.8% from 2013. The pace of price appreciation slowed, with the median price for existing homes up 5.5% year-over-year in November 2014, compared to 9.9% in 2013. Housing starts accelerated further, up 9% over 2013, driven primarily by substantial gains in both single and multi-family construction.

The Federal Reserve remained active and accommodative in 2014, keeping the federal funds target rate near zero, expanding its balance sheet further, and making significant changes to its communications. Janet Yellen replaced Ben

Bernanke as the Federal Reserve Chairman in February 2014. The Federal Reserve started tapering the pace of asset purchases by $10 billion, from $85 billion per month to $75 billion per month, in January and concluded purchasing securities in October. However, the Federal Open Market Committee (FOMC) decided to maintain the existing policy of reinvesting principal payments to help accommodate financial conditions. In addition, the Federal Reserve kept its forward guidance unchanged in December, explicitly stating that the federal funds rate will be kept near zero for a considerable time. Low inflation remains a concern; the FMOC acknowledged lower energy prices were a factor in holding inflation under their longer-run objective of 2.0%. The 10-year U.S. Treasury yield began the year at 3.0%, and was range-bound from 2.7% to 2.9% for the first quarter of the year, driven by disappointing weather-related economic data. Around the year s halfway point, with rising concerns over global growth, the 10-year U.S. Treasury yield began to decrease, approaching 2.0% by the end of the year as the stock market continued to rally.

Table of Contents

Long-term financial goals

Our long-term financial goals are as follows:

¿ Improve balance sheet efficiency by targeting a loan-to-deposit ratio range of 90% to 100%;

¿ Maintain a moderate risk profile by targeting a net loan charge-off ratio range of .40% to .60%;

¿ Grow high quality and diverse revenue streams by targeting a net interest margin in excess of 3.50%, and a ratio of noninterest income to total revenue of greater than 40%;

¿ Generate positive operating leverage and target a cash efficiency ratio of less than 60%; and

¿ Strengthen returns by executing our strategy and target a return on average assets in the range of 1.00% to 1.25%.
Figure 2 shows the evaluation of our long-term financial goals for the three and twelve months ended December 31, 2014.

Figure 2. Evaluation of Our Long-Term Financial Goals

KEY Business Model	Key Metrics [a]	4Q14	Year ended December 31, 2014	Targets
Balance sheet efficiency	Loan-to-deposit ratio [b]	85 %	85 %	90 - 100 %
Moderate risk profile	NCOs to average loans	.22 %	.20 %	.40 - .60 %
	Provision to average loans	.15 %	.11 %	
High quality, diverse	Net interest margin	2.94 %	2.97 %	> 3.50 %
revenue streams	Noninterest income to total revenue	45 %	44 %	> 40 %
Positive operating leverage	Cash efficiency ratio [c]	64.4 %	66.1 %	< 60 %
Execution of strategy	Return on average assets	1.12 %	1.08 %	1.00 - 1.25 %

(a) Calculated from continuing operations, unless otherwise noted.

(b) Represents period-end consolidated total loans and loans held for sale divided by period-end consolidated total deposits (excluding deposits in foreign office).

(c) Excludes intangible asset amortization; Non-GAAP measures: see Figure 4 for reconciliation.

Corporate strategy

We remain committed to enhancing long-term shareholder value by continuing to execute our relationship business model, growing our franchise, and being disciplined in our management of capital. Our 2014/2015 strategic focus is to add new clients and to expand our relationships with existing clients. We intend to pursue this strategy by continuing to control and reduce expenses; being more productive from the front office to the back office; effectively balancing risk and rewards within our moderate risk profile; and engaging, retaining and inspiring our diverse and high performing workforce. Our strategic priorities for enhancing long-term shareholder value are described below.

¿ ***Grow profitably*** We will continue to focus on growing revenue and creating a more efficient operating environment. We expect our relationship business model to keep generating organic growth as it helps us expand engagement with existing clients and attract new customers. We will leverage our continuous improvement culture to create a more efficient cost structure that is aligned, sustainable, and consistent with the current operating environment and supports our relationship business model.

¿ ***Acquire and expand targeted relationships*** We have taken purposeful steps to enhance our ability to acquire and expand targeted relationships. Our local delivery of a broad product set and industry expertise allows us to match client needs and market conditions to deliver the best solutions.

¿ ***Effectively manage risk and rewards*** Our risk management activities are focused on ensuring we properly identify, measure, and manage risks across the entire company to maintain safety and soundness and maximize profitability.

Table of Contents

¿ ***Maintain financial strength*** With the foundation of a strong balance sheet, we will remain focused on sustaining strong reserves, liquidity and capital. We will work closely with our Board of Directors and regulators to manage capital to support our clients needs and create shareholder value. Our capital remains a competitive advantage for us.

¿ ***Engage a high performing, talented and diverse workforce*** Every day our employees provide our clients with great ideas, extraordinary service and smart solutions. We will continue to engage our high performing, talented and diverse workforce to create an environment where they can make a difference, own their careers, be respected and feel a sense of pride.

Strategic developments

We initiated the following actions during 2014 to support our corporate strategy:

¿ We continued to take actions to drive growth and efficiency. These actions included leadership changes to leverage our alignment, accelerate momentum, and drive growth. We also focused on growing our commercial payments business and maximizing the return from our recent investments, which included the launch of purchase and prepaid cards in the first quarter of 2014. In addition to these new payment products, we continued to invest in, and build out, our online and mobile capabilities. During the first quarter of 2014, we expanded our online account-opening tools to include more products and services. During the second quarter of 2014, we introduced the new KeyBank Hassle-Free Account for banking customers who want straightforward ways to make deposits, track money, obtain cash, and make payments without worrying about potential overdraft fees or other unexpected fees. In addition, as part of our actions to drive efficiency, we closed 34 branches and reduced headcount in our fixed income trading business during 2014.

¿ We also made progress on other strategic initiatives, including improving sales productivity and strengthening our business mix through targeted investments and exiting businesses that are not a strategic fit. Key Community Bank strengthened its sales management process and saw a lift in sales productivity. Key Corporate Bank continued to see growth in new and expanded client relationships. In the first quarter of 2014, we announced that we would be exiting our international leasing operation, which had limited scale and connectivity to our other businesses. This decision was consistent with our commitment to allocate our capital to businesses that fit our strategy and generate appropriate risk-adjusted returns. Late in the third quarter of 2014, we closed the acquisition of Pacific Crest Securities, a leading technology-focused investment bank and capital markets firm. This acquisition underscores our commitment to creating the leading corporate and investment bank serving middle market companies. The transaction brings together two firms with a shared vision of enhancing their differentiation in the market by capitalizing on the convergence of technology across traditional industry verticals.

¿ Our strong risk management practices and a more favorable credit environment resulted in another year of positive credit quality trends. For 2014, net loan charge-offs were .20% of average loans, well below our targeted range, and nonperforming assets decreased 17.9% from the year-ago period.

¿

Capital management remained a priority. During 2014, we completed $355 million of common share repurchases under our 2014 capital plan authorization. In addition, we completed $141 million of common share repurchases in the first quarter of 2014 under our 2013 capital plan for a total of $496 million of open market common share repurchases during 2014. Common share repurchases under the 2014 capital plan are expected to be executed through the first quarter of 2015.

¿ The Board declared a quarterly dividend of $.055 per common share for the first quarter of 2014. Our 2014 capital plan proposed an 18% increase in our quarterly common share dividend to $.065 per share, which was approved by our Board in May 2014. Consistent with the 2014 capital plan, we made a dividend payment of $.065 per share on our common shares during each of the second, third, and fourth quarters of 2014, which brought our annual dividend to $.25 per common share for 2014.

¿ At December 31, 2014, our capital ratios remained strong with a Tier 1 common equity ratio of 11.17%, our loan loss reserves were adequate at 1.38% to period-end loans, and we were core funded with a loan-to-

Table of Contents

deposit ratio of 85%. We believe our strong capital position provides us with the flexibility to support our clients and our business needs, and to evaluate other appropriate capital deployment opportunities.

Highlights of Our 2014 Performance

Financial performance

For 2014, we announced net income from continuing operations attributable to Key common shareholders of $917 million, or $1.04 per common share. These results compare to net income from continuing operations attributable to Key common shareholders of $847 million, or $.93 per common share, for 2013.

Figure 3 shows our continuing and discontinued operating results for the past three years.

Figure 3. Results of Operations

Year ended December 31, *in millions, except per share amounts*	**2014**	**2013**	**2012**
SUMMARY OF OPERATIONS			
Income (loss) from continuing operations attributable to Key	**$ 939**	$ 870	$ 835
Income (loss) from discontinued operations, net of taxes [a]	**(39)**	40	23
Net income (loss) attributable to Key	**$ 900**	$ 910	$ 858
Income (loss) from continuing operations attributable to Key	**$ 939**	$ 870	$ 835
Less: Dividends on Series A Preferred Stock	**22**	23	22
Income (loss) from continuing operations attributable to Key common shareholders	**917**	847	813
Income (loss) from discontinued operations, net of taxes [a]	**(39)**	40	23
Net income (loss) attributable to Key common shareholders	**$ 878**	$ 887	$ 836
PER COMMON SHARE ASSUMING DILUTION			
Income (loss) from continuing operations attributable to Key common shareholders	**$ 1.04**	$ .93	$ .86
Income (loss) from discontinued operations, net of taxes [a]	**(.04)**	.04	.02
Net income (loss) attributable to Key common shareholders [b]	**$ .99**	$ .97	$ .89

(a) In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In February 2013, we decided to sell Victory to a private equity fund. As a result of these decisions, we have accounted for these businesses as discontinued operations. For further discussion regarding the income (loss) from discontinued operations, see Note 13 (Acquisitions and Discontinued Operations).

(b) EPS may not foot due to rounding.

Our 2014 full-year results reflect success in executing our strategy by generating positive operating leverage and maintaining strong risk management and disciplined capital management. We continued to invest in our businesses to accelerate growth. During the third quarter of 2014, we acquired Pacific Crest Securities, a leading technology-focused investment bank and capital markets firm. We added bankers across our franchise, expanded our payment capabilities, and enhanced technology in areas such as mobile, online, and cyber security. In addition, as part of our actions to drive efficiency, we closed 34 branches and exited nonstrategic assets that were not consistent with our relationship strategy, such as international leasing. We remain committed to generating positive operating leverage and delivering on our long-term goal of achieving a cash efficiency ratio below 60%.

Our taxable-equivalent net interest income for 2014 was $2.3 billion, and the net interest margin was 2.97%. These results compare to taxable-equivalent net interest income of $2.3 billion and a net interest margin of 3.12% for the prior year. The decreases in net interest income, which declined $31 million, and the net interest margin were attributable to lower earning asset yields. These decreases were partially offset by loan growth, the maturity of higher-rate certificates of deposit, and a more favorable mix of lower-cost deposits. In 2015, we expect net interest income and net interest margin to benefit from anticipated higher rates, with net interest income growth in the low- to mid-single-digit percentage range compared to 2014 and net interest margin to be stable to slightly higher later in 2015.

Table of Contents

Our noninterest income was $1.8 billion, up $31 million, or 1.8%, from 2013. Investment banking and debt placement fees benefited from our business model and had a record high year, increasing $64 million from 2013. Net gains (losses) from principal investing were $26 million higher than prior year, and trust and investment services income increased $10 million. These increases were partially offset by declines of $21 million in operating lease income and other leasing, $20 million in service charges on deposits accounts, $12 million in mortgage servicing fees, and $9 million in consumer mortgage income. Other income also decreased $15 million. In 2015, we expect mid-single-digit growth compared to 2014, including the full-year impact of the recently-acquired Pacific Crest Securities.

Our noninterest expense was $2.8 billion, a decrease of $61 million, or 2.2%, from 2013. We recognized $80 million of efficiency- and pension-related charges in 2014 compared to $117 million in 2013. Personnel expense declined $18 million, driven by lower net technology contract labor, severance, and employee benefits, partially offset by higher incentive compensation and stock-based compensation. Nonpersonnel expense decreased $43 million, primarily due to declines in net occupancy costs of $14 million, provision (credit) for losses on lending-related commitments of $10 million, and equipment expense of $8 million. In 2015, we expect noninterest expense to be relatively stable with 2014.

Average loans totaled $55.7 billion for 2014, compared to $53.1 billion in 2013. Commercial, financial and agricultural loan growth of $2.7 billion from the prior year was broad-based across our commercial lines of business. Consumer loans remained relatively stable, as modest increases across our core consumer loan portfolio, primarily home equity loans and direct term loans, were mostly offset by run-off in our designated consumer exit portfolio. For 2015, we anticipate average loans growth in the mid-single-digit range, benefiting from the strength in our commercial businesses.

Average deposits, excluding deposits in foreign office, totaled $67.3 billion for 2014, an increase of $1.9 billion compared to 2013. Demand deposits and NOW and money market deposit accounts each increased $1.4 billion, mostly due to growth related to commercial client inflows as well as increases related to the commercial mortgage servicing business. These increases were partially offset by run-off in certificates of deposit. Our consolidated loan to deposit ratio was 84.6% at December 31, 2014, compared to 83.8% at December 31, 2013.

Our asset quality statistics continued to improve during 2014. The provision for loan and lease losses was $59 million for 2014 compared to $130 million for 2013. Net loan charge-offs declined to $113 million, or .20%, of average loan balances for 2014, compared to $168 million, or .32%, for 2013. In addition, our nonperforming loans declined to $418 million, or .73%, of period-end loans at December 31, 2014, compared to $508 million, or ..93%, at December 31, 2013. Our ALLL was $794 million, or 1.38%, of period-end loans, compared to $848 million, or 1.56%, at December 31, 2013, and represented 190% and 166.9% coverage of nonperforming loans at December 31, 2014, and December 31, 2013, respectively. In 2015, we expect net loan charge-offs to average loans to remain below our long-term targeted range of 40 to 60 basis points and the provision for loan and lease losses to approximate net loan charge-offs.

Our tangible common equity ratio and Tier 1 common ratio both remain strong at December 31, 2014, at 9.88% and 11.17% respectively, compared to 9.80% and 11.22%, respectively, at December 31, 2013. We have identified four primary uses of capital:

1. Investing in our businesses, supporting our clients, and loan growth;
2. Maintaining or increasing our common share dividend;
3. Returning capital in the form of common share repurchases to our shareholders; and
4. Remaining disciplined and opportunistic about how we invest in our franchise to include selective acquisitions over time.

Our capital management remains focused on creating value. During 2014, we announced an 18% increase in the common share dividend and repurchased $496 million of common shares, resulting in a peer-leading shareholder payout of approximately 82% of our 2014 net income.

Table of Contents

The Federal Reserve is currently reviewing of our 2015 capital plan under the CCAR process. Until such time as it has completed its review and has no objection to our plan, we are not permitted to implement our capital plan for periods after the first quarter of 2015. Should we receive an objection to our plan, it would likely delay any actions on capital management until later in the calendar year. For more information about the CCAR process, see Capital planning and stress testing under Supervision and Regulation in Item 1 of this report.

Figure 4 presents certain non-GAAP financial measures related to tangible common equity, return on tangible common equity, Tier 1 common equity, pre-provision net revenue, cash efficiency ratio, and Common Equity Tier 1 under the Regulatory Capital Rules (estimates).

The tangible common equity ratio and the return on tangible common equity ratio have been a focus for some investors, and management believes these ratios may assist investors in analyzing Key s capital position without regard to the effects of intangible assets and preferred stock. Tier 1 common equity, a non-GAAP financial measure, is a component of Tier 1 risk-based capital. Tier 1 common equity is neither formally defined by GAAP nor prescribed in amount by federal banking regulations applicable to us before January 1, 2015. However, since analysts and banking regulators may assess our capital adequacy using tangible common equity and Tier 1 common equity, we believe it is useful to enable investors to assess our capital adequacy on these same bases. Figure 4 also reconciles the GAAP performance measures to the corresponding non-GAAP measures.

Traditionally, the banking regulators have assessed bank and BHC capital adequacy based on both the amount and the composition of capital, the calculation of which is prescribed in federal banking regulations. The Federal Reserve focuses its assessment of capital adequacy on a component of Tier 1 capital known as Tier 1 common equity. Because the Federal Reserve has long indicated that voting common shareholders equity (essentially Tier 1 risk-based capital less preferred stock, qualifying capital securities and noncontrolling interests in subsidiaries) generally should be the dominant element in Tier 1 risk-based capital, this focus on Tier 1 common equity is consistent with existing capital adequacy categories. The Regulatory Capital Rules, described in more detail under the section Supervision and Regulation in Item 1 of this report, also make Tier 1 common equity a priority. The Regulatory Capital Rules change the regulatory capital standards that apply to BHCs by, among other changes, phasing out the treatment of trust preferred securities and cumulative preferred securities as Tier 1 eligible capital. By 2016, our trust preferred securities will only be included in Tier 2 capital.

Figure 4 also shows the computation for pre-provision net revenue, which is not formally defined by GAAP. We believe that eliminating the effects of the provision for loan and lease losses makes it easier to analyze our results by presenting them on a more comparable basis.

The cash efficiency ratio is a ratio of two non-GAAP performance measures. Accordingly, there is no directly comparable GAAP performance measure. The cash efficiency ratio excludes the impact of our intangible asset amortization from the calculation. We believe this ratio provides greater consistency and comparability between our results and those of our peer banks. Additionally, this ratio is used by analysts and investors as they develop earnings forecasts and peer bank analysis.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. Although these non-GAAP financial measures are frequently used by investors to evaluate a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP.

Table of Contents

Figure 4. GAAP to Non-GAAP Reconciliations

Year ended December 31,

dollars in millions	**2014**	**2013**	**2012**	**2011**	**2010** (a)
Tangible common equity to tangible assets at period end					
Key shareholders equity (GAAP)	**$ 10,530**	$ 10,303	$ 10,271	$ 9,905	$ 11,117
Less: Intangible assets (b)	**1,090**	1,014	1,027	934	938
Series B Preferred Stock					2,446
Series A Preferred Stock (c)	**282**	282	291	291	291
Tangible common equity (non-GAAP)	**$ 9,158**	$ 9,007	$ 8,953	$ 8,680	$ 7,442
Total assets (GAAP)	**$ 93,821**	$ 92,934	$ 89,236	$ 88,785	$ 91,843
Less: Intangible assets (b)	**1,090**	1,014	1,027	934	938
Tangible assets (non-GAAP)	**$ 92,731**	$ 91,920	$ 88,209	$ 87,851	$ 90,905
Tangible common equity to tangible assets ratio (non-GAAP)	**9.88 %**	9.80 %	10.15 %	9.88 %	8.19 %
Tier 1 common equity at period end					
Key shareholders equity (GAAP)	**$ 10,530**	$ 10,303	$ 10,271	$ 9,905	$ 11,117
Qualifying capital securities	**339**	339	339	1,046	1,791
Less: Goodwill	**1,057**	979	979	917	917
Accumulated other comprehensive income (loss) (d)	**(395)**	(394)	(172)	(72)	(66)
Other assets (e)	**83**	89	114	72	248
Total Tier 1 capital (regulatory)	**10,124**	9,968	9,689	10,034	11,809
Less: Qualifying capital securities	**339**	339	339	1,046	1,791
Series B Preferred Stock					2,446
Series A Preferred Stock (c)	**282**	282	291	291	291
Total Tier 1 common equity (non-GAAP)	**$ 9,503**	$ 9,347	$ 9,059	$ 8,697	$ 7,281
Net risk-weighted assets (regulatory)	**$ 85,100**	$ 83,328	$ 79,734	$ 77,214	$ 77,921
Tier 1 common equity ratio (non-GAAP)	**11.17 %**	11.22 %	11.36 %	11.26 %	9.34 %
Pre-provision net revenue					
Net interest income (GAAP)	**$ 2,293**	$ 2,325	$ 2,264	$ 2,267	$ 2,511
Plus: Taxable-equivalent adjustment	**24**	23	24	25	26
Noninterest income (GAAP)	**1,797**	1,766	1,856	1,688	1,954
Less: Noninterest expense (GAAP)	**2,759**	2,820	2,818	2,684	3,034
Pre-provision net revenue from continuing operations (non-GAAP)	**$ 1,355**	$ 1,294	$ 1,326	$ 1,296	$ 1,457
Average tangible common equity					
Average Key shareholders equity (GAAP)	**$ 10,467**	$ 10,276	$ 10,144	$ 10,133	$ 10,895
Less: Intangible assets (average) (f)	**1,039**	1,021	978	935	959
Series B Preferred Stock (average)				590	2,438
Series A Preferred Stock (average)	**291**	291	291	291	291

	Average tangible common equity (non-GAAP)	**$ 9,137**	$ 8,964	$ 8,875	$ 8,317	$ 7,207
Return on average tangible common equity from continuing operations						
Net income (loss) from continuing operations attributable to Key common shareholders (GAAP)		**$ 917**	$ 847	$ 813	$ 848	$ 413
Average tangible common equity (non-GAAP)		**9,137**	8,964	8,875	8,317	7,207
Return on average tangible common equity from continuing operations (non-GAAP)		**10.04 %**	9.45 %	9.16 %	10.20 %	5.73 %
Return on average tangible common equity consolidated						
Net income (loss) attributable to Key common shareholders (GAAP)		**$ 878**	$ 887	$ 836	$ 813	$ 390
Average tangible common equity (non-GAAP)		**9,137**	8,964	8,875	8,317	7,207
Return on average tangible common equity consolidated (non-GAAP)		**9.61 %**	9.90 %	9.42 %	9.78 %	5.41 %
Cash efficiency ratio						
Noninterest expense (GAAP)		**$ 2,759**	$ 2,820	$ 2,818	$ 2,684	$ 3,034
Less:	Intangible asset amortization (GAAP)	**39**	44	23	4	14
	Adjusted noninterest expense (non-GAAP)	**$ 2,720**	$ 2,776	$ 2,795	$ 2,680	$ 3,020
Net interest income (GAAP)		**$ 2,293**	$ 2,325	$ 2,264	$ 2,267	$ 2,511
Plus:	Taxable-equivalent adjustment	**24**	23	24	25	26
	Noninterest income (GAAP)	**1,797**	1,766	1,856	1,688	1,954
	Total taxable-equivalent revenue (non-GAAP)	**$ 4,114**	$ 4,114	$ 4,144	$ 3,980	$ 4,491
Cash efficiency ratio (non-GAAP)		**66.1 %**	67.5 %	67.4 %	67.3 %	67.3 %

Table of Contents

(a) Financial data was not adjusted to reflect the treatment of Victory as a discontinued operation.

(b) For the years ended December 31, 2014, December 31, 2013, and December 31, 2012, intangible assets exclude $68 million, $92 million, and $123 million, respectively, of period-end purchased credit card receivables.

(c) Net of capital surplus for the years ended December 31, 2014, and December 31, 2013.

(d) Includes net unrealized gains or losses on securities available for sale (except for net unrealized losses on marketable equity securities), net gains or losses on cash flow hedges, and amounts resulting from the application of the applicable accounting guidance for defined benefit and other postretirement plans.

(e) Other assets deducted from Tier 1 capital and net risk-weighted assets consist of disallowed intangible assets (excluding goodwill) and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at December 31, 2014, December 31, 2013, December 31, 2012, and December 31, 2011. There were disallowed deferred tax assets of $158 million at December 31, 2010.

(f) For the years ended December 31, 2014, December 31, 2013, and December 31, 2012, average intangible assets exclude $79 million, $107 million, and $55 million, respectively, of average purchased credit card receivables.

Figure 4. GAAP to Non-GAAP Reconciliations, continued

Year ended December 31,			
dollars in millions		**2014**	
Common Equity Tier 1 under the Regulatory Capital Rules (estimates)			
Tier 1 common equity under current regulatory rules	**$**	**9,503**	
Adjustments from current regulatory rules to the Regulatory Capital Rules:			
Deferred tax assets and other [(g)]		**(89)**	
Common Equity Tier 1 anticipated under the Regulatory Capital Rules [(h)]	**$**	**9,414**	
Net risk-weighted assets under current regulatory rules	**$**	**85,100**	
Adjustments from current regulatory rules to the Regulatory Capital Rules:			
Loan commitments less than one year		**1,139**	
Past due loans		**129**	
Mortgage servicing assets [(i)]		**484**	
Deferred tax assets [(i)]		**267**	
Other		**1,059**	
Total risk-weighted assets anticipated under the Regulatory Capital Rules [(h)]	**$**	**88,178**	
Common Equity Tier 1 ratio under the Regulatory Capital Rules		**10.68**	%

(g) Includes the deferred tax assets subject to future taxable income for realization, primarily tax credit carryforwards, as well as the deductible portion of purchased credit card receivables.

(h) The anticipated amount of regulatory capital and risk-weighted assets is based upon the federal banking agencies Regulatory Capital Rules (as fully phased-in on January 1, 2019); Key is subject to the Regulatory Capital Rules under the standardized approach.

(i) Item is included in the 10%/15% exceptions bucket calculation and is risk-weighted at 250%.

Results of Operations

Net interest income

One of our principal sources of revenue is net interest income. Net interest income is the difference between interest income received on earning assets (such as loans and securities) and loan-related fee income, and interest expense paid on deposits and borrowings. There are several factors that affect net interest income, including:

¿ the volume, pricing, mix, and maturity of earning assets and interest-bearing liabilities;

¿ the volume and value of net free funds, such as noninterest-bearing deposits and equity capital;

¿ the use of derivative instruments to manage interest rate risk;

¿ interest rate fluctuations and competitive conditions within the marketplace; and

¿ asset quality.

To make it easier to compare results among several periods and the yields on various types of earning assets (some taxable, some not), we present net interest income in this discussion on a taxable-equivalent basis (i.e., as if it were all taxable and at the same rate). For example, $100 of tax-exempt income would be presented as $154, an amount that if taxed at the statutory federal income tax rate of 35% would yield $100.

Figure 5 shows the various components of our balance sheet that affect interest income and expense, and their respective yields or rates over the past five years. This figure also presents a reconciliation of taxable-equivalent net interest income to net interest income reported in accordance with GAAP for each of those years. The net interest margin, which is an indicator of the profitability of the earning assets portfolio less cost of funding, is calculated by dividing taxable-equivalent net interest income by average earning assets.

Taxable-equivalent net interest income for 2014 was $2.317 billion, and the net interest margin was 2.97%. These results compare to taxable-equivalent net interest income of $2.348 billion and a net interest margin of 3.12% for the prior year. The decreases in net interest income, which declined $31 million, and the net interest margin were attributable to lower earning asset yields. These decreases were partially offset by loan growth, the maturity of higher-rate certificates of deposit, and a more favorable mix of lower-cost deposits and wholesale borrowings.

Taxable-equivalent net interest income for 2013 increased $60 million compared to 2012 due to an increase in average loans, a more favorable funding mix, and higher loan fees, partially offset by lower earning asset yields. The net interest margin declined nine basis points primarily resulting from lower earning asset yields, which were partially offset by a more favorable funding mix.

Average earning assets totaled $78.1 billion for 2014, compared to $75.4 billion in 2013. Commercial, financial and agricultural loan growth of $2.7 billion from the prior year was broad-based across our commercial lines of business. Consumer loans remained relatively stable, as modest increases across our core consumer loan portfolio, primarily home equity loans and direct term loans, were mostly offset by run-off in our designated consumer exit portfolio.

Average deposits, excluding deposits in foreign office, totaled $67.3 billion for 2014, an increase of $1.9 billion compared to 2013. Demand deposits and NOW and money market deposit accounts each increased $1.4 billion, mostly due to growth related to commercial client inflows as well as increases related to the commercial mortgage servicing business. These increases were partially offset by run-off in certificates of deposit.

Table of Contents

Figure 5. Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates from Continuing Operations

Year ended December 31,	2014			2013		
dollars in millions	Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance	Interest (a)	Yield/ Rate (a)
ASSETS						
Loans: (b), (c)						
Commercial, financial and agricultural	**$ 26,375** (d)	**$ 866**	**3.28 %**	$ 23,723 (d)	$ 855	3.60 %
Real estate commercial mortgage	**7,999**	**303**	**3.79**	7,591	312	4.11
Real estate construction	**1,061**	**43**	**4.07**	1,058	45	4.25
Commercial lease financing	**4,239**	**156**	**3.67**	4,683	172	3.67
Total commercial loans	**39,674**	**1,368**	**3.45**	37,055	1,384	3.73
Real estate residential mortgage	**2,201**	**96**	**4.37**	2,185	98	4.49
Home equity:						
Key Community Bank	**10,340**	**405**	**3.91**	10,086	397	3.93
Other	**299**	**23**	**7.80**	377	29	7.70
Total home equity loans	**10,639**	**428**	**4.02**	10,463	426	4.07
Consumer other Key Community Bank	**1,501**	**104**	**6.92**	1,404	103	7.33
Credit cards	**712**	**78**	**10.95**	701	83	11.86
Consumer other:						
Marine	**894**	**56**	**6.22**	1,172	74	6.26
Other	**58**	**4**	**7.70**	74	6	8.32
Total consumer other	**952**	**60**	**6.31**	1,246	80	6.38
Total consumer loans	**16,005**	**766**	**4.79**	15,999	790	4.94
Total loans	**55,679**	**2,134**	**3.83**	53,054	2,174	4.10
Loans held for sale	**570**	**21**	**3.76**	532	20	3.72
Securities available for sale (b), (e)	**12,210**	**277**	**2.27**	12,689	311	2.49
Held-to-maturity securities (b)	**4,949**	**93**	**1.88**	4,387	82	1.87
Trading account assets	**932**	**25**	**2.70**	756	21	2.78
Short-term investments	**2,886**	**6**	**.21**	2,948	6	.20
Other investments (e)	**865**	**22**	**2.53**	1,028	29	2.84

Total earning assets		**78,091**	**2,578**	**3.30**			75,394	2,643	3.51	
Allowance for loan and lease losses		**(818)**					(879)			
Accrued income and other assets		**9,806**					9,662			
Discontinued assets		**3,828**					5,036			
Total assets	**$**	**90,907**				$	89,213			
LIABILITIES										
NOW and money market deposit accounts	**$**	**34,283**	**48**	**.14**		$	32,846	53	.16	
Savings deposits		**2,446**	**1**	**.02**			2,505	1	.04	
Certificates of deposit ($100,000 or more) [f]		**2,616**	**35**	**1.35**			2,829	50	1.76	
Other time deposits		**3,495**	**32**	**.91**			4,084	53	1.30	
Deposits in foreign office		**615**	**1**	**.23**			567	1	.23	
Total interest-bearing deposits		**43,455**	**117**	**.27**			42,831	158	.37	
Federal funds purchased and securities sold under repurchase agreements		**1,182**	**2**	**.16**			1,802	2	.13	
Bank notes and other short-term borrowings		**597**	**9**	**1.49**			394	8	1.89	
Long-term debt [f], [g]		**5,161**	**133**	**2.68**			4,184	127	3.28	
Total interest-bearing liabilities		**50,395**	**261**	**.52**			49,211	295	.60	
Noninterest-bearing deposits		**24,410**					23,046			
Accrued expense and other liabilities		**1,791**					1,656			
Discontinued liabilities [g]		**3,828**					4,995			
Total liabilities		**80,424**					78,908			
EQUITY										
Key shareholders equity		**10,467**					10,276			
Noncontrolling interests		**16**					29			
Total equity		**10,483**					10,305			
Total liabilities and equity	**$**	**90,907**				$	89,213			
Interest rate spread (TE)				**2.78**	**%**				2.91	%
Net interest income (TE) and net interest margin (TE)			**2,317**	**2.97**	**%**			2,348	3.12	%
TE adjustment [b]			**24**					23		

Net interest income, GAAP basis	**$ 2,293**	$ 2,325

(a) Results are from continuing operations. Interest excludes the interest associated with the liabilities referred to in (g) below, calculated using a matched funds transfer pricing methodology.

(b) Interest income on tax-exempt securities and loans has been adjusted to a taxable-equivalent basis using the statutory federal income tax rate of 35%.

(c) For purposes of these computations, nonaccrual loans are included in average loan balances.

(d) Commercial, financial and agricultural average balances include $93 million, $95 million, and $36 million of assets from commercial credit cards for the years ended December 31, 2014, December 31, 2013, and December 31, 2012, respectively.

Table of Contents

Figure 5. Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates from Continuing Operations (Continued)

012 erest (a)	Yield/ Rate (a)	2011 Average Balance	Interest (a)	Yield/ Rate (a)	2010 Average Balance (h)	Interest (a), (h)	Yield/ Rate (a), (h)	Compounc Chang Average Balance
810	3.83 %	$ 17,507	$ 705	4.03 %	$ 17,500	$ 813	4.64 %	8.6
339	4.43	8,437	380	4.50	10,027	491	4.90	(4.4)
56	4.74	1,677	73	4.36	3,495	149	4.26	(21.2)
187	3.64	5,846	293	5.01	6,754	352	5.21	(8.9)
,392	3.96	33,467	1,451	4.34	37,776	1,805	4.78	1.0
100	4.86	1,850	97	5.25	1,828	102	5.57	3.8
384	4.03	9,390	387	4.12	9,773	411	4.20	1.1
37	7.81	598	46	7.66	751	57	7.59	(16.8)
421	4.21	9,988	433	4.34	10,524	468	4.45	.2
121	9.53	1,167	113	9.62	1,158	132	11.44	5.3
40	13.99							N/M
97	6.26	1,992	125	6.28	2,497	155	6.23	(18.6)
8	8.14	142	11	7.87	188	15	7.87	(21.0)
105	6.38	2,134	136	6.38	2,685	170	6.34	(18.7)
787	5.16	15,139	779	5.14	16,195	872	5.39	(.2)
,179	4.33	48,606	2,230	4.59	53,971	2,677	4.96	.6
20	3.45	387	14	3.58	453	17	3.62	4.7
399	3.08	18,766	584	3.20	18,800	646	3.50	(8.3)
69	1.97	514	12	2.35	20	2	10.56	N/M
18	2.48	878	26	2.97	1,068	37	3.47	(2.7)
6	.27	2,543	6	.25	2,684	6	.24	1.5
38	3.27	1,264	42	3.14	1,442	49	3.08	(9.7)
,729	3.82	72,958	2,914	4.02	78,438	3,434	4.39	(.1)
		(1,250)			(2,207)			(18.0)
		10,341			11,243			(2.7)
		6,247			6,677			(10.5)
		$ 88,296			$ 94,151			(.7)
56	.19	$ 27,001	71	.26	$ 25,712	91	.35	5.9
1	.05	1,958	1	.06	1,867	1	.06	5.6

94	2.64	4,931	149	3.02	8,486	275	3.24	(21.0)
104	1.92	7,185	166	2.31	10,545	301	2.86	(19.8)
2	.23	807	3	.30	926	3	.34	(7.9)
257	.62	41,882	390	.93	47,536	671	1.41	(1.8)
4	.19	1,981	5	.27	2,044	6	.31	(10.4)
7	1.69	619	11	1.84	545	14	2.63	1.8
173	4.10	7,293	216	3.18	7,211	206	3.09	(6.5)
441	.92	51,775	622	1.21	57,336	897	1.58	(2.5)
		17,381			15,856			9.0
		2,658			3,131			(10.6)
		6,232			6,677			(10.5)
		78,046			83,000			(.6)
		10,133			10,895			(.8)
		117			256			(42.6)
		10,250			11,151			(1.2)
		$ 88,296			$ 94,151			(.7)
	2.90 %			2.81 %			2.81 %	
2,288	3.21 %		2,292	3.16 %		2,537	3.26 %	
24			25			26		
2,264			$ 2,267			$ 2,511		

(e) Yield is calculated on the basis of amortized cost.

(f) Rate calculation excludes basis adjustments related to fair value hedges.

(g) A portion of long-term debt and the related interest expense is allocated to discontinued liabilities as a result of applying our matched funds transfer pricing methodology to discontinued operations.

(h) Financial data was not adjusted to reflect the treatment of Victory as a discontinued operation.

45

Table of Contents

Figure 6 shows how the changes in yields or rates and average balances from the prior year affected net interest income. The section entitled Financial Condition contains additional discussion about changes in earning assets and funding sources.

Figure 6. Components of Net Interest Income Changes from Continuing Operations

	2014 vs. 2013			2013 vs. 2012		
in millions	**Average Volume**	**Yield/ Rate**	**Net Change** (a)	**Average Volume**	**Yield/ Rate**	**Net Change** (a)
INTEREST INCOME						
Loans	**$ 105**	**$ (145)**	**$ (40)**	$ 113	$ (118)	$ (5)
Loans held for sale	**1**		**1**	(2)	2	
Securities available for sale	**(11)**	**(23)**	**(34)**	(21)	(67)	(88)
Held-to-maturity securities	**11**		**11**	17	(4)	13
Trading account assets	**5**	**(1)**	**4**	1	2	3
Short-term investments				2	(2)	
Other investments	**(4)**	**(3)**	**(7)**	(4)	(5)	(9)
Total interest income (TE)	**107**	**(172)**	**(65)**	106	(192)	(86)
INTEREST EXPENSE						
NOW and money market deposit accounts	**2**	**(7)**	**(5)**	6	(9)	(3)
Certificates of deposit ($100,000 or more)	**(4)**	**(11)**	**(15)**	(17)	(27)	(44)
Other time deposits	**(7)**	**(14)**	**(21)**	(22)	(29)	(51)
Deposits in foreign office					(1)	(1)
Total interest-bearing deposits	**(9)**	**(32)**	**(41)**	(33)	(66)	(99)
Federal funds purchased and securities sold under repurchase agreements	**(1)**	**1**			(2)	(2)
Bank notes and other short-term borrowings	**3**	**(2)**	**1**		1	1
Long-term debt	**27**	**(21)**	**6**	(17)	(29)	(46)
Total interest expense	**20**	**(54)**	**(34)**	(50)	(96)	(146)
Net interest income (TE)	**$ 87**	**$ (118)**	**$ (31)**	$ 156	$ (96)	$ 60

(a) The change in interest not due solely to volume or rate has been allocated in proportion to the absolute dollar amounts of the change in each.

Noninterest income

As shown in Figure 7, noninterest income for 2014 was $1.8 billion, up $31 million, or 1.8%, from 2013. Investment banking and debt placement fees benefited from our business model and had a record high year, increasing $64 million from 2013. Net gains (losses) from principal investing were $26 million higher than prior year, and trust and investment services income increased $10 million, primarily due to the third quarter 2014 acquisition of Pacific Crest Securities. These increases were partially offset by declines of $21 million in operating lease income and other leasing, $20 million in service charges on deposits accounts, $12 million in mortgage servicing fees, and $9 million in consumer mortgage income. Other income also decreased $15 million.

In 2013, noninterest income decreased $90 million, or 4.8%, compared to 2012. Operating lease income and other leasing gains decreased $84 million, primarily due to fewer early terminations in the leveraged lease portfolio. Consumer mortgage income declined $21 million, and net gains (losses) from principal investing decreased $20 million. Other income also declined $46 million, primarily due to gains on the redemption of trust preferred securities in the prior year. These decreases were partially offset by increases of $34 million in mortgage servicing fees, $27 million in cards and payments income, and $18 million in trust and investment services income.

Table of Contents

Figure 7. Noninterest Income

Year ended December 31, *dollars in millions*	2014	2013	2012	Change 2014 vs. 2013 Amount	Percent
Trust and investment services income	**$ 403**	$ 393	$ 375	$ 10	2.5 %
Investment banking and debt placement fees	**397**	333	327	64	19.2
Service charges on deposit accounts	**261**	281	287	(20)	(7.1)
Operating lease income and other leasing gains	**96**	117	201	(21)	(17.9)
Corporate services income	**178**	172	168	6	3.5
Cards and payments income	**166**	162	135	4	2.5
Corporate-owned life insurance income	**118**	120	122	(2)	(1.7)
Consumer mortgage income	**10**	19	40	(9)	(47.4)
Mortgage servicing fees	**46**	58	24	(12)	(20.7)
Net gains (losses) from principal investing	**78**	52	72	26	50.0
Other income [a]	**44**	59	105	(15)	(25.4)
Total noninterest income	**$ 1,797**	$ 1,766	$ 1,856	$ 31	1.8 %

(a) Included in this line item is our Dealer trading and derivatives income (loss). Additional detail is provided in Figure 8.

Figure 8. Dealer Trading and Derivatives Income (Loss)

Year ended December 31, *dollars in millions*	2014	2013	2012	Change 2014 vs. 2013 Amount	Percent
Dealer trading and derivatives income (loss), proprietary [a], [b]	**$ (18)**	$ (14)	$ (2)	$ (4)	N/M
Dealer trading and derivatives income (loss), nonproprietary [b]	**7**	27	6	(20)	(74.1) %
Total dealer trading and derivatives income (loss)	**$ (11)**	$ 13	$ 4	$ (24)	N/M

(a) For the year ended December 31, 2014, income of $4 million related to foreign exchange, interest rate, and commodity derivative trading was offset by losses related to equity securities trading, fixed income, and credit portfolio management activities. For the year ended December 31, 2013, income of $3 million related to foreign exchange and interest rate derivative trading was offset by losses related to fixed income, equity securities trading, commodity derivative trading, and credit portfolio management activities. For the year ended December 31, 2012, equity securities trading and credit portfolio management securities trading constitute the majority of this amount. These losses were partially offset by income of $6 million related to fixed income, foreign exchange, interest rate, and commodity derivative trading activities.

(b) The allocation between proprietary and nonproprietary is made based upon whether the trade is conducted for the benefit of Key or Key s clients rather than based upon rulemaking under the Volcker Rule. The prohibitions and restrictions on proprietary trading activities contemplated by the Volcker Rule were detailed in a final rule approved by federal banking regulators in December 2013, which became effective April 1, 2014. For more information, see the discussion under the heading Other regulatory developments under the Dodd-Frank Act Volcker Rule in the section entitled Supervision and Regulation in Item 1 of this report.

The following discussion explains the composition of certain elements of our noninterest income and the factors that caused those elements to change.

Trust and investment services income

Trust and investment services income is one of our largest sources of noninterest income and consists of brokerage commissions, trust and asset management commissions, and insurance income. The assets under management that primarily generate these revenues are shown in Figure 9.

For 2014, trust and investment services income increased $10 million, or 2.5%, from the prior year primarily due to the third quarter 2014 acquisition of Pacific Crest Securities. For 2013, trust and investment services income increased $18 million, or 4.8%, from the prior year.

A significant portion of our trust and investment services income depends on the value and mix of assets under management. At December 31, 2014, our bank, trust, and registered investment advisory subsidiaries had assets under management of $39.2 billion, compared to $36.9 billion at December 31, 2013 and $34.7 billion at December 31, 2012. As shown in Figure 9, increases across all portfolios were primarily attributable to market appreciation.

Table of Contents

Figure 9. Assets Under Management

December 31, *dollars in millions*	**2014**	2013	2012	**Change 2014 vs. 2013** **Amount**	**Percent**
Assets under management by investment type:					
Equity	**$ 21,393**	$ 20,971	$ 18,013	$ 422	2.0 %
Securities lending	**4,835**	3,422	3,147	1,413	41.3
Fixed income	**10,023**	9,767	10,872	256	2.6
Money market	**2,906**	2,745	2,712	161	5.9
Total	**$ 39,157**	$ 36,905	$ 34,744	$ 2,252	6.1 %

Investment banking and debt placement fees

Investment banking and debt placement fees consist of syndication fees, debt and equity financing fees, financial advisor fees, gains on sales of commercial mortgages, and agency origination fees. For 2014, investment banking and debt placement fees increased $64 million, or 19.2%, from the prior year. For 2013, investment banking and debt placement fees increased $6 million, or 1.8%. These increases reflect the benefits of our business model focusing on targeted industries including the addition of the technology sector with the 2014 acquisition of Pacific Crest Securities.

Service charges on deposit accounts

Service charges on deposit accounts declined $20 million, or 7.1%, in 2014 compared to the prior year, and $6 million, or 2.1%, in 2013 compared to the prior year due to lower maintenance fees and overdraft charges.

Operating lease income and other leasing gains

Operating lease income and other leasing gains decreased $21 million, or 17.9%, during 2014 compared to the prior year, and $84 million, or 41.8%, in 2013 compared to 2012 due to lower gains on the early terminations of leveraged leases. Product run-off also contributed to the declines between years. Accordingly, as shown in Figure 10, operating lease expense related to the rental of leased equipment also declined between years.

Corporate services income

Corporate services income increased $6 million, or 3.5%, in 2014 compared to 2013, driven by higher non-yield loan fees, and $4 million, or 2.4%, in 2013 compared to 2012 primarily due to an increase in letter of credit fees.

Cards and payments income

Cards and payments income, which consists of debit card, consumer and commercial credit card, and merchant services income, increased $4 million, or 2.5%, in 2014 compared to 2013. Credit card fees were higher due to growth in both rate and volume while increased merchant fees were driven by volume. Cards and payments income increased $27 million, or 20%, in 2013 compared to 2012 primarily due to the third quarter 2012 credit card portfolio acquisition.

Consumer mortgage income

Consumer mortgage income declined $9 million, or 47.4%, in 2014 compared to 2013, and $21 million, or 52.5%, in 2013 compared to 2012 primarily due to lower mortgage originations caused by increasing mortgage interest rates.

Mortgage servicing fees

Mortgage servicing fees decreased $12 million, or 20.7%, in 2014 compared to 2013 due to lower special servicing fees. Mortgage servicing fees increased $34 million, or 141.7%, in 2013 compared to 2012 due to higher levels of core servicing and special servicing fees as a result of the 2013 acquisition of a commercial mortgage servicing portfolio.

Table of Contents

Other income

Other income, which consists primarily of gain on sale of certain loans, other service charges, and certain dealer trading income, decreased $15 million, or 25.4%, in 2014 compared to 2013, and $46 million, or 43.8%, in 2013 compared to 2012 due to declines in various miscellaneous income categories.

Noninterest expense

As shown in Figure 10, noninterest expense for 2014 was $2.8 billion, a decrease of $61 million, or 2.2%, from 2013. We recognized $80 million of efficiency- and pension-related charges in 2014 compared to $117 million in 2013. We also recognized $22 million of noninterest expense related to Pacific Crest Securities, which we acquired in the third quarter of 2014. As shown in Figure 11, personnel expense declined $18 million, driven by lower net technology contract labor, severance, and employee benefits, partially offset by higher incentive compensation and stock-based compensation. Nonpersonnel expense decreased $43 million, primarily due to declines in net occupancy costs of $14 million, provision (credit) for losses on lending-related commitments of $10 million, and equipment expense of $8 million.

Noninterest expense for 2013 was $2.8 billion, up $2 million, or .1%, from 2012. In 2013, expenses attributable to the 2012 acquisitions of the credit card portfolios and Western New York branches increased $40 million, and we recognized $117 million of expenses related to our efficiency initiative and a pension settlement charge. As shown in Figure 11, personnel expense increased by $39 million in 2013, driven by higher levels of incentive compensation, employee benefits, and severance expense, partially offset by a decline in stock-based compensation. Nonpersonnel expense decreased $37 million, primarily due to declines in several expense categories: $39 million in business services and professional fees, $17 million in marketing, $11 million in other expense, and $10 million in operating lease expense. These declines in nonpersonnel expense were partially offset by increases of $24 million in provision (credit) for losses on lending-related commitments, $21 in intangible asset amortization, and $15 million in net occupancy costs.

Figure 10. Noninterest Expense

Year ended December 31,				**Change 2014 vs. 2013**	
dollars in millions	**2014**	**2013**	**2012**	**Amount**	**Percent**
Personnel	**$ 1,591**	$ 1,609	$ 1,570	$ (18)	(1.1) %
Net occupancy	**261**	275	260	(14)	(5.1)
Computer processing	**158**	156	164	2	1.3
Business services and professional fees	**156**	151	190	5	3.3
Equipment	**96**	104	107	(8)	(7.7)
Operating lease expense	**42**	47	57	(5)	(10.6)
Marketing	**49**	51	68	(2)	(3.9)
FDIC assessment	**30**	30	31		
Intangible asset amortization	**39**	44	23	(5)	(11.4)
Provision (credit) for losses on lending-related commitments	**(2)**	8	(16)	(10)	N/M
OREO expense, net	**5**	7	15	(2)	(28.6)
Other expense	**334**	338	349	(4)	(1.2)

Total noninterest expense	**$ 2,759**	$ 2,820	$ 2,818	$ (61)	(2.2) %
Average full-time equivalent employees [a]	**13,853**	14,783	15,589	(930)	(6.3) %

(a) The number of average full-time-equivalent employees was not adjusted for discontinued operations.

The following discussion explains the composition of certain elements of our noninterest expense and the factors that caused those elements to change.

Personnel

As shown in Figure 11, personnel expense, the largest category of our noninterest expense, decreased by $18 million, or 1.1%, in 2014 compared to 2013. Declines in net technology contract labor of $17 million, severance

Table of Contents

of $14 million, and employee benefits of $12 million all contributed to the decrease in personnel expense. These declines were partially offset by increases in incentive compensation of $19 million and stock-based compensation of $9 million related to the performance of our business and the third quarter 2014 acquisition of Pacific Crest Securities.

Personnel expense increased by $39 million, or 2.5%, from 2012 to 2013. Incentive compensation increased $28 million. Severance expense and employee benefits increased $15 million and $12 million, respectively, as a result of staff reductions related to our efficiency initiative. Employee benefits included a $27 million pension settlement charge. These increases in personnel expense were partially offset by a decrease of $14 million in stock-based compensation.

Figure 11. Personnel Expense

Year ended December 31,				**Change 2014 vs. 2013**		
dollars in millions	**2014**	**2013**	**2012**	**Amount**	**Percent**	
Salaries	**$ 894**	$ 897	$ 902	$ (3)	(.3)	%
Technology contract labor, net	**55**	72	69	(17)	(23.6)	
Incentive compensation	**337**	318	290	19	6.0	
Employee benefits	**237**	249	237	(12)	(4.8)	
Stock-based compensation [(a)]	**44**	35	49	9	25.7	
Severance	**24**	38	23	(14)	(36.8)	
Total personnel expense	**$ 1,591**	$ 1,609	$ 1,570	$ (18)	(1.1)	%

(a) Excludes directors stock-based compensation of $2 million in 2014, $3 million in 2013, and $4 million in 2012, reported as other expense in Figure 10.

Operating lease expense

Operating lease expense decreased $5 million, or 10.6%, in 2014 compared to 2013, and $10 million, or 17.5%, in 2013 compared to 2012 primarily due to product run-off. Income related to the rental of leased equipment is presented in Figure 7 as operating lease income and other leasing gains.

Intangible asset amortization

Intangible asset amortization decreased $5 million, or 11.4%, in 2014 compared to 2013 due to the accelerated basis of amortization for the core deposit and PCCR intangibles. Intangible asset amortization increased $21 million, or 91.3%, in 2013 compared to 2012 due to the 2012 acquisitions of the credit card portfolio and Western New York branches. Additional information regarding our intangible assets can be found in Note 10 (Goodwill and Other Intangible Assets).

Other expense

Other expense comprises various miscellaneous expense items such as travel and entertainment, technology service providers, and franchise and business taxes. Other expense declined $4 million, or 1.2%, in 2014 compared to 2013, and $11 million, or 3.2%, in 2013 compared to 2012 due to fluctuations in several of those line items.

Income taxes

We recorded a tax provision from continuing operations of $326 million for 2014, compared to a tax provision of $271 million for 2013, and $231 million for 2012. The effective tax rate, which is the provision for income taxes as a percentage of income from continuing operations before income taxes, was 25.6% for 2014, compared to 23.7% for 2013, and 21.4% for 2012.

Table of Contents

Our federal tax (benefit) expense differs from the amount that would be calculated using the federal statutory tax rate, primarily because we generate income from investments in tax-advantaged assets, such as corporate-owned life insurance, earn credits associated with investments in low-income housing projects, and make periodic adjustments to our tax reserves. In 2014, our effective tax rate was positively impacted by a settlement with the IRS on tax refund claims for prior years, partially offset by the write-off of a foreign deferred tax asset due to the sale of certain foreign leasing assets. In addition, in 2014, 2013 and 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.

We recorded a valuation allowance of $.3 million at December 31, 2014, compared to $1 million at December 31, 2013, and $3 million at December 31, 2012, against the gross deferred tax assets for certain state net operating loss and state credit carryforwards.

Line of Business Results

This section summarizes the financial performance and related strategic developments of our two major business segments (operating segments): Key Community Bank and Key Corporate Bank. Note 23 (Line of Business Results) describes the products and services offered by each of these business segments, provides more detailed financial information pertaining to the segments and certain lines of business, and explains Other Segments and Reconciling Items.

Figure 12 summarizes the contribution made by each major business segment to our taxable-equivalent revenue from continuing operations and income (loss) from continuing operations attributable to Key for each of the past three years.

Figure 12. Major Business Segments - Taxable-Equivalent (TE) Revenue from Continuing Operations and Income (Loss) from Continuing Operations Attributable to Key

Year ended December 31,				**Change 2014 vs. 2013**	
dollars in millions	**2014**	**2013**	**2012**	**Amount**	**Percent**
REVENUE FROM CONTINUING OPERATIONS (TE)					
Key Community Bank	**$ 2,217**	$ 2,316	$ 2,308	$ (99)	(4.3)%
Key Corporate Bank	**1,630**	1,536	1,499	94	6.1
Other Segments	**271**	263	353	8	3.0
Total Segments	**4,118**	4,115	4,160	3	.1%
Reconciling Items	**(4)**	(1)	(16)	(3)	N/M
Total	**$ 4,114**	$ 4,114	$ 4,144		
INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO KEY					
Key Community Bank	**$ 234**	$ 205	$ 162	$ 29	14.1%
Key Corporate Bank	**497**	475	425	22	4.6
Other Segments	**226**	220	204	6	2.7
Total Segments	**957**	900	791	57	6.3
Reconciling Items	**(18)**	(30)	44	12	N/M

Total	**$**	**939**	$	870	$	835	$	69	7.9%

Key Community Bank summary of operations

As shown in Figure 13, Key Community Bank recorded net income attributable to Key of $234 million for 2014, compared to $205 million for 2013, and $162 million for 2012. The increase in 2014 was primarily due to a reduced provision for loan and lease losses and lower noninterest expense.

Taxable-equivalent net interest income declined $84 million, or 5.5%, from 2013. Average loans and leases grew $794 million while average deposits increased $521 million compared to 2013. The positive contribution to net interest income from loan and deposit growth was more than offset by a reduction in the value of deposits in 2014 compared to one year ago.

Noninterest income decreased $15 million, or 1.9%, from 2013. Service charges on deposit accounts declined $19 million from 2013 primarily due to reduced overdraft fees resulting from changes in posting order. Consumer mortgage income decreased $9 million from 2013 due to lower refinancing activity, and operating leasing income and other leasing gains declined $4 million. These decreases in noninterest income were partially offset by an $8 million increase in cards and payments income and a $9 million increase in other miscellaneous income.

The provision for loan and lease losses declined $81 million, or 52.3%, from 2013. Net loan charge-offs decreased $31 million from 2013 as a result of continued progress in the economic environment and further improvement in the credit quality of the portfolio.

Noninterest expense declined $65 million, or 3.5%, from 2013. Personnel expense decreased $26 million, primarily due to declines in salaries, incentive compensation, and employee benefits. Nonpersonnel expense declined $39 million, primarily due to decreases in outside loan servicing fees, computer processing, intangible asset amortization, and other support costs.

In 2013, Key Community Bank s net income attributable to Key increased $43 million from the prior year. Taxable-equivalent net interest income declined $5 million from 2012. The positive contribution to net interest income from loan and deposit growth was offset by a reduction in the value of deposits in 2013 driven by the prolonged low rate environment. Noninterest income increased $13 million from 2012. Trust and investment services income increased due to higher assets under management resulting from market appreciation and increased production. Cards and payments income increased due to the full-year impact of the credit card portfolio acquisition in 2012. These increases in noninterest income were partially offset by a decline in consumer mortgage income primarily due to lower originations. The provision for loan and lease losses increased $5 million. Noninterest expense declined $65 million from 2012 due to Key s efficiency initiative. Personnel expense decreased primarily due to declines in salaries and employee benefits. Nonpersonnel expense declined primarily due to decreases in business services and professional fees, computer processing, and other support costs.

Figure 13. Key Community Bank

Year ended December 31,				Change 2014 vs. 2013	
dollars in millions	**2014**	**2013**	**2012**	**Amount**	**Percent**
SUMMARY OF OPERATIONS					
Net interest income (TE)	**$ 1,448**	$ 1,532	$ 1,537	$ (84)	(5.5) %
Noninterest income	**769**	784	771	(15)	(1.9)
Total revenue (TE)	**2,217**	2,316	2,308	(99)	(4.3)
Provision (credit) for loan and lease losses	**74**	155	150	(81)	(52.3)
Noninterest expense	**1,770**	1,835	1,900	(65)	(3.5)
Income (loss) before income taxes (TE)	**373**	326	258	47	14.4
Allocated income taxes (benefit) and TE adjustments	**139**	121	96	18	14.9
Net income (loss) attributable to Key	**$ 234**	$ 205	$ 162	$ 29	14.1 %
AVERAGE BALANCES					
Loans and leases	**$ 30,105**	$ 29,311	$ 27,202	$ 794	2.7 %
Total assets	**32,231**	31,634	29,622	597	1.9
Deposits	**50,325**	49,804	48,708	521	1.0
Assets under management at year end	**$ 39,157**	$ 36,815	$ 34,537	$ 2,342	6.4 %

Table of Contents

ADDITIONAL KEY COMMUNITY BANK DATA

Year ended December 31,				Change 2014 vs. 2013	
dollars in millions	**2014**	**2013**	**2012**	**Amount**	**Percent**
NONINTEREST INCOME					
Trust and investment services income	**$ 291**	$ 291	$ 280		
Services charges on deposit accounts	**218**	237	239	$ (19)	(8.0) %
Cards and payments income	**152**	144	118	8	5.6
Other noninterest income	**108**	112	134	(4)	(3.6)
Total noninterest income	**$ 769**	$ 784	$ 771	$ (15)	(1.9) %
AVERAGE DEPOSITS OUTSTANDING					
NOW and money market deposit accounts	**$ 27,526**	$ 26,620	$ 24,404	$ 906	3.4 %
Savings deposits	**2,436**	2,495	2,208	(59)	(2.4)
Certificates of deposits ($100,000 or more)	**2,048**	2,331	3,064	(283)	(12.1)
Other time deposits	**3,488**	4,078	5,370	(590)	(14.5)
Deposits in foreign office	**314**	279	291	35	12.5
Noninterest-bearing deposits	**14,513**	14,001	13,371	512	3.7
Total deposits	**$ 50,325**	$ 49,804	$ 48,708	$ 521	1.0 %
HOME EQUITY LOANS					
Average balance	**$ 10,340**	$ 10,086	$ 9,520		
Weighted-average loan-to-value ratio (at date of origination)	**71 %**	71 %	70 %		
Percent first lien positions	**60**	58	55		
OTHER DATA					
Branches	**994**	1,028	1,088		
Automated teller machines	**1,287**	1,335	1,611		

Key Corporate Bank summary of operations

As shown in Figure 14, Key Corporate Bank recorded net income attributable to Key of $497 million for 2014, compared to $475 million for 2013 and $425 million for 2012. The 2014 increase was driven by an increase in net interest income and noninterest income, partially offset by an increase in noninterest expense.

Taxable-equivalent net interest income increased $45 million, or 5.7%, in 2014 compared to 2013. The growth was primarily driven by a $28 million increase in the earning asset spread, as the increase in earning asset balances more than offset the decrease in the spread rate year-over-year. In addition, there were increases in other components of net interest income.

Noninterest income increased $49 million, or 6.5%, from 2013. Investment banking and debt placement fees increased $63 million driven by the strength of Key s business model. Corporate services income increased $11 million due to growth in non-yield loan fees associated with increases in loans. Trust and investment services income increased $8 million due to the recently-acquired Pacific Crest Securities. These increases were partially offset by a $17 million decrease in other noninterest income mostly due to lower gains realized on the disposition of certain investments held by the Real Estate Capital line of business, and a $12 million decline in mortgage servicing fees due to lower special servicing fees.

The provision for loan and lease losses was a credit of $2 million in 2014, compared to a credit of $3 million in 2013. The 2014 credit was driven by continued improvement in credit quality within the portfolio, as the quality of new business volume exceeded that of the legacy portfolio. Net loan charge-offs decreased from $3 million in 2013 to a $19 million recovery in 2014.

Noninterest expense increased $49 million, or 6.1%, from 2013. This increase was primarily driven by a $38 million increase in personnel expense due to higher incentive compensation expense related to the performance

Table of Contents

of the Key Corporate Bank and the impact of the recently-acquired Pacific Crest Securities. In addition, there were increases in various other expense categories.

In 2013, Key Corporate Bank s net income attributable to Key increased $50 million from the prior year. Taxable-equivalent net interest income increased $4 million in 2013 compared to 2012, as increases in earning asset spread from higher earning asset balances offset a decrease in deposit spread from a decline in rates. Noninterest income increased $33 million as increases in mortgage servicing fees, gains realized on the disposition of certain investments held by the Real Estate Capital line of business, and investment banking and debt placement fees more than offset decreases in operating lease income and other leasing gains. The provision for loan and lease losses decreased $33 million due to improved credit quality with the portfolio. Noninterest expense increased $6 million driven by higher provision (credit) for losses on lending-related commitments and personnel expense. These expense increases were partially offset by decreases in operating lease expense and net OREO expense.

Figure 14. Key Corporate Bank

Year ended December 31,				Change 2014 vs. 2013	
dollars in millions	**2014**	**2013**	**2012**	**Amount**	**Percent**
SUMMARY OF OPERATIONS					
Net interest income (TE)	**$ 830**	$ 785	$ 781	$ 45	5.7 %
Noninterest income	**800**	751	718	49	6.5
Total revenue (TE)	**1,630**	1,536	1,499	94	6.1
Provision (credit) for loan and lease losses	**(2)**	(3)	30	1	N/M
Noninterest expense	**848**	799	793	49	6.1
Income (loss) before income taxes (TE)	**784**	740	676	44	5.9
Allocated income taxes and TE adjustments	**285**	265	248	20	7.5
Net income (loss)	**499**	475	428	24	5.1
Less: Net income (loss) attributable to noncontrolling interests	**2**		3	2	N/M
Net income (loss) attributable to Key	**$ 497**	$ 475	$ 425	$ 22	4.6 %
AVERAGE BALANCES					
Loans and leases	**$ 22,452**	$ 19,822	$ 18,328	$ 2,630	13.3 %
Loans held for sale	**549**	492	500	57	11.6
Total assets	**26,312**	23,628	22,252	2,684	11.4
Deposits	**16,793**	15,696	12,572	1,097	7.0 %
Assets under management at year end		$ 90	$ 207	$ (90)	N/M

ADDITIONAL KEY CORPORATE BANK DATA

Year ended December 31,				Change 2014 vs. 2013	
dollars in millions	**2014**	**2013**	**2012**	**Amount**	**Percent**
NONINTEREST INCOME					
Trust and investment services income	**$ 112**	$ 104	$ 99	$ 8	7.7 %
Investment banking and debt placement fees	**392**	329	320	63	19.1
Operating lease income and other leasing gains	**63**	62	74	1	1.6
Corporate services income	**131**	120	117	11	9.2
Service charges on deposit accounts	**43**	44	48	(1)	(2.3)
Cards and payments income	**14**	18	20	(4)	(22.2)
Payments and services income	**188**	182	185	6	3.3
Mortgage servicing fees	**46**	58	25	(12)	(20.7)
Other noninterest income	**(1)**	16	15	(17)	N/M
Total noninterest income	**$ 800**	$ 751	$ 718	$ 49	6.5 %

54

Table of Contents

Other Segments

Other Segments consist of Corporate Treasury, Community Development, our Principal Investing unit, and various exit portfolios. Other Segments generated net income attributable to Key of $226 million for 2014, compared to $220 million for 2013 and $204 million for 2012. Taxable-equivalent net interest income and noninterest income both increased $4 million compared to 2013. Noninterest expense declined $17 million from the prior year. These improvements were partially offset by an increase in the provision for loan and lease losses of $10 million.

In 2013, Other Segments   net income attributable to Key increased $16 million from the prior year. Taxable-equivalent net interest income increased $68 million. The provision for loan and lease losses declined $74 million and noninterest expense decreased $34 million. These improvements were partially offset by a decrease in noninterest income of $158 million.

Table of Contents

Financial Condition

Loans and loans held for sale

Figure 15 shows the composition of our loan portfolio at December 31 for each of the past five years.

Figure 15. Composition of Loans

December 31,	2014		2013		2012	
dollars in millions	**Amount**	**Percent of Total**	**Amount**	**Percent of Total**	**Amount**	**Percent of Total**
COMMERCIAL						
Commercial, financial and agricultural [(a), (b)]	**$ 27,982**	**48.8 %**	$ 24,963	45.8 %	$ 23,242	44.0 %
Commercial real estate: [(c)]						
Commercial mortgage	**8,047**	**14.0**	7,720	14.2	7,720	14.6
Construction	**1,100**	**1.9**	1,093	2.0	1,003	1.9
Total commercial real estate loans	**9,147**	**15.9**	8,813	16.2	8,723	16.5
Commercial lease financing [(d)]	**4,252**	**7.4**	4,551	8.4	4,915	9.3
Total commercial loans	**41,381**	**72.1**	38,327	70.4	36,880	69.8
CONSUMER						
Real estate residential mortgage	**2,225**	**3.9**	2,187	4.0	2,174	4.1
Home equity:						
Key Community Bank	**10,366**	**18.1**	10,340	19.0	9,816	18.6
Other	**267**	**.5**	334	.6	423	.8
Total home equity loans	**10,633**	**18.6**	10,674	19.6	10,239	19.4
Consumer other Key Community Bank	**1,560**	**2.7**	1,449	2.7	1,349	2.5
Credit cards	**754**	**1.3**	722	1.3	729	1.4
Consumer other:						
Marine	**779**	**1.3**	1,028	1.9	1,358	2.6
Other	**49**	**.1**	70	.1	93	.2
Total consumer other	**828**	**1.4**	1,098	2.0	1,451	2.8

Total consumer loans		**16,000**	**27.9**			16,130	29.6			15,942	30.2	
Total loans [e], [f]	**$**	**57,381**	**100.0**	**%**	$	54,457	100.0	%	$	52,822	100.0	%

		2011				**2010**		
		Amount	**Percent of Total**			**Amount**	**Percent of Total**	
COMMERCIAL								
Commercial, financial and agricultural	$	19,759	39.9	%	$	16,441	32.8	%
Commercial real estate:								
Commercial mortgage		8,037	16.2			9,502	19.0	
Construction		1,312	2.6			2,106	4.2	
Total commercial real estate loans		9,349	18.8			11,608	23.2	
Commercial lease financing		5,674	11.4			6,471	12.9	
Total commercial loans		34,782	70.1			34,520	68.9	
CONSUMER								
Real estate residential mortgage		1,946	3.9			1,844	3.7	
Home equity:								
Key Community Bank		9,229	18.6			9,514	19.0	
Other		535	1.1			666	1.3	
Total home equity loans		9,764	19.7			10,180	20.3	
Consumer other Key Community Bank		1,192	2.4			1,167	2.3	
Credit cards								
Consumer other:								
Marine		1,766	3.6			2,234	4.5	
Other		125	.3			162	.3	
Total consumer other		1,891	3.9			2,396	4.8	
Total consumer loans		14,793	29.9			15,587	31.1	
Total loans [e]	$	49,575	100.0	%	$	50,107	100.0	%

(a) Loan balances include $88 million, $94 million, and $90 million of commercial credit card balances at December 31, 2014, December 31, 2013, and December 31, 2012, respectively.

(b) See Figure 16 for a more detailed breakdown of our commercial, financial and agricultural loan portfolio at December 31, 2014, and December 31, 2013.

(c) See Figure 17 for a more detailed breakdown of our commercial real estate loan portfolio at December 31, 2014.

(d) Commercial lease financing includes receivables of $302 million and $58 million held as collateral for a secured borrowing at December 31, 2014, and December 31, 2013, respectively. Principal reductions are based on the cash payments received from these related receivables. We expect to record additional commercial lease financing receivables held as collateral for a secured borrowing through the first quarter of 2015. Additional information pertaining to this secured borrowing is included in Note 18 (Long-Term Debt).

(e) Total loans exclude loans of $2.3 billion at December 31, 2014, $4.5 billion at December 31, 2013, $5.2 billion at December 31, 2012, $5.8 billion at December 31, 2011, and $6.5 billion at December 31, 2010, related to the discontinued operations of the education lending business.

(f) At December 31, 2014, total loans include purchased loans of $138 million, of which $13 million were PCI loans. At December 31, 2013, total loans include purchased loans of $166 million, of which $16 million were PCI loans. At December 31, 2012, total loans include purchased loans of $217 million, of which $23 million were PCI loans.

At December 31, 2014, total loans outstanding from continuing operations were $57.4 billion, compared to $54.5 billion at the end of 2013, and $52.8 billion at the end of 2012. Loans related to the discontinued operations of the education lending business and excluded from total loans were $2.3 billion at December 31, 2014, $4.5 billion at December 31, 2013, and $5.2 billion at December 31, 2012. Further information regarding our discontinued operations is provided in Note 13 (Acquisitions and Discontinued Operations). For more information on balance sheet carrying value, see Note 1 (Summary of Significant Accounting Policies) under the headings Loans and Loans Held for Sale.

Commercial loan portfolio

Commercial loans outstanding were $41.4 billion at December 31, 2014, an increase of $3.1 billion, or 8%, compared to December 31, 2013.

Commercial, financial and agricultural. As shown in Figure 15, our commercial, financial and agricultural loans, also referred to as commercial and industrial, represent 49% and 46% of our total loan portfolio at December 31, 2014, and 2013, respectively, and are the largest component of our total loans. The loans consist of fixed and variable rate loans to our large, middle market and small business clients. These loans increased $3 billion, or 12.1%, from one year ago.

Figure 16 provides our commercial, financial, and agricultural loans by industry classification as of December 31, 2014, and 2013.

Figure 16. Commercial, Financial and Agricultural Loans

	December 31, 2014			December 31, 2013		
dollars in millions	**Amount**	**Percent of Total**		**Amount**	**Percent of Total**	
Industry classification:						
Services	**$ 6,053**	**21.6**	**%**	$ 6,036	24.2	%
Manufacturing	**4,621**	**16.5**		4,238	17.0	
Public utilities	**1,938**	**6.9**		1,838	7.4	
Financial services	**2,844**	**10.2**		2,155	8.6	
Wholesale trade	**2,294**	**8.2**		1,838	7.4	
Retail trade	**1,089**	**3.9**		993	4.0	
Mining	**946**	**3.4**		634	2.5	
Dealer floor plan	**1,439**	**5.2**		1,345	5.4	
Property management	**834**	**3.0**		877	3.5	
Transportation	**1,407**	**5.0**		953	3.8	
Building contractors	**683**	**2.4**		526	2.1	
Agriculture/forestry/fishing	**675**	**2.4**		542	2.2	
Insurance	**257**	**.9**		169	.7	
Public administration	**501**	**1.8**		432	1.7	
Communications	**196**	**.7**		204	.8	
Other	**2,205**	**7.9**		2,183	8.7	
Total	**$ 27,982**	**100.0**	**%**	$ 24,963	100.0	%

Commercial, financial and agricultural loans increased $3 billion, or 12.1%, from the same period last year, with Key Corporate Bank increasing $2.7 billion and Key Community Bank up $553 million. We have experienced

Table of Contents

growth in new high credit quality loan commitments and utilization with clients in our middle market segment and Institutional and Capital Markets business. Our two largest industry classifications services and manufacturing increased by .3% and 9%, respectively, when compared to one year ago. The services and manufacturing industries represented 22% and 17%, respectively, of the total commercial, financial and agricultural loan portfolio at December 31, 2014, and 24% and 17%, respectively, at December 31, 2013. At the end of each period provided in Figure 16 above, loans in the services and manufacturing industry classifications accounted for approximately 40% of our total commercial, financial and agricultural loan portfolio.

Services, manufacturing, and public utilities are focus areas where we maintain dedicated industry verticals that are staffed by relationship managers who possess deep industry experience and knowledge. Our loans in the services classification grew by $17 million, or .3%, compared to last year. Loans in the manufacturing classification grew by $383 million, or 9% compared to the same period one year ago. Increases in lending to large corporate, middle market, and business banking clients accounted for the majority of the growth in this classification.

Our loans in the financial services and transportation classifications increased 32% and 48%, respectively, compared to the prior year. The increase in financial services loans was primarily attributable to higher issuances of revolving facilities to finance companies and additional REIT balances. The increase in transportation loans was primarily attributable to loan growth for rail cars and shipping containers.

Our oil and gas loan portfolio focuses on lending to middle market companies and represents 2% of total loans outstanding at December 31, 2014. We have over 10 years of experience in energy lending with over 20 specialists dedicated to oil and gas. Credit quality on these loans remains solid.

Commercial real estate loans. CRE loans represent 16% of our total loan portfolio at December 31, 2014, and December 31, 2013. These CRE loans, including both owner- and nonowner-occupied properties, represented 22% of our commercial loan portfolio at December 31, 2014, compared to 23% one year ago. These loans have increased $334 million, or 3.8%, to $9.1 billion at December 31, 2014, from $8.8 billion at December 31, 2013. Our CRE lending business is conducted through two primary sources: our 12-state banking franchise, and KeyBank Real Estate Capital, a national line of business that cultivates relationships with owners of CRE located both within and beyond the branch system. This line of business deals primarily with nonowner-occupied properties (generally properties for which at least 50% of the debt service is provided by rental income from nonaffiliated third parties) and accounted for approximately 61% of our average year-to-date CRE loans, compared to 56% one year ago. KeyBank Real Estate Capital generally focuses on larger owners and operators of CRE.

Figure 17 includes commercial mortgage and construction loans in both Key Community Bank and Key Corporate Bank. As shown in Figure 17, this loan portfolio is diversified by both property type and geographic location of the underlying collateral.

As presented in Figure 17, at December 31, 2014, our CRE portfolio included mortgage loans of $8 billion and construction loans of $1.1 billion, representing 14% and 2%, respectively, of our total loans. Nonowner-occupied loans represented 11% of our total loans and owner-occupied loans represented 5% of our total loans. The average size of mortgage loans originated during 2014 was $4.9 million, and our largest mortgage loan at December 31, 2014, had a balance of $105 million. At December 31, 2014, our average construction loan commitment was $5.9 million. Our largest construction loan commitment was $49.8 million, and our largest construction loan amount outstanding was $42.2 million.

Also shown in Figure 17, at December 31, 2014, 70% of our CRE loans were for nonowner-occupied properties, compared to 67% at December 31, 2013. Approximately 15% and 16% of these loans were construction loans at December 31, 2014, and 2013, respectively. Typically, these properties are not fully leased at the origination of the loan. The borrower relies upon additional leasing through the life of the construction loan to provide the cash flow necessary to support debt service payments. A significant decline in economic growth, and in turn, in rental rates and occupancy, would adversely affect our portfolio of construction loans.

Table of Contents

Figure 17. Commercial Real Estate Loans

December 31, 2014				Geographic Region					Percent of		Commercial
dollars in millions	West	Southwest	Central	Midwest	Southeast	Northeast	National	Total	Total	Construction	Mortgage
Nonowner-occupied:											
Retail properties	$ 167	$ 133	$ 95	$ 119	$ 183	$ 59	$ 129	$ 885	9.7 %	$ 107	$ 778
Multifamily properties	489	143	425	531	762	126	181	2,657	29.0	551	2,106
Health facilities	198		192	149	115	259	171	1,084	11.9	99	985
Office buildings	230	14	145	97	48	98		632	6.9	86	546
Warehouses	170	10	27	105	81	84	102	579	6.3	29	550
Manufacturing facilities	19		11	6	56	1		93	1.0	16	77
Hotels/Motels	37		7	17	17	6		84	.9		84
Residential properties	1		24	2	4	13		44	.5	12	32
Land and development	8		8	6	12	11		45	.5	35	10
Other	61		15	14	67	78	102	337	3.7	14	323
Total nonowner-occupied	1,380	300	949	1,046	1,345	735	685	6,440	70.4	949	5,491
Owner-occupied	1,138	7	312	622	48	580		2,707	29.6	151	2,556
Total	$ 2,518	$ 307	$ 1,261	$ 1,668	$ 1,393	$ 1,315	$ 685	$ 9,147	100.0 %	$ 1,100	$ 8,047
Nonowner-occupied:											
Nonperforming loans	$ 1			$ 8		$ 12		$ 21	N/M	$ 10	$ 11
Accruing loans past due 90 days or more						3		3	N/M		3
Accruing loans past due 30 through 89 days	1		$ 4	2		2		9	N/M		9

West	Alaska, California, Hawaii, Idaho, Montana, Oregon, Washington, and Wyoming
Southwest	Arizona, Nevada, and New Mexico
Central	Arkansas, Colorado, Oklahoma, Texas, and Utah
Midwest	Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin
Southeast	Alabama, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, Washington, D.C., and West Virginia
Northeast	Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont
National	Accounts in three or more regions

During 2014, nonperforming loans related to our nonowner-occupied properties decreased by $2 million from $23 million at December 31, 2013, to $21 million at December 31, 2014, as a result of continued improvement in asset quality and market conditions. This category of loans declined by $104 million during 2013.

Since December 31, 2013, our nonowner-occupied CRE portfolio has increased by approximately $567 million, or 9.7%, as many of our clients have taken advantage of opportunities to permanently refinance their loans at historically low interest rates.

If the economic recovery stalls, it may weaken the CRE market fundamentals (i.e., vacancy rates, the stability of rental income and asset values), leading to reduced cash flow to support debt service payments. Reduced client cash flow would adversely affect our ability to collect such payments. Accordingly, the value of CRE loan portfolio could be adversely affected.

Commercial lease financing. We conduct commercial lease financing arrangements through our KEF line of business and have both the scale and array of products to compete in the equipment lease financing business. Commercial lease financing receivables represented 10% of commercial loans at December 31, 2014, and 12% at December 31, 2013.

Commercial loan modification and restructuring

We modify and extend certain commercial loans in the normal course of business for our clients. Loan modifications vary and are handled on a case by case basis with strategies responsive to the specific circumstances of each loan and borrower. In many cases, borrowers have other resources and can reinforce the credit with additional capital, collateral, guarantees, or income sources.

Modifications are negotiated to achieve mutually agreeable terms that maximize loan credit quality while at the same time meeting our clients financing needs. Modifications made to loans of creditworthy borrowers not

Table of Contents

experiencing financial difficulties and under circumstances where ultimate collection of all principal and interest is not in doubt are not classified as TDRs. In accordance with applicable accounting guidance, a loan is classified as a TDR only when the borrower is experiencing financial difficulties and a creditor concession has been granted.

Our concession types are primarily interest rate reductions, forgiveness of principal, and other modifications. Loan extensions are sometimes coupled with these primary concession types. Because economic conditions have improved modestly and we have restructured loans to provide the optimal opportunity for successful repayment by the borrower, certain of our restructured loans have returned to accrual status and consistently performed under the restructured loan terms over the past year.

If loan terms are extended at less than normal market rates for similar lending arrangements, our Asset Recovery Group is consulted to help determine if any concession granted would result in designation as a TDR. Transfer to our Asset Recovery Group is considered for any commercial loan determined to be a TDR. During 2014, there were $22 million of new restructured commercial loans compared to $69 million of new restructured commercial loans in 2013.

For more information on concession types for our commercial accruing and nonaccruing TDRs, see Note 5 (Asset Quality).

Figure 18. Commercial TDRs by Note Type and Accrual Status

December 31, *in millions*		**2014**		**2013**
Commercial TDRs by Note Type				
Tranche A	**$**	**40**	$	107
Total Commercial TDRs	**$**	**40**	$	107
Commercial TDRs by Accrual Status				
Nonaccruing	**$**	**36**	$	52
Accruing		**4**		55
Total Commercial TDRs	**$**	**40**	$	107

We often use an A-B note structure for our TDRs, breaking the existing loan into two tranches. First, we create an A note. Since the objective of this TDR note structure is to achieve a fully performing and well-rated A note, we focus on sizing that note to a level that is supported by cash flow available to service debt at current market terms and consistent with our customary underwriting standards. This note structure typically will include a debt coverage ratio of 1.2 or better of cash flow to monthly payments of market interest, and principal amortization of generally not more than 25 years. (These metrics are adjusted from time to time based upon changes in long-term markets and take-out underwriting standards of our various lines of business.) Appropriately sized A notes are more likely to return to accrual status, allowing us to resume recognizing interest income. As the borrower s payment performance improves, these restructured notes typically also allow for an upgraded internal quality risk rating classification. Moreover, the borrower retains ownership and control of the underlying collateral (typically, CRE), the borrower s capital structure is strengthened (often to the point that fresh capital is attracted to the transaction), and local markets are spared distressed/fire sales.

The B note typically is an interest-only note with no required amortization until the property stabilizes and generates excess cash flow. This excess cash flow customarily is applied directly to the principal of the A note. We evaluate the B note when we consider returning the A note to accrual status. In many cases, the B note is charged off at the same time the A note is returned to accrual status. Alternatively, both A and B notes may be simultaneously returned to accrual if credit metrics are supportive.

Restructured nonaccrual loans may be returned to accrual status based on a current, well-documented evaluation of the credit, which would include analysis of the borrower s financial condition, prospects for repayment under

Table of Contents

the modified terms, and alternate sources of repayment such as the value of loan collateral. We wait a reasonable period (generally a minimum of six months) to establish the borrower s ability to sustain historical repayment performance before returning the loan to accrual status. Sustained historical repayment performance prior to the restructuring also may be taken into account. The primary consideration for returning a restructured loan to accrual status is the reasonable assurance that the full contractual principal balance of the loan and the ongoing contractually required interest payments will be fully repaid. Although our policy is a guideline, considerable judgment is required to review each borrower s circumstances.

All loans processed as TDRs, including A notes and any non-charged-off B notes, are reported as TDRs during the calendar year in which the restructure took place.

Additional information regarding TDRs is provided in Note 5 (Asset Quality).

Extensions. Project loans typically are refinanced into the permanent commercial loan market at maturity, but sometimes they are modified and extended. Extension terms take into account the specific circumstances of the client relationship, the status of the project, and near-term prospects for both the client and the collateral. In all cases, pricing and loan structure are reviewed and, where necessary, modified to ensure the loan has been priced to achieve a market rate of return and loan terms that are appropriate for the risk. Typical enhancements include one or more of the following: principal pay down, increased amortization, additional collateral, increased guarantees, and a cash flow sweep. Some maturing construction loans have automatic extension options built in; in those cases, pricing and loan terms cannot be altered.

Loan pricing is determined based on the strength of the borrowing entity and the strength of the guarantor, if any. Therefore, pricing for an extended loan may remain the same because the loan is already priced at or above current market.

We do not consider loan extensions in the normal course of business (under existing loan terms or at market rates) as TDRs, particularly when ultimate collection of all principal and interest is not in doubt and no concession has been made. In the case of loan extensions where either collection of all principal and interest is uncertain or a concession has been made, we would analyze such credit under the applicable accounting guidance to determine whether it qualifies as a TDR. Extensions that qualify as TDRs are measured for impairment under the applicable accounting guidance.

Guarantors. We conduct a detailed guarantor analysis (1) for all new extensions of credit, (2) at the time of any material modification/extension, and (3) typically annually, as part of our on-going portfolio and loan monitoring procedures. This analysis requires the guarantor entity to submit all appropriate financial statements, including balance sheets, income statements, tax returns, and real estate schedules.

While the specific steps of each guarantor analysis may vary, the high-level objectives include determining the overall financial conditions of the guarantor entities, including size, quality, and nature of asset base; net worth (adjusted to reflect our opinion of market value); leverage; standing liquidity; recurring cash flow; contingent and direct debt obligations; and near-term debt maturities.

Borrower and guarantor financial statements are required at least annually within 90-120 days of the calendar/fiscal year end. Income statements and rent rolls for project collateral are required quarterly. We may require certain information, such as liquidity, certifications, status of asset sales or debt resolutions, and real estate schedules, to be provided more frequently.

We routinely seek performance from guarantors of impaired debt if the guarantor is solvent. We may not seek to enforce the guaranty if we are precluded by bankruptcy or we determine the cost to pursue a guarantor exceeds the value to be returned given the guarantor s verified financial condition. We often are successful in obtaining either monetary payment or the cooperation of our solvent guarantors to help mitigate loss, cost, and the expense of collections.

Table of Contents

As of December 31, 2014, we had $3.4 million of mortgage and construction loans that had a loan-to-value ratio greater than 1.0, and were accounted for as performing loans. These loans were not considered impaired due to one or more of the following factors: (i) underlying cash flow adequate to service the debt at a market rate of return with adequate amortization; (ii) a satisfactory borrower payment history; and (iii) acceptable guarantor support.

Consumer loan portfolio

Consumer loans outstanding decreased by $130 million, or .8%, from one year ago. The home equity portfolio is the largest segment of our consumer loan portfolio. Approximately 97% of this portfolio at December 31, 2014, originated from Key Community Bank within our 12-state footprint. The remainder of the portfolio, which has been in an exit mode since the fourth quarter of 2007, was originated from the Consumer Finance line of business and is now included in Other Segments. Home equity loans in Key Community Bank increased by $26 million, or .3%, over the past 12 months as a result of stabilized home values, improved employment, and favorable borrowing conditions.

As shown in Figure 13, we hold the first lien position for approximately 60% of the Key Community Bank home equity portfolio at December 31, 2014, and 58% at December 31, 2013. For consumer loans with real estate collateral, we track borrower performance monthly. Regardless of the lien position, credit metrics are refreshed quarterly, including recent Fair Isaac Corporation scores as well as original and updated loan-to-value ratio. This information is used in establishing the ALLL. Our methodology is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses.

Regulatory guidance issued in January 2012 addressed specific risks and required actions within home equity portfolios associated with second lien loans. This regulatory guidance related to the classification of second lien home equity loans was implemented prospectively, and therefore prior periods were not adjusted. At December 31, 2014, 40% of our home equity portfolio is secured by second lien mortgages. On at least a quarterly basis, we continue to monitor the risk characteristics of these loans when determining whether our loss estimation methods are appropriate.

Figure 19 summarizes our home equity loan portfolio by source at the end of each of the last five years, as well as certain asset quality statistics and yields on the portfolio as a whole.

Figure 19. Home Equity Loans

December 31, *dollars in millions*	**2014**	**2013**	**2012**	**2011**	**2010**
SOURCES OF YEAR END LOANS					
Key Community Bank	**$ 10,366**	$ 10,340	$ 9,816	$ 9,229	$ 9,514
Other	**267**	334	423	535	666
Total	**$ 10,633**	$ 10,674	$ 10,239	$ 9,764	$ 10,180
Nonperforming loans at year end	**$ 195**	$ 220	$ 231 (a), (b)	$ 120	$ 120
Net loan charge-offs for the year	**32**	66	118	130	175
Yield for the year	**4.02 %**	4.07 %	4.21 %	4.34 %	4.45 %

(a) Includes $48 million of performing home equity second liens that are subordinate to first liens and 120 days or more past due or in foreclosure, or for which 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.

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

Table of Contents

Loans held for sale

As shown in Note 4 (Loans and Loans Held for Sale), our loans held for sale were $734 million at December 31, 2014, compared to $611 million at December 31, 2013. During 2014, we recorded net gains (losses) from loan sales of $97 million. There were no loans held for sale related to the discontinued operations of the education lending business at December 31, 2014, and 2013.

At December 31, 2014, loans held for sale included $638 million of commercial mortgages, which increased by $331 million from December 31, 2013, $63 million of commercial, financial and agricultural loans, which decreased by $215 million from December 31, 2013, $18 million of residential mortgage loans, which increased by $1 million from December 31, 2013, and $15 million of commercial lease financing, which increased $6 million from December 31, 2013. Valuations 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. We review our assumptions quarterly. For additional information related to the valuation of loans held for sale, see Note 6 (Fair Value Measurements).

Loan sales

As shown in Figure 20, during 2014, we sold $4.4 billion of CRE loans, $407 million of residential real estate loans, and $376 million of commercial loans. Most of these sales came from the held-for-sale portfolio.

Among the factors that we consider in determining which loans to sell are:

¿ our business strategy for particular lending areas;

¿ whether particular lending businesses meet established performance standards or fit with our relationship banking strategy;

¿ our A/LM needs;

¿ the cost of alternative funding sources;

¿ the level of credit risk;

¿ capital requirements; and

¿ market conditions and pricing.

Figure 20 summarizes our loan sales for 2014 and 2013.

Figure 20. Loans Sold (Including Loans Held for Sale)

in millions	Commercial	Commercial Real Estate	Commercial Lease Financing	Residential Real Estate	Total
2014					
Fourth quarter	**$ 29**	**$ 2,333**	**$ 80**	**$ 103**	**$ 2,545**

Third quarter	**179**	**913**	**48**	**127**	**1,267**
Second quarter	**152**	**679**	**45**	**104**	**980**
First quarter	**16**	**489**	**39**	**73**	**617**
Total	**$ 376**	**$ 4,414**	**$ 212**	**$ 407**	**$ 5,409**
2013					
Fourth quarter	$ 39	$ 1,504	$ 141	$ 102	$ 1,786
Third quarter	17	923	129	184	1,253
Second quarter	181	815	90	226	1,312
First quarter	38	880	69	328	1,315
Total	$ 275	$ 4,122	$ 429	$ 840	$ 5,666 [a]

Table of Contents

(a) Excludes education loans of $147 million sold during 2013 that relate to the discontinued operations of the education lending business.

Figure 21 shows loans that are either administered or serviced by us but not recorded on the balance sheet. The table includes loans that have been sold.

Figure 21. Loans Administered or Serviced

December 31,

in millions	**2014**	2013	2012	2011	2010
Commercial real estate loans	**$ 191,407**	$ 177,731	$ 107,630	$ 99,608	$ 117,071
Education loans [(a)]	**1,589**				
Commercial lease financing	**722**	717	520	521	706
Commercial loans	**344**	327	343	306	269
Total	**$ 194,062**	$ 178,775	$ 108,493	$ 100,435	$ 118,046

(a) During the third quarter of 2014, we sold the residual interests in all of our outstanding education loan securitization trusts to a third party. At September 30, 2014, we deconsolidated the securitization trusts and removed the trust assets from our balance sheet. We retained the servicing for the loans associated with these securitization trusts. See Note 13 (Acquisitions and Discontinued Operations) for more information about this transaction.

In the event of default by a borrower, we are subject to recourse with respect to approximately $1.4 billion of the $194 billion of loans administered or serviced at December 31, 2014. Additional information about this recourse arrangement is included in Note 20 (Commitments, Contingent Liabilities and Guarantees) under the heading Recourse agreement with FNMA.

We derive income from several sources when retaining the right to administer or service loans that are sold. We earn noninterest income (recorded as other income) from fees for servicing or administering loans. This fee income is reduced by the amortization of related servicing assets. In addition, we earn interest income from investing funds generated by escrow deposits collected in connection with the servicing of CRE loans. Additional information about our mortgage servicing assets is included in Note 9 (Mortgage Servicing Assets).

Maturities and sensitivity of certain loans to changes in interest rates

Figure 22 shows the remaining maturities of certain commercial and real estate loans, and the sensitivity of those loans to changes in interest rates. At December 31, 2014, approximately 27.2% of these outstanding loans were scheduled to mature within one year.

Figure 22. Remaining Maturities and Sensitivity of Certain Loans to Changes in Interest Rates

December 31, 2014

in millions	**Within One Year**	**One - Five Years**	**Over Five Years**	**Total**
Commercial, financial and agricultural	$ 8,145	$ 15,807	$ 4,030	$ 27,982
Real estate construction	321	688	91	1,100
Real estate residential and commercial mortgage	2,247	4,332	3,693	10,272
	$ 10,713	$ 20,827	$ 7,814	$ 39,354
Loans with floating or adjustable interest rates [(a)]		$ 17,855	$ 3,899	$ 21,754
Loans with predetermined interest rates [(b)]		2,972	3,915	6,887
		$ 20,827	$ 7,814	$ 28,641

(a) Floating and adjustable rates vary in relation to other interest rates (such as the base lending rate) or a variable index that may change during the term of the loan.

(b) Predetermined interest rates either are fixed or may change during the term of the loan according to a specific formula or schedule.

Table of Contents

Securities

Our securities portfolio totaled $18.4 billion at December 31, 2014, compared to $17.1 billion at December 31, 2013. Available-for-sale securities were $13.4 billion at December 31, 2014, compared to $12.3 billion at December 31, 2013. Held-to-maturity securities were $5 billion at December 31, 2014, compared to $4.8 billion at December 31, 2013.

As shown in Figure 23, all of our mortgage-backed securities, which include both securities available for sale and held-to-maturity securities, are issued by government-sponsored enterprises or GNMA, and are traded in liquid secondary markets. These securities are recorded on the balance sheet at fair value for the available-for-sale portfolio and at cost for the held-to-maturity portfolio. For more information about these securities, see Note 6 (Fair Value Measurements) under the heading Qualitative Disclosures of Valuation Techniques, and Note 7 (Securities).

Figure 23. Mortgage-Backed Securities by Issuer

December 31,

in millions	**2014**	2013	2012
FHLMC	**$ 5,666**	$ 7,047	$ 7,923
FNMA	**4,998**	5,978	5,246
GNMA	**7,636**	3,997	2,746
Total [a]	**$ 18,300**	$ 17,022	$ 15,915

(a) Includes securities held in the available-for-sale and held-to-maturity portfolios.

Securities available for sale

The majority of our securities available-for-sale portfolio consists of Federal Agency CMOs and mortgage-backed securities. CMOs are debt securities secured by a pool of mortgages or mortgage-backed securities. These mortgage securities generate interest income, serve as collateral to support certain pledging agreements, and provide liquidity value under upcoming regulatory requirements. At December 31, 2014, we had $13.3 billion invested in CMOs and other mortgage-backed securities in the available-for-sale portfolio, compared to $12.3 billion at December 31, 2013.

We periodically evaluate our securities available-for-sale portfolio in light of established A/LM objectives, changing market conditions that could affect the profitability of the portfolio, the regulatory environment, and the level of interest rate risk to which we are exposed. These evaluations may cause us to take steps to adjust our overall balance sheet positioning.

In addition, the size and composition of our securities available-for-sale portfolio could vary with our needs for liquidity and the extent to which we are required (or elect) to hold these assets as collateral to secure public funds and trust deposits. Although we generally use debt securities for this purpose, other assets, such as securities purchased under resale agreements or letters of credit, are used occasionally when they provide a lower cost of collateral or more favorable risk profiles.

Throughout 2013 and 2014, our investing activities continued to complement other balance sheet developments and provide for our ongoing liquidity management needs. Our actions to not reinvest the monthly security cash flows at various times during this time period served to provide the liquidity necessary to address our funding requirements. These funding requirements included ongoing loan growth and occasional debt maturities. At other times, we may make additional investments that go beyond the replacement of maturities or mortgage security cash flows as our liquidity position and/or interest rate risk management strategies may require. Lastly, our focus on investing in GNMA-related securities is also related to liquidity management strategies as we continue to make progress in preparing for future regulatory requirements.

Table of Contents

Figure 24 shows the composition, yields, and remaining maturities of our securities available for sale. For more information about these securities, including gross unrealized gains and losses by type of security and securities pledged, see Note 7 (Securities).

Figure 24. Securities Available for Sale

dollars in millions	States and Political Subdivisions	Collateralized Mortgage Obligations (a)	Other Mortgage-Backed Securities (a)	Other Securities (b)	Total	Weighted-Average Yield (c)
December 31, 2014						
Remaining maturity:						
One year or less	**$ 1**	**$ 278**			**$ 279**	**3.18%**
After one through five years	**15**	**10,956**	**$ 2,028**	**$ 32**	**13,031**	**2.21**
After five through ten years	**7**	**36**	**4**		**47**	**2.54**
After ten years			**3**		**3**	**5.51**
Fair value	**$ 23**	**$ 11,270**	**$ 2,035**	**$ 32**	**$ 13,360**	
Amortized cost	**22**	**11,310**	**2,004**	**29**	**13,365**	**2.24%**
Weighted-average yield (c)	**4.61 %**	**2.22 %**	**2.28 %**	**9.50 %**	**2.24 % (d)**	
Weighted-average maturity	**4.4 years**	**3.6 years**	**3.6 years**	**3.7 years**	**3.6 years**	
December 31, 2013						
Fair value	$ 40	$ 11,000	$ 1,286	$ 20	$ 12,346	
Amortized cost	39	11,120	1,270	17	12,446	2.33%
December 31, 2012						
Fair value	$ 49	$ 11,464	$ 538	$ 43	$ 12,094	
Amortized cost	47	11,148	491	42	11,728	2.91%

(a) Maturity is based upon expected average lives rather than contractual terms.

(b) Includes primarily marketable equity securities.

(c) Weighted-average yields are calculated based on amortized cost. Such yields have been adjusted to a taxable-equivalent basis using the statutory federal income tax rate of 35%.

(d) Excludes $22 million of securities at December 31, 2014, that have no stated yield.

Held-to-maturity securities

Federal Agency CMOs and mortgage-backed securities constitute essentially all of our held-to-maturity securities. The remaining balance comprises foreign bonds and capital securities. Figure 25 shows the composition, yields and remaining maturities of these securities.

Figure 25. Held-to-Maturity Securities

dollars in millions	**Collateralized Mortgage Obligations**	**Other Mortgage-backed Securities**	**Other Securities**	**Total**	**Weighted-Average Yield** (a)
December 31, 2014					
Remaining maturity:					
One year or less			**$ 9**	**$ 9**	**2.42 %**
After one through five years	**$ 4,672**		**11**	**4,683**	**1.91**
After five through ten years	**83**	**$ 240**		**323**	**2.58**
Amortized cost	**$ 4,755**	**$ 240**	**$ 20**	**$ 5,015**	**1.95 %**
Fair value	**4,713**	**241**	**20**	**4,974**	
Weighted-average yield	**1.91**	**2.73 %**	**2.47 %** (b)	**1.95 %** (b)	
Weighted-average maturity	**3.4 years**	**7.7 years**	**1.5 years**	**3.6 years**	
December 31, 2013					
Amortized cost	$ 4,736		$ 20	$ 4,756	1.83 %
Fair value	4,597		20	4,617	
December 31, 2012					
Amortized cost	$ 3,913	$	$ 18	$ 3,931	1.92 %
Fair value	3,974		18	3,992	

(a) Weighted-average yields are calculated based on amortized cost. Such yields have been adjusted to a taxable-equivalent basis using the statutory federal income tax rate of 35%.

(b) Excludes $5 million of securities at December 31, 2014, that have no stated yield.

Table of Contents

Other investments

Principal investments investments in equity and debt instruments made by our Principal Investing unit represented 53% of other investments at December 31, 2014. They include direct investments (investments made in a particular company) as well as indirect investments (investments made through funds that include other investors). Principal investments are predominantly made in privately held companies and are carried at fair value. The fair value of the direct investments was $104 million at December 31, 2014, and $141 million at December 31, 2013, while the fair value of the indirect investments was $302 million at December 31, 2014, and $413 million at December 31, 2013. Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect principal investments. On December 18, 2014, the Federal Reserve extended the conformance period to July 21, 2016, for all banking entities with respect to covered funds. The Federal Reserve also indicated its intent to exercise the authority granted by Section 13 of the Bank Holding Company Act to grant the final one-year extension until July 21, 2017. If this authority is not exercised by the Federal Reserve, Key is permitted to file for a one-year extension, and an additional extension of up to five years for illiquid funds, to retain the indirect investments for a longer period of time. We plan to apply for the extension, if not granted automatically, and hold the investments. As of December 31, 2014, we have not committed to a plan to sell these investments. For more information about the Volcker Rule, see the discussion under the heading Other regulatory developments under the Dodd-Frank Act Volcker Rule in the section entitled Supervision and Regulation in Item 1 of this report.

In addition to principal investments, other investments include other equity and mezzanine instruments, such as certain real-estate-related investments that are carried at fair value, as well as other types of investments that generally are carried at cost. There are indirect real-estate-related investments valued at $10 million at December 31, 2014 and $23 million at December 31, 2013, that may be subject to the disposal requirements under the Volcker Rule, as described in the previous paragraph.

Most of our other investments are not traded on an active market. We determine the fair value at which these investments should be recorded based on the nature of the specific investment and all available relevant information. This review may encompass such factors as the issuer s past financial performance and future potential, the values of public companies in comparable businesses, the risks associated with the particular business or investment type, current market conditions, the nature and duration of resale restrictions, the issuer s payment history, our knowledge of the industry, third-party data, and other relevant factors. As of December 31, 2014, net gains from our principal investing activities (including results attributable to noncontrolling interests) totaled $78 million, which includes $13 million of net unrealized losses. These net gains are recorded as net gains (losses) from principal investing on the income statement. Additional information regarding these investments is provided in Note 6 (Fair Value Measurements).

Deposits and other sources of funds

Domestic deposits are our primary source of funding. During 2014, average domestic deposits were $67.3 billion and represented 86% of the funds we used to support loans and other earning assets, compared to $65.3 billion and 87% during 2013. The composition of our average deposits is shown in Figure 5 in the section entitled Net interest income.

The increase in average domestic deposits from 2013 to 2014 was due to increases in demand deposits of $1.4 billion and NOW and money market deposit accounts of $1.4 billion. These increases were mostly due to growth related to commercial client inflows as well as increases related to the commercial mortgage servicing business. This growth was partially offset by run-off in certificates of deposit.

Wholesale funds, consisting of deposits in our foreign office and short-term borrowings, averaged $2.4 billion during 2014, compared to $2.8 billion during 2013. The change from 2013 was caused by a $620 million decrease in federal funds purchased and securities sold under agreements to repurchase partially offset by a $48 million increase in foreign office deposits and a $203 million increase in bank notes and other short-term borrowings.

Table of Contents

At December 31, 2014, Key had $2.6 billion in time deposits of $100,000 or more. Figure 26 shows the maturity distribution of these deposits.

Figure 26. Maturity Distribution of Time Deposits of $100,000 or More

December 31, 2014

in millions	**Domestic Offices**	**Foreign Offices**	**Total**
Remaining maturity:			
Three months or less	$ 400	$ 564	$ 964
After three through six months	197		197
After six through twelve months	447		447
After twelve months	996		996
Total	$ 2,040	$ 564	$ 2,604

Capital

At December 31, 2014, our shareholders equity was $10.5 billion, up $227 million from December 31, 2013. The following sections discuss certain factors that contributed to this change. For other factors that contributed to the change, see the Consolidated Statements of Changes in Equity.

CCAR and capital actions

As part of its ongoing supervisory process, the Federal Reserve requires BHCs like KeyCorp to submit an annual comprehensive capital plan and to update that plan to reflect material changes in the BHC s risk profile, business strategies, or corporate structure, including but not limited to changes in planned capital actions. In January 2014, we submitted to the Federal Reserve and provided to the OCC our 2014 capital plan under the annual CCAR process. On March 26, 2014, the Federal Reserve announced that it did not object to our 2014 capital plan. The 2014 capital plan includes a common share repurchase program of up to $542 million. Share repurchases under the capital plan began in the second quarter of 2014 and include repurchases to offset issuances of common shares under our employee compensation plans. Common share repurchases under the 2014 capital plan are expected to be executed through the first quarter of 2015.

Through the fourth quarter of 2014, we repurchased $355 million of common shares under our 2014 capital plan authorization. During the first quarter of 2014, we completed $141 million of common shares under our 2013 capital plan authorization.

Dividends

As previously reported, our 2014 capital plan also proposed an increase in our quarterly common share dividend from $.055 to $.065 per share, which was approved by our Board of Directors in May 2014. Other changes to future dividends may be evaluated by the Board based upon our earnings, financial condition, and other factors, including regulatory review. Further information regarding the capital planning process and CCAR is included in the Supervision and Regulation section of Item 1 of this report under the heading Regulatory capital and liquidity.

Consistent with the 2014 capital plan, we made a dividend payment of $.065 per share on our common shares during each of the second, third, and fourth quarters of 2014, totaling $169 million, and a dividend payment of $.055 per share, or $49 million, during the first quarter of 2014.

We also made four quarterly dividend payments of $1.9375 per share totaling $22 million on our Series A Preferred Stock during 2014.

Table of Contents

Common shares outstanding

Our common shares are traded on the New York Stock Exchange under the symbol KEY with 28,673 holders of record at December 31, 2014. Our book value per common share was $11.91 based on 859.4 million shares outstanding at December 31, 2014, compared to $11.25 based on 890.7 million shares outstanding at December 31, 2013. At December 31, 2014, our tangible book value per common share was $10.65, compared to $10.11 at December 31, 2013.

Figure 45 in the section entitled Fourth Quarter Results shows the market price ranges of our common shares, per common share earnings, and dividends paid by quarter for each of the last two years.

Figure 27 compares the price performance of our common shares (based on an initial investment of $100 on December 31, 2009, and assuming reinvestment of dividends) with that of the Standard & Poor s 500 Index and a group of other banks that constitute our peer group. The peer group consists of the banks that make up the Standard & Poor s 500 Regional Bank Index and the banks that make up the Standard & Poor s 500 Diversified Bank Index. We are included in the Standard & Poor s 500 Index and the peer group.

Figure 27. Common Share Price Performance (2010 2014)[(a)]

(a) Share price performance is not necessarily indicative of future price performance.

Figure 28 shows activities that caused the change in our outstanding common shares over the past two years.

Figure 28. Changes in Common Shares Outstanding

		2014 Quarters				
in thousands	**2014**	**Fourth**	**Third**	**Second**	**First**	**2013**
Shares outstanding at beginning of period	**890,724**	**868,477**	**876,823**	**884,869**	**890,724**	925,769
Common shares repurchased	**(36,285)**	**(9,786)**	**(8,830)**	**(7,824)**	**(9,845)**	(41,599)
Shares reissued (returned) under employee benefit plans	**4,964**	**712**	**484**	**(222)**	**3,990**	6,554
Shares outstanding at end of period	**859,403**	**859,403**	**868,477**	**876,823**	**884,869**	890,724

At December 31, 2014, we had 157.6 million treasury shares, compared to 126.2 million treasury shares at December 31, 2013. During 2014, common shares outstanding decreased by 31 million shares from share repurchases under our 2013 and 2014 capital plans and the net activity in our employee benefit plans. Going forward, we expect to reissue treasury shares as needed in connection with stock-based compensation awards and for other corporate purposes.

Table of Contents

As discussed in further detail in the Supervision and Regulation section in Item 1 of this report under the heading Capital planning and stress testing, we are required to annually submit a capital plan to the Federal Reserve setting forth planned capital actions, including any share repurchases our Board of Directors and management intend to make during the year (subject to the Federal Reserve s notice of non-objection). Pursuant to that requirement, we have submitted to the Federal Reserve for review our 2015 capital plan.

Capital adequacy

Capital adequacy is an important indicator of financial stability and performance. All of our capital ratios remained in excess of regulatory requirements at December 31, 2014. Our capital and liquidity levels are intended to position us to weather an adverse credit cycle while continuing to serve our clients needs, as well as to meet the Regulatory Capital Rules described in the Supervision and Regulation section of Item 1 of this report. Our shareholders equity to assets ratio was 11.22% at December 31, 2014, compared to 11.09% at December 31, 2013. Our tangible common equity to tangible assets ratio was 9.88% at December 31, 2014, compared to 9.80% at December 31, 2013.

Federal banking regulators have promulgated minimum risk-based capital and leverage ratio requirements for BHCs like KeyCorp and their banking subsidiaries like KeyBank. Prior to January 1, 2015, Key and KeyBank (consolidated) were each required to maintain a minimum Tier 1 risk-based capital ratio of 4.00% and a total risk-based capital ratio of 8.00%, while Key was required to maintain a minimum Tier 1 leverage ratio of 3.00% and KeyBank (consolidated) was required to maintain a minimum Tier 1 leverage ratio of 4.00%. At December 31, 2014, our Tier 1 risk-based capital ratio, total risk-based capital ratio, and Tier 1 leverage ratio were 11.90%, 13.89%, and 11.26%, respectively, compared to 11.96%, 14.33%, and 11.11%, respectively, at December 31, 2013.

The adoption of the Regulatory Capital Rules changes the regulatory capital standards that apply to BHCs by phasing out the treatment of capital securities and cumulative preferred securities as eligible Tier 1 capital. The phase-out period, which began January 1, 2015, for standardized approach banking organizations such as KeyCorp, will result in our trust preferred securities issued by the KeyCorp capital trusts being treated only as Tier 2 capital by 2016. The trust preferred securities issued by the KeyCorp capital trusts contribute $339 million, or 40, 38, and 39 basis points, to our Tier 1 risk-based capital ratio of 11.90%, Tier 1 leverage ratio of 11.26%, and total risk-based capital ratio of 13.89%, respectively, at December 31, 2014. The new minimum capital and leverage ratios under the Regulatory Capital Rules together with the estimated ratios of Key at December 31, 2014, calculated on a fully phased-in basis, are set forth under the heading New minimum capital and leverage ratio requirements in the Supervision and Regulation section in Item 1 of this report.

As previously indicated in the Supervision and Regulation section of Item 1 of this report under the heading Revised prompt corrective action capital category ratios, the prompt corrective action capital category regulations do not apply to BHCs. If, however, these regulations did apply to BHCs, we believe KeyCorp would qualify for the well capitalized capital category at December 31, 2014. Moreover, after accounting for the phase-out of our trust preferred securities as Tier 1 eligible (and therefore as Tier 2 instead) as of December 31, 2014, we estimate KeyCorp would still qualify for the well capitalized capital category under the regulatory capital regulations in effect before January 1, 2015, with an estimated Tier 1 risk-based capital ratio, estimated Tier 1 leverage ratio, and estimated total risk-based capital ratio of 11.50%, 10.88%, and 13.89%, respectively. The new threshold ratios for a well capitalized and an adequately capitalized institution under the Regulatory Capital Rules are described in the Supervision and Regulation section of Item 1 of this report under the heading Revised prompt corrective action capital category ratios. Since the regulatory capital categories under these regulations serve a limited supervisory function, investors should not use them as a representation of the overall financial condition or prospects of KeyCorp. A discussion of the regulatory capital standards and other related capital adequacy regulatory standards is included in the section Regulatory capital and liquidity in Supervision and Regulation under Item 1 of this report.

70

Table of Contents

Traditionally, the banking regulators have assessed bank and BHC capital adequacy based on both the amount and composition of capital, the calculation of which is prescribed in federal banking regulations. The Federal Reserve s assessment of capital adequacy focuses on a component of Tier 1 risk-based capital, known as Tier 1 common equity, and its review of the consolidated capitalization of systemically important financial companies, including KeyCorp. The capital modifications mandated by the Regulatory Capital Rules are consistent with the renewed focus on Tier 1 common equity and the consolidated capitalization of banks, and BHCs. Tier 1 common equity is neither formally defined by GAAP nor prescribed in amount prior to January 1, 2015, by federal banking regulations; this measure is considered to be a non-GAAP financial measure. Figure 4 in the Highlights of Our 2014 Performance section reconciles Key shareholders equity, the GAAP performance measure, to Tier 1 common equity, the corresponding non-GAAP measure. Our Tier 1 common equity ratio was 11.17% at December 31, 2014, compared to 11.22% at December 31, 2013.

Generally, for risk-based capital purposes, deferred tax assets that are dependent upon future taxable income are limited to the lesser of: (i) the amount of deferred tax assets that a financial institution expects to realize within one year of the calendar quarter-end date, based on its projected future taxable income for the year, or (ii) 10% of the amount of an institution s Tier 1 capital. At December 31, 2014, and December 31, 2013, we had no net deferred tax assets deducted from Tier 1 capital and risk-weighted assets. At December 31, 2014, for Key s consolidated operations, we had a federal net deferred tax asset of $195 million and a state deferred tax asset of $22 million, compared to a federal net deferred tax asset of $184 million and a state deferred tax asset of $7 million at December 31, 2013. We have recorded a valuation allowance of less than $1 million against the gross deferred tax assets associated with certain state net operating loss carryforwards and state credit carryforwards at December 31, 2014, compared to $1 million at December 31, 2013.

Table of Contents

Figure 29 represents the details of our regulatory capital position at December 31, 2014, and December 31, 2013.

Figure 29. Capital Components and Risk-Weighted Assets

December 31, *dollars in millions*			2014		2013
TIER 1 CAPITAL					
Key shareholders equity		**$**	**10,530**	$	10,303
Qualifying capital securities			**339**		339
Less:	Goodwill		**1,057**		979
	Accumulated other comprehensive income [a]		**(395)**		(394)
	Other assets [b]		**83**		89
	Total Tier 1 capital		**10,124**		9,968
TIER 2 CAPITAL					
Allowance for losses on loans and liability for losses on lending-related commitments [c]			**859**		924
Net unrealized gains on equity securities available for sale			**1**		1
Qualifying long-term debt			**840**		1,048
	Total Tier 2 capital		**1,700**		1,973
	Total risk-based capital	**$**	**11,824**	$	11,941
TIER 1 COMMON EQUITY					
Tier 1 capital		**$**	**10,124**	$	9,968
Less:	Qualifying capital securities		**339**		339
	Series A Preferred Stock [d]		**282**		282
	Total Tier 1 common equity	**$**	**9,503**	$	9,347
RISK-WEIGHTED ASSETS					
Risk-weighted assets on balance sheet		**$**	**66,054**	$	65,505
Risk-weighted off-balance sheet exposure			**19,360**		17,778
Less:	Goodwill		**1,057**		979
	Other assets [b]		**120**		458
Plus:	Market risk-equivalent assets		**863**		1,482
	Gross risk-weighted assets		**85,100**		83,328
Less:	Excess allowance for loan and lease losses				
	Net risk-weighted assets	**$**	**85,100**	$	83,328
AVERAGE QUARTERLY TOTAL ASSETS		**$**	**91,116**	$	91,141
CAPITAL RATIOS					
Tier 1 risk-based capital			**11.90 %**		11.96 %
Total risk-based capital			**13.89**		14.33
Leverage [e]			**11.26**		11.11
Tier 1 common equity			**11.17**		11.22

(a) Includes net unrealized gains or losses on securities available for sale (except for net unrealized losses on marketable equity securities), net gains or losses on cash flow hedges, and amounts resulting from the application of the applicable accounting guidance for defined benefit and other postretirement plans.

(b) Other assets deducted from Tier 1 capital and risk-weighted assets consist of disallowed intangible assets (excluding goodwill) and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at December 31, 2014, and December 31, 2013.

(c)

The ALLL included in Tier 2 capital is limited by regulation to 1.25% of the sum of gross risk-weighted assets plus low level exposures and residual interests calculated under the direct reduction method, as defined by the Federal Reserve. The ALLL includes $29 million, and $39 million of allowance classified as discontinued assets on the balance sheet at December 31, 2014, and December 31, 2013, respectively.

(d) Net of capital surplus.

(e) This ratio is Tier 1 capital divided by average quarterly total assets as defined by the Federal Reserve less: (i) goodwill, (ii) the disallowed intangible assets described in footnote (b), and (iii) deductible portions of nonfinancial equity investments; plus assets derecognized as an offset to AOCI resulting from the adoption and subsequent application of the applicable accounting guidance for defined benefit and other postretirement plans.

Table of Contents

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Off-balance sheet arrangements

We are party to various types of off-balance sheet arrangements, which could lead to contingent liabilities or risks of loss that are not reflected on the balance sheet.

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.

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). Additional information regarding the nature of VIEs and our involvement with them is included in Note 1 (Summary of Significant Accounting Policies) under the heading Basis of Presentation, and in Note 11 (Variable Interest Entities).

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.

Commitments to extend credit or funding

Loan commitments provide for financing on predetermined terms as long as the client continues to meet specified criteria. These commitments generally carry variable rates of interest and have fixed expiration dates or other termination clauses. We typically charge a fee for our loan commitments. Since a commitment may expire without resulting in a loan or being fully utilized, the total amount of an outstanding commitment may significantly exceed any related cash outlay. Further information about our loan commitments at December 31, 2014, is presented in Note 20 (Commitments, Contingent Liabilities and Guarantees) under the heading Commitments to Extend Credit or Funding. Figure 30 shows the remaining contractual amount of each class of commitment to extend credit or funding. For loan commitments and commercial letters of credit, this amount represents our maximum possible accounting loss if the borrower were to draw upon the full amount of the commitment and then default on payment for the total amount of the then outstanding loan.

Table of Contents

Other off-balance sheet arrangements

Other off-balance sheet arrangements include financial instruments that do not meet the definition of a guarantee in accordance with the applicable accounting guidance, and other relationships, such as liquidity support provided to asset-backed commercial paper conduits, indemnification agreements and intercompany guarantees. Information about such arrangements is provided in Note 20 under the heading Other Off-Balance Sheet Risk.

Contractual obligations

Figure 30 summarizes our significant contractual obligations, and lending-related and other off-balance sheet commitments at December 31, 2014, by the specific time periods in which related payments are due or commitments expire.

Figure 30. Contractual Obligations and Other Off-Balance Sheet Commitments

December 31, 2014 *in millions*	**Within 1 year**	**After 1 through 3 years**	**After 3 through 5 years**	**After 5 years**	**Total**
Contractual obligations: [a]					
Deposits with no stated maturity	$ 66,135				$ 66,135
Time deposits of $100,000 or more	1,608	$ 831	$ 92	$ 73	2,604
Other time deposits	1,774	1,239	118	128	3,259
Federal funds purchased and securities sold under repurchase agreements	575				575
Bank notes and other short-term borrowings	423				423
Long-term debt	1,296	1,679	2,645	2,255	7,875
Noncancelable operating leases	116	197	143	370	826
Liability for unrecognized tax benefits	6				6
Purchase obligations:					
Banking and financial data services	66	121	64	5	256
Telecommunications	17	22	11		50
Professional services	22	32	10		64
Technology equipment and software	61	70	52	2	185
Other	6	16	3		25
Total purchase obligations	172	261	140	7	580
Total	$ 72,105	$ 4,207	$ 3,138	$ 2,833	$ 82,283

Lending-related and other off-balance sheet commitments:										
Commercial, including real estate	$	8,954	$	8,311	$	9,715	$	964	$	27,944
Home equity		230		1,050		1,009		4,875		7,164
Credit cards		3,762								3,762
Purchase cards		63								63
When-issued and to-be-announced securities commitments		102								102
Commercial letters of credit		110		9		2				121
Principal investing commitments		28		16		11		5		60
Liabilities of certain limited partnerships and other commitments		1								1
Total	$	13,250	$	9,386	$	10,737	$	5,844	$	39,217

(a) Deposits and borrowings exclude interest.

Guarantees

We are a guarantor in various agreements with third parties. As guarantor, we may be contingently liable to make payments to the guaranteed party based on changes in a specified interest rate, foreign exchange rate or other variable (including the occurrence or nonoccurrence of a specified event). These variables, known as underlyings, may be related to an asset or liability, or another entity s failure to perform under a contract. Additional information regarding these types of arrangements is presented in Note 20 under the heading Guarantees.

Risk Management

Overview

Like all financial services companies, we engage in business activities and assume the related risks. The most significant risks we face are credit, compliance, operational, capital and liquidity, market, reputation, strategic, and model risks. Our risk management activities are focused on ensuring we properly identify, measure, and manage such risks across the entire enterprise to maintain safety and soundness and maximize profitability. Certain of these risks are defined and discussed in greater detail in the remainder of this section.

The KeyCorp Board of Directors (the Board) serves in an oversight capacity ensuring that Key s risks are managed in a manner that is effective and balanced and adds value for the shareholders. The Board understands Key s risk philosophy, approves the risk appetite, inquires about risk practices, reviews the portfolio of risks, compares the actual risks to the risk appetite, and is apprised of significant risks, both actual and emerging, and determines whether management is responding appropriately. The Board challenges management and ensures accountability.

The Board s Audit Committee assists the Board in oversight of financial statement integrity, regulatory and legal requirements, independent auditors qualifications and independence, and the performance of the internal audit function and independent auditors. The Audit Committee meets with management and approves significant policies relating to the risk areas overseen by the Audit Committee. The Audit Committee has responsibility over all risk review functions, including internal audit, financial reporting, legal matters, and fraud risk. The Audit Committee also receives reports on enterprise risk. In addition to regularly scheduled bi-monthly meetings, the Audit Committee convenes to discuss the content of our financial disclosures and quarterly earnings releases.

The Board s Risk Committee assists the Board in oversight of strategies, policies, procedures, and practices relating to the assessment and management of enterprise-wide risk, including credit, market, liquidity, model, operational, compliance, reputation, and strategic risks. The Risk Committee also assists the Board in overseeing risks related to capital adequacy, capital planning, and capital actions. The Risk Committee reviews and provides oversight of management s activities related to the enterprise-wide risk management framework, which includes review of the Enterprise Risk Management (ERM) Policy, including the Risk Appetite Statement, and management and ERM reports, and approval of any material changes to the charter of the ERM Committee and significant policies relating to risk management.

The Audit and Risk Committees meet jointly, as appropriate, to discuss matters that relate to each committee s responsibilities. Committee chairpersons routinely meet with management during interim months to plan agendas for upcoming meetings and to discuss emerging trends and events that have transpired since the preceding meeting. All members of the Board receive formal reports designed to keep them abreast of significant developments during the interim months.

Our ERM Committee, chaired by the Chief Executive Officer and comprising other senior level executives, is responsible for managing risk and ensuring that the corporate risk profile is managed in a manner consistent with our risk appetite. The ERM Program encompasses our risk philosophy, policy, framework, and governance structure for the management of risks across the entire company. The ERM Committee reports to the Board s Risk Committee. Annually, the Board reviews and approves the ERM Policy, as well as the risk appetite, including corporate risk tolerances for major risk categories. We use a risk-adjusted capital framework to manage risks. This framework is approved and managed by the ERM Committee.

Table of Contents

Tier 2 Risk Governance Committees support the ERM Committee by identifying early warning events and trends, escalating emerging risks, and discussing forward-looking assessments. Risk Governance Committees include attendees from each of the Three Lines of Defense. The First Line of Defense is the Line of Business primarily responsible to accept, own, proactively identify, monitor, and manage risk. The Second Line of Defense comprises Risk Management representatives who provide independent, centralized oversight over all risk categories by aggregating, analyzing, and reporting risk information. Risk Review provides the Third Line of Defense in their role to provide independent assessment and testing of the effectiveness, appropriateness, and adherence to KeyCorp s risk management policies, practices, and controls.

The Chief Risk Officer ensures that relevant risk information is properly integrated into strategic and business decisions, ensures appropriate ownership of risks, provides input into performance and compensation decisions, assesses aggregate enterprise risk, monitors capabilities to manage critical risks, and executes appropriate Board and stakeholder reporting.

Federal banking regulators continue to emphasize with financial institutions the importance of relating capital management strategy to the level of risk at each institution. We believe our internal risk management processes help us achieve and maintain capital levels that are commensurate with our business activities and risks, and conform to regulatory expectations.

Market risk management

Market risk is the risk that movements in market risk factors, including interest rates, foreign exchange rates, equity prices, commodity prices, credit spreads, and volatilities will reduce Key s income and the value of its portfolios. These factors influence prospective yields, values, or prices associated with the instrument. For example, the value of a fixed-rate bond will decline when market interest rates increase, while the cash flows associated with a variable rate loan will increase when interest rates increase. The holder of a financial instrument is exposed to market risk when either the cash flows or the value of the instrument is tied to such external factors.

We are exposed to market risk both in our trading and nontrading activities, which include asset and liability management activities. Our trading positions are carried at fair value with changes recorded in the income statement. These positions are subject to various market-based risk factors that impact the fair value of the financial instruments in the trading category. Our traditional banking loan and deposit products as well as long-term debt and certain short-term borrowings are nontrading positions. These positions are generally carried at the principal amount outstanding for assets and the amount owed for liabilities. The nontrading positions are subject to changes in economic value due to varying market conditions, primarily changes in interest rates.

Trading market risk

Key incurs market risk as a result of trading, investing, and client facilitation activities, principally within our investment banking and capital markets business. Key has exposures to a wide range of interest rates, equity prices, foreign exchange rates, credit spreads, and commodity prices, as well as the associated implied volatilities and spreads. Our primary market risk exposures are a result of trading activities in the derivative and fixed income markets and maintaining positions in these instruments. We maintain modest trading inventories to facilitate customer flow, make markets in securities, and hedge certain risks. The majority of our positions are traded in active markets.

Management of trading market risks. Market risk management is an integral part of Key s risk culture. Oversight of trading market risks is governed by the Risk Committee of our Board, the ERM Committee, and the Market Risk Committee. These committees regularly review and discuss market risk reports prepared by our Market Risk

Management group (MRM) that contain our market risk exposures and results of monitoring

76

activities. Market risk policies and procedures have been defined and approved by the Market Risk Committee, a Tier 2 Risk Governance Committee, and take into account our tolerance for risk and consideration for the business environment.

MRM is an independent risk management function that partners with the lines of business to identify, measure, and monitor market risks throughout our company. MRM is responsible for ensuring transparency of significant market risks, monitoring compliance with established limits, and escalating limit exceptions to appropriate senior management. The various business units and trading desks are responsible for ensuring that market risk exposures are well-managed and prudent. Market risk is monitored through various measures, such as VaR, and through routine stress testing, sensitivity, and scenario analyses. MRM conducts stress tests for each covered position using historical worst case and standard shock scenarios. VaR, stressed VaR, and other analyses are prepared daily and distributed to appropriate management.

Covered positions. We monitor the market risk of our covered positions, which includes all of our trading positions as well as all foreign exchange and commodity positions, regardless of whether the position is in a trading account. All positions in the trading account are recorded at fair value, and changes in fair value are reflected in our consolidated statements of income. Information regarding our fair value policies, procedures and methodologies is provided in Note 1 (Summary of Significant Accounting Policies) under the heading Fair Value Measurements and Note 6 (Fair Value Measurements) in this report. Instruments that are used to hedge nontrading activities, such as bank-issued debt and loan portfolios, equity positions that are not actively traded, and securities financing activities, do not meet the definition of a covered position. MRM is responsible for identifying our portfolios as either covered or non-covered. The Covered Position Working Group develops the final list of covered positions, and a summary is provided to the Market Risk Committee.

Our significant portfolios of covered positions are detailed below. We analyze market risk by portfolios of covered positions, and do not separately measure and monitor our portfolios by risk type. The descriptions below incorporate the respective risk types associated with each of these portfolios.

¿ Fixed income includes those instruments associated with our capital markets business and the trading of securities as a dealer. These instruments may include positions in municipal bonds, bonds backed by the U.S. government, agency and corporate bonds, certain mortgage-backed securities, securities issued by the U.S. Treasury, money markets, and certain CMOs. The activities and instruments within the fixed income portfolio create exposures to interest rate and credit spread risks.

¿ Interest rate derivatives include interest rate swaps, caps and floors, which are transacted primarily to accommodate the needs of commercial loan clients. In addition, we enter into interest rate derivatives to offset or mitigate the interest rate risk related to the client positions. The activities within this portfolio create exposures to interest rate risk.

¿ Credit derivatives include credit default swaps, which are used to mitigate loan portfolio credit risk, and credit default swap indexes, which are used to manage the credit risk exposure associated with anticipated sales of certain commercial real estate loans. The transactions within the credit derivatives portfolio result in exposure to counterparty credit risk and market risk.

VaR and stressed VaR. VaR is the estimate of the maximum amount of loss on an instrument or portfolio due to adverse market conditions during a given time interval within a stated confidence level. Stressed VaR is used to assess the extreme conditions on market risk within our trading portfolios. MRM calculates VaR and stressed VaR on a daily basis, and the results are distributed to appropriate management. VaR and stressed VaR results are also provided to our regulators and utilized in regulatory capital calculations.

We use a historical VaR model to measure the potential adverse effect of changes in interest rates, foreign exchange rates, equity prices, and credit spreads on the fair value of our covered positions. Historical scenarios are customized for specific covered positions, and numerous risk factors are incorporated in the calculation.

Table of Contents

Additional consideration is given to the risk factors to estimate the exposures that contain optionality features, such as options and cancelable provisions. VaR is calculated using daily observations over a one-year time horizon, and approximates a 95% confidence level. Statistically, this means that we would expect to incur losses greater than VaR, on average, five out of 100 trading days, or three to four times each quarter. We also calculate VaR and stressed VaR at a 99% confidence level.

The VaR model is an effective tool in estimating ranges of possible gains and losses on our covered positions. However, there are limitations inherent in the VaR model since it uses historical results over a given time interval to estimate future performance. Historical results may not be indicative of future results, and changes in the market or composition of our portfolios could have a significant impact on the accuracy of the VaR model. We regularly review and enhance the modeling techniques, inputs and assumptions used. Our market risk policy includes the independent validation of our VaR model by Key s Risk Management Group on an annual basis. The Model Risk Management Committee oversees the Model Validation Program, and results of validations are discussed with the ERM Committee.

MRM backtests our VaR model on a daily basis to evaluate its predictive power. The test compares VaR model results at the 99% confidence level to observed daily profit and loss. Results of backtesting are provided to the Market Risk Committee. Backtesting exceptions occur when trading losses exceed VaR. Actual losses did not exceed daily trading VaR on any day during the quarters ended December 31, 2014, and December 31, 2013.

We do not engage in correlation trading, or utilize the internal model approach for measuring default and credit migration risk. Our net VaR approach incorporates diversification, but our VaR calculation does not include the impact of counterparty risk and our own credit spreads on derivatives.

The aggregate VaR at the 99% confidence level for all covered positions was $.9 million at December 31, 2014, and $1.0 million at December 31, 2013. The decrease in aggregate VaR was primarily due to reduced exposures in credit and interest rate derivatives. Figure 31 summarizes our VaR at the 99% confidence level for significant portfolios of covered positions for the three months ended December 31, 2014, and December 31, 2013.

Figure 31. VaR for Significant Portfolios of Covered Positions

	2014 Three months ended December 31,				**2013 Three months ended December 31,**			
in millions	**High**	**Low**	**Mean**	**December 31,**	**High**	**Low**	**Mean**	**December 31,**
Trading account assets:								
Fixed income	**$ .5**	**$ .3**	**$ .4**	**$ .4**	$ 1.2	$ .5	$ .8	$ .6
Derivatives:								
Interest rate	**$ .3**		**$ .1**	**$ .1**	$ .5	$ .2	$ .3	$ .2
Credit	**.3**	**$ .1**	**.2**	**.3**	.4	.1	.3	.1

Stressed VaR is calculated using our general VaR results at the 99% confidence level and applying certain assumptions. The aggregate stressed VaR for all covered positions was $2.6 million at December 31, 2014, and $2.9 million at December 31, 2013. Figure 32 summarizes our stressed VaR for significant portfolios of covered positions for the three months ended December 31, 2014, and December 31, 2013, as used for market risk capital charge calculation purposes.

Table of Contents

Figure 32. Stressed VaR for Significant Portfolios of Covered Positions

	2014 Three months ended December 31,				2013 Three months ended December 31,			
in millions	**High**	**Low**	**Mean**	**December 31,**	**High**	**Low**	**Mean**	**December 31,**
Trading account assets:								
Fixed income	**$ 1.6**	**$ .8**	**$ 1.2**	**$ 1.2**	$ 3.7	$ 1.4	$ 2.4	$ 1.7
Derivatives:								
Interest rate	**$ .8**	**$ .1**	**$ .2**	**$ .2**	$ 1.5	$ .5	$ 1.0	$ .5
Credit	**1.0**	**.4**	**.7**	**.9**	1.2	.4	.8	.4

Internal capital adequacy assessment. Market risk is a component of our internal capital adequacy assessment. Our risk-weighted assets include a market risk-equivalent asset position, which consists of a VaR component, stressed VaR component, a de minimis exposure amount, and a specific risk add-on, which are added together to arrive at total market risk equivalent assets. Specific risk is the price risk of individual financial instruments, which is not accounted for by changes in broad market risk factors and is measured through a standardized approach. Specific risk calculations are run quarterly by MRM, and approved by the Chief Market Risk Officer.

Nontrading market risk

Most of our nontrading market risk is derived from interest rate fluctuations and its impacts on our traditional loan and deposit products, as well as investments, hedging relationships, long-term debt, and certain short-term borrowings. Interest rate risk, which is inherent in the banking industry, is measured by the potential for fluctuations in net interest income and the EVE. Such fluctuations may result from changes in interest rates and differences in the repricing and maturity characteristics of interest-earning assets and interest-bearing liabilities. We manage the exposure to changes in net interest income and the EVE in accordance with our risk appetite and within Board approved policy limits.

Interest rate risk positions are influenced by a number of factors including the balance sheet positioning that arises out of consumer preferences for loan and deposit products, economic conditions, the competitive environment within our markets, and changes in market interest rates that affect client activity and our hedging, investing, funding and capital positions. The primary components of interest rate risk exposure consist of gap risk, basis risk, yield curve risk and option risk.

The management of nontrading market risk is centralized within Corporate Treasury. Oversight and governance is provided by the Risk Committee of our Board, the ERM Committee and the ALCO. These committees review reports on the components of interest rate risk described above as well as sensitivity analyses of these exposures. These committees have various responsibilities related to managing nontrading market risk, including recommending, approving, and monitoring strategies that maintain risk positions within approved tolerance ranges. The Asset Liability Management policy provides the framework for the oversight and management of interest rate risk and is administered by the ALCO. Internal and external emerging issues are monitored on a daily basis. The Market Risk Management Group, as the second line of defense, provides additional oversight.

¿ ***Gap risk*** is the exposure to changes in interest rates and occurs when the volume of interest-bearing liabilities and the volume of interest-earning assets they fund (for example, deposits used to fund loans) do not mature or reprice at the same time.

¿ ***Basis risk*** is the exposure to asymmetrical changes in interest rate indexes and occurs when floating-rate assets and floating-rate liabilities reprice at the same time, but in response to different market factors or indexes.

¿ Yield curve risk is the exposure to non-parallel changes in the slope of the yield curve (where the yield curve depicts the relationship between the yield on a particular type of security and its term to maturity) and occurs when interest-bearing liabilities and the interest-earning assets that they fund do not price or reprice to the same term point on the yield curve.

¿ Option risk is the exposure to a customer or counterparty s ability to take advantage of the interest rate environment and terminate or reprice one of our assets, liabilities or off-balance sheet instruments prior to contractual maturity without a penalty. Option risk occurs when exposures to customer and counterparty early withdrawals or early prepayments are not mitigated with an offsetting position or appropriate compensation.

Net interest income simulation analysis. The primary tool we use to measure our interest rate risk is simulation analysis. For purposes of this analysis, we estimate our net interest income based on the current and projected composition of our on- and off-balance sheet positions, accounting for recent and anticipated trends in customer activity. The analysis also incorporates assumptions for the current and projected interest rate environments, including a most likely macro-economic scenario. Simulation modeling assumes that residual risk exposures will be managed to within the risk appetite.

We measure the amount of net interest income at risk by simulating the change in net interest income that would occur if the federal funds target rate were to gradually increase or decrease over the next 12 months, and term rates were to move in a similar fashion. Our standard rate scenarios encompass a gradual increase or decrease of 200 basis points, but due to the low interest rate environment, we have modified the standard to a gradual decrease of 25 basis points over two months with no change over the following ten months. After calculating the amount of net interest income at risk to interest rate changes, we compare that amount with the base case of an unchanged interest rate environment. We also perform regular stress tests and sensitivities on the model inputs that could materially change the resulting risk assessments. One set of stress tests and sensitivities assesses the effect of interest rate inputs on simulated exposures. Assessments are performed using different shapes of the yield curve, including a sustained flat yield curve, an inverted slope yield curve, changes in credit spreads, an immediate parallel change in market interest rates, and changes in the relationship of money market interest rates. Another set of stress tests and sensitivities assesses the effect of loan and deposit assumptions and assumed discretionary strategies on simulated exposures. Assessments are performed on changes to the following assumptions: the pricing of deposits without contractual maturities; changes in lending spreads; prepayments on loans and securities; other loan and deposit balance shifts; investment, funding and hedging activities; and liquidity and capital management strategies.

Simulation analysis produces only a sophisticated estimate of interest rate exposure based on judgments related to assumption inputs into the simulation model. We tailor assumptions to the specific interest rate environment and yield curve shape being modeled, and validate those assumptions on a regular basis. Our simulations are performed with the assumption that interest rate risk positions will be actively managed through the use of on- and off-balance sheet financial instruments to achieve the desired residual risk profile. However, actual results may differ from those derived in simulation analysis due to unanticipated changes to the balance sheet composition, customer behavior, product pricing, market interest rates, investment, funding and hedging activities, and repercussions from unanticipated or unknown events.

Figure 33 presents the results of the simulation analysis at December 31, 2014, and December 31, 2013. At December 31, 2014, our simulated exposure to changes in interest rates was moderately asset sensitive, and net interest income would benefit over time from either an increase in short-term or intermediate-term interest rates. Tolerance levels for risk management require the development of remediation plans to maintain residual risk within tolerance if simulation modeling demonstrates that a gradual increase or decrease in short-term interest rates over the next 12 months would adversely affect net interest income over the same period by more than 4%. As shown in Figure 33, we are operating within these levels as of December 31, 2014.

Table of Contents

Figure 33. Simulated Change in Net Interest Income

December 31, 2014		
Basis point change assumption (short-term rates)	**-25**	**+200**
Tolerance level	**-4.00 %**	**-4.00 %**
Interest rate risk assessment	**-.96 %**	**3.20 %**
December 31, 2013		
Basis point change assumption (short-term rates)	-25	+200
Tolerance level	-4.00 %	-4.00 %
Interest rate risk assessment	-1.33 %	3.00 %

The results of additional sensitivity analysis of alternate interest rate paths and loan and deposit behavior assumptions indicates that net interest income could increase or decrease from the base simulation results presented in Figure 33. Net interest income is highly dependent on the timing, magnitude, frequency, and path of interest rate increases and the associated assumptions for deposit repricing relationships, lending spreads, and the balance behavior of transaction accounts. The unprecedented low level of interest rates increases the uncertainty of assumptions for deposit balance behavior and deposit repricing relationships to market interest rates. Our historical deposit repricing betas in the last rising rate cycle ranged between 50% and 60% for interest-bearing deposits, and we continue to make similar assumptions in our modeling. The sensitivity testing of these assumptions supports our confidence that actual results are likely to be within a 75 basis point range of modeled results.

Key will continue to monitor balance sheet flows and expects the benefit from rising rates to increase modestly prior to any increase in the federal funds rate. Our current interest rate risk position could fluctuate to higher or lower levels of risk depending on the competitive environment and client behavior that may affect the actual volume, mix, maturity, and repricing characteristics of loan and deposit flows. As changes occur to both the configuration of the balance sheet and the outlook for the economy, management proactively evaluates hedging opportunities that may change our interest rate risk profile.

We also conduct simulations that measure the effect of changes in market interest rates in the second and third years of a three-year horizon. These simulations are conducted in a manner similar to those based on a 12-month horizon. To capture longer-term exposures, we calculate exposures to changes to the EVE as discussed in the following section.

Economic value of equity modeling. EVE complements net interest income simulation analysis as it estimates risk exposure beyond 12-, 24-, and 36-month horizons. EVE modeling measures the extent to which the economic values of assets, liabilities and off-balance sheet instruments may change in response to fluctuations in interest rates. EVE is calculated by subjecting the balance sheet to an immediate 200 basis point increase or decrease in interest rates, measuring the resulting change in the values of assets, liabilities and off-balance sheet instruments, and comparing those amounts with the base case of an unchanged interest rate environment. Because the calculation of EVE under an immediate 200 basis point decrease in interest rates in the current low rate environment results in certain interest rates declining to zero and a less than 200 basis point decrease in certain yield curve term points, we have modified the standard declining rate scenario to an immediate 100 basis point decrease. This analysis is highly dependent upon assumptions applied to assets and liabilities with non-contractual maturities. Those assumptions are based on historical behaviors, as well as our expectations. We develop remediation plans that would maintain residual risk within tolerance if this analysis indicates that our EVE will decrease by more than 15% in response to an immediate increase or decrease in interest rates. We are operating within these guidelines as of December 31, 2014.

Management of interest rate exposure. We use the results of our various interest rate risk analyses to formulate A/LM strategies to achieve the desired risk profile while managing to our objectives for capital adequacy and

Table of Contents

liquidity risk exposures. Specifically, we manage interest rate risk positions by purchasing securities, issuing term debt with floating or fixed interest rates, and using derivatives predominantly in the form of interest rate swaps, which modify the interest rate characteristics of certain assets and liabilities.

Figure 34 shows all swap positions that we hold for A/LM purposes. These positions are used to convert the contractual interest rate index of agreed-upon amounts of assets and liabilities (i.e., notional amounts) to another interest rate index. For example, fixed-rate debt is converted to a floating rate through a receive fixed/pay variable interest rate swap. The volume, maturity and mix of portfolio swaps change frequently as we adjust our broader A/LM objectives and the balance sheet positions to be hedged. For more information about how we use interest rate swaps to manage our risk profile, see Note 8 (Derivatives and Hedging Activities).

Figure 34. Portfolio Swaps by Interest Rate Risk Management Strategy

	December 31, 2014					December 31, 2013	
			Weighted-Average				
	Notional	**Fair**	**Maturity**	**Receive**	**Pay**	**Notional**	**Fair**
dollars in millions	**Amount**	**Value**	**(Years)**	**Rate**	**Rate**	**Amount**	**Value**
Receive fixed/pay variable conventional A/LM [(a)]	**$ 9,700**	**$ (4)**	**1.8**	**.8 %**	**.2 %**	$ 9,300	$ 6
Receive fixed/pay variable conventional debt	**5,124**	**209**	**3.8**	**2.4**	**.2**	5,074	201
Pay fixed/receive variable conventional debt	**50**	**(7)**	**13.5**	**.2**	**3.6**	105	
Total portfolio swaps	**$ 14,874**	**$ 198 [(b)]**	**2.5**	**1.3 %**	**.2 %**	$ 14,479	$ 207 [(b)]

(a) Portfolio swaps designated as A/LM are used to manage interest rate risk tied to both assets and liabilities.

(b) Excludes accrued interest of $49 million and $61 million for December 31, 2014, and December 31, 2013, respectively.

Liquidity risk management

Liquidity risk, which is inherent in the banking industry, is measured by our ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, and fund new business opportunities at a reasonable cost, in a timely manner and without adverse consequences. Liquidity management involves maintaining sufficient and diverse sources of funding to accommodate planned, as well as unanticipated, changes in assets and liabilities under both normal and adverse conditions.

Governance structure

We manage liquidity for all of our affiliates on an integrated basis. This approach considers the unique funding sources available to each entity, as well as each entity s capacity to manage through adverse conditions. The approach also recognizes that adverse market conditions or other events that could negatively affect the availability or cost of liquidity will affect the access of all affiliates to sufficient wholesale funding.

The management of consolidated liquidity risk is centralized within Corporate Treasury. Oversight and governance is provided by the Board of Directors, the ERM Committee, the ALCO, and the Chief Risk Officer. The Asset Liability Management Policy provides the framework for the oversight and management of liquidity risk and is administered by the ALCO. The Market Risk Management group, as the second line of defense, provides additional oversight. Our current liquidity risk management practices are in compliance with the Federal Reserve Board s Enhanced Prudential Standards.

These committees regularly review liquidity and funding summaries, liquidity trends, peer comparisons, variance analyses, liquidity projections, hypothetical funding erosion stress tests and goal tracking reports. The reviews generate a discussion of positions, trends and directives on liquidity risk and shape a number of our decisions. When liquidity pressure is elevated, positions are monitored more closely and reporting is more intensive. To ensure that emerging issues are identified, we also communicate with individuals inside and outside of the company on a daily basis.

Table of Contents

Factors affecting liquidity

Our liquidity could be adversely affected by both direct and indirect events. An example of a direct event would be a downgrade in our public credit ratings by a rating agency. Examples of indirect events (events unrelated to us) that could impair our access to liquidity would be an act of terrorism or war, natural disasters, political events, or the default or bankruptcy of a major corporation, mutual fund or hedge fund. Similarly, market speculation, or rumors about us or the banking industry in general, may adversely affect the cost and availability of normal funding sources.

Our credit ratings at December 31, 2014, are shown in Figure 35. We believe these credit ratings, under normal conditions in the capital markets, will enable the parent company or KeyBank to issue fixed income securities to investors.

Figure 35. Credit Ratings

December 31, 2014	Short-Term Borrowings	Senior Long-Term Debt	Subordinated Long-Term Debt	Capital Securities	Series A Preferred Stock
KEYCORP (THE PARENT COMPANY)					
Standard & Poor s	A-2	BBB+	BBB	BB+	BB+
Moody s	P-2	Baa1	Baa2	Baa3	Ba1
Fitch	F1	A-	BBB+	BB+	BB
DBRS	R-2(high)	BBB(high)	BBB	BBB	N/A
KEYBANK					
Standard & Poor s	A-2	A-	BBB+	N/A	N/A
Moody s	P-2	A3	Baa1	N/A	N/A
Fitch	F1	A-	BBB+	N/A	N/A
DBRS	R-1(low)	A(low)	BBB(high)	N/A	N/A

Managing liquidity risk

Most of our liquidity risk is derived from our lending activities, which inherently places funds into illiquid assets. Liquidity risk is also derived from our deposit gathering activities and the ability of our customers to withdraw funds that do not have a stated maturity or to withdraw funds before their contractual maturity. The assessments of liquidity risk are measured under the assumption of normal operating conditions as well as under a stressed environment. We manage these exposures in accordance with our risk appetite, and within Board approved policy limits.

We regularly monitor our liquidity position and funding sources and measure our capacity to obtain funds in a variety of hypothetical scenarios in an effort to maintain an appropriate mix of available and affordable funding. In the normal course of business, we perform a monthly hypothetical funding erosion stress test for both KeyCorp and KeyBank. In a heightened monitoring mode, we may conduct the hypothetical funding erosion stress tests more frequently, and use assumptions to reflect the changed market environment. Our testing incorporates estimates for loan and deposit lives based on our historical studies. Erosion stress tests analyze potential liquidity scenarios under various funding constraints and time periods. Ultimately, they determine the periodic effects that major direct and indirect events would have on our access to funding markets and our ability to fund our normal operations. To compensate for the effect of these assumed liquidity pressures, we consider alternative sources of liquidity and maturities over different time periods to project how funding needs would be managed.

We maintain a Contingency Funding Plan that outlines the process for addressing a liquidity crisis. The plan provides for an evaluation of funding sources under various market conditions. It also assigns specific roles and responsibilities for managing liquidity through a problem period. As part of the plan, we maintain a liquidity reserve through balances in our liquid asset portfolio. During a problem period, that reserve could be used as a source of funding to provide time to develop and execute a longer-term strategy. The liquid asset portfolio at

December 31, 2014, totaled $15 billion, consisting of $10.4 billion of unpledged securities, $799 million of securities available for secured funding at the Federal Home Loan Bank of Cincinnati (FHLB), and $3.8 billion of net balances of federal funds sold and balances in our Federal Reserve account. The liquid asset portfolio can fluctuate due to excess liquidity, heightened risk, or prefunding of expected outflows, such as debt maturities. Additionally, as of December 31, 2014, our unused borrowing capacity secured by loan collateral was $18.7 billion at the Federal Reserve Bank of Cleveland and $2.8 billion at the FHLB. In 2014, Key s outstanding FHLB advances decreased by $24 million due to repayments.

Final U.S. liquidity coverage ratio

Under the Liquidity Coverage Rules, we will be required to calculate the Modified LCR. Implementation for Modified LCR banking organizations, like Key, will begin on January 1, 2016, with a minimum requirement of 90% coverage, reaching 100% coverage by January 1, 2017. Throughout December 2014, our estimated Modified LCR was approximately in the mid-80% range. To reach the minimum of 90% by January 1, 2016, and to operate with a cushion above the minimum required level, we may change the composition of our investment portfolio, increase the size of the overall investment portfolio, and modify product offerings.

Additional information about the Liquidity Coverage Ratio is included in the Supervision and Regulation section under the heading U.S. implementation of the Basel III liquidity framework in Item 1 of this report.

Long-term liquidity strategy

Our long-term liquidity strategy is to be predominantly funded by core deposits. However, we may use wholesale funds to sustain an adequate liquid asset portfolio, meet daily cash demands, and allow management flexibility to execute business initiatives. Key s client-based relationship strategy provides for a strong core deposit base which, in conjunction with intermediate and long-term wholesale funds managed to a diversified maturity structure and investor base, supports our liquidity risk management strategy. We use the loan-to-deposit ratio as a metric to monitor these strategies. Our target loan-to-deposit ratio is 90-100% (at December 31, 2014, our loan-to-deposit ratio was 85%), which we calculate as total loans, loans held for sale, and nonsecuritized discontinued loans divided by domestic deposits.

Sources of liquidity

Our primary sources of liquidity include customer deposits, wholesale funding and liquid assets. If the cash flows needed to support operating and investing activities are not satisfied by deposit balances, we rely on wholesale funding or liquid assets. Conversely, excess cash generated by operating, investing and deposit-gathering activities may be used to repay outstanding debt or invest in liquid assets.

Liquidity programs

We have several liquidity programs, which are described in Note 18 (Long-Term Debt), that are designed to enable the parent company and KeyBank to raise funds in the public and private debt markets. The proceeds from most of these programs can be used for general corporate purposes, including acquisitions. These liquidity programs are reviewed from time to time by the Board of Directors and are renewed and replaced as necessary. There are no restrictive financial covenants in any of these programs. During the second quarter of 2014, the KeyCorp shelf registration statement on file with the SEC, including the Medium-Term Note Program, was updated. In connection with the updated Medium-Term Note Program, the Board of Directors authorized KeyCorp to issue up to $4 billion of debt, and revoked all prior issuance authority under previous KeyCorp shelf registration statements including through previous medium-term note programs.

In 2014, Key s aggregate outstanding note balance, net of unamortized discounts and adjustments related to hedging with derivative financial instruments was unchanged. On July 1, 2014, $750 million of subordinated bank debt matured. On November 24, 2014, $750 million of 2.50% Senior Notes due 2019 were issued.

Table of Contents

Liquidity for KeyCorp

The primary source of liquidity for KeyCorp is from subsidiary dividends, primarily from KeyBank. KeyCorp has sufficient liquidity when it can service its debt; support customary corporate operations and activities (including acquisitions); support occasional guarantees of subsidiaries obligations in transactions with third parties at a reasonable cost, in a timely manner, and without adverse consequences; and pay dividends to shareholders.

We use a parent cash coverage months metric as the primary measure to assess parent company liquidity. The parent cash coverage months metric measures the months into the future where projected obligations can be met with the current amount of liquidity to meet all projected obligations. We generally issue term debt to supplement dividends from KeyBank to manage our liquidity position at or above our targeted levels. The parent company generally maintains cash and short-term investments in an amount sufficient to meet projected debt maturities over at least the next 24 months. At December 31, 2014, KeyCorp held $2.2 billion in short-term investments, which we projected to be sufficient to meet our projected obligations, including the repayment of our maturing debt obligations for the periods prescribed by our risk tolerance.

Typically, KeyCorp meets its liquidity requirements through regular dividends from KeyBank, supplemented with term debt. Federal banking law limits the amount of capital distributions that a bank can make to its holding company without prior regulatory approval. A national bank s dividend-paying capacity is affected by several factors, including net profits (as defined by statute) for the two previous calendar years and for the current year, up to the date of dividend declaration. During 2014, KeyBank paid KeyCorp $300 million in dividends; nonbank subsidiaries did not pay any cash dividends or noncash dividends to KeyCorp. KeyCorp did not make any capital infusions to KeyBank during 2014. As of December 31, 2014, KeyBank had $935 million of capacity to pay dividends to KeyCorp.

Our liquidity position and recent activity

Over the past 12 months our liquid asset portfolio, which includes overnight and short-term investments, as well as unencumbered, high quality liquid securities held as protection against a range of potential liquidity stress scenarios, has increased as a result of net customer loan and deposit flows and an increase in unpledged securities. The liquid asset portfolio continues to exceed the amount that we estimate would be necessary to manage through an adverse liquidity event by providing sufficient time to develop and execute a longer-term solution.

From time to time, KeyCorp or KeyBank may seek to retire, repurchase or exchange outstanding debt, capital securities, preferred shares or common shares through cash purchase, privately negotiated transactions or other means. Additional information on repurchases of common shares by KeyCorp is included in Part II, Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities of this report. Such transactions depend on prevailing market conditions, our liquidity and capital requirements, contractual restrictions, regulatory requirements and other factors. The amounts involved may be material, individually or collectively.

We generate cash flows from operations and from investing and financing activities. We have approximately $195 million of cash and cash equivalents and short-term investments in international tax jurisdictions as of December 31, 2014. As we consider alternative long-term strategic and liquidity plans, opportunities to repatriate these amounts would result in approximately $7 million in taxes to be paid. If we were to cease operations in all international tax jurisdictions, the total amount of taxes to be paid would increase to approximately $11 million. Accordingly, we have included the total amount as a deferred tax liability at December 31, 2014.

The Consolidated Statements of Cash Flows summarize our sources and uses of cash by type of activity for the years ended December 31, 2014, and December 31, 2013.

Credit risk management

Credit risk is the risk of loss to us arising from an obligor s inability or failure to meet contractual payment or performance terms. Like other financial services institutions, we make loans, extend credit, purchase securities, and enter into financial derivative contracts, all of which have related credit risk.

Credit policy, approval, and evaluation

We manage credit risk exposure through a multifaceted program. The Credit Risk Committee approves both retail and commercial credit policies. These policies are communicated throughout the organization to foster a consistent approach to granting credit.

Our credit risk management team is responsible for credit approval, is independent of our lines of business, and consists of senior officers who have extensive experience in structuring and approving loans. Only credit risk management members are authorized to grant significant exceptions to credit policies. It is not unusual to make exceptions to established policies when mitigating circumstances dictate, but most major lending units have been assigned specific thresholds to keep exceptions at an acceptable level based upon portfolio and economic considerations.

Loan grades are assigned at the time of origination, verified by the credit risk management team 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.

Our credit risk management team uses risk models to evaluate consumer loans. These models, known as scorecards, forecast the probability of serious delinquency and default for an applicant. The scorecards are embedded in the application processing system, which allows for real-time scoring and automated decisions for many of our products. We periodically validate the loan grading and scoring processes.

We maintain an active concentration management program to encourage diversification in our credit portfolios. For individual obligors, we employ a sliding scale of exposure, known as hold limits, which is dictated by the strength of the borrower. Our legal lending limit is approximately $1.6 billion for any individual borrower. However, internal hold limits generally restrict the largest exposures to less than 20% of that amount. As of December 31, 2014, we had five client relationships with loan commitments net of credit default swaps of more than $200 million. The average amount outstanding on these five individual net obligor commitments was $43 million at December 31, 2014. In general, our philosophy is to maintain a diverse portfolio with regard to credit exposures.

We actively manage the overall loan portfolio in a manner consistent with asset quality objectives and concentration risk tolerances to mitigate credit risk. We utilize credit default swaps on a limited basis to transfer a portion of the credit risk associated with a particular extension of credit to a third party. At December 31, 2014, we used credit default swaps with a notional amount of $309 million to manage the credit risk associated with specific commercial lending obligations. We may also sell credit derivatives primarily single name credit default swaps to offset our purchased credit default swap position prior to maturity. At December 31, 2014, we had sold credit default swaps outstanding with a total notional amount of $5 million.

Credit default swaps are recorded on the balance sheet at fair value. Related gains or losses, as well as the premium paid or received for credit protection, are included in the corporate services income and other income components of noninterest income.

We may also manage the loan portfolio using portfolio swaps and bulk purchases and sales. Our overarching goal is to manage the loan portfolio within a specified range of asset quality.

Allowance for loan and lease losses

At December 31, 2014, the ALLL was $794 million, or 1.38% of period-end loans, compared to $848 million, or 1.56%, at December 31, 2013. The allowance includes $40 million that was specifically allocated for impaired loans of $302 million at December 31, 2014, compared to $42 million that was allocated for impaired loans of $358 million one year ago. For more information about impaired loans, see Note 5 (Asset Quality). At December 31, 2014, the ALLL was 190.0% of nonperforming loans, compared to 166.9% at December 31, 2013.

Selected asset quality statistics for each of the past five years are presented in Figure 36. The factors that drive these statistics are discussed in the remainder of this section.

Figure 36. Selected Asset Quality Statistics from Continuing Operations

Year ended December 31, *dollars in millions*	**2014**	2013	2012	2011	2010
Net loan charge-offs	**$ 113**	$ 168	$ 345	$ 541	$ 1,570
Net loan charge-offs to average loans	**.20 %**	.32 %	.69 %	1.11 %	2.91 %
Allowance for loan and lease losses	**$ 794**	$ 848	$ 888	$ 1,004	$ 1,604
Allowance for credit losses [(a)]	**830**	885	917	1,049	1,677
Allowance for loan and lease losses to period-end loans	**1.38 %**	1.56 %	1.68 %	2.03 %	3.20 %
Allowance for credit losses to period-end loans	**1.45**	1.63	1.74	2.12	3.35
Allowance for loan and lease losses to nonperforming loans	**190.0**	166.9	131.8	138.1	150.2
Allowance for credit losses to nonperforming loans	**198.6**	174.2	136.1	144.3	157.0
Nonperforming loans at period end [(b)]	**$ 418**	$ 508	$ 674	$ 727	$ 1,068
Nonperforming assets at period end	**436**	531	735	859	1,338
Nonperforming loans to period-end portfolio loans	**.73 %**	.93 %	1.28 %	1.47 %	2.13 %
Nonperforming assets to period-end portfolio loans plus OREO and other nonperforming assets	**.76**	.97	1.39	1.73	2.66

(a) Includes the ALLL plus the liability for credit losses on lending-related unfunded commitments.

(b) Loan balances exclude $13 million, $16 million, and $23 million of PCI loans at December 31, 2014, December 31, 2013, and December 31, 2012, respectively.

We estimate the appropriate level of the ALLL on at least a quarterly basis. The methodology used is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses. Briefly, our general allowance applies expected loss rates to existing loans with similar risk characteristics. We exercise judgment to assess any adjustment to the expected loss rates for the impact of factors such as changes in economic conditions, lending policies including underwriting standards, and the level of credit risk associated with specific industries and markets.

For all commercial and consumer loan TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance of $2.5 million and greater, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. We estimate the extent of the individual impairment for commercial loans and TDRs by comparing the recorded investment of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan s observable market price. Secured consumer loan TDRs that are discharged through Chapter 7 bankruptcy and not formally re-affirmed are adjusted to reflect the fair value of the underlying collateral, less costs to sell. Other consumer loan TDRs are combined in homogenous pools and assigned a specific allocation based on the estimated present value of future cash flows using the effective interest rate. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses. The ALLL at December 31, 2014, represents our best estimate of the probable credit losses inherent in the loan portfolio at that date.

Table of Contents

As shown in Figure 37, our ALLL decreased by $54 million, or 6.4%, during the past 12 months. This contraction is directly associated with the improvement in credit quality of the loan portfolio. The quality of new loan originations and decreasing levels of criticized, classified, and nonperforming loans and net loan charge-offs has resulted in a reduction in our general allowance. Our delinquency trends have declined during the past 12 months due to a modest level of loan growth, relatively stable economic conditions, and continued run-off in our exit loan portfolio reflecting our effort to maintain a moderate enterprise risk tolerance. Our liability for credit losses on lending-related commitments was $36 million at December 31, 2014. When combined with our ALLL, our total allowance for credit losses represented 1.45% of period-end loans at December 31, 2014, compared to 1.63% at December 31, 2013.

Figure 37. Allocation of the Allowance for Loan and Lease Losses

December 31,	2014			2013			2012		
dollars in millions	**Total Allowance**	**Percent of Allowance to Total Allowance**	**Percent of Loan Type to Total Loans**	**Total Allowance**	**Percent of Allowance to Total Allowance**	**Percent of Loan Type to Total Loans**	**Total Allowance**	**Percent of Allowance to Total Allowance**	**Percent of Loan Type to Total Loans**
Commercial, financial and agricultural	**$ 391**	**49.2 %**	**48.8 %**	$ 362	42.7 %	45.8 %	$ 327	36.8 %	44.0 %
Commercial real estate:									
Commercial mortgage	**148**	**18.7**	**14.0**	165	19.4	14.2	198	22.3	14.6
Construction	**28**	**3.5**	**1.9**	32	3.8	2.0	41	4.6	1.9
Total commercial real estate loans	**176**	**22.2**	**15.9**	197	23.2	16.2	239	26.9	16.5
Commercial lease financing	**56**	**7.1**	**7.4**	62	7.3	8.4	55	6.2	9.3
Total commercial loans	**623**	**78.5**	**72.1**	621	73.2	70.4	621	69.9	69.8
Real estate residential mortgage	**23**	**2.9**	**3.9**	37	4.4	4.0	30	3.4	4.1
Home equity:									
Key Community Bank	**66**	**8.3**	**18.1**	84	9.9	19.0	105	11.8	18.6
Other	**5**	**.6**	**.5**	11	1.3	.6	25	2.8	.8
Total home equity loans	**71**	**8.9**	**18.6**	95	11.2	19.6	130	14.6	19.4
Consumer other Key Community Bank	**22**	**2.8**	**2.7**	29	3.4	2.7	38	4.3	2.5
Credit cards	**33**	**4.1**	**1.3**	34	4.0	1.3	26	2.9	1.4
Consumer other:									
Marine	**21**	**2.7**	**1.3**	29	3.4	1.9	39	4.4	2.6
Other	**1**	**.1**	**.1**	3	.4	.1	4	.5	.2
Total consumer other	**22**	**2.8**	**1.4**	32	3.8	2.0	43	4.9	2.8
Total consumer loans	**171**	**21.5**	**27.9**	227	26.8	29.6	267	30.1	30.2
Total [(a)]	**$ 794**	**100.0 %**	**100.0 %**	$ 848	100.0 %	100.0 %	$ 888	100.0 %	100.0 %

	2011			2010		
	Total Allowance	**Percent of Allowance to Total Allowance**	**Percent of Loan Type to Total Loans**	**Total Allowance**	**Percent of Allowance to Total Allowance**	**Percent of Loan Type to Total Loans**
Commercial, financial and agricultural	$ 334	33.2 %	39.1 %	$ 485	30.2 %	32.8 %

Commercial real estate:						
Commercial mortgage	272	27.1	16.2	416	25.9	19.0
Construction	63	6.3	2.7	145	9.1	4.2
Total commercial real estate loans	335	33.4	18.9	561	35.0	23.2
Commercial lease financing	78	7.8	12.2	175	10.9	12.9
Total commercial loans	747	74.4	70.2	1,221	76.1	68.9
Real estate residential mortgage	37	3.7	3.9	49	3.1	3.7
Home equity:						
Key Community Bank	103	10.2	18.6	120	7.5	19.0
Other	29	2.9	1.1	57	3.5	1.3
Total home equity loans	132	13.1	19.7	177	11.0	20.3
Consumer other Key Community Bank	41	4.1	2.4	57	3.6	2.3
Credit cards						
Consumer other:						
Marine	46	4.6	3.5	89	5.5	4.5
Other	1	.1	.3	11	.7	.3
Total consumer other	47	4.7	3.8	100	6.2	4.8
Total consumer loans	257	25.6	29.8	383	23.9	31.1
Total [a]	$ 1,004	100.0 %	100.0 %	$ 1,604	100.0 %	100.0 %

(a) Excludes allocations of the ALLL related to the discontinued operations of the education lending business in the amount of $29 million at December 31, 2014, $39 million at December 31, 2013, $55 million at December 31, 2012, $104 million at December 31, 2011, and $114 million at December 31, 2010.

Table of Contents

Our provision (credit) for loan and lease losses was $59 million for 2014, compared to $130 million for 2013. Our net loan charge-offs were $113 million for 2014, compared to $168 million for 2013. The decrease in our provision is due to continued improvement in credit quality experienced in most of our loan portfolios. Additionally, we continue to reduce our exposure in our higher-risk businesses, including the residential properties portion of our construction loan portfolio, Marine/RV financing, and other selected leasing portfolios through the sale of certain loans, payments from borrowers, or net loan charge-offs.

Credit quality on our oil and gas loan portfolio, which represents 2% of total loans at December 31, 2014, remains solid, with net loan charge-offs lower than those on our overall portfolio. Our ALLL reflects the estimated impact of current oil prices at December 31, 2014.

Net loan charge-offs

Net loan charge-offs for 2014 totaled $113 million, or .20% of average loans, compared to net loan charge-offs of $168 million, or .32%, for the same period last year. Figure 38 shows the trend in our net loan charge-offs by loan type, while the composition of loan charge-offs and recoveries by type of loan is presented in Figure 39.

Over the past 12 months, net loan charge-offs decreased $55 million. This decrease is attributable to continued improvement in asset quality as reflected in the asset quality statistics shown in Figure 40. As shown in Figure 41, our exit loan portfolio contributed a total of $13 million in net loan charge-offs for 2014. Net loan charge-offs for 2013 in our exit loan portfolio were $17 million. The decrease in net loan charge-offs in our exit loan portfolio was primarily driven by lower levels of net loan charge offs in the consumer exit loan portfolios during 2014.

Figure 38. Net Loan Charge-offs from Continuing Operations [(a)]

Year ended December 31, *dollars in millions*	**2014**	2013	2012	2011	2010
Commercial, financial and agricultural	**$ 12**	$ 23	$ 17	$ 119	$ 478
Real estate commercial mortgage	**2**	(7)	79	103	330
Real estate construction	**(12)**	(11)	19	56	336
Commercial lease financing		12	5	17	63
Total commercial loans	**2**	17	120	295	1,207
Home equity Key Community Bank	**28**	52	88	89	116
Home equity Other	**4**	14	30	41	59
Credit cards	**33**	27	11		
Marine	**14**	14	37	48	86
Other	**32**	44	59	68	102
Total consumer loans	**111**	151	225	246	363
Total net loan charge-offs	**$ 113**	$ 168	$ 345	$ 541	$ 1,570
Net loan charge-offs to average loans	**.20 %**	.32 %	.69 %	1.11 %	2.91 %
Net loan charge-offs from discontinued operations education lending business	**$ 31**	$ 37	$ 58	$ 123	$ 121

(a) Credit amounts indicate that recoveries exceeded charge-offs.

Table of Contents

Figure 39. Summary of Loan and Lease Loss Experience from Continuing Operations

Year ended December 31, *dollars in millions*	2014	2013	2012	2011	2010
Average loans outstanding	**$ 55,679**	$ 53,054	$ 50,362	$ 48,606	$ 53,971
Allowance for loan and lease losses at beginning of period	**$ 848**	$ 888	$ 1,004	$ 1,604	$ 2,534
Loans charged off:					
Commercial, financial and agricultural [a]	**45**	62	80	169	565
Real estate commercial mortgage	**6**	20	102	113	360
Real estate construction	**5**	3	24	83	380
Total commercial real estate loans [b]	**11**	23	126	196	740
Commercial lease financing	**10**	27	27	42	88
Total commercial loans	**66**	112	233	407	1,393
Real estate residential mortgage	**10**	20	27	29	36
Home equity:					
Key Community Bank	**37**	62	99	100	123
Other	**9**	20	35	45	62
Total home equity loans	**46**	82	134	145	185
Consumer other Key Community Bank	**30**	31	38	45	64
Credit cards	**34**	30	11		
Consumer other:					
Marine	**23**	29	59	80	129
Other	**2**	4	6	9	15
Total consumer other	**25**	33	65	89	144
Total consumer loans	**145**	196	275	308	429
Total loans charged off	**211**	308	508	715	1,822
Recoveries:					
Commercial, financial and agricultural [a]	**33**	39	63	50	87
Real estate commercial mortgage	**4**	27	23	10	30
Real estate construction	**17**	14	5	27	44
Total commercial real estate loans [b]	**21**	41	28	37	74
Commercial lease financing	**10**	15	22	25	25
Total commercial loans	**64**	95	113	112	186
Real estate residential mortgage	**2**	2	3	3	2
Home equity:					
Key Community Bank	**9**	10	11	11	7
Other	**5**	6	5	4	3
Total home equity loans	**14**	16	16	15	10
Consumer other Key Community Bank	**6**	7	6	8	7
Credit cards	**1**	3			
Consumer other:					
Marine	**9**	15	22	32	43
Other	**2**	2	3	4	4

Total consumer other	**11**	17	25	36	47
Total consumer loans	**34**	45	50	62	66
Total recoveries	**98**	140	163	174	252
Net loans charged off	**(113)**	(168)	(345)	(541)	(1,570)
Provision (credit) for loan and lease losses	**59**	130	229	(60)	638
Foreign currency translation adjustment		(2)		1	2
Allowance for loan and lease losses at end of year	**$ 794**	$ 848	$ 888	$ 1,004	$ 1,604
Liability for credit losses on lending-related commitments at beginning of the year	**$ 37**	$ 29	$ 45	$ 73	$ 121
Provision (credit) for losses on lending-related commitments	**(1)**	8	(16)	(28)	(48)
Liability for credit losses on lending-related commitments at end of the year [c]	**$ 36**	$ 37	$ 29	$ 45	$ 73
Total allowance for credit losses at end of the year	**$ 830**	$ 885	$ 917	$ 1,049	$ 1,677
Net loan charge-offs to average loans	**.20 %**	.32 %	.69 %	1.11 %	2.91 %
Allowance for loan and lease losses to period-end loans	**1.38**	1.56	1.68	2.03	3.20
Allowance for credit losses to period-end loans	**1.45**	1.63	1.74	2.12	3.35
Allowance for loan and lease losses to nonperforming loans	**190.0**	166.9	131.8	138.1	150.2
Allowance for credit losses to nonperforming loans	**198.6**	174.2	136.1	144.3	157.0
Discontinued operations education lending business:					
Loans charged off	**$ 45**	$ 55	$ 75	$ 138	$ 129
Recoveries	**14**	18	17	15	8
Net loan charge-offs	**$ (31)**	$ (37)	$ (58)	$ (123)	$ (121)

Table of Contents

(a) See Figure 16 and the accompanying discussion in the Loans and loans held for sale section for more information related to our commercial, financial and agricultural loan portfolio.

(b) See Figure 17 and the accompanying discussion in the Loans and loans held for sale section for more information related to our commercial real estate loan portfolio.

(c) Included in accrued expense and other liabilities on the balance sheet.

Nonperforming assets

Figure 40 shows the composition of our nonperforming assets. These assets totaled $436 million at December 31, 2014, and represented .76% of portfolio loans, OREO and other nonperforming assets, compared to $531 million, or .97%, at December 31, 2013. See Note 1 under the headings Nonperforming Loans, Impaired Loans, and Allowance for Loan and Lease Losses for a summary of our nonaccrual and charge-off policies.

Figure 40. Summary of Nonperforming Assets and Past Due Loans from Continuing Operations

December 31, *dollars in millions*	**2014**	2013	2012	2011	2010
Commercial, financial and agricultural [a]	**$ 59**	$ 77	$ 99	$ 188	$ 242
Real estate commercial mortgage	**34**	37	120	218	255
Real estate construction	**13**	14	56	54	241
Total commercial real estate loans [b]	**47**	51	176	272	496
Commercial lease financing	**18**	19	16	27	64
Total commercial loans	**124**	147	291	487	802
Real estate residential mortgage	**79**	107	103	87	98
Home equity:					
Key Community Bank	**185**	205	210	108	102
Other	**10**	15	21	12	18
Total home equity loans	**195**	220	231	120	120
Consumer other Key Community Bank	**2**	3	2	1	4
Credit cards	**2**	4	11		
Consumer other:					
Marine	**15**	26	34	31	42
Other	**1**	1	2	1	2
Total consumer other	**16**	27	36	32	44
Total consumer loans	**294**	361	383	240	266
Total nonperforming loans [c]	**418**	508	674	727	1,068
Nonperforming loans held for sale		1	25	46	106
OREO	**18**	15	22	65	129
Other nonperforming assets		7	14	21	35
Total nonperforming assets	**$ 436**	$ 531	$ 735	$ 859	$ 1,338
Accruing loans past due 90 days or more	**$ 96**	$ 71	$ 78	$ 164	$ 239
Accruing loans past due 30 through 89 days	**235**	318	424	441	476
Restructured loans accruing and nonaccruing [d]	**270**	338	320	276	297

Restructured loans included in nonperforming loans [d]	**157**	214	249	191	202
Nonperforming assets from discontinued operations education lending business	**11**	25	20	23	40
Nonperforming loans to year-end portfolio loans	**.73 %**	.93 %	1.28 %	1.47 %	2.13 %
Nonperforming assets to year-end portfolio loans plus OREO and other nonperforming assets	**.76**	.97	1.39	1.73	2.66

(a) See Figure 16 and the accompanying discussion in the Loans and loans held for sale section for more information related to our commercial, financial and agricultural loan portfolio.

(b) See Figure 17 and the accompanying discussion in the Loans and loans held for sale section for more information related to our commercial real estate loan portfolio.

(c) Loan balances exclude $13 million, $16 million, and $23 million of PCI loans at December 31, 2014, December 31, 2013, and December 31, 2012, respectively.

(d) Restructured loans (i.e., TDRs) are those for which Key, for reasons related to a borrower s financial difficulties, grants a concession to the borrower that it would not otherwise consider. These concessions are made to improve the collectability of the loan and generally take the form of a reduction of the interest rate, extension of the maturity date or reduction in the principal balance.

As shown in Figure 40, nonperforming assets decreased during 2014, having declined for the past five years. Most of the reduction came from nonperforming loans in our consumer and commercial loan portfolios. As

Table of Contents

shown in Figure 41, our exit loan portfolio accounted for $41 million, or 9%, of total nonperforming assets at December 31, 2014, compared to $56 million, or 11%, at December 31, 2013.

At December 31, 2014, the approximate carrying amount of our commercial nonperforming loans outstanding represented 74% of their original contractual amount, total nonperforming loans outstanding represented 79% of their contractual amount, and total nonperforming assets represented 79% of their original contractual amount. At the same date, OREO represented 79% of its original contractual amount.

At December 31, 2014, our 20 largest nonperforming loans totaled $88 million, representing 21% of total loans on nonperforming status from continuing operations, compared to $86 million, representing 17% in the prior year.

Figure 41 shows the composition of our exit loan portfolio at December 31, 2014, and 2013, the net loan charge-offs recorded on this portfolio, and the nonperforming status of those loans at these dates. The exit loan portfolio represented 4% of total loans and loans held for sale at December 31, 2014, and 2013. Additional information about loan sales is included in the Loans and loans held for sale section under Loan sales.

Figure 41. Exit Loan Portfolio from Continuing Operations

	Balance Outstanding			**Net Loan Charge-offs**		**Balance on Nonperforming Status**	
in millions	**12-31-14**	**12-31-13**	**Change 12-31-14 vs. 12-31-13**	**12-31-14[c]**	**12-31-13[c]**	**12-31-14**	**12-31-13**
Residential properties homebuilder	**$ 10**	$ 20	$ (10)		$ 1	**$ 9**	$ 7
Marine and RV floor plan	**7**	24	(17)		(3)	**5**	6
Commercial lease financing [a]	**967**	782	185	**$ (5)**	(11)	**1**	
Total commercial loans	**984**	826	158	**(5)**	(13)	**15**	13
Home equity Other	**267**	334	(67)	**4**	14	**10**	16
Marine	**779**	1,028	(249)	**14**	14	**15**	26
RV and other consumer	**54**	70	(16)		2	**1**	1
Total consumer loans	**1,100**	1,432	(332)	**18**	30	**26**	43
Total exit loans in loan portfolio	**$ 2,084**	$ 2,258	$ (174)	**$ 13**	$ 17	**$ 41**	$ 56
Discontinued operations education lending business (not included in exit loans above) [b]	**$ 2,295**	$ 4,497	$ (2,202)	**$ 31**	$ 37	**$ 11**	$ 25

(a) Includes (1) the business aviation, commercial vehicle, office products, construction and industrial leases; (2) Canadian lease financing portfolios; (3) European lease financing portfolios; and (4) all remaining balances related to lease in, lease out; sale in, lease out; service contract leases; and qualified technological equipment leases.

(b) December 31, 2013, balance includes loans in Key s consolidated education loan securitization trusts.

(c) Credit amounts indicate recoveries exceeded charge-offs.

Figure 42 shows the types of activity that caused the change in our nonperforming loans during each of the last four quarters and the years ended December 31, 2014, and 2013. Loans placed on nonaccrual status decreased $339 million during 2014 compared to 2013 due to continued improvement in market liquidity.

Figure 42. Summary of Changes in Nonperforming Loans from Continuing Operations

		2014 Quarters				
in millions	**2014**	**Fourth**	**Third**	**Second**	**First**	**2013**
Balance at beginning of period	**$ 508**	**$ 401**	**$ 396**	**$ 449**	**$ 508**	$ 674
Loans placed on nonaccrual status	**389**	**103**	**109**	**79**	**98**	728
Charge-offs	**(211)**	**(49)**	**(49)**	**(56)**	**(57)**	(309)
Loans sold	**(26)**	**(2)**		**(21)**	**(3)**	(127)
Payments	**(68)**	**(17)**	**(13)**	**(17)**	**(21)**	(208)
Transfers to OREO	**(20)**	**(6)**	**(7)**	**(4)**	**(3)**	(21)
Loans returned to accrual status	**(154)**	**(12)**	**(35)**	**(34)**	**(73)**	(229)
Balance at end of period [(a)]	**$ 418**	**$ 418**	**$ 401**	**$ 396**	**$ 449**	$ 508

(a) Loan balances exclude $13 million and $16 million of PCI loans at December 31, 2014, and December 31, 2013, respectively.

Table of Contents

Figure 43 shows the types of activity that caused the change in our nonperforming loans held for sale during each of the last four quarters and the years ended December 31, 2014, and 2013.

Figure 43. Summary of Changes in Nonperforming Loans Held for Sale from Continuing Operations

		2014 Quarters				
in millions	**2014**	**Fourth**	**Third**	**Second**	**First**	**2013**
Balance at beginning of period	**$ 1**		**$ 1**	**$ 1**	**$ 1**	$ 25
Net advances / (payments)						(3)
Loans sold	**(2)**		**(2)**			(19)
Valuation adjustments	**1**		**1**			(2)
Balance at end of period				**$ 1**	**$ 1**	$ 1

Figure 44 shows the factors that contributed to the change in our OREO during 2014 and 2013. As shown in this figure, the increase in 2014 was primarily attributable to a decrease in properties sold during 2014.

Figure 44. Summary of Changes in Other Real Estate Owned, Net of Allowance, from Continuing Operations

		2014 Quarters				
in millions	**2014**	**Fourth**	**Third**	**Second**	**First**	**2013**
Balance at beginning of period	**$ 15**	**$ 16**	**$ 12**	**$ 12**	**$ 15**	$ 22
Properties acquired nonperforming loans	**20**	**6**	**7**	**4**	**3**	21
Valuation adjustments	**(5)**	**(2)**	**(1)**	**(1)**	**(1)**	(6)
Properties sold	**(12)**	**(2)**	**(2)**	**(3)**	**(5)**	(22)
Balance at end of period	**$ 18**	**$ 18**	**$ 16**	**$ 12**	**$ 12**	$ 15

Operational and compliance risk management

Like all businesses, we are subject to operational risk, which is the risk of loss resulting from human error or malfeasance, inadequate or failed internal processes and systems, and external events. These events include, among other things, threats to our cybersecurity, as we are reliant upon information systems and the Internet to conduct our business activities.

Operational risk also encompasses compliance risk, which is the risk of loss from violations of, or noncompliance with, laws, rules and regulations, prescribed practices, and ethical standards. Under the Dodd-Frank Act, large financial companies like Key are subject to heightened prudential standards and regulation due to their systemic importance. This heightened level of regulation has increased our operational risk. We have created work teams to respond to and analyze the regulatory requirements that have been or will be promulgated as a result of the enactment of the Dodd-Frank Act. Resulting operational risk losses and/or additional regulatory compliance costs could take the form of explicit charges, increased operational costs, harm to our reputation, or foregone opportunities.

We seek to mitigate operational risk through identification and measurement of risk, alignment of business strategies with risk appetite and tolerance, and a system of internal controls and reporting. We continuously strive to strengthen our system of internal controls to improve the oversight of our operational risk and to ensure compliance with laws, rules, and regulations. For example, an operational event database tracks the amounts and sources of operational risk and losses. This tracking mechanism helps to identify weaknesses and to highlight the need to take corrective action. We also rely upon software programs designed to assist in assessing operational risk and monitoring our control processes. This technology has enhanced the reporting of the effectiveness of our controls to senior management and the Board.

The Operational Risk Management Program provides the framework for the structure, governance, roles, and responsibilities, as well as the content, to manage operational risk for Key. Primary responsibility for managing and monitoring internal control mechanisms lies with the managers of our various lines of business. The Operational Risk Committee, a senior management committee, oversees our level of operational risk and directs and supports our operational infrastructure and related activities. This committee and the Operational Risk Management function are an integral part of our ERM Program. Our Risk Review function periodically assesses the overall effectiveness of our Operational Risk Management Program and our system of internal controls. Risk Review reports the results of reviews on internal controls and systems to senior management and the Audit Committee and independently supports the Audit Committee s oversight of these controls.

Cybersecurity

We devote significant time and resources to maintaining and regularly updating our technology systems and processes to protect the security of our computer systems, software, networks, and other technology assets against attempts by third parties to obtain unauthorized access to confidential information, destroy data, disrupt or degrade service, sabotage systems, or cause other damage. We and many other U.S. financial institutions have experienced distributed denial-of-service attacks from technologically sophisticated third parties. These attacks are intended to disrupt or disable consumer online banking services and prevent banking transactions. We also periodically experience other attempts to breach the security of our systems and data. These cyberattacks have not, to date, resulted in any material disruption of our operations, material harm to our customers, and have not had a material adverse effect on our results of operations.

Cyberattack risks may also occur with our third-party technology service providers, and may interfere with their ability to fulfill their contractual obligations to us, with attendant potential for financial loss or liability that could adversely affect our financial condition or results of operations. Recent high-profile cyberattacks have targeted retailers and other businesses for the purpose of acquiring the confidential information (including personal, financial, and credit card information) of customers, some of whom are customers of ours. We may incur expenses related to the investigation of such attacks or related to the protection of our customers from identity theft as a result of such attacks. Risks and exposures related to cyberattacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking, and other technology-based products and services by us and our clients.

Fourth Quarter Results

Figure 45 shows our financial performance for each of the past eight quarters. Highlights of our results for the fourth quarter of 2014 are summarized below.

Earnings

Our fourth quarter net income from continuing operations attributable to Key common shareholders was $246 million, or $.28 per common share, compared to $229 million, or $.26 per common share, for the fourth quarter of 2013.

On an annualized basis, our return on average total assets from continuing operations for the fourth quarter of 2014 was 1.12%, compared to 1.08% for the fourth quarter of 2013. The annualized return on average common equity from continuing operations was 9.50% for the fourth quarter of 2014, compared to 9.10% for the year-ago quarter.

Net interest income

Our taxable-equivalent net interest income was $588 million for the fourth quarter of 2014, and the net interest margin was 2.94%. These results compare to taxable-equivalent net interest income of $589 million and a net interest margin of 3.01% for the fourth quarter of 2013. The decrease in net interest margin was largely attributable to lower earning asset yields and higher levels of excess liquidity driven by commercial deposit growth.

Table of Contents

Noninterest income

Our noninterest income was $490 million for the fourth quarter of 2014, compared to $453 million for the year-ago quarter. The fourth quarter reflects a record high quarter for investment banking and debt placement fees, which increased $42 million, benefiting from our business model. Trust and investment services income increased $14 million, mostly due to a full-quarter impact of the recently-acquired Pacific Crest Securities. Corporate services income also increased $13 million, driven by higher derivatives income and non-yield loan fees. These increases were partially offset by declines in other income of $12 million, mortgage servicing fees of $11 million, and operating lease income and other leasing gains of $11 million.

Noninterest expense

Our noninterest expense was $704 million for the fourth quarter of 2014, compared to $712 million for the same period last year. This decline reflects lower efficiency- and pension-related charges and other expense. These decreases were slightly offset by higher incentive compensation expense related to the performance of our business and a full-quarter impact of the recently-acquired Pacific Crest Securities.

Provision for loan and lease losses

Our provision for loan and lease losses was $22 million for the fourth quarter of 2014, compared to $19 million for the year-ago quarter. Our ALLL was $794 million, or 1.38% of total period-end loans, at December 31, 2014, compared to $848 million, or 1.56%, at December 31, 2013.

Net loan charge-offs for the fourth quarter of 2014 totaled $32 million, or .22% of average loans, compared to $37 million, or .27%, for the same period last year.

Income taxes

For the fourth quarter of 2014, we recorded a tax provision from continuing operations of $94 million, compared to a tax provision of $70 million for the fourth quarter of 2013. The effective tax rate for the fourth quarter of 2014 was 27.2%, compared to 23% for the same quarter one year ago, due to an increase in pre-tax income.

Table of Contents

Figure 45. Selected Quarterly Financial Data

	2014 Quarters				2013 Quarters			
dollars in millions, except per share amounts	**Fourth**	**Third**	**Second**	**First**	Fourth	Third	Second	First
FOR THE PERIOD								
Interest income	**$ 646**	**$ 639**	**$ 639**	**$ 630**	$ 649	$ 647	$ 657	$ 667
Interest expense	**64**	**64**	**66**	**67**	66	69	76	84
Net interest income	**582**	**575**	**573**	**563**	583	578	581	583
Provision (credit) for loan and lease losses	**22**	**21**	**10**	**6**	19	28	28	55
Noninterest income	**490**	**417**	**455**	**435**	453	459	429	425
Noninterest expense	**704**	**704**	**689**	**662**	712	716	711	681
Income (loss) from continuing operations before income taxes	**346**	**267**	**329**	**330**	305	293	271	272
Income (loss) from continuing operations attributable to Key	**251**	**203**	**247**	**238**	235	235	199	201
Income (loss) from discontinued operations, net of taxes [a]	**2**	**(17)**	**(28)**	**4**	(5)	37	5	3
Net income (loss) attributable to Key	**253**	**186**	**219**	**242**	230	272	204	204
Income (loss) from continuing operations attributable to Key common shareholders	**246**	**197**	**242**	**232**	229	229	193	196
Income (loss) from discontinued operations, net of taxes [a]	**2**	**(17)**	**(28)**	**4**	(5)	37	5	3
Net income (loss) attributable to Key common shareholders	**248**	**180**	**214**	**236**	224	266	198	199
PER COMMON SHARE								
Income (loss) from continuing operations attributable to Key common shareholders	**$ .29**	**$ .23**	**$ .28**	**$ .26**	$ .26	$ .25	$ .21	$ .21
Income (loss) from discontinued operations, net of taxes [a]		**(.02)**	**(.03)**		(.01)	.04	.01	
Net income (loss) attributable to Key common shareholders [b]	**.29**	**.21**	**.24**	**.27**	.25	.29	.22	.22
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**.28**	**.23**	**.27**	**.26**	.26	.25	.21	.21
Income (loss) from discontinued operations, net of taxes assuming dilution [a]		**(.02)**	**(.03)**		(.01)	.04	.01	
Net income (loss) attributable to Key common shareholders assuming dilution [b]	**.28**	**.21**	**.24**	**.26**	.25	.29	.22	.21
Cash dividends paid	**.065**	**.065**	**.065**	**.055**	.055	.055	.055	.05
Book value at period end	**11.91**	**11.74**	**11.65**	**11.43**	11.25	11.05	10.89	10.89
Tangible book value at period end	**10.65**	**10.47**	**10.50**	**10.28**	10.11	9.92	9.77	9.78
Market price:								
High	**14.18**	**14.62**	**14.59**	**14.70**	13.55	12.63	11.09	10.19
Low	**11.55**	**12.97**	**12.90**	**12.25**	11.24	11.05	9.29	8.29
Close	**13.90**	**13.33**	**14.33**	**14.24**	13.42	11.40	11.04	9.96
Weighted-average common shares outstanding (000)	**858,811**	**867,350**	**875,298**	**884,727**	890,516	901,904	913,736	920,316
Weighted-average common shares and potential common shares outstanding (000) [c]	**886,186**	**874,122**	**902,137**	**891,890**	897,712	908,253	918,628	926,051
AT PERIOD END								
Loans	**$ 57,381**	**$ 56,155**	**$ 55,600**	**$ 55,445**	$ 54,457	$ 53,597	$ 53,101	$ 52,574
Earning assets	**82,269**	**78,310**	**78,457**	**77,692**	79,467	77,085	76,717	75,066
Total assets	**93,821**	**89,784**	**91,798**	**90,802**	92,934	90,708	90,639	89,198
Deposits	**71,998**	**68,456**	**67,799**	**67,266**	69,262	68,535	67,721	64,654
Long-term debt	**7,875**	**7,172**	**8,213**	**7,712**	7,650	6,154	6,666	7,785
Key common shareholders equity	**10,239**	**10,195**	**10,213**	**10,112**	10,012	9,915	9,938	10,049
Key shareholders equity	**10,530**	**10,486**	**10,504**	**10,403**	10,303	10,206	10,229	10,340

PERFORMANCE RATIOS FROM CONTINUING OPERATIONS								
Return on average total assets	**1.12%**	**.92%**	**1.14%**	**1.13%**	1.08%	1.12%	.95%	.99 %
Return on average common equity	**9.50**	**7.68**	**9.55**	**9.33**	9.10	9.13	7.72	7.96
Return on average tangible common equity [(d)]	**10.64**	**8.55**	**10.60**	**10.38**	10.13	10.18	8.60	8.87
Net interest margin (TE)	**2.94**	**2.96**	**2.98**	**3.00**	3.01	3.11	3.13	3.24
Cash efficiency ratio [(d)]	**64.4**	**69.5**	**65.8**	**64.9**	67.4	67.5	69.1	66.0
PERFORMANCE RATIOS FROM CONSOLIDATED OPERATIONS								
Return on average total assets	**1.10%**	**.81%**	**.96%**	**1.09%**	1.00%	1.22%	.92%	.94 %
Return on average common equity	**9.58**	**7.01**	**8.44**	**9.50**	8.90	10.61	7.92	8.08
Return on average tangible common equity [(d)]	**10.72**	**7.81**	**9.37**	**10.56**	9.91	11.82	8.82	9.01
Net interest margin (TE)	**2.93**	**2.94**	**2.94**	**2.95**	2.91	3.06	3.07	3.16
Loan to deposit [(e)]	**84.6**	**87.4**	**87.1**	**87.5**	83.8	83.8	83.6	86.9
CAPITAL RATIOS AT PERIOD END								
Key shareholders equity to assets	**11.22%**	**11.68%**	**11.44%**	**11.46%**	11.09%	11.25%	11.29%	11.59 %
Key common shareholders equity to assets	**10.91**	**11.36**	**11.13**	**11.14**	10.78	10.94	10.96	11.27
Tangible common equity to tangible assets [(d)]	**9.88**	**10.26**	**10.15**	**10.14**	9.80	9.93	9.96	10.24
Tier 1 common equity [(d)]	**11.17**	**11.26**	**11.25**	**11.27**	11.22	11.17	11.18	11.40
Tier 1 risk-based capital	**11.90**	**12.01**	**11.99**	**12.01**	11.96	11.92	11.93	12.19
Total risk-based capital	**13.89**	**14.10**	**14.14**	**14.23**	14.33	14.37	14.65	15.02
Leverage	**11.26**	**11.15**	**11.24**	**11.30**	11.11	11.33	11.25	11.36
TRUST AND BROKERAGE ASSETS								
Assets under management	**$ 39,157**	**$ 39,283**	**$ 39,669**	**$ 38,893**	$ 36,905	$ 36,110	$ 35,544	$ 35,714
Nonmanaged and brokerage assets	**49,147**	**48,273**	**48,728**	**47,396**	47,418	38,525	37,759	37,115
OTHER DATA								
Average full-time-equivalent employees	**13,590**	**13,905**	**13,867**	**14,055**	14,197	14,555	14,999	15,396
Branches	**994**	**997**	**1,009**	**1,027**	1,028	1,044	1,052	1,084

(a) In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In February 2013, we decided to sell Victory to a private equity fund.

Table of Contents

As a result of these decisions, we have accounted for these businesses as discontinued operations. For further discussion regarding the income (loss) from discontinued operations, see Note 13 (Acquisitions and Discontinued Operations).

(b) EPS may not foot due to rounding.

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

(d) See Figure 46 entitled Selected Quarterly GAAP to Non-GAAP Reconciliations, which presents the computations of certain financial measures related to tangible common equity, Tier 1 common equity, and cash efficiency. The table reconciles the GAAP performance measures to the corresponding non-GAAP measures, which provides a basis for period-to-period comparisons.

(e) Represents period-end consolidated total loans and loans held for sale (excluding education loans in securitizations trusts for periods prior to September 30, 2014) divided by period-end consolidated total deposits (excluding deposits in foreign office).

Table of Contents

Figure 46. Selected Quarterly GAAP to Non-GAAP Reconciliations

	Three months ended							
llars in millions	**12-31-14**	**9-30-14**	**6-30-14**	**3-31-14**	**12-31-13**	**9-30-13**	**6-30-13**	**3-31-13**
ngible common uity to tangible assets period end								
y shareholders equity AAP)	**$ 10,530**	**$ 10,486**	**$ 10,504**	**$ 10,403**	$ 10,303	$ 10,206	$ 10,229	$ 10,340
ss: Intangible assets [(a)]	**1,090**	**1,105**	**1,008**	**1,012**	1,014	1,017	1,021	1,024
Series A Preferred Stock [(b)]	**282**	**282**	**282**	**282**	282	282	282	291
Tangible common equity (non-GAAP)	**$ 9,158**	**$ 9,099**	**$ 9,214**	**$ 9,109**	$ 9,007	$ 8,907	$ 8,926	$ 9,025
tal assets (GAAP)	**$ 93,821**	**$ 89,784**	**$ 91,798**	**$ 90,802**	$ 92,934	$ 90,708	$ 90,639	$ 89,198
ss: Intangible assets [(a)]	**1,090**	**1,105**	**1,008**	**1,012**	1,014	1,017	1,021	1,024
Tangible assets (non-GAAP)	**$ 92,731**	**$ 88,679**	**$ 90,790**	**$ 89,790**	$ 91,920	$ 89,691	$ 89,618	$ 88,174
ngible common equity tangible assets ratio on-GAAP)	**9.88 %**	**10.26 %**	**10.15 %**	**10.14 %**	9.80 %	9.93 %	9.96 %	10.24 %
er 1 common equity period end								
y shareholders equity AAP)	**$ 10,530**	**$ 10,486**	**$ 10,504**	**$ 10,403**	$ 10,303	$ 10,206	$ 10,229	$ 10,340
alifying capital curities	**339**	**340**	**339**	**339**	339	340	339	339
ss: Goodwill	**1,057**	**1,051**	**979**	**979**	979	979	979	979
Accumulated other comprehensive income (loss) [(c)]	**(395)**	**(366)**	**(328)**	**(367)**	(394)	(409)	(359)	(204)
Other assets [(d)]	**83**	**110**	**86**	**84**	89	96	101	106
Total Tier 1 capital (regulatory)	**10,124**	**10,031**	**10,106**	**10,046**	9,968	9,880	9,847	9,798
ss: Qualifying capital securities	**339**	**340**	**339**	**339**	339	340	339	339
Series A Preferred Stock [(b)]	**282**	**282**	**282**	**282**	282	282	282	291
Total Tier 1 common equity (non-GAAP)	**$ 9,503**	**$ 9,409**	**$ 9,485**	**$ 9,425**	$ 9,347	$ 9,258	$ 9,226	$ 9,168
t risk-weighted assets gulatory)	**$ 85,100**	**$ 83,547**	**$ 84,287**	**$ 83,637**	$ 83,328	$ 82,913	$ 82,528	$ 80,400
er 1 common equity io (non-GAAP)	**11.17 %**	**11.26 %**	**11.25 %**	**11.27 %**	11.22 %	11.17 %	11.18 %	11.40 %
erage tangible mmon equity								

erage Key areholders equity AAP)	**$ 10,562**	**$ 10,473**	**$ 10,459**	**$ 10,371**	$ 10,272	$ 10,237	$ 10,314	$ 10,279
ss: Intangible assets (average) (e)	**1,096**	**1,037**	**1,010**	**1,013**	1,016	1,019	1,023	1,027
Series A Preferred Stock (average)	**291**	**291**	**291**	**291**	291	291	291	291
Average tangible common equity (non-GAAP)	**$ 9,175**	**$ 9,145**	**$ 9,158**	**$ 9,067**	$ 8,965	$ 8,927	$ 9,000	$ 8,961
turn on average ngible common equity om continuing erations								
t income (loss) from ntinuing operations ributable to Key mmon shareholders AAP)	**$ 246**	**$ 197**	**$ 242**	**$ 232**	$ 229	$ 229	$ 193	$ 196
erage tangible mmon equity on-GAAP)	**9,175**	**9,145**	**9,158**	**9,067**	8,965	8,927	9,000	8,961
turn on average gible common equity m continuing erations (non-GAAP)	**10.64 %**	**8.55 %**	**10.60 %**	**10.38 %**	10.13 %	10.18 %	8.60 %	8.87 %
turn on average ngible common equity nsolidated								
t income (loss) ributable to Key mmon shareholders AAP)	**$ 248**	**$ 180**	**$ 214**	**$ 236**	$ 224	$ 266	$ 198	$ 199
erage tangible mmon equity on-GAAP)	**9,175**	**9,145**	**9,158**	**9,067**	8,965	8,927	9,000	8,961
turn on average gible common equity nsolidated on-GAAP)	**10.72 %**	**7.81 %**	**9.37 %**	**10.56 %**	9.91 %	11.82 %	8.82 %	9.01 %
sh efficiency ratio								
oninterest expense AAP)	**$ 704**	**$ 704**	**$ 689**	**$ 662**	$ 712	$ 716	$ 711	$ 681
ss: Intangible asset amortization (GAAP)	**10**	**10**	**9**	**10**	10	12	10	12
Adjusted noninterest expense (non-GAAP)	**$ 694**	**$ 694**	**$ 680**	**$ 652**	$ 702	$ 704	$ 701	$ 669
t interest income AAP)	**$ 582**	**$ 575**	**$ 573**	**$ 563**	$ 583	$ 578	$ 581	$ 583
us: Taxable-equivalent adjustment	**6**	**6**	**6**	**6**	6	6	5	6
Noninterest income (GAAP)	**490**	**417**	**455**	**435**	453	459	429	425
Total taxable-equivalent revenue	**$ 1,078**	**$ 998**	**$ 1,034**	**$ 1,004**	$ 1,042	$ 1,043	$ 1,015	$ 1,014

(non-GAAP)								
sh efficiency ratio on-GAAP)	**64.4 %**	**69.5 %**	**65.8 %**	**64.9 %**	67.4 %	67.5 %	69.1 %	66.0 %

(a) For the three months ended December 31, 2014, September 30, 2014, June 30, 2014, and March 31, 2014, intangible assets exclude $68 million, $72 million, $79 million, and $84 million, respectively, of period-end purchased credit card receivables. For the three months ended December 31, 2013, September 30, 2013, June 30, 2013, and March 31, 2013, intangible assets exclude $92 million, $99 million, $107 million, and $114 million, respectively, of period-end purchased credit card receivables.

(b) Net of capital surplus for all periods subsequent to March 31, 2013.

(c) Includes net unrealized gains or losses on securities available for sale (except for net unrealized losses on marketable equity securities), net gains or losses on cash flow hedges, and amounts resulting from the application of the applicable accounting guidance for defined benefit and other postretirement plans.

Table of Contents

(d) Other assets deducted from Tier 1 capital and net risk-weighted assets consist of disallowed intangible assets (excluding goodwill) and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at any quarter-end during 2014 and 2013.

(e) For the three months ended December 31, 2014, September 30, 2014, June 30, 2014, and March 31, 2014, average intangible assets exclude $69 million, $76 million, $82 million, and $89 million, respectively, of average purchased credit card receivables. For the three months ended December 31, 2013, September 30, 2013, June 30, 2013, and March 31, 2013, average intangible assets exclude $96 million, $103 million, $110 million, and $118 million, respectively, of average purchased credit card receivables.

Critical Accounting Policies and Estimates

Our business is dynamic and complex. Consequently, we must exercise judgment in choosing and applying accounting policies and methodologies. These choices are critical; not only are they necessary to comply with GAAP, they also reflect our view of the appropriate way to record and report our overall financial performance. All accounting policies are important, and all policies described in Note 1 (Summary of Significant Accounting Policies) should be reviewed for a greater understanding of how we record and report our financial performance.

In our opinion, some accounting policies are more likely than others to have a critical effect on our financial results and to expose those results to potentially greater volatility. These policies apply to areas of relatively greater business importance, or require us to exercise judgment and to make assumptions and estimates that affect amounts reported in the financial statements. Because these assumptions and estimates are based on current circumstances, they may prove to be inaccurate, or we may find it necessary to change them.

As described below, we rely heavily on the use of judgment, assumptions and estimates to make a number of core decisions. We have reviewed these critical accounting estimates and related disclosures with the Audit Committee.

Allowance for loan and lease losses

The loan portfolio is the largest category of assets on our balance sheet. We consider a variety of data to determine probable losses incurred in the loan portfolio and to establish an allowance that is sufficient to absorb those losses. For example, we apply expected loss rates to existing loans with similar risk characteristics and exercise judgment to assess the impact of factors such as changes in economic conditions, underwriting standards, and concentrations of credit. Other considerations include expected cash flows and estimated collateral values.

For all commercial and consumer TDRs, regardless of size, as well as all other impaired commercial loans with an outstanding balances of $2.5 million or greater, we conduct further analysis to determine the probable loss and assign a specific allowance to the loan if deemed appropriate. For example, a specific allowance may be assigned even when sources of repayment appear sufficient if we remain uncertain that an impaired loan will be repaid in full.

We continually assess the risk profile of the loan portfolio and adjust the ALLL when appropriate. The economic and business climate in any given industry or market is difficult to gauge and can change rapidly, and the effects of those changes can vary by borrower. However, since our total loan portfolio is well diversified in many respects, and the risk profile of certain segments of the loan portfolio may be improving while the risk profile of others is deteriorating, we may decide to change the level of the allowance for one segment of the portfolio without changing it for any other segment.

In addition to adjusting the ALLL to reflect market conditions, we also may adjust the allowance because of unique events that are likely to cause actual losses to vary abruptly and significantly from expected losses. For example, class action lawsuits brought against an industry segment (e.g., one that used asbestos in its product) can cause a precipitous deterioration in the risk profile of borrowers doing business in that segment. Conversely, the dismissal of such lawsuits can improve the risk profile. In either case, historical loss rates for that industry segment would not have provided a precise basis for determining the appropriate level of allowance.

Table of Contents

Even minor changes in the level of estimated losses can significantly affect management s determination of the appropriate allowance because those changes must be applied across a large portfolio. To illustrate, an increase in estimated losses equal to one-tenth of one percent of our consumer loan portfolio as of December 31, 2014, would indicate the need for a $16 million increase in the allowance. The same increase in estimated losses for the commercial loan portfolio would result in a $41 million increase in the allowance. Such adjustments to the ALLL can materially affect financial results. Following the above examples, a $16 million increase in the consumer loan portfolio allowance would have reduced our earnings on an after-tax basis by approximately $10 million, or $.01 per common share; a $41 million increase in the commercial loan portfolio allowance would have reduced earnings on an after-tax basis by approximately $26 million, or $.03 per common share.

As we make decisions regarding the allowance, we benefit from a lengthy organizational history and experience with credit evaluations and related outcomes. Nonetheless, if our underlying assumptions later prove to be inaccurate, the ALLL would likely need to be adjusted, possibly having an adverse effect on our results of operations.

Our accounting policy related to the allowance is disclosed in Note 1 under the heading Allowance for Loan and Lease Losses.

Valuation methodologies

We follow the applicable accounting guidance for fair value measurements and disclosures, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In the absence of quoted market prices, we determine the fair value of our assets and liabilities using internally developed models, which are based on third-party data as well as our judgment, assumptions and estimates regarding credit quality, liquidity, interest rates and other relevant market available inputs. We describe our application of this accounting guidance, the process used to determine fair values, and the fair value hierarchy in Note 1 under the heading Fair Value Measurements, and in Note 6 (Fair Value Measurements).

Valuation methodologies often involve significant judgment, particularly when there are no observable active markets for the items being valued. To determine the values of assets and liabilities, as well as the extent to which related assets may be impaired, we make assumptions and estimates related to discount rates, asset returns, prepayment rates and other factors. The use of different discount rates or other valuation assumptions could produce significantly different results. The outcomes of valuations that we perform have a direct bearing on the recorded amounts of assets and liabilities, including loans held for sale, principal investments, goodwill, and pension and other postretirement benefit obligations.

At December 31, 2014, $15.1 billion, or 16%, of our total assets were measured at fair value on a recurring basis. Substantially all of these assets were classified as Level 1 or Level 2 within the fair value hierarchy. At December 31, 2014, $1.2 billion, or 1%, of our total liabilities were measured at fair value on a recurring basis. Substantially all of these liabilities were classified as Level 1 or Level 2.

At December 31, 2014, $18 million, or less than 1%, of our total assets were measured at fair value on a nonrecurring basis. All of these assets were classified as Level 3. At December 31, 2014, there were no liabilities measured at fair value on a nonrecurring basis.

A discussion of the valuation methodology applied to our loans held for sale is included in Note 1 under the heading Loans Held for Sale.

Our principal investments include direct and indirect investments, predominantly in privately-held companies. The fair values of these investments are determined by considering a number of factors, including the target company s financial condition and results of operations, values of public companies in comparable businesses, market liquidity, and the nature and duration of resale restrictions. The fair value of principal investments was

100

$406 million at December 31, 2014. A 10% positive or negative variance in that fair value would have increased or decreased our 2014 earnings by approximately $41 million ($25 million after tax, or $.03 per common share).

The valuation and testing methodologies used in our analysis of goodwill impairment are summarized in Note 1 under the heading "Goodwill and Other Intangible Assets." Accounting guidance that was effective for us on January 1, 2012, permits an entity to first assess qualitative factors to determine whether additional goodwill impairment testing is required. We did not choose to utilize this qualitative assessment in our annual goodwill impairment testing in the fourth quarter of 2014. Therefore, the first step in testing for impairment is to determine the fair value of each reporting unit. Our reporting units for purposes of this testing are our two major business segments: Key Community Bank and Key Corporate Bank. Fair values are estimated using comparable external market data (market approach) and discounted cash flow modeling that incorporates an appropriate risk premium and earnings forecast information (income approach). We believe the estimates and assumptions used in the goodwill impairment analysis for our reporting units are reasonable. However, if actual results and market conditions differ from the assumptions or estimates used, the fair value of each reporting unit could change in the future.

The second step of impairment testing is necessary only if the carrying amount of either reporting unit exceeds its fair value, suggesting goodwill impairment. In such a case, we would estimate a hypothetical purchase price for the reporting unit (representing the unit's fair value) and then compare that hypothetical purchase price with the fair value of the unit's net assets (excluding goodwill). Any excess of the estimated purchase price over the fair value of the reporting unit's net assets represents the implied fair value of goodwill. An impairment loss would be recognized as a charge to earnings if the carrying amount of the reporting unit's goodwill exceeds the implied fair value of goodwill. We continue to monitor the impairment indicators for goodwill and other intangible assets, and to evaluate the carrying amount of these assets quarterly. The acquisition of Pacific Crest Securities during the third quarter of 2014 resulted in a $78 million increase in the goodwill at the Key Corporate Bank unit. At December 31, 2014, the Key Community Bank reporting unit had $979 million in goodwill and the Key Corporate Bank reporting unit had $78 million in goodwill. Additional information is provided in Note 10 ("Goodwill and Other Intangible Assets").

The primary assumptions used in determining our pension and other postretirement benefit obligations and related expenses, including sensitivity analysis of these assumptions, are presented in Note 16 ("Employee Benefits").

When potential asset impairment is identified, we must exercise judgment to determine the nature of the potential impairment (i.e., temporary or other-than-temporary) to apply the appropriate accounting treatment. For example, unrealized losses on securities available for sale that are deemed temporary are recorded in shareholders' equity; those deemed "other-than-temporary" are recorded in either earnings or shareholders' equity based on certain factors. Additional information regarding temporary and other-than-temporary impairment on securities available for sale at December 31, 2014, is provided in Note 7 ("Securities").

Derivatives and hedging

We use primarily interest rate swaps to hedge interest rate risk for asset and liability management purposes. These derivative instruments modify the interest rate characteristics of specified on-balance sheet assets and liabilities. Our accounting policies related to derivatives reflect the current accounting guidance, which provides that all derivatives should be recognized as either assets or liabilities on the balance sheet at fair value, after taking into account the effects of master netting agreements. Accounting for changes in the fair value (i.e., gains or losses) of a particular derivative depends on whether the derivative has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship.

The application of hedge accounting requires significant judgment to interpret the relevant accounting guidance, as well as to assess hedge effectiveness, identify similar hedged item groupings, and measure changes in the fair value of the hedged items. We believe our methods of addressing these judgments and applying the accounting guidance are consistent with both the guidance and industry practices. However, interpretations of the applicable accounting guidance continue to change and evolve. In the future, these evolving interpretations could result in material changes to our accounting for derivative financial instruments and related hedging activities. Although such changes may not have a material effect on our financial condition, a change could have a material adverse effect on our results of operations in the period in which it occurs. Additional information relating to our use of derivatives is included in Note 1 under the heading Derivatives, and Note 8 (Derivatives and Hedging Activities).

Contingent liabilities, guarantees and income taxes

Note 20 (Commitments, Contingent Liabilities and Guarantees) summarizes contingent liabilities arising from litigation and contingent liabilities arising from guarantees in various agreements with third parties under which we are a guarantor, and the potential effects of these items on the results of our operations. We record a liability for the fair value of the obligation to stand ready to perform over the term of a guarantee, but there is a risk that our actual future payments in the event of a default by the guaranteed party could exceed the recorded amount. See Note 20 for a comparison of the liability recorded and the maximum potential undiscounted future payments for the various types of guarantees that we had outstanding at December 31, 2014.

It is not always clear how the Internal Revenue Code and various state tax laws apply to transactions that we undertake. In the normal course of business, we may record tax benefits and then have those benefits contested by the IRS or state tax authorities. We have provided tax reserves that we believe are adequate to absorb potential adjustments that such challenges may necessitate. However, if our judgment later proves to be inaccurate, the tax reserves may need to be adjusted, which could have an adverse effect on our results of operations and capital.

Additionally, we conduct quarterly assessments that determine the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded. The available evidence used in connection with these assessments includes taxable income in prior periods, projected future taxable income, potential tax-planning strategies, and projected future reversals of deferred tax items. These assessments are subjective and may change. Based on these criteria, and in particular our projections for future taxable income, we currently believe it is more-likely-than-not that we will realize our net deferred tax asset in future periods. However, if our assessments prove incorrect, they could have a material adverse effect on our results of operations in the period in which they occur. For further information on our accounting for income taxes, see Note 12 (Income Taxes).

During 2014, we did not significantly alter the manner in which we applied our critical accounting policies or developed related assumptions and estimates.

Table of Contents

European Sovereign and Non-Sovereign Debt Exposures

Our total European sovereign and non-sovereign debt exposure is presented in Figure 47.

Figure 47. European Sovereign and Non-Sovereign Debt Exposures

December 31, 2014 *in millions*	**Short- and Long-Term Commercial Total** [(a)]	**Foreign Exchange and Derivatives with Collateral** [(b)]	**Net Exposure**
France:			
Sovereigns			
Non-sovereign financial institutions		$ (4)	$ (4)
Non-sovereign non-financial institutions	$ 35		35
Total	35	(4)	31
Germany:			
Sovereigns			
Non-sovereign financial institutions		(2)	(2)
Non-sovereign non-financial institutions	200		200
Total	200	(2)	198
Greece:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions			
Total			
Iceland:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions			
Total			
Ireland:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions	3		3
Total	3		3
Italy:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions	58		58
Total	58		58
Netherlands:			
Sovereigns			
Non-sovereign financial institutions			

Non-sovereign non-financial institutions		23				23
Total		23				23
Portugal:						
Sovereigns						
Non-sovereign financial institutions						
Non-sovereign non-financial institutions						
Total						
Spain:						
Sovereigns						
Non-sovereign financial institutions						
Non-sovereign non-financial institutions		47				47
Total		47				47
Switzerland:						
Sovereigns						
Non-sovereign financial institutions				(3)		(3)
Non-sovereign non-financial institutions		83				83
Total		83		(3)		80
United Kingdom:						
Sovereigns						
Non-sovereign financial institutions				5		5
Non-sovereign non-financial institutions		118				118
Total		118		5		123
Other Europe: (c)						
Sovereigns						
Non-sovereign financial institutions						
Non-sovereign non-financial institutions		102				102
Total		102				102
Total Europe:						
Sovereigns						
Non-sovereign financial institutions				(4)		(4)
Non-sovereign non-financial institutions		669				669
Total	$	669	$	(4)	$	665

(a) This column represents our outstanding leases.

(b) This column represents contracts to hedge our balance sheet asset and liability needs, and to accommodate our clients trading and/or hedging needs. Our derivative mark-to-market exposures are calculated and reported on a daily basis. These exposures are largely covered by cash or highly marketable securities collateral with daily collateral calls.

(c) Other Europe consists of the following countries: Austria, Belarus, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Finland, Hungary, Lithuania, Luxembourg, Malta, Norway, Poland, Romania, Russia, Slovakia, Slovenia, Sweden, and Ukraine. Approximately 99% of our exposure in Other Europe is in Belgium, Finland, and Sweden.

103

Table of Contents

Our credit risk exposure is largely concentrated in developed countries with emerging market exposure essentially limited to commercial facilities; these exposures are actively monitored by management. We do not have at-risk exposures in the rest of the world.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information included under the caption Risk Management Market risk management in the MD&A beginning on page 76 is incorporated herein by reference.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial performance for each of the past eight quarters is summarized in Figure 45 contained in the Fourth Quarter Results section in the MD&A.

Management s Annual Report on Internal Control over Financial Reporting

We are responsible for the preparation, content and integrity of the financial statements and other statistical data and analyses compiled for this annual report. The financial statements and related notes have been prepared in conformity with U.S. generally accepted accounting principles and reflect our best estimates and judgments. We believe the financial statements and notes present fairly our financial position, results of operations and cash flows in all material respects.

We are responsible for establishing and maintaining a system of internal control that is designed to protect our assets and the integrity of our financial reporting. This corporate-wide system of controls includes self-monitoring mechanisms and written policies and procedures, prescribes proper delegation of authority and division of responsibility, and facilitates the selection and training of qualified personnel.

All employees are required to comply with our code of ethics. We conduct an annual certification process to ensure that our employees meet this obligation. Although any system of internal control can be compromised by human error or intentional circumvention of required procedures, we believe our system provides reasonable assurance that financial transactions are recorded and reported properly, providing an adequate basis for reliable financial statements.

The Board of Directors discharges its responsibility for our financial statements through its Audit Committee. This committee, which draws its members exclusively from the non-management directors, also hires the independent registered public accounting firm.

Management s Assessment of Internal Control over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over our financial reporting. We have assessed the effectiveness of our internal control and procedures over financial reporting using criteria described in Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on that assessment, we believe we maintained an effective system of internal control over financial reporting as of December 31, 2014. Our independent registered public accounting firm has issued an attestation report, dated March 2, 2015, on our internal control over financial reporting, which is included in this annual report.

Beth E. Mooney

Chairman, Chief Executive Officer and President

Donald R. Kimble

Chief Financial Officer

106

Table of Contents

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

on Internal Control over Financial Reporting

The Board of Directors and Shareholders of KeyCorp

We have audited KeyCorp s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). KeyCorp s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on KeyCorp s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, KeyCorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of KeyCorp as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2014 and our report dated March 2, 2015 expressed an unqualified opinion thereon.

Cleveland, Ohio

March 2, 2015

Table of Contents

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of KeyCorp

We have audited the accompanying consolidated balance sheets of KeyCorp as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of KeyCorp s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of KeyCorp at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), KeyCorp s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated March 2, 2015 expressed an unqualified opinion thereon.

Cleveland, Ohio

March 2, 2015

Table of Contents

Consolidated Balance Sheets

December 31, *in millions, except per share data*		**2014**		**2013**
ASSETS				
Cash and due from banks	**$**	**653**	$	617
Short-term investments		**4,269**		5,590
Trading account assets		**750**		738
Securities available for sale		**13,360**		12,346
Held-to-maturity securities (fair value: $4,974 and $4,617)		**5,015**		4,756
Other investments		**760**		969
Loans, net of unearned income of $682 and $805		**57,381**		54,457
Less: Allowance for loan and lease losses		**794**		848
Net loans		**56,587**		53,609
Loans held for sale		**734**		611
Premises and equipment		**841**		885
Operating lease assets		**330**		305
Goodwill		**1,057**		979
Other intangible assets		**101**		127
Corporate-owned life insurance		**3,479**		3,408
Derivative assets		**609**		407
Accrued income and other assets (including $1 of consolidated LIHTC guaranteed funds VIEs, see Note 11) [(a)]		**2,952**		3,015
Discontinued assets (including $191 of loans in portfolio at fair value)		**2,324**		4,572
Total assets	**$**	**93,821**	$	92,934
LIABILITIES				
Deposits in domestic offices:				
NOW and money market deposit accounts	**$**	**34,536**	$	33,952
Savings deposits		**2,371**		2,472
Certificates of deposit ($100,000 or more)		**2,040**		2,631
Other time deposits		**3,259**		3,648
Total interest-bearing deposits		**42,206**		42,703
Noninterest-bearing deposits		**29,228**		26,001
Deposits in foreign office interest-bearing		**564**		558
Total deposits		**71,998**		69,262
Federal funds purchased and securities sold under repurchase agreements		**575**		1,534
Bank notes and other short-term borrowings		**423**		343
Derivative liabilities		**784**		414
Accrued expense and other liabilities		**1,621**		1,557
Long-term debt		**7,875**		7,650

Discontinued liabilities	**3**	1,854
Total liabilities	**83,279**	82,614
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 and 2,904,839 shares	**291**	291
Common shares, $1 par value; authorized 1,400,000,000 shares; issued 1,016,969,905 and 1,016,969,905 shares	**1,017**	1,017
Capital surplus	**3,986**	4,022
Retained earnings	**8,273**	7,606
Treasury stock, at cost (157,566,493 and 126,245,538 shares)	**(2,681)**	(2,281)
Accumulated other comprehensive income (loss)	**(356)**	(352)
Key shareholders equity	**10,530**	10,303
Noncontrolling interests	**12**	17
Total equity	**10,542**	10,320
Total liabilities and equity	**$ 93,821**	$ 92,934

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

See Notes to Consolidated Financial Statements.

Table of Contents

Consolidated Statements of Income

Year ended December 31, *dollars in millions, except per share amounts*	**2014**	**2013**	**2012**
INTEREST INCOME			
Loans	$ **2,110**	$ 2,151	$ 2,155
Loans held for sale	**21**	20	20
Securities available for sale	**277**	311	399
Held-to-maturity securities	**93**	82	69
Trading account assets	**25**	21	18
Short-term investments	**6**	6	6
Other investments	**22**	29	38
Total interest income	**2,554**	2,620	2,705
INTEREST EXPENSE			
Deposits	**117**	158	257
Federal funds purchased and securities sold under repurchase agreements	**2**	2	4
Bank notes and other short-term borrowings	**9**	8	7
Long-term debt	**133**	127	173
Total interest expense	**261**	295	441
NET INTEREST INCOME	**2,293**	2,325	2,264
Provision (credit) for loan and lease losses	**59**	130	229
Net interest income (expense) after provision for loan and lease losses	**2,234**	2,195	2,035
NONINTEREST INCOME			
Trust and investment services income	**403**	393	375
Investment banking and debt placement fees	**397**	333	327
Service charges on deposit accounts	**261**	281	287
Operating lease income and other leasing gains	**96**	117	201
Corporate services income	**178**	172	168
Cards and payments income	**166**	162	135
Corporate-owned life insurance income	**118**	120	122
Consumer mortgage income	**10**	19	40
Mortgage servicing fees	**46**	58	24
Net gains (losses) from principal investing	**78**	52	72
Other income [(a)]	**44**	59	105
Total noninterest income	**1,797**	1,766	1,856
NONINTEREST EXPENSE			

Personnel	**1,591**	1,609	1,570
Net occupancy	**261**	275	260
Computer processing	**158**	156	164
Business services and professional fees	**156**	151	190
Equipment	**96**	104	107
Operating lease expense	**42**	47	57
Marketing	**49**	51	68
FDIC assessment	**30**	30	31
Intangible asset amortization	**39**	44	23
Provision (credit) for losses on lending-related commitments	**(2)**	8	(16)
OREO expense, net	**5**	7	15
Other expense	**334**	338	349
Total noninterest expense	**2,759**	2,820	2,818
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**1,272**	1,141	1,073
Income taxes	**326**	271	231
INCOME (LOSS) FROM CONTINUING OPERATIONS	**946**	870	842
Income (loss) from discontinued operations, net of taxes of ($23), $26 and $14 (see Note 13)	**(39)**	40	23
NET INCOME (LOSS)	**907**	910	865
Less: Net income (loss) attributable to noncontrolling interests	**7**		7
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	**$ 900**	$ 910	$ 858
Income (loss) from continuing operations attributable to Key common shareholders	**$ 917**	$ 847	$ 813
Net income (loss) attributable to Key common shareholders	**878**	887	836
Per common share:			
Income (loss) from continuing operations attributable to Key common shareholders	**$ 1.05**	$ .93	$ .87
Income (loss) from discontinued operations, net of taxes	**(.04)**	.04	.02
Net income (loss) attributable to Key common shareholders (b)	**1.01**	.98	.89
Per common share assuming dilution:			
Income (loss) from continuing operations attributable to Key common shareholders	**$ 1.04**	$ .93	$ .86
Income (loss) from discontinued operations, net of taxes	**(.04)**	.04	.02
Net income (loss) attributable to Key common shareholders (b)	**.99**	.97	.89
Cash dividends declared per common share	**$ .25**	$ .215	$ .18
Weighted-average common shares outstanding (000)	**871,464**	906,524	938,941
Effect of convertible preferred stock			
Effect of common share options and other stock awards	**6,735**	6,047	4,318
Weighted-average common shares and potential common shares outstanding (000) (c)	**878,199**	912,571	943,259

(a) For the years ended December 31, 2014, 2013, and 2012, net securities gains (losses) totaled less than $1 million, $1 million, and less than $1 million, respectively. For 2014, 2013, and 2012, we did not have any impairment losses related to securities.

(b) EPS may not foot due to rounding.

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

See Notes to Consolidated Financial Statements.

Table of Contents

Consolidated Statements of Comprehensive Income

Year ended December 31, *in millions*	**2014**	2013	2012
Net income (loss)	**$ 907**	$ 910	$ 865
Other comprehensive income (loss), net of tax:			
Net unrealized gains (losses) on securities available for sale, net of income taxes of $35, ($173), and ($58)	**59**	(292)	(98)
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $2, ($17), and $12	**3**	(29)	20
Foreign currency translation adjustments, net of income taxes of ($8), ($3), and ($3)	**(20)**	(13)	10
Net pension and postretirement benefit costs, net of income taxes of ($27), $63, and ($17)	**(46)**	106	(28)
Total other comprehensive income (loss), net of tax	**(4)**	(228)	(96)
Comprehensive income (loss)	**903**	682	769
Less: Comprehensive income attributable to noncontrolling interests	**7**		7
Comprehensive income (loss) attributable to Key	**$ 896**	$ 682	$ 762

See Notes to Consolidated Financial Statements.

Table of Contents

Consolidated Statements of Changes in Equity

	Key Shareholders Equity								
dollars in millions, except per share amounts	**Preferred Shares Outstanding (000)**	**Common Shares Outstanding (000)**	**Preferred Stock**	**Common Shares**	**Capital Surplus**	**Retained Earnings**	**Treasury Stock, at Cost**	**Accumulated Other Comprehensive Income (Loss)**	**Noncontrolling Interests**
BALANCE AT DECEMBER 31, 2011	2,905	953,008	$ 291	$ 1,017	$ 4,194	$ 6,246	$(1,815)	$ (28)	$ 17
Net income (loss)						858			7
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of ($58)								(98)	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $12								20	
Foreign currency translation adjustments, net of income taxes of ($3)								10	
Net pension and postretirement benefit costs, net of income taxes of ($17)								(28)	
Deferred compensation					17				
Cash dividends declared on common shares ($.18 per share)						(169)			
Cash dividends declared on Noncumulative Series A Preferred Stock ($7.75 per share)						(22)			
Common shares repurchased		(30,637)					(251)		
Common shares reissued (returned) for		3,398			(85)		114		

stock options and other employee benefit plans									
Net contribution from (distribution to) noncontrolling interests									14
BALANCE AT DECEMBER 31, 2012	2,905	925,769	$ 291	$ 1,017	$ 4,126	$ 6,913	$ (1,952)	$ (124)	$ 38
Net income (loss)						910			
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of ($173)								(292)	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of ($17)								(29)	
Foreign currency translation adjustments, net of income taxes of ($3)								(13)	
Net pension and postretirement benefit costs, net of income taxes of $63								106	
Cash dividends declared on common shares ($.215 per share)						(194)			
Cash dividends declared on Noncumulative Series A Preferred Stock ($7.75 per share)						(23)			
Common shares repurchased		(41,599)					(474)		
Common shares reissued (returned) for stock options and other employee benefit plans		6,554			(104)		145		
Net contribution from (distribution to) noncontrolling interests									(21)

BALANCE AT DECEMBER 31, 2013	2,905	890,724	$ 291	$ 1,017	$ 4,022	$ 7,606	$ (2,281)	$ (352)	$ 17
Net income (loss)						**900**			**7**
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of $35								**59**	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $2								**3**	
Foreign currency translation adjustments, net of income taxes of ($8)								**(20)**	
Net pension and postretirement benefit costs, net of income taxes of ($27)								**(46)**	
Deferred compensation					**2**				
Cash dividends declared on common shares ($.25 per share)						**(218)**			
Cash dividends declared on Noncumulative Series A Preferred Stock ($7.75 per share)						**(22)**			
Common shares repurchased		**(36,285)**					**(484)**		
Common shares reissued (returned) for stock options and other employee benefit plans		**4,964**			**(38)**		**84**		
LIHTC guaranteed funds put						**7**			
Net contribution from (distribution to) noncontrolling interests									**(12)**
BALANCE AT DECEMBER 31, 2014	**2,905**	**859,403**	**$ 291**	**$ 1,017**	**$ 3,986**	**$ 8,273**	**$ (2,681)**	**$ (356)**	**$ 12**

See Notes to Consolidated Financial Statements.

Table of Contents

Consolidated Statements of Cash Flows

Year ended December 31, *in millions*	**2014**	**2013**	**2012**
OPERATING ACTIVITIES			
Net income (loss)	**$ 907**	$ 910	$ 865
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Provision (credit) for loan and lease losses	**59**	130	229
Provision (credit) for losses on lending-related commitments	**(2)**	8	(16)
Provision (credit) for losses on LIHTC guaranteed funds	**(7)**	4	
Depreciation, amortization and accretion expense, net	**227**	220	235
Increase in cash surrender value of corporate-owned life insurance	**(106)**	(106)	(110)
Stock-based compensation expense	**44**	35	49
FDIC reimbursement (payments), net of FDIC expense	**1**	296	26
Deferred income taxes (benefit)	**5**	29	35
Proceeds from sales of loans held for sale	**5,386**	5,595	5,535
Originations of loans held for sale, net of repayments	**(5,415)**	(5,440)	(5,189)
Net losses (gains) from sale of loans held for sale	**(97)**	(115)	(144)
Net losses (gains) from principal investing	**(78)**	(52)	(72)
Net losses (gains) and writedown on OREO	**3**	6	13
Net losses (gains) on leased equipment	**(35)**	(43)	(111)
Net losses (gains) on sales of fixed assets	**7**	12	2
Net securities losses (gains)		(1)	
Gain on sale of Victory	**(10)**	(146)	
Loss on sale of residual interests and deconsolidation of securitization trusts	**40**		
Net decrease (increase) in trading account assets	**(12)**	(133)	18
Other operating activities, net	**403**	338	(66)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**1,320**	1,547	1,299
INVESTING ACTIVITIES			
Cash received (used) in acquisitions, net of cash acquired	**(114)**	601	776
Proceeds from sale of residual interests	**57**		
Proceeds from sale of Victory	**10**	131	
Net decrease (increase) in short-term investments, excluding acquisitions	**1,358**	(1,650)	(421)
Purchases of securities available for sale	**(3,797)**	(5,222)	(1,772)
Proceeds from sales of securities available for sale		35	1
Proceeds from prepayments and maturities of securities available for sale	**2,860**	4,470	5,551
Proceeds from prepayments and maturities of held-to-maturity securities	**850**	847	660
Purchases of held-to-maturity securities	**(1,109)**	(1,672)	(2,481)
Purchases of other investments	**(49)**	(46)	(66)
Proceeds from sales of other investments	**334**	187	28
Proceeds from prepayments and maturities of other investments	**4**	6	197
	(3,296)	(2,026)	(2,935)

Net decrease (increase) in loans, excluding acquisitions, sales and transfers			
Proceeds from sales of portfolio loans	**120**	185	277
Proceeds from corporate-owned life insurance	**35**	31	33
Purchases of premises, equipment, and software	**(97)**	(100)	(164)
Proceeds from sales of premises and equipment	**1**	8	1
Proceeds from sales of other real estate owned	**17**	23	67
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**(2,816)**	(4,192)	(248)
FINANCING ACTIVITIES			
Net increase (decrease) in deposits, excluding acquisitions	**2,736**	2,333	1,989
Net increase (decrease) in short-term borrowings	**(879)**	(18)	(152)
Net proceeds from issuance of long-term debt	**1,727**	2,573	837
Payments on long-term debt	**(1,355)**	(1,545)	(3,394)
Repurchase of common shares	**(484)**	(474)	(251)
Net proceeds from reissuance of common shares	**27**	26	2
Cash dividends paid	**(240)**	(217)	(191)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**1,532**	2,678	(1,160)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	**36**	33	(109)
CASH AND DUE FROM BANKS AT BEGINNING OF YEAR	**617**	584	693
CASH AND DUE FROM BANKS AT END OF YEAR	**$ 653**	$ 617	$ 584
Additional disclosures relative to cash flows:			
Interest paid	**$ 281**	$ 293	$ 464
Income taxes paid (refunded)	**131**	185	84
Noncash items:			
Assets acquired	**$ 41**	$ 41	$ 1,283
Liabilities assumed	**17**		2,059
Reduction of secured borrowing and related collateral	**152**		
LIHTC guaranteed funds put	**7**		
Loans transferred to portfolio from held for sale	**19**	9	41
Loans transferred to held for sale from portfolio	**16**	61	118
Loans transferred to other real estate owned	**23**	21	38

See Notes to Consolidated Financial Statements.

Table of Contents

1. Summary of Significant Accounting Policies

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

ABO: Accumulated benefit obligation.

AICPA: American Institute of Certified Public Accountants.

ALCO: Asset/Liability Management Committee.

ALLL: Allowance for loan and lease losses.

A/LM: Asset/liability management.

AOCI: Accumulated other comprehensive income (loss).

APBO: Accumulated postretirement benefit obligation.

Austin: Austin Capital Management, Ltd.

BHCA: Bank Holding Company Act of 1956, as amended.

BHCs: Bank holding companies.

CCAR: Comprehensive Capital Analysis and Review.

CFPB: Consumer Financial Protection Bureau.

CFTC: Commodities Futures Trading Commission.

CMBS: Commercial mortgage-backed securities.

CMO: Collateralized mortgage obligation.

Common shares: Common Shares, $1 par value.

DIF: Deposit Insurance Fund of the FDIC.

Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

KREEC: Key Real Estate Equity Capital, Inc.

LIBOR: London Interbank Offered Rate.

LIHTC: Low-income housing tax credit.

Moody s: Moody s Investor Services, Inc.

MSRs: Mortgage servicing rights.

N/A: Not applicable.

NASDAQ: The NASDAQ Stock Market LLC.

NFA: National Futures Association.

N/M: Not meaningful.

NOW: Negotiable Order of Withdrawal.

NPR: Notice of proposed rulemaking.

NYSE: New York Stock Exchange.

OCC: Office of the Comptroller of the Currency.

OCI: Other comprehensive income (loss).

OFR: Office of Financial Research of the U.S. Department of Treasury.

OREO: Other real estate owned.

OTTI: Other-than-temporary impairment.

QSPE: Qualifying special purpose entity.

PBO: Projected benefit obligation.

EPS: Earnings per share.

ERISA: Employee Retirement Income Security Act of 1974.

ERM: Enterprise risk management.

EVE: Economic value of equity.

FASB: Financial Accounting Standards Board.

FDIA: Federal Deposit Insurance Act, as amended.

FDIC: Federal Deposit Insurance Corporation.

Federal Reserve: Board of Governors of the Federal Reserve System.

FHLMC: Federal Home Loan Mortgage Corporation.

FINRA: Financial Industry Regulatory Authority.

FNMA: Federal National Mortgage Association.

FSOC: Financial Stability Oversight Council.

FVA: Fair value of employee benefit 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.

KEF: Key Equipment Finance.

PCCR: Purchased credit card relationship.

PCI: Purchased credit impaired.

S&P: Standard and Poor s Ratings Services, a Division of The McGraw-Hill Companies, Inc.

SEC: U.S. Securities & Exchange Commission.

Series A Preferred Stock: KeyCorp s 7.750% Noncumulative Perpetual Convertible Preferred Stock, Series A.

SIFIs: Systemically important financial institutions, including BHCs with total consolidated assets of at least $50 billion and nonbank financial companies designated by FSOC for supervision by the Federal Reserve.

TDR: Troubled debt restructuring.

TE: Taxable-equivalent.

U.S. Treasury: United States Department of the Treasury.

VaR: Value at risk.

VEBA: Voluntary Employee Beneficiary Association.

Victory: Victory Capital Management and/or

Victory Capital Advisors.

VIE: Variable interest entity.

Organization

We are one of the nation s largest bank-based financial services companies, with consolidated total assets of $93.8 billion at December 31, 2014. We provide deposit, lending, cash management, and investment services to individuals and small and medium-sized businesses through our subsidiary, KeyBank. We also provide a broad range of sophisticated corporate and investment banking products, such as merger and acquisition advice, public

Table of Contents

and private debt and equity, syndications, and derivatives to middle market companies in selected industries throughout the United States through our subsidiary, KeyBanc Capital Markets. As of December 31, 2014, KeyBank operated 994 full-service retail banking branches and 1,287 automated teller machines in 12 states, as well as additional offices, online and mobile banking capabilities, and a telephone banking call center. Additional information pertaining to our two major business segments, Key Community Bank and Key Corporate Bank, is included in Note 23 (Line of Business Results).

Use of Estimates

Our accounting policies conform to GAAP and prevailing practices within the financial services industry. We must make certain estimates and judgments when determining the amounts presented in our consolidated financial statements and the related notes. If these estimates prove to be inaccurate, actual results could differ from those reported.

Basis of Presentation

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 11 (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.

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.

Noncontrolling Interests

Our Principal Investing unit and the Real Estate Capital and Corporate Banking Services line of business have noncontrolling interests that are accounted for in accordance with the applicable accounting guidance, which allows us to report noncontrolling interests in subsidiaries as a component of equity on the balance sheet. Net income (loss) on the income statement includes Key s revenues, expenses, gains and losses, together with revenues, expenses, gains and losses pertaining to the noncontrolling interests. The portion of net results attributable to the noncontrolling interests is disclosed separately on the face of the income statement to arrive at the net income (loss) attributable to Key.

Statements of Cash Flows

Cash and due from banks are considered cash and cash equivalents for financial reporting purposes.

Loans

Loans are carried at the principal amount outstanding, net of unearned income, including net deferred loan fees and costs. We defer certain nonrefundable loan origination and commitment fees, and the direct costs of originating or acquiring loans. The net deferred amount is amortized over the estimated lives of the related loans as an adjustment to the yield.

Direct financing leases are carried at the aggregate of the lease receivable plus estimated unguaranteed residual values, less unearned income and deferred initial direct fees and costs. Unearned income on direct financing leases is amortized over the lease terms using a method approximating the interest method that produces a constant rate of return. Deferred initial direct fees and costs are amortized over the lease terms as an adjustment to the yield.

Leveraged leases are carried net of nonrecourse debt. Revenue on leveraged leases is recognized on a basis that produces a constant rate of return on the outstanding investment in the leases, net of related deferred tax liabilities, during the years in which the net investment is positive.

The residual value component of a lease represents the fair value of the leased asset at the end of the lease term. We rely on industry data, historical experience, independent appraisals and the experience of the equipment leasing asset management team to value lease residuals. Relationships with a number of equipment vendors give the asset management team insight into the life cycle of the leased equipment, pending product upgrades and competing products.

In accordance with applicable accounting guidance for leases, residual values are reviewed at least annually to determine if an other-than-temporary decline in value has occurred. In the event of such a decline, the residual value is adjusted to its fair value. Impairment charges are included in noninterest expense, while net gains or losses on sales of lease residuals are included in other income on the income statement.

Loans Held for Sale

Our loans held for sale at December 31, 2014, and December 31, 2013, are disclosed in Note 4 (Loans and Loans Held for Sale). These loans, which we originated and intend to sell, are carried at the lower of aggregate cost or fair value. Fair value is determined based on available market data for similar assets, expected cash flows, and appraisals of underlying collateral or the credit quality of the borrower. If a loan is transferred from the loan portfolio to the held-for-sale category, any write-down in the carrying amount of the loan at the date of transfer is recorded as a charge-off. Subsequent declines in fair value are recognized as a charge to noninterest income. When a loan is placed in the held-for-sale category, we stop amortizing the related deferred fees and costs. The remaining unamortized fees and costs are recognized as part of the cost basis of the loan at the time it is sold.

Nonperforming Loans

Nonperforming loans are loans for which we do not accrue interest income, and include commercial and consumer loans and leases, as well as current year TDRs and nonaccruing TDR loans from prior years. Nonperforming loans do not include loans held for sale or PCI loans.

We generally classify commercial loans as nonperforming and stop accruing interest (i.e., designate the loan nonaccrual) when the borrower s principal or interest payment is 90 days past due unless the loan is well-secured and in the process of collection. Commercial loans are also placed on nonaccrual status when payment is not past due but we have serious doubts about the borrower s ability to comply with existing repayment terms. Once a loan is designated nonaccrual (and as a result impaired), the interest accrued but not collected generally is charged against the ALLL, and payments subsequently received generally are applied to principal. However, if we believe that all principal and interest on a commercial nonaccrual loan ultimately are collectible, interest income may be recognized as received. 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.

We generally classify consumer loans as nonperforming and stop accruing interest when the borrower s payment is 120 days past due, unless the loan is well-secured and in the process of collection. Any second lien home equity loan with an associated first lien that is 120 days or more past due or in foreclosure, or for which the first mortgage delinquency timeframe is unknown, is reported as a nonperforming loan. Secured loans that are discharged through Chapter 7 bankruptcy and not formally re-affirmed are designated as nonperforming and TDRs. Our charge-off policy for most consumer loans 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. Credit card loans and similar unsecured products continue to accrue interest until the account is charged off at 180 days past due.

Commercial and consumer loans may be returned to accrual status if we are reasonably assured that all contractually due principal and interest are collectible and the borrower has demonstrated a sustained period (generally six months) of repayment performance under the contracted terms of the loan and applicable regulation.

Impaired Loans

A nonperforming loan is considered to be impaired and assigned a specific reserve when, based on current information and events, it is probable that we will be unable to collect all amounts due (both principal and interest) according to the contractual terms of the loan agreement.

All commercial and consumer TDRs regardless of size and all impaired commercial loans with an outstanding balance of $2.5 million or greater are individually evaluated for impairment. Nonperforming loans of less than $2.5 million and smaller-balance homogeneous loans (residential mortgage, home equity loans, marine, etc.) are aggregated and collectively evaluated for impairment. The amount of the reserve is estimated based on the criteria outlined in the Allowance for Loan and Lease Losses section of this note.

Allowance for Loan and Lease Losses

The ALLL represents our estimate of probable credit losses inherent in the loan portfolio at the balance sheet date. We establish the amount of this allowance by analyzing the quality of the loan portfolio at least quarterly, and more often if deemed necessary. We segregate our loan portfolio between commercial and consumer loans and develop and document our methodology to determine the ALLL accordingly. We believe these portfolio segments represent the most appropriate level for determining our historical loss experience, as well as the level at which we monitor credit quality and risk characteristics of the portfolios. Commercial loans, which generally have larger individual balances, constitute a significant portion of our total loan portfolio. The consumer portfolio typically includes smaller-balance homogeneous loans.

We estimate the appropriate level of our ALLL by applying expected loss rates to existing loans with similar risk characteristics. Expected loss rates for commercial loans are derived from a statistical analysis of our historical default and loss severity experience. The analysis utilizes probability of default and loss given default to assign loan grades using our internal risk rating system. Our expected loss rates are reviewed quarterly and updated as necessary. As of December 31, 2014, the probability of default ratings was based on our default data for the period from January 2008 through October 2014, which encompasses the last downturn period as well as our more recent positive credit experience. We adjust expected loss rates based on calculated estimates of the average time period from initial loss indication to the initial loss recorded for an individual loan.

Expected loss rates for consumer loans are derived from a statistical analysis of our historical default and loss severity experience. Consumer loans are analyzed quarterly in homogeneous product-type pools that share similar attributes and are assigned an expected loss rate that represents expected losses over the next 12 months. The estimate of the average time period from initial loss indication to initial loss recorded for consumer loans is 1 to 2 years.

Table of Contents

The ALLL may be adjusted to reflect our current assessment of many qualitative factors that may not be directly measured in the statistical analysis of expected loss, including:

¿ changes in international, national, regional, and local economic and business conditions;

¿ changes in the experience, ability, and depth of our lending management and staff;

¿ changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices;

¿ changes in the nature and volume of the loan portfolio, including the existence and effect of any concentrations of credit, and changes in the level of such concentrations;

¿ changes in the volume and/or severity of past due, nonaccrual, and adversely classified or graded loans; and

¿ external factors, such as competition, legal developments, and regulatory requirements.

For all commercial and consumer loan TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance of $2.5 million or greater, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. We estimate the extent of the individual impairment for commercial loans and TDRs by comparing the recorded investment of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan s observable market price. Secured consumer loan balances of TDRs that are discharged through Chapter 7 bankruptcy and not formally re-affirmed are adjusted to reflect the fair value of the underlying collateral, less costs to sell. Other consumer loan TDRs are combined in homogenous pools and assigned a specific allocation based on the estimated present value of future cash flows using the effective interest rate. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses.

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.

Liability for Credit Losses on Lending-Related Commitments

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. This liability totaled $36 million at December 31, 2014, and $37 million at December 31, 2013. We establish the amount of this liability by considering both historical trends and current market conditions quarterly, or more often if deemed necessary.

Fair Value Measurements

We follow the applicable accounting guidance for fair value measurements and disclosures for all applicable financial and nonfinancial assets and liabilities. This guidance defines fair value, establishes a framework for measurement, and addresses disclosures about fair value measurements. Fair value-related guidance applies only when other guidance requires or permits assets or liabilities to be measured at fair value; it does not expand the use of fair value to any new circumstances.

Accounting guidance defines fair value as the price to sell an asset or transfer a liability in an orderly transaction between market participants in our principal market. In other words, fair value represents an exit price at the measurement date. Market participants are buyers and sellers who are independent, knowledgeable, and willing and able to transact in the principal (or most advantageous) market for the asset or liability being measured. Current market conditions, including imbalances between supply and demand, are considered in determining fair value.

Table of Contents

We value our assets and liabilities based on the principal market where each would be sold (in the case of assets) or transferred (in the case of liabilities). The principal market is the forum with the greatest volume and level of activity. In the absence of a principal market, valuation is based on the most advantageous market (i.e., the market where the asset could be sold at a price that maximizes the amount to be received or the liability transferred at a price that minimizes the amount to be paid). In the absence of observable market transactions, we consider liquidity valuation adjustments to reflect the uncertainty in pricing the instruments.

In measuring the fair value of an asset, we assume the highest and best use of the asset by a market participant not just the intended use to maximize the value of the asset. We also consider whether any credit valuation adjustments are necessary based on the counterparty s credit quality.

When measuring the fair value of a liability, we assume that the transfer will not affect the associated nonperformance risk. Nonperformance risk is the risk that an obligation will not be satisfied, and encompasses not only our own credit risk (i.e., the risk that we will fail to meet our obligation), but also other risks such as settlement risk (i.e., the risk that upon termination or sale, the contract will not settle). We consider the effect of our own credit risk on the fair value for any period in which fair value is measured.

There are three acceptable techniques for measuring fair value: the market approach, the income approach, and the cost approach. The appropriate technique for valuing a particular asset or liability depends on the exit market, the nature of the asset or liability being valued, and how a market participant would value the same asset or liability. Ultimately, selecting the appropriate valuation method requires significant judgment, and applying the valuation technique requires sufficient knowledge and expertise.

Valuation inputs refer to the assumptions market participants would use in pricing a given asset or liability. Inputs can be observable or unobservable. Observable inputs are assumptions based on market data obtained from an independent source. Unobservable inputs are assumptions based on our own information or assessment of assumptions used by other market participants in pricing the asset or liability. Our unobservable inputs are based on the best and most current information available on the measurement date.

All inputs, whether observable or unobservable, are ranked in accordance with a prescribed fair value hierarchy that gives the highest ranking to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest ranking to unobservable inputs (Level 3). Fair values for Level 2 assets or liabilities are based on one or a combination of the following factors: (i) quoted market prices for similar assets or liabilities; (ii) observable inputs, such as interest rates or yield curves; or (iii) inputs derived principally from or corroborated by observable market data. The level in the fair value hierarchy ascribed to a fair value measurement in its entirety is based on the lowest level input that is significant to the measurement. We consider an input to be significant if it drives 10% or more of the total fair value of a particular asset or liability. Assets and liabilities may transfer between levels based on the observable and unobservable inputs used at the valuation date, as the inputs may be influenced by certain market conditions. We recognize transfers between levels of the fair value hierarchy at the end of the reporting period.

Typically, assets and liabilities are considered to be fair valued on a recurring basis if fair value is measured regularly. However, if the fair value measurement of an instrument does not necessarily result in a change in the amount recorded on the balance sheet, assets and liabilities are considered to be fair valued on a nonrecurring basis. This generally occurs when we apply accounting guidance that requires assets and liabilities to be recorded at the lower of cost or fair value, or assessed for impairment.

At a minimum, we conduct our valuations quarterly. Additional information regarding fair value measurements and disclosures is provided in Note 6 (Fair Value Measurements).

Table of Contents

Short-Term Investments

Short-term investments consist of segregated, interest-bearing deposits due from banks, the Federal Reserve, and certain non-U.S. banks as well as reverse repurchase agreements. Reverse repurchase agreements are further described under the Repurchase agreements heading in this section.

Trading Account Assets

Trading account assets are debt and equity securities, as well as commercial loans that we purchase and hold but intend to sell in the near term. These assets are reported at fair value. Realized and unrealized gains and losses on trading account assets are reported in other income on the income statement.

Securities

Securities available for sale. Securities available for sale are securities that we intend to hold for an indefinite period of time but that may be sold in response to changes in interest rates, prepayment risk, liquidity needs, or other factors. Securities available for sale are reported at fair value. Unrealized gains and losses (net of income taxes) deemed temporary are recorded in equity as a component of AOCI on the balance sheet. Unrealized losses on equity securities deemed other-than-temporary, and realized gains and losses resulting from sales of securities using the specific identification method, are included in other income on the income statement. Unrealized losses on debt securities deemed other-than-temporary are included in other income on the income statement or in AOCI in accordance with the applicable accounting guidance, as further described under the heading Other-than-Temporary Impairments in this note and in Note 7 (Securities).

Other securities held in the available-for-sale portfolio consist of marketable equity securities that are traded on a public exchange such as the NYSE or NASDAQ and convertible preferred stock of a privately held company.

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

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

Other-than-Temporary Impairments

If the amortized cost of a debt security is greater than its fair value and we intend to sell it, or it is more-likely-than-not that we will be required to sell it, before the expected recovery of the amortized cost, then the entire impairment is recognized in earnings. If we have no intent to sell the security, or it is more-likely-than-not that we will not be required to sell it, before expected recovery, then the credit portion of the impairment is recognized in earnings, while the remaining portion attributable to factors such as liquidity and interest rate changes is recognized in equity as a component of AOCI on the balance sheet. The credit portion is equal to the difference between the cash flows expected to be collected and the amortized cost of the debt security.

Generally, if the amortized cost of an equity security is greater than its fair value by more than 20% consistently for more than six months, the difference is considered to be other-than-temporary.

Other Investments

Principal investments investments in equity and debt instruments made by our Principal Investing unit represented 53% and 57% of other investments at December 31, 2014, and December 31, 2013, respectively, and included both direct investments (investments made in a particular company) and indirect investments (investments made through funds that include other investors). Principal investments are predominantly made in privately held companies and are carried at fair value ($406 million at December 31, 2014, and $554 million at December 31, 2013). Changes in fair values and realized gains and losses on sales of principal investments are reported as net gains (losses) from principal investing on the income statement.

In addition to principal investments, other investments include other equity and mezzanine instruments, such as certain real estate-related investments that are carried at fair value, as well as other types of investments that generally are carried at cost. The carrying amounts of the investments carried at cost are adjusted for declines in value if they are considered to be other-than-temporary. These adjustments are included in other income on the income statement.

Repurchase agreements

We enter into repurchase and reverse repurchase agreements primarily to acquire securities to cover short positions, to finance our investing positions, and to settle other securities obligations. Repurchase and reverse repurchase agreements are accounted for as collateralized financing transactions and recorded on our balance sheet at the amounts at which the securities will be subsequently sold or repurchased. The value of our repurchase and reverse repurchase agreements is based on the valuation of the underlying securities, as further described under the Other assets and liabilities heading in Note 6 (Fair Value Measurements). Fees received in connection with these transactions are recorded in interest income; fees paid are recorded in interest expense.

Derivatives

In accordance with applicable accounting guidance, all derivatives are recognized as either assets or liabilities on the balance sheet at fair value. The net increase or decrease in derivatives is included in other operating activities, net within the statement of cash flows.

Accounting for changes in fair value (i.e., gains or losses) of derivatives differs depending on whether the derivative has been designated and qualifies as part of a hedge relationship, and further, on the type of hedge relationship. For derivatives that are not designated as hedging instruments, any gain or loss is recognized immediately in earnings. A derivative that is designated and qualifies as a hedging instrument must be designated as a fair value hedge, a cash flow hedge, or a hedge of a net investment in a foreign operation.

A fair value hedge is used to limit exposure to changes in the fair value of existing assets, liabilities, and commitments caused by changes in interest rates or other economic factors. 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 recognized in other income on the income statement, with no corresponding offset.

A cash flow hedge is used to minimize the variability of future cash flows that is caused by changes in interest rates or other economic factors. 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 reclassified to earnings in the same period in which the hedged transaction affects earnings. The ineffective portion of a cash flow hedge is included in other income on the income statement.

A net investment hedge is used to hedge the exposure of changes in the carrying value of investments as a result of changes in the related foreign exchange rates. 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. The ineffective portion of a net investment hedge is included in other income on the income statement.

Table of Contents

Hedge effectiveness is determined by the extent to which changes in the fair value of a derivative instrument offset changes in the fair value, cash flows, or carrying value attributable to the risk being hedged. If the relationship between the change in the fair value of the derivative instrument and the change in the hedged item falls within a range considered to be the industry norm, the hedge is considered highly effective and qualifies for hedge accounting. A hedge is ineffective if the relationship between the changes falls outside the acceptable range. In that case, hedge accounting is discontinued on a prospective basis. Hedge effectiveness is tested at least quarterly.

Additional information regarding the accounting for derivatives is provided in Note 8 (Derivatives and Hedging Activities).

Offsetting Derivative Positions

In accordance with the applicable accounting guidance, we take into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts held with a single counterparty on a net basis, and to offset the net derivative position with the related cash collateral when recognizing derivative assets and liabilities. Additional information regarding derivative offsetting is provided in Note 8 (Derivatives and Hedging Activities).

Servicing Assets

We service commercial real estate loans. Servicing assets related to all commercial real estate loan servicing totaled $323 million at December 31, 2014, and $332 million at December 31, 2013, and are included in accrued income and other assets on the balance sheet.

Servicing assets and liabilities purchased or retained initially are measured at fair value. When no ready market value (such as quoted market prices, or prices based on sales or purchases of similar assets) is available to determine the fair value of servicing assets, fair value is determined by calculating the present value of future cash flows associated with servicing the loans. This calculation is based on a number of assumptions, including the market cost of servicing, the discount rate, the prepayment rate, and the default rate.

We remeasure our servicing assets using the amortization method at each reporting date. The amortization of servicing assets is determined in proportion to, and over the period of, the estimated net servicing income and recorded in mortgage servicing fees on the income statement.

Servicing assets are evaluated quarterly for possible impairment. This process involves classifying the assets based on the types of loans serviced and their associated interest rates, and determining the fair value of each class. If the evaluation indicates that the carrying amount of the servicing assets exceeds their fair value, the carrying amount is reduced by recording a charge to income in the amount of such excess and establishing a valuation allowance. No impairment of servicing assets recorded for the years ended December 31, 2014, 2013, and 2012, was material in amount. Additional information pertaining to servicing assets is included in Note 9 (Mortgage Servicing Assets).

Business Combinations

We account for our business combinations using the acquisition method of accounting. Under this accounting method, the acquired company s assets and liabilities are recorded at fair value at the date of acquisition, and the results of operations of the acquired company are combined with Key s results from that date forward. Acquisition costs are expensed when incurred. The difference between the purchase price and the fair value of the net assets acquired (including intangible assets with finite lives) is recorded as goodwill. Our accounting policy for intangible assets is summarized in this note under the heading Goodwill and Other Intangible Assets.

Table of Contents

Additional information regarding acquisitions is provided in Note 13 (Acquisitions and Discontinued Operations).

Goodwill and Other Intangible Assets

Goodwill represents the amount by which the cost of net assets acquired in a business combination exceeds their fair value. Other intangible assets primarily are the net present value of future economic benefits to be derived from the purchase of credit card receivable assets and core deposits. Other intangible assets are amortized on either an accelerated or straight-line basis over periods ranging from 1 $^{1}/_{2}$ to 30 years. Goodwill and other types of intangible assets deemed to have indefinite lives are not amortized.

Relevant accounting guidance provides that goodwill and certain other intangible assets must be subjected to impairment testing at least annually. We perform quantitative goodwill impairment testing in the fourth quarter of each year. Our reporting units for purposes of this testing are our two business segments, Key Community Bank and Key Corporate Bank. We continue to monitor the impairment indicators for goodwill and other intangible assets, and to evaluate the carrying amount of these assets quarterly.

The first step in goodwill impairment testing is to determine the fair value of each reporting unit. This amount is estimated using comparable external market data (market approach) and discounted cash flow modeling that incorporates an appropriate risk premium and earnings forecast information (income approach). The amount of capital being allocated to our reporting units as a proxy for the carrying value is based on risk-based regulatory capital requirements. If the carrying amount of a reporting unit exceeds its fair value, goodwill impairment may be indicated. In such a case, we would perform the second step of goodwill impairment testing, and we would estimate a hypothetical purchase price for the reporting unit (representing the unit s fair value). Then we would compare that hypothetical purchase price with the fair value of the unit s net assets (excluding goodwill). Any excess of the estimated purchase price over the fair value of the reporting unit s net assets represents the implied fair value of goodwill. If the carrying amount of the reporting unit s goodwill exceeds the implied fair value of goodwill, the impairment loss represented by this difference is charged to earnings.

Additional information pertaining to goodwill and other intangible assets is included in Note 10 (Goodwill and Other Intangible Assets).

Purchased Loans

We evaluate purchased loans for impairment in accordance with the applicable accounting guidance. Purchased performing loans that do not have evidence of deterioration in credit quality at acquisition are recorded at fair value at the acquisition date. Any premium or discount associated with purchased performing loans is recognized as an expense or income based on the effective yield method of amortization. Purchased loans that have evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that all contractually required payments will not be collected, are deemed PCI. These loans are initially recorded at fair value without recording an allowance for loan losses. Fair value of these loans is determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected, as adjusted for an estimate of future credit losses and prepayments, and then a market-based discount rate is applied to those cash flows. PCI loans are generally accounted for on a pool basis, with pools formed based on the common characteristics of the loans, such as loan collateral type or loan product type. Each pool is accounted for as a single asset with one composite interest rate and an aggregate expectation of cash flows.

Under the accounting model for PCI loans, the excess of cash flows expected to be collected over the carrying amount of the loans, referred to as the accretable amount, is accreted into interest income over the life of the loans in each pool using the effective yield method. Accordingly, PCI loans are not subject to classification as nonaccrual (and nonperforming) in the same manner as originated loans. Rather, acquired PCI loans are considered to be accruing loans because their interest income relates to the accretable yield recognized at the pool level and not to contractual interest payments at the loan level. The difference between contractually required principal and interest payments and the cash flows expected to be collected, referred to as the nonaccretable amount, includes estimates of both the impact of prepayments and future credit losses expected to be incurred over the life of the loans in each pool.

After we acquire loans determined to be PCI loans, actual cash collections are monitored to determine if they conform to management s expectations. Revised cash flow expectations are prepared, as necessary. A decrease in expected cash flows in subsequent periods may indicate that the loan pool is impaired, which would require us to establish an allowance for loan losses by recording a charge to the provision for loan losses. An increase in expected cash flows in subsequent periods initially reduces any previously established allowance for loan losses by the increase in the present value of cash flows expected to be collected, and requires us to recalculate the amount of accretable yield for the loan pool. The adjustment of accretable yield due to an increase in expected cash flows is accounted for as a change in estimate. The additional cash flows expected to be collected are reclassified from the nonaccretable difference to the accretable yield, and the amount of periodic accretion is adjusted accordingly over the remaining life of the loans in the pool.

A purchased loan may be resolved either through receipt of payment (in full or in part) from the borrower, the sale of the loan to a third party, or foreclosure of the collateral. If the loan is sold, a gain or loss on sale is recognized and reported within noninterest income based on the difference between the sales proceeds and the carrying amount of the loan. In the case of a foreclosure, an individual loan is removed from the pool at an amount received from its resolution (fair value of the underlying collateral less costs to sell). Any difference between this amount and the loan carrying value is absorbed by the nonaccretable difference established for the entire pool. For loans resolved by payment in full, there is no difference between the amount received at resolution and the outstanding balance of the loan. In these cases, the remaining accretable amount balance is unaffected and any material change in remaining effective yield caused by removing the loan from the pool is addressed in connection with the subsequent cash flow re-assessment for the pool. PCI loans subject to modification are not removed from the pool even if those loans would otherwise be deemed TDRs since the pool, and not the individual loan, represents the unit of account.

Premises and Equipment

Premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation and amortization. We determine depreciation of premises and equipment using the straight-line method over the estimated useful lives of the particular assets. Leasehold improvements are amortized using the straight-line method over the terms of the leases. Accumulated depreciation and amortization on premises and equipment totaled $1.3 billion at December 31, 2014, and $1.2 billion at December 31, 2013.

Internally Developed Software

We rely on company personnel and independent contractors to plan, develop, install, customize, and enhance computer systems applications that support corporate and administrative operations. Software development costs, such as those related to program coding, testing, configuration, and installation, are capitalized and included in accrued income and other assets on the balance sheet. The resulting asset, net of accumulated amortization, totaled $64 million at December 31, 2014, and $60 million at December 31, 2013, and is amortized using the straight-line method over its expected useful life (not to exceed five years). Costs incurred during the planning and post-development phases of an internal software project are expensed as incurred.

Software that is no longer used is written off to earnings immediately. When we decide to replace software, amortization of the phased-out software is accelerated to the expected replacement date.

Guarantees

In accordance with the applicable accounting guidance, we recognize liabilities, which are included in accrued expense and other liabilities on the balance sheet, for the fair value of our obligations under certain guarantees issued.

Table of Contents

If we receive a fee for a guarantee requiring liability recognition, the amount of the fee represents the initial fair value of the stand ready obligation. If there is no fee, the fair value of the stand ready obligation is determined using expected present value measurement techniques, unless observable transactions for comparable guarantees are available. The subsequent accounting for these stand ready obligations depends on the nature of the underlying guarantees. We account for our release from risk under a particular guarantee when the guarantee expires or is settled, or by a systematic and rational amortization method, depending on the risk profile of the guarantee.

Additional information regarding guarantees is included in Note 20 (Commitments, Contingent Liabilities and Guarantees) under the heading Guarantees.

Revenue Recognition

We recognize revenues as they are earned based on contractual terms, as transactions occur, or as services are provided and collectability is reasonably assured. Our principal source of revenue is interest income, which is recognized on an accrual basis primarily according to nondiscretionary formulas in written contracts, such as loan agreements or securities contracts.

Stock-Based Compensation

Stock-based compensation is measured using the fair value method of accounting. The measured cost is recognized over the period during which the recipient is required to provide service in exchange for the award. We estimate expected forfeitures when stock-based awards are granted and record compensation expense only for awards that are expected to vest.

We recognize compensation cost for stock-based, mandatory deferred incentive compensation awards using the accelerated method of amortization over a period of approximately five years (the current year performance period and a four-year vesting period, which generally starts in the first quarter following the performance period) for awards granted in 2012 and after, and over a period of approximately four years (the current year performance period and a three-year vesting period, which generally starts in the first quarter following the performance period) for awards granted prior to 2012.

Employee stock options typically become exercisable at the rate of 25% per year, beginning one year after the grant date. Options expire no later than 10 years after their grant date. We recognize stock-based compensation expense for stock options with graded vesting using an accelerated method of amortization.

We use shares repurchased under our annual capital plan submitted to our regulators (treasury shares) for share issuances under all stock-based compensation programs other than the discounted stock purchase plan. Shares issued under the discounted stock purchase plan are purchased on the open market.

We estimate the fair value of options granted using the Black-Scholes option-pricing model, as further described in Note 15 (Stock-Based Compensation).

Marketing Costs

We expense all marketing-related costs, including advertising costs, as incurred.

Accounting Guidance Adopted in 2014

Pushdown accounting. In November 2014, the FASB issued new accounting guidance that provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs and should determine whether to elect to apply pushdown accounting for each individual change-in-control event. This accounting guidance was effective as of November 18, 2014, after which an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred have already been issued or made available to be issued, the application of this guidance would be a change in accounting principle. We did not change the accounting for previously recorded acquisitions based on this new guidance.

Presentation of unrecognized tax benefits. In July 2013, the FASB issued new accounting guidance that requires unrecognized tax benefits to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if certain criteria are met. This accounting guidance was applied prospectively to unrecognized tax benefits that existed at the effective date. It was effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 (effective January 1, 2014, for us). The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations. We provide additional information regarding the presentation of our unrecognized tax benefits in Note 12 (Income Taxes).

Investment companies. In June 2013, the FASB issued new accounting guidance that modifies the criteria used in defining an investment company. It also sets forth certain measurement and disclosure requirements for an investment company. This accounting guidance was effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013 (effective January 1, 2014, for us). The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations. We provide the disclosures required by this new accounting guidance in Note 6 (Fair Value Measurements).

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

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

Accounting Guidance Pending Adoption at December 31, 2014

Derivatives and hedging. In November 2014, the FASB issued new accounting guidance that clarifies how current guidance should be interpreted when evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. An entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, when evaluating the nature of a host contract. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and should be implemented using a modified retrospective basis. Retrospective application to all relevant prior periods and 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.

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

Troubled debt restructurings. In August 2014, the FASB issued new accounting guidance that clarifies how to account for certain government-guaranteed mortgage loans upon foreclosure. This accounting guidance will be effective for reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us) and can be implemented using either a modified retrospective method or a prospective method. Early adoption is permitted. We have elected to implement the new accounting guidance using a prospective approach. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

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

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

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

Revenue recognition. In May 2014, the FASB issued new accounting guidance that revises the criteria for determining when to recognize revenue from contracts with customers and expands disclosure requirements. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us) and can be implemented using either a retrospective method or a cumulative-effect approach. Early adoption is not permitted. We have elected to implement the new accounting guidance using a cumulative-effect approach. Our preliminary analysis suggests that the adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations. There are many aspects of the new accounting guidance that are still being interpreted, and therefore, the results of our materiality analysis may change based on the conclusions reached as to the application of the new guidance.

Discontinued operations. In April 2014, the FASB issued new accounting guidance that revises the criteria for determining when disposals should be reported as discontinued operations and modifies the disclosure requirements. This accounting guidance will be effective prospectively for reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us). Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

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

Troubled debt restructurings. In January 2014, the FASB issued new accounting guidance that clarifies the definition of when an in substance repossession or foreclosure occurs for purposes of creditor reclassification of residential real estate collateralized consumer mortgage loans by derecognizing the loan and recognizing the collateral asset. This accounting guidance will be effective for reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us) and can be implemented using either a modified retrospective method or prospective method. Early adoption is permitted. We have elected to implement the new accounting guidance using a prospective approach. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

Table of Contents

2. Earnings Per Common Share

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

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

Year ended December 31, *dollars in millions, except per share amounts*		**2014**		2013		2012
EARNINGS						
Income (loss) from continuing operations	**$**	**946**	$	870	$	842
Less: Net income (loss) attributable to noncontrolling interests		**7**				7
Income (loss) from continuing operations attributable to Key		**939**		870		835
Less: Dividends on Series A Preferred Stock		**22**		23		22
Income (loss) from continuing operations attributable to Key common shareholders		**917**		847		813
Income (loss) from discontinued operations, net of taxes [(a)]		**(39)**		40		23
Net income (loss) attributable to Key common shareholders	**$**	**878**	$	887	$	836
WEIGHTED-AVERAGE COMMON SHARES						
Weighted-average common shares outstanding (000)		**871,464**		906,524		938,941
Effect of convertible preferred stock						
Effect of common share options and other stock awards		**6,735**		6,047		4,318
Weighted-average common shares and potential common shares outstanding (000) [(b)]		**878,199**		912,571		943,259
EARNINGS PER COMMON SHARE						
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**1.05**	$	.93	$	.87
Income (loss) from discontinued operations, net of taxes [(a)]		**(.04)**		.04		.02
Net income (loss) attributable to Key common shareholders [(c)]		**1.01**		.98		.89
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**$**	**1.04**	$	.93	$	.86
Income (loss) from discontinued operations, net of taxes [(a)]		**(.04)**		.04		.02
Net income (loss) attributable to Key common shareholders assuming dilution [(c)]		**.99**		.97		.89

(a) In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In February 2013, we decided to sell Victory to a private equity fund. As a result of these decisions, we have accounted for these businesses as discontinued operations. For further discussion regarding the income (loss) from discontinued operations, see Note 13 (Acquisitions and Discontinued Operations).

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

(c) EPS may not foot due to rounding.

Table of Contents

3. Restrictions on Cash, Dividends and Lending Activities

Federal law requires a depository institution to maintain a prescribed amount of cash or deposit reserve balances with its Federal Reserve Bank. KeyBank maintained average reserve balances aggregating $181 million in 2014 to fulfill these requirements.

Capital distributions from KeyBank and other subsidiaries are our principal source of cash flows for paying dividends on our common and preferred shares, servicing our debt, and financing corporate operations. Federal banking law limits the amount of capital distributions that a bank can make to its holding company without prior regulatory approval. A national bank s dividend-paying capacity is affected by several factors, including net profits (as defined by statute) for the two previous calendar years and for the current year, up to the date the dividend is declared.

During 2014, KeyBank paid KeyCorp a total of $300 million in dividends; nonbank subsidiaries did not pay any cash dividends or noncash dividends to KeyCorp. As of December 31, 2014, KeyBank had regulatory capacity to pay $935 million in dividends to KeyCorp. During 2014, KeyCorp did not make any cash capital infusions to KeyBank and made $9 million of cash capital infusions to nonbank subsidiaries. At December 31, 2014, KeyCorp held $2.2 billion in short-term investments, which can be used to pay dividends to shareholders, service debt, and finance corporate operations.

As indicated in the Supervision and Regulation section of Item 1 of this report under the heading Bank transactions with affiliates, federal law and regulation also restricts loans and advances from bank subsidiaries to their parent companies (and to nonbank subsidiaries of their parent companies), and requires those transactions to be secured.

Table of Contents

4. Loans and Loans Held for Sale

Our loans by category are summarized as follows:

December 31, *in millions*	**2014**	2013
Commercial, financial and agricultural [(a)]	**$ 27,982**	$ 24,963
Commercial real estate:		
Commercial mortgage	**8,047**	7,720
Construction	**1,100**	1,093
Total commercial real estate loans	**9,147**	8,813
Commercial lease financing [(b)]	**4,252**	4,551
Total commercial loans	**41,381**	38,327
Residential Prime Loans:		
Real estate residential mortgage	**2,225**	2,187
Home equity:		
Key Community Bank	**10,366**	10,340
Other	**267**	334
Total home equity loans	**10,633**	10,674
Total residential prime loans	**12,858**	12,861
Consumer other Key Community Bank	**1,560**	1,449
Credit cards	**754**	722
Consumer other:		
Marine	**779**	1,028
Other	**49**	70
Total consumer other	**828**	1,098
Total consumer loans	**16,000**	16,130
Total loans [(c)] [(d)]	**$ 57,381**	$ 54,457

(a) Loan balances include $88 million and $94 million of commercial credit card balances at December 31, 2014, and December 31, 2013, respectively.

(b) Commercial lease financing includes receivables of $302 million and $58 million held as collateral for a secured borrowing at December 31, 2014, and December 31, 2013, respectively. Principal reductions are based on the cash payments received from these related receivables. We expect to record additional commercial lease financing receivables held as collateral for a secured borrowing through the first quarter of 2015. Additional information pertaining to this secured borrowing is included in Note 18 (Long-Term Debt).

(c) At December 31, 2014, total loans include purchased loans of $138 million, of which $13 million were PCI loans. At December 31, 2013, total loans include purchased loans of $166 million, of which $16 million were PCI loans.

(d) Total loans exclude loans in the amount of $2.3 billion at December 31, 2014, and $4.5 billion at December 31, 2013, related to the discontinued operations of the education lending business.

We use interest rate swaps, which modify the repricing characteristics of certain loans, to manage interest rate risk. For more information about such swaps, see Note 8 (Derivatives and Hedging Activities).

Our loans held for sale by category are summarized as follows:

December 31,

in millions		**2014**		2013
Commercial, financial and agricultural	**$**	**63**	$	278
Real estate — commercial mortgage		**638**		307
Commercial lease financing		**15**		9
Real estate — residential mortgage		**18**		17
Total loans held for sale	**$**	**734**	$	611

Table of Contents

Our summary of changes in loans held for sale follows:

Year ended December 31, *in millions*	**2014**	2013
Balance at beginning of the period	**$ 611**	$ 599
New originations	**5,681**	5,452
Transfers from (to) held to maturity, net	**(3)**	52
Loan sales	**(5,289)**	(5,480)
Loan draws (payments), net	**(266)**	(12)
Balance at end of period	**$ 734**	$ 611

Commercial lease financing receivables primarily are direct financing leases, but also include leveraged leases. The composition of the net investment in direct financing leases is as follows:

December 31, *in millions*	**2014**	2013
Direct financing lease receivables	**$ 3,009**	$ 3,176
Unearned income	**(205)**	(219)
Unguaranteed residual value	**220**	231
Deferred fees and costs	**18**	21
Net investment in direct financing leases	**$ 3,042**	$ 3,209

At December 31, 2014, minimum future lease payments to be received are as follows: 2015 $1 billion; 2016 $767 million; 2017 $474 million; 2018 $276 million; 2019 $156 million; and all subsequent years $169 million. The allowance related to lease financing receivables is $56 million at December 31, 2014.

5. Asset Quality

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

Our nonperforming assets and past due loans were as follows:

December 31, *in millions*	**2014**	2013
Total nonperforming loans [(a)]	**$ 418**	$ 508
Nonperforming loans held for sale		1
OREO	**18**	15
Other nonperforming assets		7
Total nonperforming assets	**$ 436**	$ 531

Nonperforming assets from discontinued operations education lending (b)	**$**	**11**	$	25
Restructured loans included in nonperforming loans	**$**	**157**	$	214
Restructured loans with an allocated specific allowance (c)		**82**		71
Specifically allocated allowance for restructured loans (d)		**34**		35
Accruing loans past due 90 days or more	**$**	**96**	$	71
Accruing loans past due 30 through 89 days		**235**		318

(a) Loan balances exclude $13 million and $16 million of PCI loans at December 31, 2014, and December 31, 2013, respectively.

(b) Includes restructured loans of approximately $17 million and $13 million at December 31, 2014, and December 31, 2013, respectively. See Note 13 (Acquisitions and Discontinued Operations) for further discussion.

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

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

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

At December 31, 2014, the outstanding unpaid principal balance and carrying value of all PCI loans was $20 million and $13 million, respectively. Changes in the accretable yield during 2014 included accretion and net reclassifications of less than $1 million, resulting in an ending balance of $5 million at December 31, 2014.

At December 31, 2014, the approximate carrying amount of our commercial nonperforming loans outstanding represented 74% of their original contractual amount, total nonperforming loans outstanding represented 79% of their original contractual amount owed, and nonperforming assets in total were carried at 79% of their original contractual amount.

At December 31, 2014, our 20 largest nonperforming loans totaled $88 million, representing 21% of total loans on nonperforming status. At December 31, 2013, the 20 largest nonperforming loans totaled $86 million, representing 17% of total loans on nonperforming status.

Nonperforming loans and loans held for sale reduced expected interest income by $16 million for the year ended December 31, 2014, and $23 million for the year ended December 31, 2013.

Table of Contents

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

December 31, 2014 *in millions*	**Recorded Investment** (a)	**Unpaid Principal Balance** (b)	**Specific Allowance**	**Average Recorded Investment**
With no related allowance recorded:				
Commercial, financial and agricultural	$ 6	$ 17		$ 8
Commercial real estate:				
Commercial mortgage	15	20		19
Construction	5	6		7
Total commercial real estate loans	20	26		26
Total commercial loans	26	43		34
Real estate residential mortgage	24	24		30
Home equity:				
Key Community Bank	62	63		63
Other	1	1		2
Total home equity loans	63	64		65
Consumer other:				
Marine	2	2		2
Total consumer other	2	2		2
Total consumer loans	89	90		97
Total loans with no related allowance recorded	115	133		131
With an allowance recorded:				
Commercial, financial and agricultural	37	37	$ 9	28
Commercial real estate:				
Commercial mortgage	6	6	2	6
Construction	3	3	1	2
Total commercial real estate loans	9	9	3	8
Total commercial loans	46	46	12	36
Real estate residential mortgage	31	31	5	25
Home equity:				
Key Community Bank	46	46	16	43
Other	11	11	2	11
Total home equity loans	57	57	18	54
Consumer other Key Community Bank	4	4		3
Credit cards	4	4		4
Consumer other:				
Marine	43	43	5	45
Other	2	2		2
Total consumer other	45	45	5	47
Total consumer loans	141	141	28	133
Total loans with an allowance recorded	187	187	40	169
Total	$ 302	$ 320	$ 40	$ 300

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

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

Table of Contents

December 31, 2013 in millions	Recorded Investment (a)	Unpaid Principal Balance (b)	Specific Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial, financial and agricultural	$ 33	$ 69		$ 33
Commercial real estate:				
Commercial mortgage	21	25		55
Construction	48	131		48
Total commercial real estate loans	69	156		103
Total commercial loans	102	225		136
Real estate residential mortgage	27	27		24
Home equity:				
Key Community Bank	67	67		66
Other	2	2		2
Total home equity loans	69	69		68
Consumer other:				
Marine	3	3		2
Total consumer other	3	3		2
Total consumer loans	99	99		94
Total loans with no related allowance recorded	201	324		230
With an allowance recorded:				
Commercial, financial and agricultural	17	20	$ 8	25
Commercial real estate:				
Commercial mortgage	6	6	2	7
Construction	2	12		1
Total commercial real estate loans	8	18	2	8
Total commercial loans	25	38	10	33
Real estate residential mortgage	29	29	9	23
Home equity:				
Key Community Bank	35	35	10	29
Other	10	11	1	9
Total home equity loans	45	46	11	38
Consumer other Key Community Bank	3	3	1	2
Credit cards	5	5	1	3
Consumer other:				
Marine	49	49	10	55
Other	1	1		1
Total consumer other	50	50	10	56
Total consumer loans	132	133	32	122
Total loans with an allowance recorded	157	171	42	155
Total	$ 358	$ 495	$ 42	$ 385

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

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

For the years ended December 31, 2014, 2013, and 2012, interest income recognized on the outstanding balances of accruing impaired loans totaled $7 million, $6 million, and $5 million, respectively.

At December 31, 2014, aggregate restructured loans (accrual and nonaccrual loans) totaled $270 million, compared to $338 million at December 31, 2013. We added $93 million in restructured loans during 2014, which were offset by $161 million in payments and charge-offs.

A further breakdown of TDRs included in nonperforming loans by loan category as of December 31, 2014, follows:

December 31, 2014 *dollars in millions*	**Number of loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	14	$ 25	$ 23
Commercial real estate:			
Real estate commercial mortgage	10	38	13
Real estate construction	1	5	
Total commercial real estate loans	11	43	13
Total commercial loans	25	68	36
Real estate residential mortgage	453	27	27
Home equity:			
Key Community Bank	1,184	79	72
Other	158	4	4
Total home equity loans	1,342	83	76
Consumer other Key Community Bank	37	2	1
Credit cards	290	2	2
Consumer other:			
Marine	206	17	14
Other	38	1	1
Total consumer other	244	18	15
Total consumer loans	2,366	132	121
Total nonperforming TDRs	2,391	200	157
Prior-year accruing [(a)]			
Commercial, financial and agricultural	20	6	3
Commercial real estate:			
Real estate commercial mortgage	1	2	1
Total commercial real estate loans	1	2	1
Total commercial loans	21	8	4
Real estate residential mortgage	381	29	29
Home equity:			
Key Community Bank	674	41	36
Other	310	9	8
Total home equity loans	984	50	44
Consumer other Key Community Bank	45	2	2
Credit cards	514	4	2
Consumer other:			
Marine	373	54	31
Other	67	2	1
Total consumer other	440	56	32
Total consumer loans	2,364	141	109
Total prior-year accruing TDRs	2,385	149	113
Total TDRs	4,776	$ 349	$ 270

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

Table of Contents

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

December 31, 2013 *dollars in millions*	**Number of loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	33	$ 72	$ 34
Commercial real estate:			
Real estate commercial mortgage	11	41	14
Real estate construction	6	19	4
Total commercial real estate loans	17	60	18
Total commercial loans	50	132	52
Real estate residential mortgage	676	43	43
Home equity:			
Key Community Bank	1,708	91	86
Other	227	6	6
Total home equity loans	1,935	97	92
Consumer other Key Community Bank	49	2	1
Credit cards	629	5	4
Consumer other:			
Marine	360	24	21
Other	50	1	1
Total consumer other	410	25	22
Total consumer loans	3,699	172	162
Total nonperforming TDRs	3,749	304	214
Prior-year accruing [(a)]			
Commercial, financial and agricultural	50	7	3
Commercial real estate:			
Real estate commercial mortgage	4	18	10
Real estate construction	1	23	42
Total commercial real estate loans	5	41	52
Total commercial loans	55	48	55
Real estate residential mortgage	119	12	12
Home equity:			
Key Community Bank	161	17	17
Other	212	7	6
Total home equity loans	373	24	23
Consumer other Key Community Bank	31	1	1
Credit cards	240	2	1
Consumer other:			
Marine	272	51	31
Other	54	1	1
Total consumer other	326	52	32
Total consumer loans	1,089	91	69
Total prior-year accruing TDRs	1,144	139	124
Total TDRs	4,893	$ 443	$ 338

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

We classify loan modifications as TDRs when a borrower is experiencing financial difficulties and we have granted a concession without commensurate financial, structural, or legal consideration. All commercial and consumer loan TDRs, regardless of size, are individually evaluated for impairment to determine the probable loss content and are assigned a specific loan allowance if deemed appropriate. This designation has the effect of moving the loan from the general reserve methodology (i.e., collectively evaluated) to the specific reserve methodology (i.e., individually evaluated) and may impact the ALLL through a charge-off or increased loan loss provision. These components affect the ultimate allowance level. Additional information regarding TDRs for discontinued operations is provided in Note 13 (Acquisitions and Discontinued Operations).

Commercial loan TDRs are considered defaulted when principal and interest payments are 90 days past due. Consumer loan TDRs are considered defaulted when principal and interest payments are more than 60 days past

Table of Contents

due. During the year ended December 31, 2014, there were no significant commercial loan TDRs, and 84 consumer loan TDRs with a combined recorded investment of $4 million that experienced payment defaults from modifications resulting in TDR status during 2013. During the year ended December 31, 2013, there were no significant commercial loan TDRs, and 672 consumer loan TDRs with a combined recorded investment of $31 million that experienced payment defaults from modifications resulting in TDR status during 2012. As TDRs are individually evaluated for impairment under the specific reserve methodology, subsequent defaults do not generally have a significant additional impact on the ALLL.

Our loan modifications are handled on a case-by-case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet the borrower s financial needs. Our concession types are primarily interest rate reductions, forgiveness of principal, and other modifications. The commercial TDR other concession category includes modification of loan terms, covenants, or conditions. The consumer TDR other concession category primarily includes those borrowers that are discharged through Chapter 7 bankruptcy and have not been formally re-affirmed.

The following table shows the post-modification outstanding recorded investment by concession type for our commercial and consumer accruing and nonaccruing TDRs and other selected financial data.

December 31,

in millions		**2014**		**2013**
Commercial loans:				
Interest rate reduction	**$**	**13**	$	95
Forgiveness of principal		**2**		5
Other		**25**		7
Total	**$**	**40**	$	107
Consumer loans:				
Interest rate reduction	**$**	**140**	$	130
Forgiveness of principal		**4**		5
Other		**86**		96
Total	**$**	**230**	$	231
Total commercial and consumer TDRs [(a)]	**$**	**270**	$	338
Total loans		**57,381**		54,457

(a) Commitments outstanding to lend additional funds to borrowers whose loan terms have been modified in TDRs are $5 million and $15 million at December 31, 2014, and December 31, 2013, respectively.

Our policies for determining past due loans, placing loans on nonaccrual, applying payments on nonaccrual loans, and resuming accrual of interest for our commercial and consumer loan portfolios are disclosed in Note 1 (Summary of Significant Accounting Policies) under the heading Nonperforming Loans.

At December 31, 2014, approximately $56.6 billion, or 98.7%, of our total loans were current. At December 31, 2014, total past due loans and nonperforming loans of $749 million represented approximately 1.3% of total loans.

Table of Contents

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

December 31, 2014 *in millions*	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 and Greater Days Past Due**	**Nonperforming Loans**	**Total Past Due and Nonperforming Loans**	**Purchased Credit Impaired**	**Total Loans**
LOAN TYPE								
Commercial, financial and agricultural	$ 27,858	$ 19	$ 14	$ 32	$ 59	$ 124		$ 27,982
Commercial real estate:								
Commercial mortgage	7,981	6	10	16	34	66		8,047
Construction	1,084	2		1	13	16		1,100
Total commercial real estate loans	9,065	8	10	17	47	82		9,147
Commercial lease financing	4,172	30	21	11	18	80		4,252
Total commercial loans	$ 41,095	$ 57	$ 45	$ 60	$ 124	$ 286		$ 41,381
Real estate residential mortgage	$ 2,111	$ 12	$ 7	$ 4	$ 79	$ 102	$ 12	$ 2,225
Home equity:								
Key Community Bank	10,098	46	22	14	185	267	1	10,366
Other	249	5	2	1	10	18		267
Total home equity loans	10,347	51	24	15	195	285	1	10,633
Consumer other Key Community Bank	1,541	9	3	5	2	19		1,560
Credit cards	733	6	4	9	2	21		754
Consumer other:								
Marine	746	11	5	2	15	33		779
Other	46	1		1	1	3		49
Total consumer other	792	12	5	3	16	36		828
Total consumer loans	$ 15,524	$ 90	$ 43	$ 36	$ 294	$ 463	$ 13	$ 16,000
Total loans	$ 56,619	$ 147	$ 88	$ 96	$ 418	$ 749	$ 13	$ 57,381

December 31, 2013 *in millions*	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 and Greater Days Past Due**	**Nonperforming Loans**	**Total Past Due and Nonperforming Loans**	**Purchased Credit Impaired**	**Total Loans**
LOAN TYPE								
Commercial, financial and agricultural	$ 24,823	$ 39	$ 8	$ 16	$ 77	$ 140		$ 24,963
Commercial real estate:								
Commercial mortgage	7,638	20	7	17	37	81	$ 1	7,720
Construction	1,068	10		1	14	25		1,093
Total commercial real estate loans	8,706	30	7	18	51	106	1	8,813
Commercial lease financing	4,463	32	33	4	19	88		4,551
Total commercial loans	$ 37,992	$ 101	$ 48	$ 38	$ 147	$ 334	$ 1	$ 38,327
Real estate residential mortgage	$ 2,038	$ 19	$ 5	$ 4	$ 107	$ 135	$ 14	$ 2,187
Home equity:								
Key Community Bank	10,038	51	31	14	205	301	1	10,340
Other	308	6	4	1	15	26		334
Total home equity loans	10,346	57	35	15	220	327	1	10,674
Consumer other Key Community Bank	1,426	8	5	7	3	23		1,449
Credit cards	698	11	5	4	4	24		722
Consumer other:								
Marine	979	15	6	2	26	49		1,028
Other	65	2	1	1	1	5		70

Total consumer other	1,044	17	7	3	27	54		1,098
Total consumer loans	$ 15,552	$ 112	$ 57	$ 33	$ 361	$ 563	$ 15	$ 16,130
Total loans	$ 53,544	$ 213	$ 105	$ 71	$ 508	$ 897	$ 16	$ 54,457

The prevalent risk characteristic for both commercial and consumer loans is the risk of loss arising from an obligor s inability or failure to meet contractual payment or performance terms. Evaluation of this risk is stratified and monitored by the loan risk rating grades assigned for the commercial loan portfolios and the regulatory risk ratings assigned for the consumer loan portfolios.

139

Table of Contents

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

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

Credit quality indicators for our commercial and consumer loan portfolios, excluding $13 million and $16 million of PCI loans at December 31, 2014, and December 31, 2013, respectively, based on bond rating, regulatory classification, and payment activity as of December 31, 2014, and December 31, 2013, are as follows:

Commercial Credit Exposure

Credit Risk Profile by Creditworthiness Category [(a)]

	Commercial, financial and agricultural		**RE Commercial**		**RE Construction**		**Commercial Lease**		**To**
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**
	$ 311	$ 402	**$ 2**	$ 2	**$ 1**	$ 1	**$ 513**	$ 656	**$ 827**
	1,272	882	**1**	56		1	**608**	631	**1,881**
	24,949	22,368	**7,527**	7,129	**956**	920	**2,952**	3,080	**36,384**
	686	521	**287**	282	**105**	32	**112**	117	**1,190**
	764	790	**230**	250	**38**	139	**67**	67	**1,099**
	$ 27,982	$ 24,963	**$ 8,047**	$ 7,719	**$ 1,100**	$ 1,093	**$ 4,252**	$ 4,551	**$ 41,381**

(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]

December 31,

in millions

	Residential	Prime
GRADE	**2014**	**2013**
Pass	**$ 12,552**	$ 12,500
Substandard	**293**	346
Total	**$ 12,845**	$ 12,846

140

Table of Contents

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

mber 31,	**Consumer Key Community Bank**		**Credit cards**		**Consumer Marine**		**Consumer Other**		**Total**	
llions	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**20**
rming	**$ 1,558**	$ 1,446	**$ 752**	$ 718	**$ 764**	$ 1,002	**$ 48**	$ 69	**$ 3,122**	$ 3,2
erforming	**2**	3	**2**	4	**15**	26	**1**	1	**20**	
	$ 1,560	$ 1,449	**$ 754**	$ 722	**$ 779**	$ 1,028	**$ 49**	$ 70	**$ 3,142**	$ 3,2

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

(b) Our past due payment activity to regulatory classification conversion is as follows: pass = less than 90 days; and substandard = 90 days and greater plus nonperforming loans.

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

For all commercial and consumer loan TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance of $2.5 million or greater, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. We estimate the extent of the individual impairment for commercial loans and TDRs by comparing the recorded investment of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan s observable market price. Secured consumer loan TDRs that are discharged through Chapter 7 bankruptcy and not formally re-affirmed are adjusted to reflect the fair value of the underlying collateral, less costs to sell. Non-Chapter 7 consumer loan TDRs are combined in homogenous pools and assigned a specific allocation based on the estimated present value of future cash flows using the loan s effective interest rate. A specific allowance also may be assigned   even when sources of repayment appear sufficient   if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses. The ALLL at December 31, 2014, represents our best estimate of the probable credit losses inherent in the loan portfolio at that date.

Although quantitative modeling factors such as default probability and expected recovery rates are constantly changing as the financial strength of the borrower and overall economic conditions change, we have not changed the accounting policies or methodology that we use to estimate the ALLL.

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

At December 31, 2014, the ALLL was $794 million, or 1.38% of loans, compared to $848 million, or 1.56% of loans, at December 31, 2013. At December 31, 2014, the ALLL was 190% of nonperforming loans, compared to 166.9% at December 31, 2013.

Table of Contents

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

December 31,

in millions	**2014**	2013	2012
Balance at beginning of period continuing operations	**$ 848**	$ 888	$ 1,004
Charge-offs	**(211)**	(308)	(508)
Recoveries	**98**	140	163
Net loans and leases charged off	**(113)**	(168)	(345)
Provision for loan and lease losses from continuing operations	**59**	130	229
Foreign currency translation adjustment		(2)	
Balance at end of period continuing operations	**$ 794**	$ 848	$ 888

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

in millions	December 31, 2013	Provision	Charge-offs	Recoveries	December 31, 2014
Commercial, financial and agricultural	$ 362	**$ 41**	**$ (45)**	**$ 33**	**$ 391**
Real estate commercial mortgage	165	**(15)**	**(6)**	**4**	**148**
Real estate construction	32	**(16)**	**(5)**	**17**	**28**
Commercial lease financing	62	**(6)**	**(10)**	**10**	**56**
Total commercial loans	621	**4**	**(66)**	**64**	**623**
Real estate residential mortgage	37	**(6)**	**(10)**	**2**	**23**
Home equity:					
Key Community Bank	84	**10**	**(37)**	**9**	**66**
Other	11	**(2)**	**(9)**	**5**	**5**
Total home equity loans	95	**8**	**(46)**	**14**	**71**
Consumer other Key Community Bank	29	**17**	**(30)**	**6**	**22**
Credit cards	34	**32**	**(34)**	**1**	**33**
Consumer other:					
Marine	29	**6**	**(23)**	**9**	**21**
Other	3	**(2)**	**(2)**	**2**	**1**
Total consumer other:	32	**4**	**(25)**	**11**	**22**
Total consumer loans	227	**55**	**(145)**	**34**	**171**
Total ALLL continuing operations	848	**59**	**(211)**	**98**	**794**
Discontinued operations	39	**21**	**(45)**	**14**	**29**
Total ALLL including discontinued operations	$ 887	**$ 80**	**$ (256)**	**$ 112**	**$ 823**

142

Table of Contents

in millions	December 31, 2012	Provision	Charge-offs	Recoveries	December 31, 2013
Commercial, financial and agricultural	$ 327	$ 58	$ (62)	$ 39	$ 362
Real estate commercial mortgage	198	(40)	(20)	27	165
Real estate construction	41	(20)	(3)	14	32
Commercial lease financing	55	19	(27)	15	62
Total commercial loans	621	17	(112)	95	621
Real estate residential mortgage	30	25	(20)	2	37
Home equity:					
Key Community Bank	105	31	(62)	10	84
Other	25		(20)	6	11
Total home equity loans	130	31	(82)	16	95
Consumer other Key Community Bank	38	15	(31)	7	29
Credit cards	26	35	(30)	3	34
Consumer other:					
Marine	39	4	(29)	15	29
Other	4	1	(4)	2	3
Total consumer other:	43	5	(33)	17	32
Total consumer loans	267	111	(196)	45	227
Total ALLL continuing operations	888	128 (a)	(308)	140	848
Discontinued operations	55	21	(55)	18	39
Total ALLL including discontinued operations	$ 943	$ 149	$ (363)	$ 158	$ 887

(a) Includes $2 million of foreign currency translation adjustment.

in millions	December 31, 2011	Provision	Charge-offs	Recoveries	December 31, 2012
Commercial, financial and agricultural	$ 334	$ 10	$ (80)	$ 63	$ 327
Real estate commercial mortgage	272	5	(102)	23	198
Real estate construction	63	(3)	(24)	5	41
Commercial lease financing	78	(18)	(27)	22	55
Total commercial loans	747	(6)	(233)	113	621
Real estate residential mortgage	37	17	(27)	3	30
Home equity:					
Key Community Bank	103	90	(99)	11	105
Other	29	26	(35)	5	25
Total home equity loans	132	116	(134)	16	130
Consumer other Key Community Bank	41	29	(38)	6	38
Credit cards		37	(11)		26
Consumer other:					
Marine	46	30	(59)	22	39
Other	1	6	(6)	3	4
Total consumer other:	47	36	(65)	25	43
Total consumer loans	257	235	(275)	50	267
Total ALLL continuing operations	1,004	229	(508)	163	888
Discontinued operations	104	9	(75)	17	55
Total ALLL including discontinued operations	$ 1,108	$ 238	$ (583)	$ 180	$ 943

Our ALLL from continuing operations decreased by $54 million, or 6.4%, since 2013 primarily because of the improvement in the credit quality of our loan portfolios. The quality of new loan originations as well as decreasing levels of criticized, classified, and nonperforming loans and net loan charge-offs also resulted in a reduction in our general allowance. Our general allowance applies expected loss rates to our existing loans with similar risk characteristics as well as any adjustments to reflect our current assessment of qualitative factors such as changes in economic conditions, underwriting standards, and concentrations of credit. Our delinquency trends declined during 2013 and into 2014 due to continued improved credit quality, a modest level of loan growth, relatively stable economic conditions, and continued run-off in our exit loan portfolio, reflecting our effort to maintain a moderate enterprise risk tolerance.

143

Table of Contents

For continuing operations, the loans outstanding individually evaluated for impairment totaled $302 million, with a corresponding allowance of $40 million at December 31, 2014. Loans outstanding collectively evaluated for impairment totaled $57.1 billion, with a corresponding allowance of $753 million at December 31, 2014. At December 31, 2014, PCI loans evaluated for impairment totaled $13 million, with a corresponding allowance of $1 million. There was no provision for loan and lease losses on these PCI loans during the year ended December 31, 2014. At December 31, 2013, the loans outstanding individually evaluated for impairment totaled $358 million, with a corresponding allowance of $42 million. Loans outstanding collectively evaluated for impairment totaled $54.1 billion, with a corresponding allowance of $805 million at December 31, 2013. At December 31, 2013, PCI loans evaluated for impairment totaled $16 million, with a corresponding allowance of $1 million. There was no provision for loan and lease losses on these PCI loans during the year ended December 31, 2013.

A breakdown of the individual and collective ALLL and the corresponding loan balances as of December 31, 2014, follows:

December 31, 2014	**Allowance**			**Outstanding**			
in millions	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Purchased Credit Impaired**	**Loans**	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Purchased Credit Impaired**
Commercial, financial and agricultural	$ 9	$ 382		$ 27,982	$ 43	$ 27,939	
Commercial real estate:							
Commercial mortgage	2	146		8,047	21	8,025	$ 1
Construction	1	27		1,100	8	1,092	
Total commercial real estate loans	3	173		9,147	29	9,117	1
Commercial lease financing		56		4,252		4,252	
Total commercial loans	12	611		41,381	72	41,308	1
Real estate residential mortgage	5	17	$ 1	2,225	55	2,159	11
Home equity:							
Key Community Bank	16	50		10,366	108	10,257	1
Other	2	3		267	12	255	
Total home equity loans	18	53		10,633	120	10,512	1
Consumer other Key Community Bank		22		1,560	4	1,556	
Credit cards		33		754	4	750	
Consumer other:							
Marine	5	16		779	45	734	
Other		1		49	2	47	
Total consumer other	5	17		828	47	781	
Total consumer loans	28	142	1	16,000	230	15,758	12
Total ALLL continuing operations	40	753	1	57,381	302	57,066	13
Discontinued operations	1	28		2,295 (a)	17	2,278 (a)	
Total ALLL including discontinued operations	$ 41	$ 781	$ 1	$ 59,676	$ 319	$ 59,344	$ 13

(a) Amount includes $191 million of portfolio loans carried at fair value that are excluded from ALLL consideration.

Table of Contents

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

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

(a) Amount includes $2.1 billion of loans carried at fair value that are excluded from ALLL consideration.

The liability for credit losses inherent in lending-related unfunded commitments, such as letters of credit and unfunded loan commitments, is included in accrued expense and other liabilities on the balance sheet. We establish the amount of this reserve by considering both historical trends and current market conditions quarterly, or more often if deemed necessary. Our liability for credit losses on lending-related commitments is $36 million at December 31, 2014. When combined with our ALLL, our total allowance for credit losses represented 1.45% of loans at December 31, 2014, compared to 1.63% at December 31, 2013.

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

Year ended December 31,			
in millions	**2014**	2013	2012
Balance at beginning of period	**$ 37**	$ 29	$ 45
Provision (credit) for losses on lending-related commitments	**(1)**	8	(16)
Balance at end of period	**$ 36**	$ 37	$ 29

6. Fair Value Measurements

Fair Value Determination

As defined in the applicable accounting guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in our principal market. We have established and documented our process for determining the fair values of our assets and liabilities, where applicable. Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, we determine the fair value of our assets and liabilities using valuation models or third-party pricing services. Both of these approaches rely on market-based parameters,

Table of Contents

when available, such as interest rate yield curves, option volatilities, and credit spreads, or unobservable inputs. Unobservable inputs may be based on our judgment, assumptions, and estimates related to credit quality, liquidity, interest rates, and other relevant inputs.

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

¿ the amount of time since the last relevant valuation;

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

¿ volatility associated with the primary pricing components.

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

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

¿ recurring detailed reviews of profit and loss; and

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

We recognize transfers between levels of the fair value hierarchy at the end of the reporting period. Quarterly, we review any changes to our valuation methodologies to ensure they are appropriate and justified, and refine our valuation methodologies if more market-based data becomes available. The Fair Value Committee, which is governed by ALCO, oversees the valuation process for all lines of business and support areas, as applicable. Various Working Groups that report to the Fair Value Committee analyze and approve the underlying assumptions and valuation adjustments. Changes in valuation methodologies for Level 1 and Level 2 instruments are presented to Accounting Policy for approval. Changes in valuation methodologies for Level 3 instruments are presented to the Fair Value Committee for approval. The Working Groups are discussed in more detail in the qualitative disclosures within this note and in Note 13 (Acquisitions and Discontinued Operations). Formal documentation of the fair valuation methodologies is prepared by the lines of business and support areas as appropriate. The documentation details the asset or liability class and related general ledger accounts, valuation techniques, fair value hierarchy level, market participants, accounting methods, valuation methodology, group responsible for valuations, and valuation inputs.

Additional information regarding our accounting policies for determining fair value is provided in Note 1 (Summary of Significant Accounting Policies) under the heading Fair Value Measurements.

Qualitative Disclosures of Valuation Techniques

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

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

¿

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

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

¿ Securities are classified as Level 3 when there is limited activity in the market for a particular instrument. To determine fair value in such cases, depending on the complexity of the valuations required, we use internal models based on certain assumptions or a third-party valuation service. At December 31, 2014, our Level 3 instruments consist of a convertible preferred security. The security is valued using a cash flow analysis of the associated private company issuer as determined by a third-party valuation service. The valuation of the security is negatively impacted by a projected net loss of the associated private company and positively impacted by a projected net gain.

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

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

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

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

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

Private equity and mezzanine investments. Private equity and mezzanine investments consist of investments in debt and equity securities through our Real Estate Capital line of business. They include direct investments made in specific properties, as well as indirect investments made in funds that pool assets of many investors to invest in properties. There is no active market for these investments, so we employ other valuation methods. The portion of our Real Estate Capital line of business involved with private equity and mezzanine investments is accounted for as an investment company in accordance with the applicable accounting guidance, whereby all investments are recorded at fair value.

Private equity and mezzanine investments are classified as Level 3 assets since our judgment significantly influences the determination of fair value. Our Fund Management, Asset Management, and Accounting groups are responsible for reviewing the valuation models and determining the fair value of these investments on a quarterly basis. Direct investments in properties are initially valued based upon the transaction price. This amount is then adjusted to fair value based on current market conditions using the discounted cash flow method based on the expected investment exit date. The fair values of the assets are reviewed and adjusted quarterly. Periodically, we obtain a third-party appraisal for the investments to validate the specific inputs for determining fair value.

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

Consistent with accounting guidance, indirect investments are valued using a methodology that allows the use of statements from the investment manager to calculate net asset value per share. A primary input used in estimating fair value is the most recent value of the capital accounts as reported by the general partners of the funds in which we invest. The calculation to determine the investment s fair value is based on our percentage ownership in the fund multiplied by the net asset value of the fund, as provided by the fund manager. Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect investments. As of December 31, 2014, management has not committed to a plan to sell these investments. Therefore, these investments continue to be valued using the net asset value per share methodology. For more information about the Volcker Rule, see the discussion under the heading Other regulatory developments under the Dodd-Frank Act Volcker Rule in the section entitled Supervision and Regulation in Item 1 of this report.

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 December 31, 2014. We did not provide any financial support to investees related to our direct and indirect investments for the years ended December 31, 2014, and December 31, 2013.

December 31, 2014

in millions	Fair Value	Unfunded Commitments
INVESTMENT TYPE		
Indirect investments		
Passive funds (a)	$ 9	$ 1
Co-managed funds (b)	1	
Total	$ 10	$ 1

(a) We invest in passive funds, which are multi-investor private equity funds. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying investments in the funds. Some funds have no restrictions on sale, while others require investors to remain in the fund until maturity. The funds will be liquidated over a period of one to four years. The purpose of KREEC s funding is to allow funds to make additional investments and keep a certain market value threshold in the funds. KREEC is obligated to provide financial support, as all investors are required, to fund based on their ownership percentage, as noted in the Limited Partnership Agreements.

(b) We are a manager or co-manager of these funds. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying investments in the funds. In addition, we receive management fees. We can sell or transfer our interest in any of these funds with the written consent of a majority of the fund s investors. In one instance, the other co-manager of the fund must consent to the sale or transfer of our interest in the fund. The funds will mature over a period of one to two years. The purpose of KREEC s funding is to allow funds to make additional investments and keep a certain market value threshold in the funds. KREEC is obligated to provide financial support, as all investors are required, to fund based on their ownership percentage, as noted in the Limited Partnership Agreements.

Table of Contents

***Principal investments*.** Principal investments consist of investments in equity and debt instruments made by our principal investing entities. They include direct investments (investments made in a particular company) and indirect investments (investments made through funds that include other investors). Our principal investing entities are accounted for as investment companies in accordance with the applicable accounting guidance, whereby each investment is adjusted to fair value with any net realized or unrealized gain/loss recorded in the current period s earnings. This process is a coordinated and documented effort by the Principal Investing Entities Deal Team (individuals from one of the independent investment managers who oversee these instruments), accounting staff, and the Investment Committee (individual employees and a former employee of Key and one of the independent investment managers). This process involves an in-depth review of the condition of each investment depending on the type of investment.

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

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

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

Our indirect investments are classified as Level 3 assets since our significant inputs are not observable in the marketplace. Indirect investments include primary and secondary investments in private equity funds engaged mainly in venture- and growth-oriented investing. These investments do not have readily determinable fair values. Indirect investments are valued using a methodology that is consistent with accounting guidance that allows us to estimate fair value based upon net asset value per share (or its equivalent, such as member units or an ownership interest in partners capital to which a proportionate share of net assets is attributed). The significant unobservable input used in estimating fair value is primarily the most recent value of the capital accounts as reported by the general partners of the funds in which we invest. Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect investments. As of December 31, 2014, management has not committed to a plan to sell these investments. Therefore, these investments continue to be valued using the net asset value per share methodology.

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

The following table presents the fair value of our direct and indirect principal investments and related unfunded commitments at December 31, 2014, as well as financial support provided for the years ended December 31, 2014, and December 31, 2013:

			Financial support provided			
			Year ended December 31,			
	December 31, 2014		2014		2013	
		Unfunded	Funded	Funded	Funded	Funded
in millions	**Fair Value**	**Commitments**	**Commitments**	**Other**	**Commitments**	**Other**
INVESTMENT TYPE						
Direct investments [(a)]	**$ 104**			**$ 3**		$ 8
Indirect investments [(b)]	**302**	**$ 60**	**$ 11**		$ 23	
Total	**$ 406**	**$ 60**	**$ 11**	**$ 3**	$ 23	$ 8

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

(b) Our indirect investments consist of buyout funds, venture capital funds, and fund of funds. These investments are generally not redeemable. Instead, distributions are received through the liquidation of the underlying investments of the fund. An investment in any one of these funds typically can be sold only with the approval of the fund s general partners. We estimate that the underlying investments of the funds will be liquidated over a period of one to nine years. The purpose of funding our capital commitments to these investments is to allow the funds to make additional follow-on investments and pay fund expenses until the fund dissolves. We, and all other investors in the fund, are obligated to fund the full amount of our respective capital commitments to the fund based on our and their respective ownership percentages, as noted in the applicable Limited Partnership Agreement.

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

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

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

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

Table of Contents

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

December 31, 2014

in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Trading account assets:				
U.S. Treasury, agencies and corporations		$ 555		$ 555
States and political subdivisions		38		38
Collateralized mortgage obligations				
Other mortgage-backed securities		124		124
Other securities	$ 2	29		31
Total trading account securities	2	746		748
Commercial loans		2		2
Total trading account assets	2	748		750
Securities available for sale:				
States and political subdivisions		23		23
Collateralized mortgage obligations		11,270		11,270
Other mortgage-backed securities		2,035		2,035
Other securities	22		$ 10	32
Total securities available for sale	22	13,328	10	13,360
Other investments:				
Principal investments:				
Direct	2		102	104
Indirect			302	302
Total principal investments	2		404	406
Equity and mezzanine investments:				
Direct				
Indirect			10	10
Total equity and mezzanine investments			10	10
Total other investments	2		414	416
Derivative assets:				
Interest rate		924	13	937
Foreign exchange	91	2		93
Commodity		608		608
Credit		2	3	5
Derivative assets	91	1,536	16	1,643
Netting adjustments [(a)]				(1,034)
Total derivative assets	91	1,536	16	609
Accrued income and other assets				
Total assets on a recurring basis at fair value	$ 117	$ 15,612	$ 440	$ 15,135

LIABILITIES MEASURED ON A RECURRING BASIS				
Bank notes and other short-term borrowings:				
Short positions	$	$ 423		$ 423
Derivative liabilities:				
Interest rate		644		644
Foreign exchange	77	4		81
Commodity		594		594
Credit		6	$ 1	7
Derivative liabilities	77	1,248	1	1,326
Netting adjustments [(a)]				(542)
Total derivative liabilities	77	1,248	1	784
Accrued expense and other liabilities				
Total liabilities on a recurring basis at fair value	$ 77	$ 1,671	$ 1	$ 1,207

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

Table of Contents

December 31, 2013

in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Trading account assets:				
U.S. Treasury, agencies and corporations		$ 471		$ 471
States and political subdivisions		23		23
Collateralized mortgage obligations		9		9
Other mortgage-backed securities		120		120
Other securities	$ 4	108		112
Total trading account securities	4	731		735
Commercial loans		3		3
Total trading account assets	4	734		738
Securities available for sale:				
States and political subdivisions		40		40
Collateralized mortgage obligations		11,000		11,000
Other mortgage-backed securities		1,286		1,286
Other securities	20			20
Total securities available for sale	20	12,326		12,346
Other investments:				
Principal investments:				
Direct			$ 141	141
Indirect			413	413
Total principal investments			554	554
Equity and mezzanine investments:				
Direct				
Indirect			23	23
Total equity and mezzanine investments			23	23
Total other investments			577	577
Derivative assets:				
Interest rate		1,014	25	1,039
Foreign exchange	56	7		63
Commodity		112		112
Credit		1	4	5
Derivative assets	56	1,134	29	1,219
Netting adjustments [(a)]				(812)
Total derivative assets	56	1,134	29	407
Accrued income and other assets		1		1
Total assets on a recurring basis at fair value	$ 80	$ 14,195	$ 606	$ 14,069
LIABILITIES MEASURED ON A RECURRING BASIS				
Bank notes and other short-term borrowings:				
Short positions	$ 2	$ 341		$ 343
Derivative liabilities:				
Interest rate		739		739
Foreign exchange	49	8		57
Commodity		106		106
Credit		11	$ 1	12
Derivative liabilities	49	864	1	914
Netting adjustments [(a)]				(500)
Total derivative liabilities	49	864	1	414
Accrued expense and other liabilities		1		1
Total liabilities on a recurring basis at fair value	$ 51	$ 1,206	$ 1	$ 758

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

Table of Contents

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 years ended December 31, 2014, and December 31, 2013. We mitigate the credit risk, interest rate risk, and risk of loss related to many of these Level 3 instruments by using securities and derivative positions classified as Level 1 or Level 2. Level 1 and Level 2 instruments are not included in the following table. Therefore, the gains or losses shown do not include the impact of our risk management activities.

in millions	Beginning of Period Balance	Gains (Losses) Included in Earnings	Purchases	Sales	Settlements	Transfers into Level 3 (e)	Transfers out of Level 3 (e)	End of Period Balance (g)	Unrealized Gains (Losses) Included in Earnings
Year ended December 31, 2014									
Securities available for sale									
Other securities			$ 10					$ 10	
Other investments									
Principal investments									
Direct	$ 141	$ 18 (c)	1	$ (58)				102	$ 13 (c)
Indirect	413	57 (c)	8	(176)				302	(26) (c)
Equity and mezzanine investments									
Direct									
Indirect	23	(1) (c)			$ (12)			10	(1) (c)
Derivative instruments [a]									
Interest rate	25	4 (d)	4	(3)		$ 7 (f)	$ (24) (f)	13	
Commodity						1 (f)	(1) (f)		
Credit	3	(17) (d)			16			2	

in millions	Beginning of Period Balance	Gains (Losses) Included in Earnings	Purchases	Sales	Settlements	Transfers into Level 3 (e)	Transfers out of Level 3 (e)	End of Period Balance (g)	Unrealized Gains (Losses) Included in Earnings
Year ended December 31, 2013									
Trading account assets									
Other mortgage-backed securities		$ 4 (b)		$ (4)					
Other securities		4 (b)			$ (4)				$ (1) (b)
State and political subdivisions	$ 3			(3)					
Other investments									
Principal investments									
Direct	191	(11) (c)	$ 8	(47)				$ 141	(23) (c)
Indirect	436	58 (c)	23	(104)				413	18 (c)
Equity and mezzanine investments									
Direct									8 (c)
Indirect	41	2 (c)			(20)			23	2 (c)
Derivative instruments [a]									
Interest rate	19	(10) (d)	1	(2)		$ 46 (f)	$ (29) (f)	25	
Commodity	1	(1) (d)							
Credit	4	(8) (d)			7			3	

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

(b) Realized and unrealized gains and losses on trading account assets are reported in "other income" on the income statement.

(c) Realized and unrealized gains and losses on principal investments are reported in net gains (losses) from principal investing on the income statement. Realized and unrealized losses on private equity and mezzanine investments are reported in other income on the income statement.

(d) Realized and unrealized gains and losses on derivative instruments are reported in corporate services income and other income on the income statement.

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

(f) Certain derivatives previously classified as Level 2 were transferred to Level 3 because Level 3 unobservable inputs became significant. Certain derivatives previously classified as Level 3 were transferred to Level 2 because Level 3 unobservable inputs became less significant.

(g) There were no issuances for the years ended December 31, 2014, and December 31, 2013.

Table of Contents

Assets Measured at Fair Value on a Nonrecurring Basis

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

	December 31, 2014				December 31, 2013			
in millions	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS MEASURED ON A NONRECURRING BASIS								
Impaired loans			**$ 5**	**$ 5**			$ 16	$ 16
Loans held for sale [(a)]								
Accrued income and other assets			**13**	**13**			14	14
Total assets on a nonrecurring basis at fair value			**$ 18**	**$ 18**			$ 30	$ 30

(a) During 2014, we transferred $11 million of commercial and consumer loans and leases at their current fair value from held-for-sale status to the held-to-maturity portfolio, compared to $9 million during 2013.

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

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

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

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

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

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

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

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

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

Valuations of performing commercial mortgage and construction loans held for sale are conducted using internal models that rely on market data from sales or nonbinding bids on similar assets, including credit spreads, treasury rates, interest rate curves, and risk profiles. These internal models also rely on our own assumptions about the exit market for the loans and details about individual loans within the respective portfolios. Therefore, we classify 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 are classified as Level 3 assets.

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

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

Goodwill and other intangible assets. On a quarterly basis, we review impairment indicators to determine whether we need to evaluate the carrying amount of goodwill and other intangible assets assigned to Key Community Bank and Key Corporate Bank. We also perform an annual impairment test for goodwill. Accounting guidance permits an entity to first assess qualitative factors to determine whether additional goodwill impairment testing is required. However, we did not choose to utilize a qualitative assessment in our annual goodwill impairment testing performed during the fourth quarter of 2014. Fair value of our reporting units is determined using both an income approach (discounted cash flow method) and a market approach (using publicly traded company and recent transactions data), which are weighted equally.

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

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.

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

¿ Commercial Real Estate Valuation Process: When a loan is reclassified from loan status to OREO because we took possession of the collateral, the Asset Recovery Group Loan Officer, in consultation with our OREO group, obtains a broker price opinion or a third-party appraisal, which is used to establish the fair value of the underlying collateral. The determined fair value of the underlying collateral less estimated selling costs becomes the carrying value of the OREO asset. In addition to valuations from independent third-party sources, our OREO group also writes down the carrying balance of OREO assets once a bona fide offer is contractually accepted, where the accepted price is lower than the current balance of the particular OREO asset. The fair value of OREO property is re-evaluated every 90 days and the OREO asset is adjusted as necessary.

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

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 9 (Mortgage Servicing Assets).

Table of Contents

Quantitative Information about Level 3 Fair Value Measurements

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

December 31, 2014 *dollars in millions*	**Fair Value of Level 3 Assets**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Recurring				
Other investments principal investments direct:	$ 102	Individual analysis of the condition of each investment		
Debt instruments			EBITDA multiple	5.40 - 6.00 (5.50)
Equity instruments of private companies			EBITDA multiple (where applicable)	5.50 - 6.20 (5.80)
			Revenue multiple (where applicable)	4.30 - 4.30 (4.30)
Nonrecurring				
Impaired loans	5	Fair value of underlying collateral	Discount	10.00 - 64.00% (62.00%)
Goodwill	1,057	Discounted cash flow and market data	Earnings multiple of peers	11.40 - 15.90 (12.92)
			Equity multiple of peers	1.20 - 1.22 (1.21)
			Control premium	10.00 - 30.00% (19.70%)
			Weighted-average cost of capital	13.00 - 14.00% (13.52%)

December 31, 2013 *dollars in millions*	**Fair Value of Level 3 Assets**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Recurring				
Other investments principal investments direct:	$ 141	Individual analysis of the condition of each investment		
Debt instruments			EBITDA multiple	6.00 - 7.00 (6.10)
Equity instruments of private companies			EBITDA multiple (where applicable)	4.80 - 10.40 (6.20)
			Revenue multiple (where applicable)	1.10 - 4.70 (4.00)
Nonrecurring				
Impaired loans	16	Fair value of underlying collateral	Discount	10.00 - 100.00% (36.00%)
Goodwill	979	Discounted cash flow and market data	Earnings multiple of peers	10.10 - 14.40 (11.59)

	Equity multiple of peers	1.17 - 1.29 (1.24)
	Control premium	N/A (35.00%)
	Weighted-average cost of capital	N/A (13.00%)

Fair Value Disclosures of Financial Instruments

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

		December 31, 2014				
		Fair Value				
in millions	Carrying Amount	Level 1	Level 2	Level 3	Netting Adjustment	Total
ASSETS						
Cash and short-term investments [(a)]	$ **4,922**	$ **4,922**				$ **4,922**
Trading account assets [(b)]	**750**	**2**	$ **748**			**750**
Securities available for sale [(b)]	**13,360**	**22**	**13,328**	$ **10**		**13,360**
Held-to-maturity securities [(c)]	**5,015**		**4,974**			**4,974**
Other investments [(b)]	**760**	**2**	**344**	**414**		**760**
Loans, net of allowance [(d)]	**56,587**			**54,993**		**54,993**
Loans held for sale [(b)]	**734**			**734**		**734**
Mortgage servicing assets [(e)]	**323**			**417**		**417**
Derivative assets [(b)]	**609**	**91**	**1,536**	**16**	$ **(1,034)** [(f)]	**609**
LIABILITIES						
Deposits with no stated maturity [(a)]	$ **66,135**		$ **66,135**			$ **66,135**
Time deposits [(e)]	**5,863**	$ **564**	**5,361**			**5,925**
Short-term borrowings [(a)]	**998**		**998**			**998**
Long-term debt [(e)]	**7,875**	**7,625**	**626**			**8,251**
Derivative liabilities [(b)]	**784**	**77**	**1,248**	$ **1**	$ **(542)** [(f)]	**784**

Table of Contents

	December 31, 2013					
		Fair Value				
in millions	Carrying Amount	Level 1	Level 2	Level 3	Netting Adjustment	Total
ASSETS						
Cash and short-term investments [a]	$ 6,207	$ 6,207				$ 6,207
Trading account assets [b]	738	4	$ 734			738
Securities available for sale [b]	12,346	20	12,326			12,346
Held-to-maturity securities [c]	4,756		4,617			4,617
Other investments [b]	969		392	$ 577		969
Loans, net of allowance [d]	53,609			52,102		52,102
Loans held for sale [b]	611			611		611
Mortgage servicing assets [e]	332			386		386
Derivative assets [b]	407	56	1,134	29	$ (812) [f]	407
LIABILITIES						
Deposits with no stated maturity [a]	$ 62,425		$ 62,425			$ 62,425
Time deposits [e]	6,837	$ 558	6,368			6,926
Short-term borrowings [a]	1,877	2	1,875			1,877
Long-term debt [e]	7,650	7,611	397			8,008
Derivative liabilities [b]	414	49	864	$ 1	$ (500)[f]	414

Valuation Methods and Assumptions

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

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

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

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

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

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

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

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

¿ Loans at carrying value, net of allowance, of $2.1 billion ($1.8 billion at fair value) at December 31, 2014, and $2.4 billion ($2.0 billion at fair value) at December 31, 2013;

¿ Portfolio loans at fair value of $191 million at December 31, 2014, and $147 million at December 31, 2013; and

¿ Loans in the trusts at fair value of $2.0 billion at December 31, 2013.

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

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

On September 30, 2014, we sold the residual interests in all of our outstanding education loan securitization trusts to a third party. With that transaction, in accordance with the applicable accounting guidance, we deconsolidated the securitization trusts and removed the trust assets and liabilities from our balance sheet at September 30, 2014. Additional information regarding the sale of the residual interests and deconsolidation of the securitization trusts is provided in Note 13 (Acquisitions and Discontinued Operations).

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

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

7. Securities

The amortized cost, unrealized gains and losses, and fair value of our securities available for sale and held-to-maturity securities are presented in the following table. 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. For more information about our securities available for sale and held-to-maturity securities and the related accounting policies, see Note 1 (Summary of Significant Accounting Policies).

December 31,	2014				2013			
in millions	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
SECURITIES AVAILABLE FOR SALE								
States and political subdivisions	**$ 22**	**$ 1**		**$ 23**	$ 39	$ 1		$ 40
Collateralized mortgage obligations	**11,310**	**96**	**$ 136**	**11,270**	11,120	152	$ 272	11,000
Other mortgage-backed securities	**2,004**	**32**	**1**	**2,035**	1,270	27	11	1,286
Other securities	**29**	**3**		**32**	17	3		20
Total securities available for sale	**$ 13,365**	**$ 132**	**$ 137**	**$ 13,360**	$ 12,446	$ 183	$ 283	$ 12,346
HELD-TO-MATURITY SECURITIES								
Collateralized mortgage obligations	**$ 4,755**	**$ 15**	**$ 57**	**$ 4,713**	$ 4,736	$ 6	$ 145	$ 4,597

Other mortgage-backed securities	**240**	**1**		**241**				
Other securities	**20**			**20**	20			20
Total held-to-maturity securities	**$ 5,015**	**$ 16**	**$ 57**	**$ 4,974**	$ 4,756	$ 6	$ 145	$ 4,617

160

Table of Contents

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

	Duration of Unrealized Loss Position					
	Less than 12 Months		12 Months or Longer		Total	
in millions	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2014						
Securities available for sale:						
Collateralized mortgage obligations	**$ 3,019**	**$ 52**	**$ 2,932**	**$ 84**	**$ 5,951**	**$ 136**
Other mortgage-backed securities			**78**	**1**	**78**	**1**
Other securities [(a)]	**4**		**2**		**6**	
Held-to-maturity:						
Collateralized mortgage obligations	**1,005**	**11**	**1,994**	**46**	**2,999**	**57**
Total temporarily impaired securities	**$ 4,028**	**$ 63**	**$ 5,006**	**$ 131**	**$ 9,034**	**$ 194**
December 31, 2013						
Securities available for sale:						
Collateralized mortgage obligations	$ 5,122	$ 261	$ 157	$ 11	$ 5,279	$ 272
Other mortgage-backed securities	856	11			856	11
Other securities [(a)]	2				2	
Held-to-maturity:						
Collateralized mortgage obligations	3,969	145			3,969	145
Other securities [(b)]	2				2	
Total temporarily impaired securities	$ 9,951	$ 417	$ 157	$ 11	$ 10,108	$ 428

(a) Gross unrealized losses totaled less than $1 million for other securities available sale for the years ended December 31, 2014, and December 31, 2013.

(b) Gross unrealized losses totaled less than $1 million for other securities held-to-maturity for the year ended December 31, 2013.

At December 31, 2014, we had $136 million of gross unrealized losses related to 67 fixed-rate CMOs that we invested in as part of our overall A/LM strategy. These securities had a weighted-average maturity of 4.6 years at December 31, 2014. Since these securities have a fixed interest rate, their fair value is sensitive to movements in market interest rates. We also had $1 million of gross unrealized losses related to 14 other mortgage-backed securities positions, which had a weighted-average maturity of 4.6 years at December 31, 2014. These unrealized losses are considered temporary since we expect to collect all contractually due amounts from these securities. Accordingly, these investments were reduced to their fair value through OCI, not earnings.

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

Table of Contents

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 year ended December 31, 2014.

Year ended December 31, 2014

in millions		
Balance at December 31, 2013	$	4
Impairment recognized in earnings		
Balance at December 31, 2014	$	4

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

Year ended December 31

in millions	**2014** (a)	**2013** (b)		**2012** (a)
Realized gains		$	1	
Realized losses				
Net securities gains (losses)		$	1	

(a) Realized gains and losses totaled less than $1 million for the year ended December 31, 2014, and December 31, 2012.

(b) Realized losses totaled less than $1 million for the year ended December 31, 2013.

At December 31, 2014, securities available for sale and held-to-maturity securities totaling $7.8 billion were pledged to secure securities sold under repurchase agreements, to secure public and trust deposits, to facilitate access to secured funding, and for other purposes required or permitted by law.

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

December 31, 2014	**Securities Available for Sale**				**Held-to-Maturity Securities**			
in millions		**Amortized Cost**		**Fair Value**		**Amortized Cost**		**Fair Value**
Due in one year or less	$	276	$	279	$	9	$	9
Due after one through five years		13,040		13,031		4,683		4,641

Due after five through ten years	46	47	323	324
Due after ten years	3	3		
Total	$ 13,365	$ 13,360	$ 5,015	$ 4,974

Table of Contents

8. Derivatives and Hedging Activities

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

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

¿ interest rate risk represents the possibility that the EVE or net interest income will be adversely affected by fluctuations in interest rates;

¿ credit risk is the risk of loss arising from an obligor s inability or failure to meet contractual payment or performance terms; and

¿ foreign exchange risk is the risk that an exchange rate will adversely affect the fair value of a financial instrument.

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

At December 31, 2014, after taking into account the effects of bilateral collateral and master netting agreements, we had $55 million of derivative assets and a positive $10 million of derivative liabilities that relate to contracts entered into for hedging purposes. Our hedging derivative liabilities are in an asset position largely because we have 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 $554 million and derivative liabilities of $794 million that were not designated as hedging instruments.

Additional information regarding our accounting policies for derivatives is provided in Note 1 (Summary of Significant Accounting Policies) under the heading Derivatives.

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.

Table of Contents

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

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

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

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

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

Derivatives Not Designated in Hedge Relationships

On occasion, we enter into interest rate swap contracts to manage economic risks but do not designate the instruments in hedge relationships. Excluding contracts addressing customer exposures, the amount of derivatives hedging risks on an economic basis at December 31, 2014, was not significant.

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

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

¿ interest rate swap, cap, and floor contracts entered into generally to accommodate the needs of commercial loan clients;

¿ energy and base metal swap and options contracts entered into to accommodate the needs of clients;

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

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

These contracts are not designated as part of hedge relationships.

Table of Contents

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

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

	December 31, 2014			**December 31, 2013**		
		Fair Value			**Fair Value**	
in millions	**Notional Amount**	**Derivative Assets**	**Derivative Liabilities**	**Notional Amount**	**Derivative Assets**	**Derivative Liabilities**
Derivatives designated as hedging instruments:						
Interest rate	**$ 15,095**	**$ 272**	**$ 26**	$ 14,487	$ 306	$ 37
Foreign exchange	**371**	**8**		190	4	1
Total	**15,466**	**280**	**26**	14,677	310	38
Derivatives not designated as hedging instruments:						
Interest rate	**43,771**	**665**	**618**	46,173	733	702
Foreign exchange	**4,024**	**85**	**81**	4,701	59	56
Commodity	**1,544**	**608**	**594**	1,616	112	106
Credit	**512**	**5**	**7**	910	5	12
Total	**49,851**	**1,363**	**1,300**	53,400	909	876
Netting adjustments [(a)]		**(1,034)**	**(542)**		(812)	(500)
Net derivatives in the balance sheet	**65,317**	**609**	**784**	68,077	407	414
Other collateral [(b)]		**(155)**	**(241)**		(72)	(287)
Net derivative amounts	**$ 65,317**	**$ 454**	**$ 543**	$ 68,077	$ 335	$ 127

(a) Netting adjustments represent the amounts recorded to convert our derivative assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance.

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

Fair value hedges. Instruments designated as fair value hedges are recorded at fair value and included in "derivative assets" or "derivative liabilities" on the balance sheet. The effective portion of a change in the fair value of an instrument designated as a fair value hedge is recorded in earnings at the same time as a change in fair value of the hedged item, resulting in no effect on net income. The ineffective portion of a change in the fair value of such a hedging instrument is recorded in "other income" on the income statement with no corresponding offset. During the year ended December 31, 2014, we did not exclude any portion of these hedging instruments from the assessment of hedge effectiveness. While there is some immaterial ineffectiveness in our hedging relationships, all of our fair value hedges remained "highly effective" as of December 31, 2014.

The following table summarizes the pre-tax net gains (losses) on our fair value hedges for the years ended December 31, 2014, and December 31, 2013, and where they are recorded on the income statement.

	Year ended December 31, 2014					
in millions	**Income Statement Location of Net Gains (Losses) on Derivative**	**Net Gains (Losses) on Derivative**	**Hedged Item**	**Income Statement Location of Net Gains (Losses) on Hedged Item**	**Net Gains (Losses) on Hedged Item**	
Interest rate	Other income	**$ 7**	Long-term debt	Other income	**$ (5)**	(a)
Interest rate	Interest expense Long-term debt	**117**				
Total		**$ 124**			**$ (5)**	

	Year ended December 31, 2013					
in millions	**Income Statement Location of Net Gains (Losses) on Derivative**	**Net Gains (Losses) on Derivative**	**Hedged Item**	**Income Statement Location of Net Gains (Losses) on Hedged Item**	**Net Gains (Losses) on Hedged Item**	
Interest rate	Other income	$ (222)	Long-term debt	Other income	$ 222	(a)
Interest rate	Interest expense Long-term debt	129				
Total		$ (93)			$ 222	

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

Cash flow hedges. Instruments designated as cash flow hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. Initially, the effective portion of a gain or loss on a cash flow hedge is recorded as a component of AOCI on the balance sheet. This amount is subsequently reclassified into income when the hedged transaction affects earnings (e.g., when we pay variable-rate interest on debt, receive variable-rate interest on commercial loans, or sell commercial real estate loans). The ineffective portion of cash flow hedging transactions is included in other income on the income statement. During the year ended December 31, 2014, we did not exclude any portion of these hedging instruments from the assessment of hedge effectiveness. While there is some immaterial ineffectiveness in our hedging relationships, all of our cash flow hedges remained highly effective as of December 31, 2014.

Considering the interest rates, yield curves, and notional amounts as of December 31, 2014, we would expect to reclassify an estimated $25 million of net losses on derivative instruments from AOCI to income during the next 12 months for our cash flow hedges. In addition, we expect to reclassify approximately $3 million of net gains related to terminated cash flow hedges from AOCI to income during the next 12 months. As of December 31, 2014, the maximum length of time over which we hedge forecasted transactions is 14 years.

Net investment hedges. We enter into foreign currency forward contracts to hedge our exposure to changes in the carrying value of our investments as a result of changes in the related foreign exchange rates. Instruments designated as net investment hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. Initially, the effective portion of a gain or loss on a net investment hedge is recorded as a component of AOCI on the balance sheet when the terms of the derivative match the notional and currency risk being hedged. The effective portion is subsequently reclassified into income when the hedged transaction affects earnings (e.g., when we dispose of or liquidate a foreign subsidiary). At December 31, 2014, AOCI reflected unrecognized after-tax gains totaling $17 million related to cumulative changes in the fair value of our net investment hedges, which offset the unrecognized after-tax foreign currency losses on net investment balances. The ineffective portion of net investment hedging transactions is included in other income on the income statement, but there was no net investment hedge ineffectiveness as of December 31, 2014. We did not exclude any portion of our hedging instruments from the assessment of hedge effectiveness during the year ended December 31, 2014.

Table of Contents

The following table summarizes the pre-tax net gains (losses) on our cash flow and net investment hedges for the years ended December 31, 2014, and December 31, 2013, and where they are recorded on the income statement. The table includes the effective portion of net gains (losses) recognized in OCI during the period, the effective portion of net gains (losses) reclassified from OCI into income during the current period, and the portion of net gains (losses) recognized directly in income, representing the amount of hedge ineffectiveness.

Year ended December 31, 2014

in millions	Net Gains (Losses) Recognized in OCI (Effective Portion)	Income Statement Location of Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)	Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)	Income Statement Location of Net Gains (Losses) Recognized in Income (Ineffective Portion)	Net Gains (Losses) Recognized in Income (Ineffective Portion)
Cash Flow Hedges					
Interest rate	$ **50**	Interest income Loans	$ **67**	Other income	
Interest rate	**(8)**	Interest expense Long-term debt	**(4)**	Other income	
Interest rate	**(1)**	Investment banking and debt placement fees		Other income	
Net Investment Hedges					
Foreign exchange contracts	**27**	Other Income		Other income	
Total	$ **68**		$ **63**		

Year ended December 31, 2013

in millions	Net Gains (Losses) Recognized in OCI (Effective Portion)	Income Statement Location of Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)	Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)	Income Statement Location of Net Gains (Losses) Recognized in Income (Ineffective Portion)	Net Gains (Losses) Recognized in Income (Ineffective Portion)
Cash Flow Hedges					
Interest rate	$ (19)	Interest income Loans	$ 67	Other income	
Interest rate	20	Interest expense Long-term debt	(8)	Other income	
Interest rate		Investment banking and debt placement fees		Other income	
Net Investment Hedges					

Foreign exchange contracts		9	Other Income	(3)	Other income
Total	$	10		$ 56	

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

in millions	**December 31, 2013**	**2014 Hedging Activity**	**Reclassification of Gains to Net Income**	**December 31, 2014**
AOCI resulting from cash flow and net investment hedges	$ (11)	$ 43	$ (40)	$ (8)

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

Table of Contents

The following table summarizes the pre-tax net gains (losses) on our derivatives that are not designated as hedging instruments for the years ended December 31, 2014, 2013, and 2012, and where they are recorded on the income statement.

December 31, *in millions*	**2014** Corporate Services Income	**2014** Other Income	**2014** Total	**2013** Corporate Services Income	**2013** Other Income	**2013** Total	**2012** Corporate Services Income	**2012** Other Income	**2012** Total
NET GAINS (LOSSES)									
Interest rate	**$ 16**		**$ 16**	$ 17		$ 17	$ 24	$ (2)	$ 22
Foreign exchange	**34**		**34**	38		38	36		36
Commodity	**6**		**6**	5		5	9		9
Credit		**$ (21)**	**(21)**	1	$ (15)	(14)		(20)	(20)
Total net gains (losses)	**$ 56**	**$ (21)**	**$ 35**	$ 61	$ (15)	$ 46	$ 69	$ (22)	$ 47

Counterparty Credit Risk

Like other financial instruments, derivatives contain an element of credit risk. This risk is measured as the expected positive replacement value of the contracts. We use several means to mitigate and manage exposure to credit risk on derivative contracts. We generally enter into bilateral collateral and master netting agreements that provide for the net settlement of all contracts with a single counterparty in the event of default. Additionally, we monitor counterparty credit risk exposure on each contract to determine appropriate limits on our total credit exposure across all product types. We review our collateral positions on a daily basis and exchange collateral with our counterparties in accordance with standard ISDA documentation, central clearing rules, and other related agreements. We generally hold collateral in the form of cash and highly rated securities issued by the U.S. Treasury, government-sponsored enterprises, or GNMA. The cash collateral netted against derivative assets on the balance sheet totaled $518 million at December 31, 2014, and $308 million at December 31, 2013. The cash collateral netted against derivative liabilities totaled $26 million at December 31, 2014, and $4 million at December 31, 2013. The relevant agreements that allow us to access the central clearing organizations to clear derivative transactions are not considered to be qualified master netting agreements. Therefore, we cannot net derivative contracts or offset those contracts with related cash collateral with these counterparties. At December 31, 2014, we posted $56 million of cash collateral with clearing organizations. This additional cash collateral is included in accrued income and other assets and accrued expense and other liabilities on the balance sheet.

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

December 31, *in millions*	**2014**	**2013**
Largest gross exposure (derivative asset) to an individual counterparty	**$ 133**	$ 121
Collateral posted by this counterparty	**100**	42
Derivative liability with this counterparty	**31**	106
Collateral pledged to this counterparty		33
Net exposure after netting adjustments and collateral	**2**	6

168

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

December 31,

in millions	**2014**	2013
Interest rate	**$ 607**	$ 633
Foreign exchange	**41**	23
Commodity	**478**	58
Credit	**1**	1
Derivative assets before collateral	**1,127**	715
Less: Related collateral	**518**	308
Total derivative assets	**$ 609**	$ 407

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

We enter into transactions with broker-dealers and banks for various risk management purposes. These types of transactions generally are high dollar volume. We generally enter into bilateral collateral and master netting agreements with these counterparties. We began clearing certain types of derivative transactions with these counterparties in June 2013, whereby the central clearing organizations become our counterparties subsequent to novation of the original derivative contracts. In addition, we began entering into derivative contracts through swap execution facilities during the quarter ended March 31, 2014. The swap clearing and swap trade execution requirements were mandated by the Dodd-Frank Act for the purpose of reducing counterparty credit risk and increasing transparency in the derivative market. At December 31, 2014, we had gross exposure of $955 million to broker-dealers and banks. We had net exposure of $204 million after the application of master netting agreements and cash collateral, where such qualifying agreements exist. We had net exposure of $23 million after considering $181 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, sometimes with entities other than broker-dealers and banks. Due to the smaller size and magnitude of the individual contracts with clients, we generally do not exchange collateral in connection with these derivative transactions. To address the risk of default associated with the uncollateralized contracts, we have established a credit valuation adjustment (included in derivative assets) in the amount of $9 million at December 31, 2014, which we estimate to be the potential future losses on amounts due from client counterparties in the event of default. At December 31, 2013, the credit valuation adjustment was $14 million. For the derivative counterparties that are not broker-dealers, banks, or clients, we generally exchange collateral. At December 31, 2014, we had gross exposure of $471 million to client counterparties and other entities that are not broker-dealers or banks for derivatives that have associated master netting agreements. We had net exposure of $405 million on our derivatives with these counterparties after the application of master netting agreements, collateral, and the related reserve. In addition, the derivatives for one counterparty were guaranteed by a third party with a letter of credit totaling $30 million.

Credit Derivatives

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

Table of Contents

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

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

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

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

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

Table of Contents

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

December 31,	**2014**			**2013**		
dollars in millions	**Notional Amount**	**Average Term (Years)**	**Payment / Performance Risk**	**Notional Amount**	**Average Term (Years)**	**Payment / Performance Risk**
Single-name credit default swaps	**$ 5**	**.72**	**.87 %**	$ 55	.77	22.28%
Other	**6**	**2.89**	**9.58**	13	5.03	8.82
Total credit derivatives sold	**$ 11**			$ 68		

Credit Risk Contingent Features

We have entered into certain derivative contracts that require us to post collateral to the counterparties when these contracts are in a net liability position. The amount of collateral to be posted is based on the amount of the net liability and thresholds generally related to our long-term senior unsecured credit ratings with Moody s and S&P. Collateral requirements also are based on minimum transfer amounts, which are specific to each Credit Support Annex (a component of the ISDA Master Agreement) that we have signed with the counterparties. In a limited number of instances, counterparties have the right to terminate their ISDA Master Agreements with us if our ratings fall below a certain level, usually investment-grade level (i.e., Baa3 for Moody s and BBB- for S&P). At December 31, 2014, KeyBank s ratings were A3 with Moody s and A- S&P, and KeyCorp s ratings were Baa1 with Moody s and BBB+ with S&P. As of December 31, 2014, the aggregate fair value of all derivative contracts with credit risk contingent features (i.e., those containing collateral posting or termination provisions based on our ratings) held by KeyBank that were in a net liability position totaled $297 million, which includes $175 million in derivative assets and $472 million in derivative liabilities. We had $243 million in cash and securities collateral posted to cover those positions as of December 31, 2014. The aggregate fair value of all derivative contracts with credit risk contingent features held by KeyCorp as of December 31, 2014, that were in a net liability position totaled $7 million, which consists solely of derivative liabilities. We had $7 million in collateral posted to cover those positions as of December 31, 2014.

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

December 31,	**2014**		**2013**	
in millions	**Moody s**	**S&P**	**Moody s**	**S&P**
KeyBank s long-term senior unsecured credit ratings	**A3**	**A-**	A3	A-
One rating downgrade	**$ 1**	**$ 1**	$ 6	$ 6
Two rating downgrades	**1**	**1**	11	11
Three rating downgrades	**3**	**3**	11	11

171

KeyBank s long-term senior unsecured credit rating is currently four ratings above noninvestment grade at Moody s and S&P. If KeyBank s ratings had been downgraded below investment grade as of December 31, 2014, payments of up to $5 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 December 31, 2014, payments of less than $1 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.

9. 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. We record a servicing asset if we purchase or retain the right to service loans in exchange for servicing fees that exceed the going market servicing rate and are considered more than adequate compensation for servicing. Changes in the carrying amount of mortgage servicing assets are summarized as follows:

Year ended December 31, *in millions*		**2014**		**2013**
Balance at beginning of period	**$**	**332**	$	204
Servicing retained from loan sales		**38**		48
Purchases		**51**		150[(a)]
Amortization		**(98)**		(70)
Balance at end of period	**$**	**323**	$	332
Fair value at end of period	**$**	**417**	$	386

(a) Amount includes $120 million in mortgage servicing assets that were acquired from Bank of America s Global Mortgages & Securitized Products business during 2013. See Note 13 (Acquisitions and Discontinued Operations) for further details regarding this acquisition.

The fair value of mortgage servicing assets is determined by calculating the present value of future cash flows associated with servicing the loans. This calculation uses a number of assumptions that are based on current market conditions. The range and weighted-average of the significant unobservable inputs used to fair value our mortgage servicing assets at December 31, 2014, and December 31, 2013, along with the valuation techniques, are shown in the following table:

December 31, 2014 *dollars in millions*	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Mortgage servicing assets	Discounted cash flow	Prepayment speed	1.30 - 12.70%(4.00%)
		Expected defaults	1.00 - 3.00%(1.90%)
		Residual cash flows discount rate	7.00 - 15.00%(7.80%)
		Escrow earn rate	0.70 - 3.10%(1.90%)
		Servicing cost	$150 - $2,748($1,075)
		Loan assumption rate	0.20 - 3.00%(1.50%)
		Percentage late	0.00 - 2.00%(0.32%)

December 31, 2013 *dollars in millions*	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Mortgage servicing assets	Discounted cash flow	Prepayment speed	0.90 - 72.80%(11.00%)
		Expected defaults	1.10 - 3.00%(2.10%)
		Residual cash flows discount rate	7.00 - 15.00%(7.90%)

	Escrow earn rate	0.30 - 3.30%(1.50%)
	Servicing cost	$150 - $9,296($962)
	Loan assumption rate	0.00 - 3.00%(1.43%)
	Percentage late	0.00 - 2.00%(0.35%)

If these economic assumptions change or prove incorrect, the fair value of mortgage servicing assets may also change. The volume of loans serviced, expected credit losses, and the value assigned to escrow deposits are

172

Table of Contents

critical to the valuation of servicing assets. At December 31, 2014, a 1.00% decrease in the value assigned to the escrow deposits would cause a $64 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 $46 million for the year ended December 31, 2014, and $58 million for the year ended December 31, 2013. We have elected to account for servicing assets using the amortization method. The amortization of servicing assets is determined in proportion to, and over the period of, the estimated net servicing income. The amortization of servicing assets for each period, as shown in the table at the beginning of this note, is recorded as a reduction to fee income. Both the contractual fee income and the amortization are recorded in mortgage servicing fees on the income statement.

Additional information pertaining to the accounting for mortgage and other servicing assets is included in Note 1 (Summary of Significant Accounting Policies) under the heading Servicing Assets and Note 13 (Acquisitions and Discontinued Operations) under the heading Mortgage Servicing Rights in this report.

10. Goodwill and Other Intangible Assets

Goodwill represents the amount by which the cost of net assets acquired in a business combination exceeds their fair value. Other intangible assets are primarily the net present value of future economic benefits to be derived from the purchase of credit card receivable assets and core deposits. Additional information pertaining to our accounting policy for goodwill and other intangible assets is summarized in Note 1 (Summary of Significant Accounting Policies) under the heading Goodwill and Other Intangible Assets.

Our annual goodwill impairment testing is performed as of October 1 each year. On that date in 2014, we determined that the estimated fair value of the Key Community Bank unit was 26% greater than its carrying amount; in 2013, the excess was 23%. On that date in 2014, we determined that the estimated fair value of the Key Corporate Bank unit was 16% greater than its carrying amount. There previously had been no goodwill associated with our Key Corporate Bank unit since the first quarter of 2009, when we recorded a $223 million pre-tax impairment charge and wrote off all of the remaining goodwill that had been assigned to that unit. If actual results, market conditions, and economic conditions were to differ from the assumptions and data used in this goodwill impairment testing, the estimated fair value of the Key Community Bank and Key Corporate Bank units could change. The carrying amounts of the Key Community Bank and Key Corporate Bank units represent the average equity based on risk-weighted regulatory capital for goodwill impairment testing and management reporting purposes.

Based on our quarterly review of impairment indicators during 2014 and 2013, it was not necessary to perform further reviews of goodwill recorded in our Key Community Bank or Key Corporate Bank units. We will continue to monitor the Key Community Bank unit as appropriate since it is particularly dependent upon economic conditions that impact consumer credit risk and behavior.

Changes in the carrying amount of goodwill by reporting unit are presented in the following table.

in millions	**Key Community Bank**	**Key Corporate Bank**	**Total**
BALANCE AT DECEMBER 31, 2012	$ 979		$ 979
Impairment losses based on results of interim impairment testing			
BALANCE AT DECEMBER 31, 2013	979		979
Impairment losses based on results of interim impairment testing			
Acquisition of Pacific Crest Securities		**$ 78**	**78**
BALANCE AT DECEMBER 31, 2014	**$ 979**	**$ 78**	**$ 1,057**

Table of Contents

The acquisition of Pacific Crest Securities during the third quarter of 2014 resulted in a $78 million increase in the goodwill recorded in the Key Corporate Bank unit. Additional information regarding the acquisition is provided in Note 13 (Acquisitions and Discontinued Operations).

As of December 31, 2014, we expected goodwill in the amount of $112 million to be deductible for tax purposes in future periods.

Accumulated impairment losses related to the Key Corporate Bank reporting unit totaled $665 million at December 31, 2014, 2013, and 2012. There were no accumulated impairment losses related to the Key Community Bank unit at December 31, 2014, 2013, and 2012.

The following table shows the gross carrying amount and the accumulated amortization of intangible assets subject to amortization.

December 31,	**2014**		**2013**	
in millions	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Intangible assets subject to amortization:				
Core deposit intangibles	**$ 105**	**$ 82**	$ 105	$ 70
PCCR intangibles	**136**	**69**	136	44
Other intangible assets [(a)]	**148**	**137**	135	135
Total	**$ 389**	**$ 288**	$ 376	$ 249

(a) Carrying amount and accumulated amortization excludes $18 million each at December 31, 2014, and December 31, 2013, related to the discontinued operations of Austin and the sale of Victory.

As a result of the acquisition of Pacific Crest Securities on September 3, 2014, intangible assets were recognized at their acquisition date fair value of $13 million. These intangible assets are being amortized on a straight line basis over an average useful life of five years.

As a result of the Western New York branches acquisition on July 13, 2012, a core deposit intangible asset was recognized at its acquisition date fair value of $40 million. This core deposit intangible asset is being amortized on an accelerated basis over its useful life of seven years. A second closing of this acquisition on September 14, 2012, relating exclusively to the purchase of credit card receivables, resulted in a PCCR intangible asset of $1 million that is being amortized on an accelerated basis over its useful life of eight years.

As a result of the purchase of Key-branded credit card assets from Elan Financial Services, Inc. on August 1, 2012, a PCCR intangible asset was recognized at its acquisition date fair value of $135 million. This PCCR asset is being amortized on an accelerated basis over its useful life of eight years.

Intangible asset amortization expense was $39 million for 2014, $44 million for 2013, and $23 million for 2012. Estimated amortization expense for intangible assets for each of the next five years is as follows: 2015 $36 million; 2016 $28 million; 2017 $19 million; 2018 $11 million; and 2019 $5 million.

11. 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.

Table of Contents

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

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

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

On September 30, 2014, we sold the residual interests in all of our outstanding education loan securitization trusts and therefore no longer have a significant interest in those trusts. We deconsolidated the securitization trusts as of September 30, 2014, and removed the trust assets and liabilities from our balance sheet. Further information regarding these education loan securitization trusts is provided in Note 13 (Acquisitions and Discontinued Operations) under the heading Education lending.

December 31, 2014	Consolidated VIEs		Unconsolidated VIEs		
	Total	Total	Total	Total	Maximum
in millions	Assets	Liabilities	Assets	Liabilities	Exposure to Loss
LIHTC funds	$ 1	$ 1	$ 55		
LIHTC investments	N/A	N/A	1,234	$ 4	$ 521

Our involvement with VIEs is described below.

Consolidated VIEs

LIHTC guaranteed funds. KAHC formed limited partnership funds that invested in LIHTC operating partnerships. Interests in these funds were offered in syndication to qualified investors who paid a fee to KAHC for a guaranteed return. We also earned syndication fees from the guaranteed funds and continue to earn asset management fees. The guaranteed funds assets, primarily investments in LIHTC operating partnerships, totaled $5 million at December 31, 2014. These investments are recorded in accrued income and other assets on the balance sheet and serve as collateral for the guaranteed funds limited obligations.

We have not formed new guaranteed funds or added LIHTC partnerships since October 2003. However, we continue to act as asset manager and to provide occasional funding for existing funds under a guarantee obligation. As a result of this guarantee obligation, we have determined that we are the primary beneficiary of these guaranteed funds. Additional information on return guarantee agreements with LIHTC investors is presented in Note 20 (Commitments, Contingent Liabilities and Guarantees) under the heading Guarantees.

In accordance with the applicable accounting guidance for distinguishing liabilities from equity, third-party interests associated with our LIHTC guaranteed funds are considered mandatorily redeemable instruments and are recorded in accrued expense and other liabilities on the balance sheet. However, the FASB has indefinitely deferred the measurement and recognition provisions of this accounting guidance for mandatorily redeemable third-party interests associated with finite-lived subsidiaries, such as our LIHTC guaranteed funds. We adjust our financial statements each period for the third-party investors share of the guaranteed funds profits and losses. At December 31, 2014, we estimated the settlement value of these third-party interests to be between zero and $4 million, while the recorded value, including reserves, totaled $5 million. The partnership agreement for each of our guaranteed funds requires the fund to be dissolved by a certain date.

Table of Contents

Unconsolidated VIEs

LIHTC nonguaranteed funds. Although we hold interests in certain nonguaranteed funds that we formed and funded, we have determined that we are not the primary beneficiary because we do not absorb the majority of the funds expected losses and do not have the power to direct activities that most significantly influence the economic performance of these entities. At December 31, 2014, assets of these unconsolidated nonguaranteed funds totaled $55 million. Our maximum exposure to loss in connection with these funds is minimal, and we do not have any liability recorded related to the funds. We have not formed nonguaranteed funds since October 2003.

LIHTC investments. Through Key Community Bank, we have made investments directly in LIHTC operating partnerships formed by third parties. As a limited partner in these operating partnerships, we are allocated tax credits and deductions associated with the underlying properties. We have determined that we are not the primary beneficiary of these investments because the general partners have the power to direct the activities that most significantly influence the economic performance of their respective partnerships and have the obligation to absorb expected losses and the right to receive benefits. At December 31, 2014, assets of these unconsolidated LIHTC operating partnerships totaled approximately $764 million. At December 31, 2014, our maximum exposure to loss in connection with these partnerships is the unamortized investment balance of $407 million plus $110 million of tax credits claimed but subject to recapture. We do not have any liability recorded related to these investments because we believe the likelihood of any loss is remote. We have not obtained any significant direct investments (either individually or in the aggregate) in LIHTC operating partnerships since September 2003.

We have additional investments in unconsolidated LIHTC operating partnerships that are held by the consolidated LIHTC guaranteed funds. Total assets of these operating partnerships were approximately $470 million at December 31, 2014. The tax credits and deductions associated with these properties are allocated to the funds investors based on their ownership percentages. We have determined that we are not the primary beneficiary of these partnerships because the general partners have the power to direct the activities that most significantly impact their economic performance, and the obligation to absorb expected losses and right to receive residual returns. Information regarding our exposure to loss in connection with these guaranteed funds is included in Note 20 under the heading Return guarantee agreement with LIHTC investors.

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

12. Income Taxes

Income taxes included in the income statement are summarized below. We file a consolidated federal income tax return.

Year ended December 31,

in millions	2014	2013	2012
Currently payable:			
Federal	**$ 288**	$ 216	$ 178
State	**33**	26	18
Total currently payable	**321**	242	196
Deferred:			
Federal	**16**	39	41
State	**(11)**	(10)	(6)
Total deferred	**5**	29	35
Total income tax (benefit) expense [(a)]	**$ 326**	$ 271	$ 231

(a) There was no income tax (benefit) expense recorded on securities transactions in 2014 and 2012. The income tax (benefit) expense on securities transactions totaled $1 million in 2013. Income tax expense excludes equity- and gross receipts-based taxes, which are assessed in lieu of an income tax in certain states in which we operate. These taxes, which are recorded in noninterest expense on the income statement, totaled $17 million in 2014, $23 million in 2013, and $29 million in 2012.

Significant components of our deferred tax assets and liabilities included in accrued income and other assets and accrued expense and other liabilities, respectively, on the balance sheet, are as follows:

December 31,

in millions	2014	2013
Allowance for loan and lease losses	**$ 316**	$ 334
Employee benefits	**251**	187
Net unrealized securities losses	**17**	45
Federal credit carryforwards	**96**	226
State net operating losses and credits	**9**	11
Other	**312**	302
Gross deferred tax assets	**1,001**	1,105
Less: valuation allowance		1
Total deferred tax assets	**1,001**	1,104
Leasing transactions	**682**	753
Other	**125**	141
Total deferred tax liabilities	**807**	894
Net deferred tax assets (liabilities) [(a)]	**$ 194**	$ 210

(a) From continuing operations

We conduct quarterly assessments of all available evidence to determine the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded. The available evidence used in connection with these assessments includes taxable income in prior periods, projected future taxable income, potential tax-planning strategies, and projected future reversals of deferred tax items. These assessments involve a degree of subjectivity and may undergo significant change. Based on these criteria, we have recorded a valuation allowance of less than $1 million dollars against the gross deferred tax assets associated with certain state net operating loss carryforwards and state credit carryforwards.

At December 31, 2014, we had a federal credit carryforward of $96 million. Additionally, we had state net operating loss carryforwards of $62 million and state credit carryforwards of $6 million, resulting in a net state deferred tax asset of $9 million. These carryforwards are subject to limitations imposed by tax laws and, if not utilized, will gradually expire through 2031.

Table of Contents

The following table shows how our total income tax expense (benefit) and the resulting effective tax rate were derived:

Year ended December 31,	2014		2013		2012	
dollars in millions	**Amount**	**Rate**	**Amount**	**Rate**	**Amount**	**Rate**
Income (loss) before income taxes times 35% statutory federal tax rate	**$ 445**	**35.0 %**	$ 399	35.0 %	$ 376	35.0 %
Amortization of tax-advantaged investments	**69**	**5.4**	63	5.5	64	6.0
Foreign tax adjustments	**10**	**.8**	(4)	(.3)	1	.1
Reduced tax rate on lease financing income	**(3)**	**(.2)**	(13)	(1.2)	(50)	(4.7)
Tax-exempt interest income	**(16)**	**(1.3)**	(15)	(1.3)	(16)	(1.5)
Corporate-owned life insurance income	**(41)**	**(3.2)**	(42)	(3.7)	(43)	(4.0)
Interest refund (net of federal tax benefit)	**(1)**	**(.1)**	(1)	(.1)		
State income tax, net of federal tax benefit	**15**	**1.1**	10	.9	8	.7
Tax credits	**(134)**	**(10.5)**	(130)	(11.4)	(119)	(11.1)
Other	**(18)**	**(1.4)**	4	.3	10	.9
Total income tax expense (benefit)	**$ 326**	**25.6 %**	$ 271	23.7 %	$ 231	21.4 %

Liability for Unrecognized Tax Benefits

The change in our liability for unrecognized tax benefits is as follows:

Year ended December 31,		
in millions	**2014**	**2013**
Balance at beginning of year	**$ 6**	$ 7
Decrease related to other settlements with taxing authorities		(1)
Balance at end of year	**$ 6**	$ 6

Each quarter, we review the amount of unrecognized tax benefits recorded in accordance with the applicable accounting guidance. Any adjustment to unrecognized tax benefits is recorded in income tax expense. The amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate was $6 million at both December 31, 2014, and December 31, 2013. We do not currently anticipate that the amount of unrecognized tax benefits will significantly change over the next 12 months.

As permitted under the applicable accounting guidance, it is our policy to record interest and penalties related to unrecognized tax benefits in income tax expense. We recorded net interest credits of $10.6 million in 2014, $1.4 million in 2013, and interest expense of $.2 million in 2012. We did not recover state tax penalties in 2014 and 2012, and recovered $.2 million in 2013. At December 31, 2014, we had an accrued interest payable of $1.2 million, compared to $1.1 million at December 31, 2013. Our liability for accrued state tax penalties was $.3 million at both December 31, 2014, and December 31, 2013.

The FASB issued new accounting guidance, effective January 1, 2014, for us, that requires unrecognized tax benefits to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if certain criteria are met. As a result, at December 31, 2014, our federal tax credit carryforward included in our federal deferred tax asset was reduced by $1 million.

We file federal income tax returns, as well as returns in various state and foreign jurisdictions. We are subject to income tax examination by the IRS for the tax years 2009 and forward. Currently, we are under audit for the tax years 2009-2012. As of December 31, 2014, the IRS has not proposed any significant adjustments. We are not subject to income tax examinations by other tax authorities for years prior to 2003.

178

Table of Contents

13. Acquisitions and Discontinued Operations

Acquisitions

Pacific Crest Securities. On September 3, 2014, we acquired Pacific Crest Securities, a leading technology-focused investment bank and capital markets firm based in Portland, Oregon. This acquisition, which is being accounted for as a business combination, expands our corporate and investment banking business unit and adds technology to our other industry verticals. During the fourth quarter of 2014, we recorded identifiable intangible assets of $13 million and goodwill of $78 million in Key Corporate Bank for this acquisition. The identifiable intangible assets and the goodwill related to this acquisition are non-deductible for tax purposes. Additional information regarding the identifiable intangible assets and the goodwill related to this acquisition is provided in Note 10 (Goodwill and Other Intangible Assets).

Mortgage Servicing Rights. On June 24, 2013, in the first of multiple closings, we acquired substantially all third-party commercial loan servicing rights consisting of CMBS Master, Primary, and Special Servicing as well as other servicing from Bank of America s Global Mortgages & Securitized Products business. Simultaneously, we entered into a subservicing agreement with Berkadia Commercial Mortgage LLC related to all CMBS primary servicing. This acquisition was accounted for as a business combination and aligned with our strategy to drive growth. At the time, the acquisition resulted in KeyBank becoming the third largest servicer of commercial/multifamily loans in the U.S. and the fifth largest special servicer of CMBS. The acquisition date fair value of the MSRs acquired on June 24, 2013, which were included on our balance sheet at June 30, 2013, was approximately $117 million. Three additional and related closings occurred on July 22, 2013, August 26, 2013, and October 7, 2013. The acquisition date fair value of the MSRs acquired in these transactions was $3 million. As a result of this acquisition, the total fair value of the MSRs acquired during 2013 and included in our December 31, 2013, financial results was $120 million. In addition to the MSRs acquired, Key, as a master servicer, acquired $216 million of principal and interest advances. These principal and interest advances recorded at fair value were primarily associated with the June 24, 2013, acquisition of MSRs. No goodwill was recognized as a result of this acquisition. Additional information regarding our mortgage servicing assets is provided in Note 9 (Mortgage Servicing Assets).

Discontinued operations

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

As of January 1, 2010, we consolidated our 10 outstanding education lending securitization trusts since we held the residual interests and are the master servicer with the power to direct the activities that most significantly influence the economic performance of the trusts.

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

Table of Contents

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

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

Year ended December 31,

in millions	**2014**	2013	2012
Net interest income	**$ 77**	$ 105	$ 119
Provision (credit) for loan and lease losses	**21**	20	9
Net interest income (expense) after provision for loan and lease losses	**56**	85	110
Noninterest income	**(111)**	(136)	(49)
Noninterest expense	**24**	28	36
Income (loss) before income taxes	**(79)**	(79)	25
Income taxes	**(30)**	(29)	9
Income (loss) from discontinued operations, net of taxes [(a)]	**$ (49)**	$ (50)	$ 16

(a) Includes after-tax charges of $32 million for 2014, $40 million for 2013, and $50 million for 2012, determined by applying a matched funds transfer pricing methodology to the liabilities assumed necessary to support the discontinued operations.

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

December 31,

in millions	**2014**	2013
Held-to-maturity securities	**$ 1**	
Trust loans at fair value		$ 1,960
Portfolio loans at fair value	**191**	147
Loans, net of unearned income [(a)]	**2,104**	2,390
Less: Allowance for loan and lease losses	**29**	39
Net loans	**2,266**	4,458
Trust accrued income and other assets at fair value		20
Accrued income and other assets	**38**	45
Total assets	**$ 2,305**	$ 4,523
Trust accrued expense and other liabilities at fair value		$ 20
Trust securities at fair value		1,834
Total liabilities		$ 1,854

(a) At December 31, 2014, and December 31, 2013, unearned income was less than $1 million.

The discontinued education lending business consists of loans in portfolio (recorded at fair value) and loans in portfolio (recorded at carrying value with appropriate valuation reserves). The assets and liabilities in the securitization trusts (recorded at fair value) were removed with the deconsolidation of the securitization trusts on September 30, 2014.

At December 31, 2014, education loans include 1,612 TDRs with a recorded investment of approximately $17 million (pre-modification and post-modification). A specifically allocated allowance of $1 million was assigned to these loans as of December 31, 2014. There have been no significant payment defaults. There are no significant commitments outstanding to lend additional funds to these borrowers. Additional information regarding TDR classification and ALLL methodology is provided in Note 5 (Asset Quality).

Table of Contents

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

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

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

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

At December 31, 2014, there were $192 million of loans that were previously purchased from three of the outstanding securitizations trusts pursuant to the legal terms of these particular trusts. These loans are held as portfolio loans and continue to be accounted for at fair value. These portfolio loans were valued using an internal discounted cash flow model, which was affected by assumptions for defaults, loss severity, discount rates, and prepayments. These portfolio loans are considered to be Level 3 assets since we rely on unobservable inputs when determining fair value. Our valuation process for these loans as well as the trust loans and securities is discussed in more detail below. Portfolio loans accounted for at fair value had a value of $191 million at December 31, 2014, and $147 million at December 31, 2013.

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

Table of Contents

Corporate Treasury, within our Finance area, is responsible for the quarterly valuation process that determines the fair value of our student loans held in portfolio that are accounted for at fair value and previously for our loans and securities in our education loan securitization trusts. Corporate Treasury provides these fair values to a Working Group Committee (the Working Group) comprising representatives from the line of business, Credit and Market Risk Management, Accounting, Business Finance (part of our Finance area), and Corporate Treasury. The Working Group is a subcommittee of the Fair Value Committee that is discussed in more detail in Note 6 (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 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 related to the loans. 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 portfolio loans at fair value. Default expectations and discount rate changes have the most significant impact on the fair values of the loans. 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. This process was previously used in the valuation of the education loan securitization trust loans.

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

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

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

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

Table of Contents

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

December 31, 2014 *dollars in millions*	**Fair Value of Level 3 Assets and Liabilities**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**	
Portfolio loans accounted for at fair value	$ 191	Discounted cash flow	Prepayment speed	5.40	5.60%(5.50%)
			Loss severity	2.00	77.00%(25.66%)
			Discount rate	3.90	4.00%(3.92%)
			Default rate	.86	1.70%(1.12%)

December 31, 2013 *dollars in millions*	**Fair Value of Level 3 Assets and Liabilities**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**	
Trust loans and portfolio loans accounted for at fair value	$ 2,107	Discounted cash flow	Prepayment speed	4.00	13.50%(6.47%)
			Loss severity	2.00	79.50%(54.21%)
			Discount rate	2.40	10.50%(3.50%)
			Default rate	8.01	23.71%(18.43%)
Trust securities	1,834	Discounted cash flow	Discount rate	1.60	3.50%(2.55%)

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

in millions	**December 31, 2014**		**December 31, 2013**	
	Principal	**Fair Value**	**Principal**	**Fair Value**
Trust loans at fair value				
Accruing loans past due 90 days or more			$ 25	$ 25
Loans placed on nonaccrual status			12	12
Portfolio loans at fair value				
Accruing loans past due 90 days or more	**$ 5**	**$ 5**	$ 8	$ 8

Loans placed on nonaccrual status

Portfolio loans at carrying value						
Accruing loans past due 90 days or more	**$**	**29**	**N/A**	$	35	N/A
Loans placed on nonaccrual status		**11**	**N/A**		10	N/A

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

in millionis	**December 31, 2014**		**December 31, 2013**	
	Contractual Amount	**Fair Value**	**Contractual Amount**	**Fair Value**
ASSETS				
Portfolio loans	**$ 192**	**$ 191**	$ 140	$ 147
Trust loans			1,964	1,960
Trust other assets			20	20
LIABILITIES				
Trust securities			$ 1,958	$ 1,834
Trust other liabilities			20	20

183

Table of Contents

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

December 31, 2014

in millions	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS MEASURED ON A RECURRING BASIS				
Portfolio loans			$ 191	$ 191
Total assets on a recurring basis at fair value			$ 191	$ 191

December 31, 2013

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

The following table shows the change in the fair values of the Level 3 consolidated education loan securitization trusts and portfolio loans for the years ended December 31, 2014, and December 31, 2013.

in millions	**Portfolio Student Loans**	**Trust Student Loans**	**Trust Other Assets**	**Trust Securities**	**Trust Other Liabilities**
Balance at December 31, 2012	$ 157	$ 2,369	$ 26	$ 2,159	$ 22
Gains (losses) recognized in earnings [(a)]		53		191	
Purchases	152				
Sales	(147)	(152)			
Settlements	(15)	(310)	(6)	(516)	(2)
Balance at December 31, 2013 [(b)]	$ 147	$ 1,960	$ 20	$ 1,834	$ 20
	(8)	**(34)**		**33**	

Gains (losses) recognized in earnings [(a)]					
Purchases	**74**				
Sales		**(74)**			
Settlements	**(22)**	**(202)**	**(1)**	**(278)**	**(3)**
Transfers out due to deconsolidation		**(1,650)**	**(19)**	**(1,589)**	**(17)**
Balance at December 31, 2014 [(b)]	**$ 191**				

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

(b) There were no issuances, transfers into Level 3, or transfers out of Level 3 for the year ended December 31, 2013. There were no issuances or transfers into Level 3 for the year ended December 31, 2014.

Victory Capital Management and Victory Capital Advisors. On July 31, 2013, we completed the sale of Victory to a private equity fund. As a result of this sale, we recorded an after-tax gain of $92 million as of September 30, 2013. The cash portion of the gain was $72 million as of September 30, 2013. At December 31, 2013, the only remaining asset of Victory was a $29 million Seller note. During March 2014, client consents were secured and assets under management were finalized and, as a result, we recorded an additional after-tax cash gain of $6 million as of March 31, 2014. Since February 21, 2013, when we agreed to sell Victory, we have accounted for this business as a discontinued operation.

184

Table of Contents

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

Year ended December 31,

in millions	**2014**	**2013**	**2012**
Net interest income	**$ 12**		
Noninterest income	**10**	$ 212	$ 111
Noninterest expense	**1**	66	89
Income (loss) before income taxes	**21**	146	22
Income taxes	**8**	54	8
Income (loss) from discontinued operations, net of taxes	**$ 13**	$ 92	$ 14

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

December 31,

in millions	**2014**	**2013**
Seller note [(a)]		$ 29
Total assets		$ 29
Accrued expense and other liabilities		
Total liabilities		

(a) At December 31, 2013, the only remaining asset of Victory was the Seller note. The Seller note was paid off during the fourth quarter of 2014.

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

The following table presents the Victory Seller note that was measured at fair value on a recurring basis at December 31, 2013.

December 31, 2013

in millions	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS MEASURED ON A RECURRING BASIS				
Seller note			$ 29	$ 29
Total assets on a recurring basis at fair value			$ 29	$ 29

The following table shows the change in the fair value of the Level 3 Victory Seller note for the years ended December 31, 2014, and December 31, 2013.

in millions	**Seller note**

Balance at December 31, 2012		
Gains (losses) recognized in earnings [a]	$	(3)
Issuances		32
Balance at December 31, 2013		29
Gains (losses) recognized in earnings [a]		**(1)**
Settlements		**(28)**
Balance at December 31, 2014 [b]		

185

Table of Contents

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

(b) There were no purchases, sales, settlements, transfers into Level 3, or transfers out of Level 3 for the year ended December 31, 2013. There were no purchases, sales, issuances, transfers into Level 3, or transfers out of Level 3 for the year ended December 31, 2014.

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:

Year ended December 31,

in millions	**2014**	2013	2012
Noninterest expense	**$ 4**	$ 1	$ 10
Income (loss) before income taxes	**(4)**	(1)	(10)
Income taxes	**(1)**	1	(3)
Income (loss) from discontinued operations, net of taxes	**$ (3)**	$ (2)	$ (7)

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

December 31,

in millions	**2014**	2013
Cash and due from banks	**$ 19**	$ 20
Total assets	**$ 19**	$ 20
Accrued expense and other liabilities	**$ 3**	
Total liabilities	**$ 3**	

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

Year ended December 31,

in millions	**2014**	2013	2012
Net interest income	**$ 89**	$ 105	$ 119
Provision (credit) for loan and lease losses	**21**	20	9
Net interest income (expense) after provision for loan and lease losses	**68**	85	110
Noninterest income	**(101)**	76	62
Noninterest expense	**29**	95	135
Income (loss) before income taxes	**(62)**	66	37
Income taxes	**(23)**	26	14
Income (loss) from discontinued operations, net of taxes [a]	**$ (39)**	$ 40	$ 23

(a)

Includes after-tax charges of $32 million for 2014, $40 million for 2013, and $50 million 2012, determined by applying a matched funds transfer pricing methodology to the liabilities assumed necessary to support the discontinued operations.

Table of Contents

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

December 31,

in millions	**2014**	**2013**
Cash and due from banks	**$ 19**	$ 20
Held-to-maturity securities	**1**	
Seller note		29
Trust loans at fair value		1,960
Portfolio loans at fair value	**191**	147
Loans, net of unearned income [(a)]	**2,104**	2,390
Less: Allowance for loan and lease losses	**29**	39
Net loans	**2,266**	4,458
Trust accrued income and other assets at fair value		