KEYCORP /NEW/
Form 10-K
February 26, 2013

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, 2012

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 (Common Shares)	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. ü

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 (Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No ü

The aggregate market value of voting stock held by nonaffiliates of the Registrant was $7,317,963,768 (based on the June 30, 2012, closing price of Common Shares of $7.74 as reported on the New York Stock Exchange). As of February 25, 2013, there were 923,858,672 Common Shares outstanding.

Certain specifically designated portions of KeyCorp s definitive Proxy Statement for its 2013 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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, anticipate, intend, project, believe, estimate, or other words of similar meaning. Forv statements provide our current expectations or forecasts of future events, circumstances, results or aspirations. Our disclosures in this report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make forward-looking statements in our 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 are not historical facts and, 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:

¿ continued strain on the global financial markets as a result of economic slowdowns and concerns;

¿ the slow progress of the U.S. economic recovery;

¿ changes in trade, monetary and fiscal policies of various governmental bodies and central banks in the economies in which we operate;

¿ our ability to anticipate interest rate changes correctly and manage interest rate risk presented through unanticipated changes in our interest rate risk position and/or short- and long-term interest rates;

¿ changes in local, regional and international business, economic or political conditions in the regions where we operate or have significant assets;

¿ current regulatory initiatives in the U.S., including the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as amended, subjecting us to a variety of new and more stringent legal and regulatory requirements and increased scrutiny from our regulators;

¿ the deterioration of unemployment or real estate asset values or their failure to recover for an extended period of time;

¿ adverse changes in credit quality trends;

¿ our ability to determine accurate values of certain assets and liabilities;

¿ adverse behaviors in securities, public debt, and capital markets, including changes in market liquidity and volatility;

¿ unanticipated changes in our liquidity position, including but not limited to our ability to enter the financial markets to manage and respond to any changes to our liquidity position;

- the soundness of other financial institutions;

- our ability to satisfy new capital and liquidity standards such as those imposed by the Dodd-Frank Act and those adopted by the Basel Committee;

- ¿ our ability to receive dividends from our subsidiary, KeyBank;
- ¿ reductions of the credit ratings assigned to KeyCorp and KeyBank;
- ¿ unexpected or prolonged changes in the level or cost of liquidity;
- ¿ our ability to secure alternative funding sources under stressed liquidity conditions;
- ¿ our ability to timely and effectively implement our strategic initiatives;
- ¿ operational or risk management failures;
- ¿ breaches of security or failures of our technology systems due to technological, cybersecurity threats or other factors;
- ¿ the occurrence of natural or man-made disasters or conflicts or terrorist attacks disrupting the economy or our ability to operate; and
- ¿ the adequacy of our risk management programs;
- ¿ adverse judicial proceedings;
- ¿ increased competitive pressure due to consolidation;
- ¿ our ability to attract and/or retain talented executives and employees;
- ¿ our ability to effectively sell additional products or services to new or existing customers;
- ¿ our ability to manage our reputational risks;
- ¿ unanticipated adverse effects of acquisitions and dispositions of assets, business units or affiliates; and
- ¿ other risks and uncertainties discussed in Part 1, Item 1A: Risk Factors in this report.

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.

KEYCORP

2012 FORM 10-K ANNUAL REPORT

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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 $89.2 billion at December 31, 2012. 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 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, 2012, these services were provided across the country through KeyBank s 1,088 full-service retail banking branches in 14 states, additional offices, a telephone banking call center services group and a network of 1,611 automated teller machines (ATMs) in 15 states. Additional information pertaining to our two business segments is included in this report in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, in the Line of Business Results section, and in Note 21 (Line of Business Results) of the Notes to the Consolidated Financial Statements presented in Item 8. Financial Statements and Supplementary Data are incorporated herein by reference. KeyCorp and its subsidiaries had an average of 15,589 full-time equivalent employees for 2012.

In addition to the customary banking services of accepting deposits and making loans, our bank and trust company subsidiaries offer personal and corporate trust services, personal financial services, access to mutual funds, cash management services, investment banking and capital markets products, and international banking services. Through our bank, trust companies 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 are an equity participant in a joint venture that provides merchant services to businesses.

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 subsidiarie KeyCorp refers solely to the parent holding company, and KeyBank refers solely to KeyCorp s subsidiary, KeyBank National Association.

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 the Management s Discussion & Analysis of Financial Condition & Results of Operations. You may find it helpful to refer to that section as you read this report.

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 services. These products and services are provided through our relationship managers and specialists working in our 14-state branch network, which is organized into three internally defined geographic regions: Rocky Mountains and Northwest, Great Lakes, and Northeast.

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

Year Ended December 31, 2012	Geographic Region				
dollars in millions	Rocky Mountains and Northwest	Great Lakes	Northeast	Nonregion (a)	Total
Average deposits	$ 16,002	$ 15,381	$ 15,042	$ 2,500	$ 48,925
Percent of total	32.7 %	31.4 %	30.8 %	5.1 %	100.0 %
Average commercial loans	$ 5,424	$ 3,878	$ 2,964	$ 2,543	$ 14,809
Percent of total	36.6 %	26.2 %	20.0 %	17.2 %	100.0 %
Average home equity loans	$ 4,431	$ 2,512	$ 2,474	$ 103	$ 9,520
Percent of total	46.5 %	26.4 %	26.0 %	1.1 %	100.0 %

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

Key Corporate Bank includes three lines of business that operate nationally, within and beyond our 14-state branch network: Real Estate Capital and Corporate Banking Services; Equipment Finance; and Institutional and Capital Markets.

The Real Estate Capital and Corporate Banking Services business consists of two business units:

Real Estate Capital professionals are located in select markets across the country and provide financial services for public and private owners, investors and developers of nonowner-occupied commercial real estate properties. In addition to direct loans, this business unit is a Fannie Mae Delegated Underwriter and Servicer, Freddie Mac Program Plus Seller/Servicer and FHA-approved mortgagee. KeyBank Real Estate Capital is also one of the nation s largest and highest rated commercial mortgage servicers. Figure 20, which appears later in this report in the Loans and loans held for sale section, shows the diversity of our commercial real estate lending business based on industry type and location.

Corporate Banking Services provides cash management, interest rate derivatives, and foreign exchange products and services to existing clients. Through its Public Sector and Financial Institutions businesses, Corporate Banking Services also provides a full array of commercial banking products and services to government and not-for-profit entities and to community banks. A variety of cash management services are provided through the Global Treasury Management unit.

Equipment Finance is one of the largest bank-based equipment finance providers based in the U.S. This business unit meets the equipment financing needs of companies worldwide and provides equipment manufacturers, distributors and resellers with a platform and funding options for their clients. Equipment Finance specializes in the technology, healthcare, and renewable energy markets as well as the finance needs related to other capital assets.

The Institutional and Capital Markets business consists of two business units:

KeyBanc Capital Markets provides commercial lending, treasury management, investment banking, derivatives, foreign exchange, equity and debt underwriting and trading, and syndicated finance products and services, primarily to emerging and middle-market companies in the Industrial, Consumer, Real Estate, Energy, Technology and Healthcare sectors. This business unit s focused industry expertise and its consistent, integrated team approach, help our clients achieve their strategic objectives.

Victory Capital Management is an investment advisory firm that manages or offers advice regarding investment portfolios. This business unit s national client base consists of both institutional and retail clients derived from four primary channels: public plans, Taft-Hartley plans, corporations, and endowments and foundations.

The products and services offered by our Key Community Bank and Key Corporate Bank segments are described further in this report in Note 21 (Line of Business Results).

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 are incorporated herein by reference as indicated below:

Description of Financial Data	**Page(s)**
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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 links on 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 U.S. 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 of 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 governing our directors, officers and employees; our Standards for Determining Independence of Directors; our Limitation on Luxury Expenditures Policy; 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.

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-01-27-1113, Cleveland, Ohio 44114-1306; by calling (216) 689-3000; or by sending an e-mail to investor_relations@keybank.com.

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 and national institutions that offer financial services. Many of our competitors enjoy fewer regulatory constraints and some may have lower cost structures. The financial services industry is likely to become more competitive as further technology advances enable more 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.

In recent years, mergers and acquisitions have led to greater concentration in the banking industry, placing added competitive pressure on Key s core banking products and services. Consolidation continued during 2012 and led to redistribution of deposits and certain banking assets to larger financial institutions, including through the Federal Deposit Insurance Corporation (the FDIC) least-cost resolution process, albeit at a far slower pace than 2011 and 2010. Financial institutions with liquidity challenges sought mergers and other resolutions, and the deposits and certain banking assets of the 300 banks that failed between 2010 and 2012, representing $138.6 billion in total assets, were redistributed through the FDIC s least-cost resolution process.

Supervision and Regulation

The following discussion addresses elements of the regulatory framework applicable to BHCs and banks and provides certain specific information regarding material elements of the regulatory framework applicable to us. This regulatory framework is intended primarily to protect customers and depositors, the DIF and the banking system as a whole, rather than for the protection of security holders and creditors. Comprehensive reform of the legislative and regulatory environment occurred in 2010 and remains ongoing resulting from enactment of the Dodd-Frank Act. We cannot predict changes in the applicable laws, regulations and regulatory agency policies, yet such changes may have a material effect on our business, financial condition, results of operations, and access to liquidity or credit.

General

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

Under the Dodd-Frank Act and Federal Reserve policy, a BHC is expected to serve as a source of financial and managerial strength to each of its subsidiary banks and, under appropriate circumstances, to commit resources to support each such subsidiary bank. This support may be required at a time when we may not have the resources to, or would choose 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 event of a bankruptcy, any commitment by a 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 a priority of payment.

Federal law also establishes a system of prudential and functional federal regulation under which the Federal Reserve is the umbrella regulator for BHCs, while their affiliates are principally regulated by prudential and functional regulators such as the OCC for national banks and federal savings associations, the FDIC for non-member state banks and savings associations, the Federal Reserve for member state banks, the CFPB for federal consumer financial laws and consumer financial products or services, the SEC and FINRA for securities broker/dealer activities, the SEC and CFTC for swaps and other derivatives, and 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, 2012, we operated one full-service, FDIC-insured national bank subsidiary, KeyBank, and two national bank subsidiaries that are limited to fiduciary activities. The FDIC also has certain regulatory, supervisory and examination authority over KeyBank and KeyCorp under the FDIA and 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. 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 Reform Developments

On July 21, 2010, the Dodd-Frank Act became law. It was intended to address perceived deficiencies and gaps in the regulatory framework for financial services in the U.S., reduce the risks of bank failures, better equip the nation s regulators to guard against or mitigate any future financial crises, and manage systemic risk through increased supervision of bank and nonbank SIFIs, such as KeyCorp and KeyBank. The following provides a summary of relevant regulatory developments relating to the Dodd-Frank Act.

Consumer Financial Protection Bureau

Title X of the Dodd-Frank Act created the CFPB as a new consumer financial services regulator. We are now subject to supervision, regulation and examination by the CFPB. The CFPB supervises banks and their affiliates, such as Key, with assets of more than $10 billion for compliance with federal consumer protection laws. The CFPB also regulates consumer financial products and services sold by banks and non-bank companies and has rule making 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 our consumer businesses. In addition, we may face potential enforcement actions by the CFPB and civil actions by state attorneys general for violation of various state and federal consumer protection laws.

On January 10, 2013, the CFPB issued its final rule to implement sections of the Dodd-Frank Act that will require lenders to verify a consumer s ability to repay a mortgage loan. The rule establishes certain minimum requirements for creditors when making ability to pay determinations, and establishes certain protections from liability for mortgages meeting the definition of qualified mortgages . The final rule becomes effective on January 10, 2014. We are currently analyzing the final rule in order to determine its impact on Key s mortgage lending business.

The CFPB issued its final rules on January 17, 2013, to implement sections of the Dodd-Frank Act addressing certain obligations of mortgage servicers to correct errors asserted by mortgage loan borrowers and to provide certain information requested by such borrowers. The final rules also: impose requirements on a mortgage servicer in connection with the force placement of collateral insurance; mandate certain notices prior to rate adjustments on adjustable-rate mortgages; and establish requirements for periodic disclosures to borrowers. These rules will apply directly to Key and to any third-party mortgage servicer engaged by Key, and become effective on January 10, 2014.

Financial Stability Oversight Council

Title I of the Dodd-Frank Act created the FSOC as a new systemic risk oversight body to identify, monitor and address potential threats to U.S. financial stability. We are now subject to oversight and regulation by the FSOC. The FSOC is responsible for identifying systemic risks, promoting stronger financial regulation and identifying those non-bank companies that are systemically important and thus should be subject to regulation by the Federal Reserve. In addition, in extraordinary cases the FSOC, together with the Federal Reserve, could require the breakup of financial firms that are deemed to present a grave threat to U.S. financial stability.

Volcker Rule

Section 619 of the Dodd-Frank Act added new Section 13 to the BHCA, which is referred to as the Volcker Rule. The Volcker Rule prohibits an insured depository institution and its affiliates from engaging in certain types of proprietary trading and restricts the ability of banks to sponsor or invest in private equity or hedge funds. Key is affected by some parts of the Volcker Rule, but the effect is uncertain until the final rule is implemented. The scope of the proprietary trading prohibition, and its impact on Key, will depend on the definitions in the final rule, particularly those definitions related to statutory exemptions for risk-mitigating hedging activities; market-making; and customer-related activities. In addition, the final rule is expected to include restrictions on Key s private equity and hedge fund activities. As of December 31, 2012, our principal investments and real estate capital lines of business hold certain investments not exceeding $450 million that we expect may be subject to certain limitations under the final Volcker Rule. Under the proposed rulemaking announced on October 11, 2011, we expect to be able to hold these investments until July 2014 with no restriction, and be eligible to obtain up to three one-year extension periods, subject to regulatory approvals. A forced sale of some of these investments could result in Key receiving less value than it would otherwise have received. Depending on the provisions of the final Volcker Rule, it is possible that other structures through which Key conducts business, but that are not typically referred to as private equity or hedge funds, could be restricted with an impact that cannot yet be evaluated.

Debit Card Interchange

Federal Reserve Regulation II Debit II Debit Card Interchange Fees and Routing limits debit card interchange fees, eliminates exclusivity arrangements between issuers and networks for debit card transactions, and imposes limits for restrictions on merchant discounting for the use of certain payment forms and minimum or maximum amount thresholds as a condition for acceptance of credit cards. The relevant portions of Regulation II became effective October 1, 2011.

Resolution Plans

BHCs with $50 billion or more in total consolidated assets, including KeyCorp, are required to periodically submit to the Federal Reserve and FDIC a plan discussing how the company could be resolved in a rapid and orderly fashion if the company were to fail or experience material financial distress. In a related rulemaking, the

FDIC adopted a final rule on January 23, 2012, requiring insured depository institutions with $50 billion or more in total consolidated assets, including KeyBank, to prepare and submit a resolution plan to the FDIC. The initial plans for KeyCorp and KeyBank are each due December 31, 2013, and updated plans must be submitted annually thereafter.

Enhanced Prudential Standards

On January 5, 2012, the Federal Reserve published proposed Regulation YY Enhanced Prudential Standards as part of its efforts to implement enhanced prudential standards and early remediation requirements to be imposed upon SIFIs pursuant to the Dodd-Frank Act. It generally applies to SIFIs like KeyCorp and includes a wide range of measures addressing issues such as risk-based capital requirements and leverage limits, liquidity requirements, single-counterparty credit limits, risk management, supervisory and company-run stress testing requirements, and early remediation. As indicated below, the Federal Reserve has finalized Regulation YY only with respect to supervisory and company-run stress testing requirements.

Supervisory and Company-Run Stress Testing

The Dodd-Frank Act requires the Federal Reserve to conduct an annual supervisory stress test on certain banking organizations, including KeyCorp, to evaluate whether they have sufficient capital, on a total consolidated basis, to absorb losses as a result of adverse economic conditions. Stress testing scenarios (including those describing hypothetical baseline, adverse, and severely adverse economic and financial conditions) were published by the Federal Reserve. On January 28, 2013, the Federal Reserve announced that it will release results from the supervisory stress tests conducted on KeyCorp and other banking organizations on March 7, 2013. Under the final rule, we are required to consider the results of the stress test as part of our capital planning process and must update our resolution plan as the Federal Reserve determines appropriate based on the results of the stress test.

Company-run stress tests conducted by KeyCorp and KeyBank are also required by the Dodd-Frank Act. Stress testing scenarios (including those describing hypothetical baseline, adverse, and severely adverse economic and financial conditions) were published by the Federal Reserve and OCC. Results of these stress tests were reported to the Federal Reserve and OCC on January 7, 2013, and will be publicly disclosed (the first public disclosure is required by the rules to be made between March 15 and March 31, 2013).

Credit Risk Retention Requirements

Section 941 of the Dodd-Frank Act requires the Federal banking agencies and the SEC to jointly prescribe regulations to require any securitizer to retain an economic interest in a portion of the credit risk for any asset that the securitizer transfers to a third party through the issuance of an asset-backed security. It also requires these agencies, together with the FHFA and HUD, to jointly prescribe regulations to require any securitizer to retain an economic interest in a portion of the credit risk for any residential mortgage asset that the securitizer transfers to a third party through the issuance of an asset-backed security. These agencies jointly proposed the required regulations in 2011, but have not yet published their final rules. The rules are required to become effective for residential mortgage securitizations one year after publication of final rules and for other securitizations two years after publication of the final rules in the Federal Register.

The proposed rules provide a menu of numerous alternatives for meeting the risk retention requirements, including some options available for any type of securitization and others specifically designed for certain asset classes. They would also provide a full exemption from the risk retention requirements for securitizations backed by residential mortgages, commercial loans, commercial real estate loans and automobile loans meeting certain precisely specified product and underwriting criteria.

We are a significant servicer of commercial mortgages held by others, including securitization vehicles. We anticipate that these Dodd-Frank Act credit risk retention requirements will impact the market for loans of types that historically have been securitized, potentially affecting the volumes of loans securitized, the types of loan

products made available, the terms on which loans are offered, consumer and business demand for loans, and the need for third party loan servicers. The risk retention rules themselves could have the effect of slowing the rebound in the securitization markets and, as a result, may impact the willingness of banks, including us, to make loans due to balance sheet management requirements.

Derivatives

Dodd-Frank imposes a new regulatory regime on the U.S. derivatives markets. While some of the provisions related to derivatives markets went into effect on July 16, 2011, many of the new requirements await final regulations from the relevant regulatory agencies for derivatives, the CFTC and the SEC. One aspect of this new regulatory regime for derivatives is that substantial oversight responsibility has been provided to the CFTC, which, as a result, will for the first time have a meaningful supervisory role with respect to some of our businesses. Although the ultimate impact will depend on the final regulations, we expect that our derivatives business will likely be subject to new substantive requirements, including registration with the CFTC, margin requirements in excess of current market practice, capital requirements specific to this business, real time trade reporting and robust record keeping requirements, business conduct requirements (including daily valuations, disclosure of material risks associated with swaps and disclosure of material incentives and conflicts of interest), and mandatory clearing and exchange trading of all standardized swaps designated by the relevant regulatory agencies as required to be cleared. These requirements will collectively impose implementation and ongoing compliance burdens on us and will introduce additional legal risk (including as a result of newly applicable anti-fraud and anti-manipulation provisions and private rights of action). Depending on the final rules that relate to our swaps businesses, the nature and extent of those businesses may change.

Preemption

Federal preemption and the application of state consumer protection laws to national banks is still an evolving area of the law. Depending on how such questions are ultimately resolved, as a national bank with multi-state operations and a multi-state customer base, KeyBank may experience an increase in state and local regulation of our retail banking business and additional compliance obligations, revenue impacts and costs.

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 assessments, fees and other charges from BHCs and banks, like KeyCorp and KeyBank, regardless of risk. For example, on May 21, 2012, the U.S. Treasury adopted a final rule under the Dodd-Frank Act establishing an assessment schedule for SIFIs to collect 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 assessment upon KeyCorp is based on Key s average total consolidated assets as reported in its Federal Reserve regulatory reports over four quarters preceding the relevant determination date. Key s initial semiannual assessment of $684,250 was collected on July 20, 2012. Similarly, and although no proposals have yet been issued, Section 318 of the Dodd-Frank Act requires the Federal Reserve, and authorizes the OCC and FDIC, to charge SIFIs and institutions regulated by these agencies new assessments, fees and other charges in connection with their examination, supervision, and regulation of such companies.

Bank Transactions with Affiliates

Federal banking law and the regulations adopted to implement it impose qualitative standards and quantitative limitations upon certain transactions by a bank with its affiliates, including the bank s parent BHC and certain companies in which it may have as little as a 15% equity interest or may otherwise 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, as a bank, to fund its affiliates, including KeyCorp, KeyBanc Capital Markets Inc., Victory Capital Advisers, Inc., any of the Victory mutual funds, 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. They also raise significantly the procedural and substantive hurdles required to obtain a regulatory exemption from the affiliate transaction requirements. These provisions became effective on July 21, 2012, and the Federal Reserve has indicated that a proposed rule is expected to be released in 2013. Until the Federal Reserve publishes final rules, it will be difficult to assess the impact of these provisions of the Dodd-Frank Act.

Capital

Current Regulatory Capital Requirements

Federal banking regulators have promulgated risk-based capital and leverage ratio requirements applicable to BHCs and their bank subsidiaries. Adequacy of regulatory capital is assessed periodically by the federal banking agencies in the examination and supervision process, and in the evaluation of applications in connection with specific transactions and activities, including acquisitions, expansion of existing activities and commencement of new activities.

Under the current risk-based capital requirements, KeyCorp and its bank subsidiaries are each generally required to maintain a minimum ratio of total capital to risk-weighted assets (which include certain off-balance sheet exposures) of 8%. At least half of the total capital must be composed of common shareholders equity excluding the over- or underfunded status of post-retirement benefit obligations, unrealized gains or losses on debt securities available for sale, unrealized gains on equity securities available for sale, and unrealized gains or losses on cash flow hedges, net of deferred income taxes; plus certain mandatorily redeemable equity investments. This is called Tier 1 capital. The remainder may consist of qualifying subordinated debt, certain hybrid capital instruments, qualifying preferred stock and a limited amount of the allowance for credit losses. This is called Tier 2 capital.

Federal banking regulators also have established minimum leverage ratio requirements for banking organizations. The leverage ratio is defined as Tier 1 capital divided by adjusted average total assets. The minimum leverage ratio is currently 3% for BHCs that are considered strong by the Federal Reserve or which have implemented the Federal Reserve s risk-based capital measure for market risk. Similarly, the minimum leverage ratio is currently 3% for national banks considered strong by the OCC. Other BHCs and national banks must have a minimum leverage ratio of 4%.

Pursuant to Section 171 of the Dodd-Frank Act, the risk-based and leverage capital standards that were in effect prior to enactment of the Dodd-Frank Act and applicable to FDIC-insured depository institutions are imposed upon U.S. BHCs like KeyCorp, subject to a phased-in three year transition period that began on January 1, 2013. One effect of this provision is to eliminate trust preferred securities at the U.S. BHC level as an element of Tier 1 capital.

BHCs and banks with securities and commodities trading activities that exceed specified levels are required to maintain capital for market risk. Market risk includes changes in the market value of trading account, foreign exchange and commodity positions, whether resulting from broad market movements (such as changes in the general level of interest rates, equity prices, foreign exchange rates or commodity prices) or from position specific factors (such as idiosyncratic variation, event risk and default risk).

On January 1, 2013, a joint final rule to implement changes to the market risk capital rule became effective, replacing the rule that originally was adopted effective January 1, 1997. It applies to banking organizations, such as KeyCorp and KeyBank, with trading assets and liabilities of at least $1 billion, or 10% of total assets. The rule changes the methodology for calculating the risk-weighted assets related to trading assets and includes, among other things, the addition of a stressed VaR component. Additionally, the rule eliminates the use of credit ratings in calculating specific risk capital requirements for certain debt and securitization positions. We do not currently anticipate that the changes to this rule will have a material impact on Key s or KeyBank s risk-weighted assets or capital ratios.

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. At December 31, 2012, Key and KeyBank had regulatory capital in excess of all current minimum risk-based capital and leverage ratio requirements.

The FDIA requires the relevant federal banking regulator to take prompt corrective action with respect to a FDIC-insured depository institution if that institution does not meet certain capital adequacy standards. Such institutions are grouped into one of five prompt corrective action capital categories well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized using the Tier 1 risk-based, total risk-based, and Tier 1 leverage capital ratios as the relevant capital measures. An institution is considered well-capitalized if it has a total risk-based capital ratio of at least 10.00%, a Tier 1 risk-based capital ratio of at least 6.00% and a Tier 1 leverage capital ratio of at least 5.00% and is not subject to any written agreement, order or capital directive to meet and maintain a specific capital level for any capital measure. At December 31, 2012, KeyBank satisfied the criteria for the prompt corrective action well-capitalized capital category. Federal law also requires that the bank regulatory agencies implement systems for prompt corrective action for institutions that fail to meet minimum capital requirements within the five capital categories, with progressively more restrictions on operations, management and capital distributions.

The prompt corrective action requirements apply only to FDIC-insured depository institutions and not to BHCs. However, the Federal Reserve is authorized to take appropriate action against the BHC based on the undercapitalized status of any such subsidiary institution and, in certain instances, the BHC would be required to guarantee the performance of the capital restoration plan for its undercapitalized subsidiary institution. Nevertheless, if such prompt corrective action capital categories applied to BHCs, we believe that KeyCorp would satisfy the criteria for the well-capitalized capital category at December 31, 2012. An institution s prompt corrective action capital category, however, may not constitute an accurate representation of the overall financial condition or prospects of the institution or parent BHC, and should be considered in conjunction with other available information regarding the financial condition and results of operations of the institution and its parent BHC.

Basel Accords

Basel I

The current minimum risk-based capital requirements adopted by the U.S. federal banking agencies and applicable to Key and described above are based on a 1988 international accord (Basel I) that was developed by the Basel Committee on Banking Supervision (the Basel Committee).

Basel III Capital and Liquidity Framework

In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation (Basel III). Basel III is a comprehensive set of reform measures designed to strengthen the

regulation, supervision and risk management of the banking sector. These measures aim to improve the banking sector s ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance, and strengthen banks transparency and disclosures. Basel III requires higher and better-quality capital, better risk coverage, the introduction of a new leverage ratio as a backstop to the risk-based requirement, measures to promote the buildup of capital that can be drawn down in periods of stress, and the introduction of two global liquidity standards.

The Basel III final capital framework, among other things, introduces as a new capital measure, common equity Tier 1, and specifies that Tier 1 capital consists of common equity Tier 1 and additional Tier 1 capital instruments meeting specified requirements.

The implementation of the Basel III final capital framework commenced January 1, 2013 and will be fully phased-in on January 1, 2019. Beginning January 2013, banks with regulators adopting these standards in full are required to meet the following minimum capital ratios; 3.5% common equity Tier 1 to risk-weighted assets, 4.5% Tier 1 capital to risk-weighted assets, and 8.0% total capital to risk-weighted assets. The implementation of a capital conservation buffer, effectively raising the minimum capital requirements, will begin on January 1, 2016, at 0.625% and be phased-in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

When fully phased-in, the Basel III capital framework will require banks to maintain: (a) a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer; (b) a Tier 1 capital to risk-weighted assets ratio of at least 6%, plus the capital conservation buffer; (c) a minimum ratio of total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer; and (d) a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (as the average for each quarter of the month-end ratios for the quarter). Thus, when the capital conservation buffer is fully phased-in, minimum ratios will effectively be 7% for common equity Tier 1, 8.5% for Tier 1 capital and 10.5% for total capital, with the 3% leverage ratio being maintained. Basel III also provides for a countercyclical capital buffer, generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a common equity Tier 1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented (potentially resulting in total buffers of between 2.5% and 5%).

The Basel III final capital framework provides for a number of adjustments to, including new deductions from, Tier 1 capital. These include, for example, the inclusion of the mark to market on the available for sale investment securities portfolio, the deduction of the defined pension benefit asset, the deduction of certain deferred tax assets, and the requirement that mortgage servicing rights and significant investments in non-consolidated financial entities be deducted from common equity Tier 1 to the extent that any one such category exceeds 10% of common equity Tier 1 or all such categories in the aggregate exceed 15% of common equity Tier 1. Implementation of the adjustments and new deductions from common equity Tier 1 will begin on January 1, 2014, and will be phased-in over a five-year period (20% per year).

The final Basel III liquidity framework requires banks to comply with two measures of liquidity risk exposure:

- the liquidity coverage ratio, based on a 30-day time horizon and calculated as the ratio of the stock of high-quality liquid assets divided by total net cash outflows over the next 30 calendar days, which must be at least 100%; and

- the net stable funding ratio, calculated as the ratio of the available amount of stable funding divided by the required amount of stable funding, which must be at least 100%.

Both of these measures are subject to observation periods and transitional arrangements. The Basel III liquidity framework provides specifically that revisions to the liquidity coverage ratio will be made by mid-2013, with such ratio being introduced as a requirement on January 1, 2015, revisions to the net stable funding ratio will be made by mid-2016, and the net stable funding ratio will be introduced as a requirement on January 1, 2018.

In January 2013, the Basel Committee issued its revisions to the liquidity coverage ratio. Important changes include a phased-in implementation (introduction as planned on January 1, 2015, but with minimum requirements beginning at 60%, rising in equal annual steps of 10% to reach full implementation on January 1, 2019), an expansion of the range of assets eligible to be high-quality liquid assets, and some refinements to the assumed inflow and outflow rates to better reflect actual experience in times of stress.

Given our strong capital position, we expect to be able to satisfy the Basel III capital framework when corresponding U.S. capital regulations are finalized. While we have a strong liquidity position, the Basel III liquidity framework could require us and other U.S. banks to initiate additional liquidity management initiatives, including adding additional liquid assets, issuing term debt, and modifying our product pricing for loans, commitments, and deposits. U.S. regulators have indicated that they may elect to make certain refinements to the Basel III liquidity framework. Accordingly, at this point it is premature to assess its impact.

Proposed Implementation of the Basel III Capital Framework

On August 30, 2012, the federal banking agencies jointly published three separate NPRs seeking comment on proposed rules that would revise and replace their current capital rules in a manner consistent both with relevant provisions of the Dodd-Frank Act as well as the implementation of the Basel III capital framework. The comment period on these NPRs ended on October 22, 2012.

One NPR (the Basel III NPR) proposes the majority of the revisions to international capital standards in Basel III, including a more restrictive definition of regulatory capital (such as providing for the phase-out of trust preferred securities as Tier 1 capital), higher minimum regulatory capital requirements, and the imposition of capital conservation and countercyclical capital buffers. It also proposes limitations on certain distributions and discretionary bonuses as well as revisions to the agencies prompt corrective action regulations. Another NPR (the Standardized Approach NPR) proposes new methodologies for determining risk-weighted assets, such as by expanding the number and type of exposure categories, providing a more comprehensive recognition of collateral and guarantees, and introducing or applying more risk-sensitive treatment for certain exposures (including certain high-volatility commercial real estate, corporate, equity, foreign, securitization, derivative, residential mortgage, and 90 day or more past due exposures). It also proposes detailed qualitative and quantitative public disclosure requirements relating to capital adequacy. The final NPR (the Advanced Approaches NPR) proposes to revise the current advanced approaches risk-based capital rule to incorporate certain aspects of Basel III as well as certain other revisions to the Basel capital framework published by the Basel Committee between 2009-2011. While Key and KeyBank are subject to the Basel III and Standardized Approach NPRs, they are not subject to the Advanced Approaches NPR.

Implementation of the Basel III final capital framework was proposed to begin on January 1, 2013, with minimum capital ratios and prompt corrective action requirements implemented by January 1, 2015, and the capital conservation buffer phased-in from January 1, 2016, through January 1, 2019. On November 9, 2012, however, the agencies issued a joint press release (the November 2012 Release) indicating that none of the Basel III, Standardized Approach, and Advanced Approaches NPRs would become effective on January 1, 2013, and that the agencies would take operational and other considerations into account when determining appropriate implementation dates and associated transition periods for them.

New Proposed Minimum Capital Requirements

As originally proposed, beginning January 1, 2013, banking organizations subject to the Basel III and Standardized Approach NPRs, like Key, would be required to meet the minimum capital and leverage ratios set forth in the following table. At December 31, 2012, Key had a Tier 1 common equity ratio of 11.36% under current Basel I. Also at December 31, 2012, based on the fully phased-in Basel III and Standardized Approach NPRs, Key estimates that its capital and leverage ratios, after adjustment for market risk pursuant to the new joint final market risk rule, would be as set forth in the following table. There can be no guarantee, however, that the Basel III and Standardized Approach NPRs will be adopted in their current form, what changes may be made before adoption, or when ultimate adoption will occur.

Estimated Ratios vs. Proposed Minimum Capital Ratios Calculated Under the Fully Phased-In Basel III and Standardized Approach NPRs

Ratios (including Capital conservation buffer)	Key 12-31-2012 Estimated		Proposed Minimum 1-1-2013 (a)		Phase-in Period (a)	Proposed Minimum 1-1-2019 (a)	
Common Equity Tier 1	10.4	%	3.5	%	1/1/13 - 1/1/15	4.5	%
Capital conservation buffer [b]					1/1/16 - 1/1/19	2.5	
Common Equity Tier 1 + Capital conservation buffer			3.5		1/1/13 - 1/1/19	7.0	
Tier 1 Capital	10.7		4.5		1/1/13 - 1/1/15	6.0	
Tier 1 Capital + Capital conservation buffer			4.5		1/1/13 - 1/1/19	8.5	
Total Capital	13.5		8.0		None	8.0	
Total Capital + Capital conservation buffer			8.0		1/1/16 - 1/1/19	10.5	
Leverage [c]	10.2		4.0		None	4.0	

(a) Per the November 2012 Release, the proposed implementation dates and phase-in periods are subject to extension.

(b) Capital conservation buffer must consist of Common Equity Tier 1 capital. Key is not subject to the proposed countercyclical capital buffer of up to 2.5% imposed under the Advanced Approaches NPR.

(c) Key is not subject to the proposed 3% supplemental leverage ratio requirement imposed under the Advanced Approaches NPR.

Revised Prompt Corrective Action Standards

Under the Basel III NPR, the prompt corrective action capital category threshold ratios applicable to FDIC-insured depository institutions, such as KeyBank, are proposed to be revised. The table below identifies the proposed capital category threshold ratios for a well capitalized and an adequately capitalized institution under current law and the Basel III and Standardized Approach NPRs.

Proposed Revised Prompt Corrective Action Well Capitalized and Adequately Capitalized Capital Category Ratios

Prompt Corrective Action	Capital Category						
	Well Capitalized				Adequately Capitalized		
Ratio	Proposed		Current		Proposed		Current	
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	5.0		5.0		4.0		3.0 or 4.0	

We believe that, as of December 31, 2012, Key and KeyBank would meet all capital adequacy and corrective action capital and leverage ratio requirements under the Basel III and Standardized Approach NPRs on a fully phased-in basis if such requirements were currently effective. There can be no guarantee that the Basel III and Standardized Approach NPRs will be adopted in their current form, what changes may be made before adoption, or when ultimate adoption will occur.

As previously indicated, the prompt corrective action requirements apply only to FDIC-insured depository institutions and not to BHCs. Nevertheless, if such prompt corrective action capital categories applied to BHCs, we believe that KeyCorp would meet all prompt corrective action capital and leverage ratio requirements for a well-capitalized capital category at December 31, 2012, under the Basel III and Standardized Approach NPRs on a fully phased-in basis if such requirements were currently effective.

Capital Planning and Review of Capital Actions

U.S. BHCs with total consolidated assets of at least $50 billion, including KeyCorp, must submit capital plans to the Federal Reserve on an annual basis and, notwithstanding written non-objection to the capital plan, must obtain in certain circumstances written approval or non-objection to make capital distributions. Such BHCs are also subject to Federal Reserve supervisory guidance with respect to the declaration and payment of dividends, capital redemptions, and capital repurchases in the context of such BHC s capital planning processes, including the supervisory expectation for prior notification to, and consultation with, Federal Reserve supervisory staff regarding certain dividends and capital redemptions and repurchases.

The Federal Reserve s supervisory review of a BHC s capital plan includes an assessment of:

- the comprehensiveness of the plan, including the extent to which the analysis underlying the plan captures and addresses potential risks stemming from all activities across the BHC under baseline and stressed operating conditions and the BHC s capital policy;
- the reasonableness of the BHC s assumptions and analysis underlying the plan and the BHC s methodologies for reviewing the robustness of the BHC s capital adequacy process; and
- the BHC 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.

Nineteen of the largest BHCs, including KeyCorp, are required to submit a capital plan to the Federal Reserve for CCAR. CCAR is an annual exercise by the Federal Reserve to ensure that the largest BHCs have 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. As part of CCAR, the Federal Reserve evaluates such BHC s capital adequacy, internal capital adequacy assessment processes, and plans to take capital actions, including capital distributions. KeyCorp filed its CCAR 2013 capital plan on January 7, 2013. On January 28, 2013, the Federal Reserve announced that the results from CCAR 2013 will be released on March 14, 2013.

As part of CCAR, the Federal Reserve will continue to evaluate whether proposed capital actions are appropriate in light of the BHC s plans to meet the proposed Basel III requirements. As part of its capital plan submission, the BHC should provide a transition plan that includes pro forma estimates under baseline conditions of the BHC s regulatory capital ratios under the proposed Basel III capital framework as it would be implemented in the U.S. BHCs that meet the minimum ratio requirement during the Basel III transition period but remain below the 7% tier 1 common equity target (minimum plus capital conservation buffer) will be expected to maintain prudent earnings retention policies with a view to meeting the capital conservation buffer under the time-frame described in the Basel III NPR, subject to extension pursuant to the November 2012 Release.

The Federal Reserve will approve dividend increases or other capital distributions for companies whose capital plans are approved by regulators and who are able to demonstrate sufficient financial strength to continue to operate as financial intermediaries under stressed macroeconomic and financial market scenarios, even after making the planned capital distributions.

Dividend Restrictions

Federal banking law and regulations impose limitations on the payment of dividends by our national bank subsidiaries. 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. 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, 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, unless the national bank obtains the approval of the OCC. Under the undivided profits test, a dividend may not be paid in excess of a bank s undivided profits. In addition, if in the opinion of a federal banking agency a banking organization (such as KeyCorp and KeyBank) under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the organization, could include the payment of dividends), the agency may require that such organization cease and desist from such practice.

During 2012, KeyBank paid KeyCorp a total of $1.8 billion in dividends; nonbank subsidiaries did not pay any cash or noncash dividends to KeyCorp. As of January 1, 2013, KeyBank had fully utilized its regulatory capacity to pay dividends to KeyCorp. During 2012, KeyCorp did not make any capital infusions to KeyBank. At December 31, 2012, KeyCorp held $2.2 billion in short-term investments, which can be used to pay dividends to shareholders, service debt and finance corporate operations.

Federal Deposit Insurance Act

Deposit Insurance and Assessments

The FDIC s DIF provides insurance coverage for domestic deposits, which insurance is funded through assessments on insured depository institutions, like KeyBank. Pursuant to the Dodd-Frank Act, the amount of deposit insurance coverage for deposits increased permanently from $100,000 to $250,000 per depository, and the coverage of non-interest bearing transaction accounts was unlimited through December 31, 2012.

The FDIC assesses an insured depository institution an amount for deposit insurance premiums. The Dodd-Frank Act required the FDIC to change the assessment base from domestic deposits to average consolidated total assets minus average tangible equity. KeyBank s current annualized deposit insurance premium assessments range from $.025 to $.45 for each $100 of its assessment base, depending on its scorecard performance factors incorporating KeyBank s regulatory rating, ability to withstand asset and funding related stress, and relative magnitude of potential losses to the FDIC in the event of KeyBank s failure.

On October 31, 2012, the FDIC amended its large bank assessment final rule applicable to KeyBank. The amendment revises the definitions of certain risk assets, specifically higher-risk commercial and industrial loans and securities and higher-risk consumer loans, clarifies when an asset must be identified as higher-risk, and clarifies the way securitizations are identified as higher-risk. These definitions affect the higher-risk concentration measure (higher-risk assets to Tier 1 capital and reserves) found in the large and highly complex institution scorecards. The amendment generally becomes effective on April 1, 2013. We estimate that our 2013 expense for deposit insurance assessments will be in the range of $37 to $41 million.

Conservatorship and Receivership of Institutions

Upon the insolvency of an insured depository institution, the FDIC will be appointed the conservator or receiver under the FDIA. In such an insolvency, the FDIC may repudiate or disaffirm any contract to which such institution is a party if the FDIC determines that performance of the contract would be burdensome, and that disaffirmance or repudiation of the contract would promote the orderly administration of the institution s affairs. Such disaffirmance or repudiation would result in a claim by the other party to the contract against the receivership or conservatorship. The amount paid upon such claim would depend upon, among other factors, the amount of receivership assets available for the payment of such claim and the priority of the claim relative to the priority of others. In addition, the FDIC as conservator or receiver may enforce most contracts entered into by the institution notwithstanding any provision regarding termination, default, acceleration, or exercise of rights upon or solely by reason of insolvency of the institution, appointment of a conservator or receiver for the institution, or exercise of rights or powers by a conservator or receiver for the institution. The FDIC as conservator or receiver also may transfer any asset or liability of the institution without obtaining any approval or consent of the institution s shareholders or creditors. These provisions would be applicable to obligations and liabilities of Key s bank subsidiaries that are insured depository institutions, such as KeyBank, including, without limitation, obligations under senior or subordinated debt issued by those banks to investors in the public markets.

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 by the FDIC as subrogee of insured depositors) and certain claims for administrative expenses of the FDIC as receiver would be afforded a priority over other general unsecured claims against such an institution. If an insured depository institution fails, insured and uninsured depositors along with the FDIC will be placed ahead of unsecured, nondeposit creditors, including a parent BHC, such as KeyCorp, and subordinated creditors, in order of priority of payment.

The Bank Secrecy Act

The BSA requires all financial institutions, including banks and securities broker-dealers, to, among other things, establish 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/know-your-customer documentation requirements. Key has established an anti-money laundering program to comply with the BSA requirements.

ITEM 1A. RISK FACTORS

An investment in our Common Shares or other securities is subject to risks inherent to our business and our industry. Described below are certain risks and uncertainties, the occurrence of which could have a material and adverse effect on us. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones we face. Although we have significant risk management policies, procedures and practices aimed at mitigating these risks, uncertainties may nevertheless impair our business operations. This report is qualified in its entirety by these risk factors.

IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCUR, OUR BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS, AND/OR ACCESS TO LIQUIDITY AND/OR CREDIT COULD BE MATERIALLY AND ADVERSELY AFFECTED (MATERIAL ADVERSE EFFECT ON US). IF THIS WERE TO HAPPEN, THE VALUE OF OUR SECURITIES COMMON SHARES, SERIES A PREFERRED STOCK, TRUST PREFERRED SECURITIES AND DEBT SECURITIES COULD DECLINE, PERHAPS SIGNIFICANTLY, AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT.

Our ERM program identifies Key s major risk categories, including: market, compliance, credit, liquidity, and operational, together with reputation and strategic risks. The following risk factors are grouped into categories consistent with the five preceding main categories of risk focused on in our ERM program, with an additional category for risks related to investment in our Common Shares.

I. Market Risks

The global financial markets continue to be strained as a result of economic slowdowns and concerns, especially about the creditworthiness of the European Union and its member states and financial institutions in the European Union. These factors could have international implications, which could hinder the U.S. economic recovery and affect the stability of global financial markets.

Certain European Union member states have fiscal obligations greater than their fiscal revenue, which has caused investor concern over such countries ability to continue to service their debt and foster economic growth in their economies. During 2012, the European debt crisis caused spreads to widen in the fixed income debt markets and liquidity to be less abundant. While the situation has started to stabilize, the European debt crisis and measures adopted to address it have significantly weakened European economies. A weaker European economy may cause investors to lose confidence in the safety and soundness of European financial institutions and the stability of European member economies.

A failure to adequately address sovereign debt concerns in Europe could hamper economic recovery or contribute to recessionary economic conditions and severe stress in the financial markets, including in the United States. Potential events which could have such an impact on the financial markets include (i) sovereign debt default (default by one or more European governments in their borrowings), (ii) European bank and/or corporate debt default, (iii) market and other liquidity disruptions, and, (iv) if stresses become especially severe, and the collapse of the European Union as a coherent economic group and/or the collapse of its currency, the Euro. Although a financial institution in the United States may have little to no exposure to European sovereign debt or Euro-denominated assets, the European and American financial markets are substantially linked, especially through the Federal Reserve, which at times has offered stimulus funding to European governments, and through larger U.S. financial institutions, which invest in European assets and institutions. Due to the interconnectedness of European and American financial markets, a liquidity freeze-up in Europe could detrimentally impact Key by causing, among other things, an increase in our cost of borrowed funds, an inability to borrow funds through conventional markets, negative impacts upon our counterparties and customers, especially those with European business relationships or European assets, and negative impacts upon the U.S. economy. Should the global financial markets and the U.S. economic recovery be adversely impacted by these factors, the likelihood for loan and asset growth at U.S. financial institutions, like Key, may deteriorate. Any combination of these factors may have a Material Adverse Effect on Us.

The U.S. economy remains vulnerable as the economic recovery continues to progress slowly.

The U.S. economy showed signs of moderate growth during the second half of 2012, despite slow growth during the first half of the year, according to the FOMC. Despite signs of growth, the recovery of the U.S. economy continues to progress slowly. Certain downside risks to the U.S. economy remain present. Strains in the global financial markets pose significant risk to the U.S. economy. High unemployment and underemployment, the slow pace of job creation, and slowing growth in business fixed investment are additional factors of concern. Fiscal austerity, in the form of higher taxes and spending cuts, would further hamper growth over the near-term, and policy uncertainty (another constraint on growth) may linger for some time. The U.S. economy could also be affected by the slowdown in economic activity abroad, especially in Europe, and the significant fiscal challenges that remain for local governments in the U.S.

The continuation or worsening of these factors could weaken the U.S. economic recovery underway. The downgrade of U.S. Treasury securities by S&P and political difficulties in addressing the economy within the U.S. government have contributed to high levels of volatility in the financial markets. Should economic indicators deteriorate, the U.S. could face another recession, which could affect us in a variety of substantial and unpredictable ways, as well as affect our borrowers ability to meet their repayment obligations. We have taken steps since the 2008-2009 financial crisis to strengthen our liquidity position. Nevertheless, a return of the volatile economic conditions recently experienced, including the adverse conditions in the fixed income debt markets, for an extended period of time, particularly if left unmitigated by policy measures, may have a Material Adverse Effect on Us.

We are subject to interest rate risk, which could adversely affect our earnings on loans and other interest-earning assets.

Our earnings and cash flows 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 and, in particular, the Federal Reserve. Changes in monetary policy, including changes in interest rates, could influence not only the amount of interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also affect our ability to originate loans and obtain deposits as well as 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, could be adversely affected. 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 Interest rate risk management found in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation. Although we believe that we have implemented effective asset and liability management strategies, including simulation analysis and the use of interest rate derivatives as hedging instruments, to reduce the potential effects of changes in interest rates on our results of operations, any substantial, unexpected and/or prolonged change in market interest rates could have a Material Adverse Effect on Us.

Our profitability depends significantly on economic conditions in the geographic regions in which we operate.

Our success depends primarily on economic conditions in the markets in which we operate. We have concentrations of loans and other business activities in geographic areas where our branches are located the Rocky Mountains and Northwest, the Great Lakes and the Northeast as well as potential exposure to geographic areas outside of our branch footprint. For example, the nonowner-occupied properties segment of our commercial real estate portfolio has exposures in markets outside of our footprint. The delinquencies, nonperforming loans and charge-offs that we have experienced since 2007 have been more heavily weighted to these specific markets. Real estate values and cash flows have been negatively affected on a national basis due to weak economic conditions. Certain markets, such as Florida, southern California, Phoenix, Arizona, and Las Vegas, Nevada, experienced more significant deterioration during the recession; while values have stabilized over the past year, they remain well below peak levels across markets. The regional economic conditions in areas in which we conduct our business have an impact on the demand for our products and services as well as the ability of our customers to repay loans, the value of the collateral securing loans and the stability of our deposit funding sources, and, in turn, may have a Material Adverse Effect on Us.

II. Compliance Risks

We are subject to extensive government regulation and supervision.

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 and the banking system as a whole, not our debtholders or shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy, ability to repurchase our Common Shares, and growth, among other things.

Changes to statutes, regulations or regulatory policies or their interpretation or implementation, and/or continuing to become subject to heightened regulatory practices, requirements or expectations, could affect us in substantial and unpredictable ways. Such changes may subject us to additional compliance costs, limit the types of financial services and products we may offer, affect the investments we make and the manner in which we operate our businesses, increase our litigation and regulatory costs should we fail to appropriately comply with such laws, regulations or policies, and increase the ability of nonbanks to offer competing financial services and products. Any of these factors could have a Material Adverse Effect on Us. See Supervision and Regulation in Item 1 of this Report for further information.

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 institution-affiliated parties. These enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. If we were the subject of an enforcement action, it could have a Material Adverse Effect on us.

The regulatory environment for the financial services industry is being significantly impacted by the financial regulatory reform initiatives in the United States, including the Dodd-Frank Act and the regulations promulgated thereunder.

The United States and other governments have undertaken major reforms of the regulatory oversight structure of the financial services industry. We have faced increased regulation of our industry, and will continue to face such regulation into 2013, as a result of current and future initiatives intended to provide economic stimulus, financial market stability, and enhancement of the liquidity and solvency of financial institutions. We have also faced increased regulation as a result of new efforts designed to protect consumers and investors from financial abuse.

We also expect more intense scrutiny from our bank supervisors in the examination process and more aggressive enforcement of regulations on both the federal and state levels particularly due to both KeyBank s and KeyCorp s status as covered institutions for the enhanced prudential standards promulgated under the Dodd-Frank Act. Although many parts of the Dodd-Frank Act are now in effect, other parts are still in the implementation stage, which is likely to continue for several years. Accordingly, some uncertainty remains as to the aggregate impact upon Key of the Dodd-Frank Act as fully implemented. Compliance with these new regulations and supervisory initiatives will likely increase our costs and reduce our revenue and may limit our ability to pursue certain desirable business opportunities and to take certain types of corporate actions. For more detailed information on the regulatory environment and the laws, rules and regulations that may affect us, see Supervision and Regulation in Item 1 of this report.

III. Credit Risks

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

The fundamentals within the commercial real estate sector are improving but remain relatively weak, under continuing pressure by reduced asset values, high vacancies and reduced rents. Commercial real estate values peaked in the fall of 2007. According to Moody s Real Estate Analytics, LLC Commercial Property Index, commercial real estate values were down approximately 22% from their peak as of November 2012. A portion of our commercial real estate loans are construction loans. These properties are typically not fully leased at the origination of the loan, but the borrower may be reliant upon 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.

The U.S. economy remains highly vulnerable, and any reversal in broad macro trends would threaten the nascent 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, or not occur at all. These economic factors typically affect certain industries, such as real estate and financial services, more significantly. To illustrate this point, improvements in commercial real estate fundamentals typically lag broad economic recovery by 12 to 18 months. Our clients include entities 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. Should unemployment or real estate asset values fail to recover for an extended period of time, or fundamentals deteriorate as a result of further decline in asset values and the instability of rental income, it could have a Material Adverse Effect on Us.

Declining asset prices could adversely affect us.

During the recession from December 2007 to June 2009, the volatility and disruption that the capital and credit markets experienced reached extreme levels. The severe market dislocations in 2008 led to the failure of several substantial financial institutions, causing widespread liquidation of assets and further constraining of 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. For example, a further recession would likely reverse recent positive trends in asset prices. These factors could have a Material Adverse Effect on Us.

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

We maintain an allowance for loan and lease losses, which is a reserve established through a provision for loan and lease losses charged to expense, that represents our estimate of losses within the existing portfolio of loans. The allowance is necessary to reserve for estimated loan and lease losses and risks incurred in the loan portfolio. 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 allowance for loan and lease losses 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 require an increase in the allowance for loan and lease losses. In addition, bank regulatory agencies periodically review our allowance for loan and lease losses and may require an increase in the provision for loan and lease losses or the recognition of further loan charge-offs, based on judgments that can differ somewhat from those of our own management. In addition, if charge-offs in future periods exceed the allowance for loan and lease losses (i.e., if the loan and lease allowance is inadequate), we will need additional loan and lease loss provisions to increase the allowance for loan and lease losses. Should such additional provisions become necessary, they would result in a decrease in net income and capital and may have a Material Adverse Effect on Us.

We are subject to credit risk, in the form of changes in interest rates, changes in the economic conditions in the markets where we operate, and/or changes in the financial condition of our counterparties, which changes could adversely affect us.

There are inherent risks associated with our lending and trading activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where we operate. Increases in interest rates and/or further weakening of economic conditions caused by another recession or otherwise could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans.

As of December 31, 2012, approximately 70% 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.

We also do business with environmentally sensitive industries and in connection with the development of Brownfield sites that provide appropriate business opportunities. We monitor and evaluate our borrowers for compliance with environmental-related covenants, which include covenants requiring compliance with applicable law. Should political or other changes make it difficult for certain of our customers to maintain compliance with applicable covenants, our credit quality could be adversely affected. The deterioration of a larger loan or a group of our loans could cause a significant increase in nonperforming loans, which could 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, any of which could have a Material Adverse Effect on Us.

In addition, many of our routine transactions expose us to credit risk in the event of default of our counterparty or client. In addition, 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 to us. Additionally, in deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a Material Adverse Effect on Us.

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, however, 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 impacted 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. Any such losses could have a Material Adverse Effect on Us.

IV. Capital and Liquidity Risks

Capital requirements imposed by the Dodd-Frank Act, together with new capital and liquidity standards adopted by the Basel Committee, will result in banks and BHCs needing to maintain more and higher quality capital than has historically been the case.

New and evolving capital standards, both as a result of the Dodd-Frank Act and the implementation of new capital standards adopted by the Basel Committee, including Basel III , will have a significant impact on banks and BHCs, including Key. For a detailed explanation of Basel III and possible revisions to current capital rules, see the sections titled Supervision and Regulation and Capital.

The full effect of the Federal Reserve s possible revisions to the Basel III liquidity standards on Key is uncertain at this time. The need to maintain more and higher quality capital as well as greater liquidity going forward could limit our business activities, including lending, and our ability to expand, either organically or through acquisitions. It 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 could require us to increase our holdings of highly liquid short-term investments, thereby reducing 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 set forth the processes that bank holding companies should have in place to ensure they hold adequate capital under adverse conditions to maintain ready access to funding before engaging in any of these activities. These rules could limit Key s ability to make distributions, including paying out dividends or buying back shares. See Supervision and Regulation in Item 1 of this Report

There can be no assurance that the legislation and other initiatives undertaken by the United States government will continue to support increased stability in the U.S. financial system.

Since 2008, the federal government has intervened in an unprecedented manner in an effort to provide stability and liquidity to the financial markets. The Federal Reserve is currently maintaining a variety of monetary policy measures to stabilize the economy; these policy measures have been maintained by the FOMC over the last few years as economic growth, unemployment and inflation have not been at levels mandated for the FOMC to achieve.

Market liquidity issues have been alleviated somewhat, but U.S. growth still lags levels mandated for the FOMC to achieve, and the U.S. economy remains vulnerable. In addition, while the situation in Europe has stabilized somewhat, the region s recession and ongoing fiscal challenges remain important risks to the U.S. economy. There can be no assurance regarding the actual impact that these government initiatives will have on the financial markets. The failure of the U.S. government programs to sufficiently contribute to financial market stability and put the U.S. economy on a stable path for an economic recovery could result in a worsening of current financial market conditions, which could have a Material Adverse Effect on Us. In the event that any of the various forms of turmoil experienced in the financial markets return or become exacerbated, there may be a Material Adverse Effect on Us from (i) continued or accelerated disruption and volatility in financial markets, (ii) continued capital and liquidity concerns regarding financial institutions generally and our transaction counterparties specifically, (iii) limitations resulting from further governmental action to stabilize or provide additional regulation of the financial system, or (iv) further recessionary conditions.

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

We are a legal entity separate and distinct from our subsidiaries. With the exception of cash raised from debt and equity issuances, we receive substantially all of our cash flow from dividends from our subsidiaries. These dividends are the principal source of funds to pay dividends on our equity securities and interest and principal 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. 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. The inability to receive dividends from KeyBank could have a Material Adverse Effect on Us.

Our credit ratings affect our liquidity position.

Our 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 which are not entirely within our control, such as conditions affecting the financial services industry and the economy. In light of the difficulties in the financial services industry, the financial markets and the economy, there can be no assurance that we will maintain our current ratings.

On October 18, 2012, S&P maintained its Positive outlook rating for each of KeyCorp and KeyBank. S&P s ratings for KeyCorp s short-term borrowings and senior long-term debt are A-2 and BBB+, respectively, and KeyBank s short-term borrowings, senior long-term debt and subordinated debt are rated A-2, A-, and BBB+, respectively.

In light of the various changes in the ratings methodologies underway as a result of the Dodd-Frank Act, there can be no assurance that we will maintain our current ratings. If the securities of KeyCorp and/or KeyBank suffer ratings downgrades, such downgrades 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, thereby reducing our ability to generate income. Downgrades of the credit ratings of securities, particularly if they are below investment-grade, could have a Material Adverse Effect on Us.

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

Market conditions or other events could negatively affect the level or cost of funding, affecting our ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, and fund asset growth and new business transactions 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 and liabilities under both normal and adverse conditions, any substantial, unexpected and/or prolonged change in the level or cost of liquidity could have a Material Adverse Effect on Us. Certain credit markets that we participate in and rely upon as sources of funding were significantly disrupted and volatile from the third quarter of 2007 through the third quarter of 2009. Credit markets have improved since then, and we have significantly reduced our reliance on wholesale funding sources. Part of our strategy to reduce liquidity risk involves promoting customer deposit growth, exiting certain noncore lending businesses, diversifying our funding base, maintaining a liquid asset portfolio, and strengthening our capital base to reduce our need for debt as a source of liquidity. Many of these disrupted markets have shown signs of recovery throughout 2012. Nonetheless, if further market disruption or other factors reduce the cost effectiveness and/or the availability of supply in the credit markets for a prolonged period of time, should our funding needs necessitate it, we may need to expand our use of other potential means of accessing funding and managing liquidity such as generating client deposits, securitizing or selling loans, extending the maturity of wholesale borrowings, purchasing deposits from other banks, borrowing under certain secured wholesale facilities, and utilizing relationships developed with fixed income investors in a variety of markets, as well as increased management of loan growth and investment opportunities and other management tools. There can be no assurance that these alternative means of funding will be available; under certain stressed conditions experienced in the liquidity crisis during 2007-2009, some of these alternative means of funding were not available. Should these forms of funding become unavailable, it could have a Material Adverse Effect on Us.

V. Operational Risks

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

Our ability to compete successfully depends on a number of factors, including among others, our ability to develop and execute strategic plans and initiatives. Our strategic priorities include growing revenue and reducing expenses through targeted investments, technology enhancements and streamlining our operations. As part of our efficiency initiative, we have committed to achieving an annual expense run rate reduction of $150 to $200 million by December 2013 and a cash efficiency ratio in the target range of 60% to 65% by the first quarter of 2014. There may be unanticipated difficulties in implementing our efficiency initiative, and there can be no assurance that we will ultimately realize the full benefits of, or be able to sustain the annual cost savings anticipated by, our efficiency initiative. Our inability to achieve the anticipated outcomes of our stated strategies may affect how the market perceives us and could impede our growth and profitability. Our strategic priorities also include developing, maintaining and building long-term customer relationships based on quality service and competitive prices. Our failure to execute our strategic initiatives relating to any of these areas could significantly weaken our competitive position and have a Material Adverse Effect on Us.

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, break-downs or failures of our vendors systems or employees could be a source of operational risk to us. Additionally, some of our outsourcing arrangements are located overseas and, therefore, are subject to political risks unique to the regions in which they operate.

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, any and all of which could have a Material Adverse Effect on Us.

Our controls and procedures may fail or be circumvented.

We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. We also maintain an ERM program. Any system of controls, 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. Any failure or circumvention of our controls and procedures or a failure to establish appropriate controls or to comply with regulations related to controls and procedures could have a Material Adverse Effect on Us.

Our methods of reducing risk exposure might not be effective.

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, which could have a Material Adverse Effect on Us.

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.

While we have policies and procedures designed to prevent or limit the effect of a possible failure, interruption or breach of our information systems, there can be no assurance that such action will not occur or, if any does occur, that it will be adequately addressed. For example, although we maintain commercially reasonable measures to ensure the cybersecurity of our information systems, other financial service institutions and companies have reported breaches in the security of their websites or other systems. In addition, several U.S. financial institutions, including Key, have recently 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, cyberattacks and other means. To date, none of these efforts has had a material 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. Although we have adjusted our cybersecurity program to anticipate that a breach is more likely and have placed a greater focus on detection and incident response, 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 are also increasingly reliant on third party service providers to perform significant operational services on our behalf. These third party providers are subject to the same risks relating to cybersecurity, break-downs or failures of their own systems or employees. While we make every effort to mitigate these risks through specific contractual obligations relating to security and strong oversight of these service providers, there can be no assurance that one or more of our third party service providers will not experience a cybersecurity event or operational disruption and, if any such event does occur, that it will be adequately addressed.

Any failure, interruption or breach in security of our information systems or those of our third party service providers could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. These risks may increase in the future as we continue to increase our offerings of mobile payments and other internet or web-based products. Notwithstanding our efforts to maintain business continuity, a disruptive event impacting the infrastructure that supports our business, such as a failure, interruption or security breach of our information systems, could adversely affect our reputation, result in a loss of customer business, result in violations of applicable privacy and other laws, subject us to additional regulatory scrutiny or expose us to civil litigation and possible financial liability, any of which could have a Material Adverse Effect on Us.

We are subject to claims and litigation.

From time to time, customers, vendors or other parties may make claims and take legal actions 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/or 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, the creation of the CFPB, and the uncertainty as to whether federal preemption of certain state consumer laws remains intact for federally chartered financial institutions like KeyBank and KeyCorp. A weakening of federal pre-emption would potentially increase our compliance and operational costs and risks since we are a national bank with multi-state operations and customers and we would potentially face state and local enforcement activity.

There have also been a number of highly publicized cases involving fraud or misconduct by employees in the financial services industry in recent years, 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.

Any financial liability for which we have not adequately maintained reserves, and/or any damage to our reputation from such claims and legal actions, could have a Material Adverse Effect on Us.

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

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on our ability to conduct business. 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 loss of revenue and/or cause us to incur additional expenses. Although we

have established disaster recovery plans and procedures, and monitor for significant environmental effects on our properties or our investments, the occurrence of any such event could have a Material Adverse Effect on Us.

VI. Strategic and Reputation Risks

We operate in a highly competitive industry.

We face substantial competition in all areas of our operations from a variety of competitors, many of which are larger and may have more financial resources. Such competitors primarily include national and super-regional banks as well as smaller community banks within the various markets 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 and national financial services firms. In recent years, competition has intensified due to substantial consolidation among companies in the financial services industry, a trend that may continue. The competitive landscape was also affected by the liquidity crisis, which led to the conversion of traditional investment banks to bank holding companies due to the access it provides to government-sponsored sources of liquidity. In addition, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks. 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, among others, our ability to develop and execute strategic plans and initiatives; developing, maintaining and building long-term customer relationships based on quality service, competitive prices, high ethical standards and safe, 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 and have a Material Adverse Effect on Us.

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

Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities in which we are engaged can be intense, and we may not be able to retain or hire the people we want and/or need. To attract and retain qualified employees, we must compensate such employees at market levels. Typically, those levels have caused employee compensation to be our greatest expense.

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, which 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, and such restrictions could have a Material Adverse Effect on Us.

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

The continuous, widespread adoption of new technologies, including internet services and smart phones, 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 and/or transferring funds directly without the assistance of banks, while new services 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 non-bank, to keep pace and adopt new technologies and products and services requires us to incur substantial expenditures. 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 margin and fee-based products and services, all factors which may have a Material Adverse Effect on Us.

Our failure to effectively cross-sell our products and services to customers could have a negative effect on our revenue growth and financial results.

Selling more products or services to our customers, or cross-selling, is an integral part of our business model and is key to our ability to grow revenue and earnings during the current period of slow economic growth and regulatory reform. Many of our competitors also focus on cross-selling, especially in retail banking and mortgage lending. This can limit our ability to sell more products to our customers or influence us to sell our products at lower prices, reducing our net interest income and revenue from our fee-based products. It could also affect our ability to retain our existing customers. As our competitors increase their cross-selling efforts and new technologies require us to spend more to modify or adapt our products to attract and retain customers, we may face difficulties in increasing our cross-selling ratio, or the average number of products sold to existing customers. Our failure to sell additional products or services to our existing or new customers who instead purchase such products from our competitors could have a Material Adverse Effect on Us.

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 impacted by our reputation. Public perception of the financial services industry declined since the recent downturn in the U.S. economy. We continue to 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, 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 can also significantly adversely affect 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.

Our actual or perceived failure to address these and other issues gives rise to reputational risk that could cause significant harm to us and our business prospects, and may have a Material Adverse Effect on Us.

Potential acquisitions may disrupt our business and dilute shareholder value.

Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including:

- potential exposure to unknown or contingent liabilities of the target company;
- exposure to potential asset quality issues of the target company;

- difficulty and expense of integrating the operations and personnel of the target company;
- potential disruption to our business;
- potential diversion of our management s time and attention;
- the possible loss of key employees and customers of the target company;
- difficulty in estimating the value (i.e., the assets and liabilities) of the target company;
- difficulty in estimating the fair value of acquired assets, liabilities and derivatives of the target company; and
- potential changes in banking or tax laws or regulations that may affect the target company.

We regularly evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value and net income per Common Share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a Material Adverse Effect on Us.

VII. Risks to Our Common Shares

An investment in our Common Shares is not an insured deposit.

Our Common Shares are not a bank deposit and, therefore, are not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our Common Shares is inherently risky for the reasons described in this Risk Factors section and elsewhere in this report and is subject to the same market forces that affect the price of common shares in any company. As a result, if you acquire our Common Shares, you may lose some or all of your investment.

Our articles of incorporation and regulations, as well as certain banking laws, may have an anti-takeover effect.

Provisions of our articles of incorporation and regulations and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. The combination of these provisions may inhibit a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of our Common Shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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, 2012, Key leased approximately 686,002 square feet of the complex, encompassing the first twenty-three floors and the 54th through 56th floors of the 57-story Key Tower. As of the same date, KeyBank owned 602 and leased 486 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

	Rocky Mountains and Northwest	Great Lakes	Northeast	Total
Branches	407	345	336	1,088
ATMs	587	535	489	1,611

Rocky Mountains and Northwest   Alaska, Colorado, Idaho, Oregon, Utah and Washington

Great Lakes   Indiana, Kentucky, Michigan and Ohio

Northeast   Connecticut, Maine, New York and Vermont

ITEM 3. LEGAL PROCEEDINGS

As of December 31, 2012, KeyCorp and its subsidiaries and its employees, directors and officers are defendants or putative defendants in a variety of legal proceedings, in the form of regulatory/government investigations as well as private, civil litigation and arbitration proceedings. The private, civil litigations range from individual actions involving a single plaintiff to putative class action lawsuits with potentially thousands of class members. Investigations involve both formal and informal proceedings, by both government agencies and self-regulatory bodies. These legal proceedings are at varying stages of adjudication, arbitration or investigation and involve a variety of claims (including common law tort, contract claims, securities, ERISA, and consumer protection claims). At times, these legal proceedings present novel claims or legal theories.

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 operation for a particular period, depending upon the size of the loss or our income for that particular period.

The information in the Legal Proceedings section of Note 16 (Commitments, Contingent Liabilities and Guarantees) of the Notes to our Consolidated Financial Statements is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES.
Not applicable.

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 of this report, and the following disclosures included in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the Consolidated Financial Statements contained in Item 8 of this report, are incorporated herein by reference:

	Page(s)
Discussion of Common Shares, shareholder information and repurchase activities in the section captioned Capital Common shares outstanding	75-76
Presentation of annual and quarterly market price and cash dividends per Common Share	38,101
Discussion of dividend restrictions in the Liquidity risk management Liquidity for KeyCorp section, Note 3 (Restrictions on Cash, Dividends and Lending Activities), and Note 20 (Shareholders Equity)	89,132,204
KeyCorp common share price performance (2007-2012) graph	76

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 previously reported, as authorized by our Board and pursuant to our 2012 capital plan submitted to the Federal Reserve as part of CCAR and not objected to by the Federal Reserve, beginning in the second quarter of 2012, KeyCorp had authority to repurchase up to $344 million of our Common Shares for general repurchase and repurchases in connection with employee elections under our compensation and benefit programs.

During the fourth quarter of 2012, we completed $89 million of Common Share repurchases. Following completion of these repurchases (as well as our Common Share repurchases during the second and third quarters of 2012), we have remaining authority to repurchase up to $88 million of our Common Shares for general repurchase and repurchases in connection with employee elections under our compensation and benefit programs. Our existing repurchase program does not have an expiration date. Common Share repurchases under the current authorization are expected to be executed through the first quarter of 2013.

Calendar month	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 that may yet be purchased under the plans or programs (b)
October 1 31	2,641,103	$ 8.46	2,521,155	29,128,883
November 1 30	8,017,131	8.33	8,009,316	21,509,608
December 1 31	4,055	8.41		21,203,240
Total	10,662,289	$ 8.36	10,530,471	

(a) Includes Common Shares deemed surrendered by employees in connection with Key s stock compensation and benefit plans to satisfy tax obligations and repurchases in the open market.

(b) Calculated using the remaining general repurchase amount divided by the closing price of KeyCorp Common Shares on October 31, 2012, at $8.42, November 30, 2012, at $8.08, and December 31, 2012, at $8.42, plus 13,922,496 shares available under our previously existing program.

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.

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

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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 117.

Introduction

This section generally reviews the financial condition and results of operations of KeyCorp and its subsidiaries for each of the past three years. Some tables may 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 consisting of KeyCorp and its subsidiaries. KeyCorp refers solely to the parent holding company, and KeyBank refers to KeyCorp s subsidiary bank, KeyBank National Association.

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 and Austin. Results for the education lending business and Austin have been accounted for as ***discontinued operations*** for all periods presented.

¿ 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 bank holding company 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 in the section entitled Supervision and Regulation under Item 1. Business 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 under Item 1. Business 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).

Figure 1. Selected Financial Data

dollars in millions, except per share amounts	2012	2011	2010	2009	2008	2007	Compound Annual Rate of Change (2007-2012)
YEAR ENDED DECEMBER 31,							
Interest income	**$ 2,705**	$ 2,889	$ 3,408	$ 3,795	$ 4,353	$ 5,336	(12.7)%
Interest expense	**441**	622	897	1,415	2,037	2,650	(30.1)
Net interest income	**2,264**	2,267	2,511	2,380	2,316	2,686	(3.4)
Provision (credit) for loan and lease losses	**229**	(60)	638	3,159	1,537	525	N/M
Noninterest income	**1,967**	1,808	1,954	2,035	1,847	2,241	(2.6)
Noninterest expense	**2,907**	2,790	3,034	3,554	3,476	3,158	(1.6)
Income (loss) from continuing operations before income taxes	**1,095**	1,345	793	(2,298)	(850)	1,244	(2.5)
Income (loss) from continuing operations attributable to Key	**849**	964	577	(1,287)	(1,295)	935	(1.9)
Income (loss) from discontinued operations, net of taxes [(a)]	**9**	(44)	(23)	(48)	(173)	(16)	N/M
Net income (loss) attributable to Key	**858**	920	554	(1,335)	(1,468)	919	(1.4)
Income (loss) from continuing operations attributable to Key common shareholders	**827**	857	413	(1,581)	(1,337)	935	(2.4)
Income (loss) from discontinued operations, net of taxes [(a)]	**9**	(44)	(23)	(48)	(173)	(16)	N/M
Net income (loss) attributable to Key common shareholders	**836**	813	390	(1,629)	(1,510)	919	(1.9)
PER COMMON SHARE							
Income (loss) from continuing operations attributable to Key common shareholders	**$ .88**	$ .92	$ .47	$ (2.27)	$ (2.97)	$ 2.39	(18.1)%
Income (loss) from discontinued operations, net of taxes [(a)]	**.01**	(.05)	(.03)	(.07)	(.38)	(.04)	N/M
Net income (loss) attributable to Key common shareholders [(d)]	**.89**	.87	.45	(2.34)	(3.36)	2.35	(17.6)
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**$ .88**	$ .92	$ .47	$ (2.27)	$ (2.97)	$ 2.36	(17.9)
Income (loss) from discontinued operations, net of taxes assuming dilution [(a)]	**.01**	(.05)	(.03)	(.07)	(.38)	(.04)	N/M
Net income (loss) attributable to Key common shareholders assuming dilution [(d)]	**.89**	.87	.44	(2.34)	(3.36)	2.32	(17.4)
Cash dividends paid	**.18**	.10	.04	.0925	1.00	1.46	(34.2)
Book value at year end	**10.78**	10.09	9.52	9.04	14.97	19.92	(11.6)
Tangible book value at year end	**9.67**	9.11	8.45	7.94	12.48	16.47	(10.1)
Market price at year end	**8.42**	7.69	8.85	5.55	8.52	23.45	(18.5)
Dividend payout ratio	**20.22%**	11.49%	8.89%	N/M	N/M	62.13%	N/A
Weighted-average common shares outstanding (000)	**938,941**	931,934	874,748	697,155	450,039	392,013	19.1
Weighted-average common shares and potential common shares outstanding (000)	**943,259**	935,801	878,153	697,155	450,039	395,823	19.0
AT DECEMBER 31.							
Loans	**$ 52,822**	$ 49,575	$ 50,107	$ 58,770	$ 72,835	$ 70,492	(5.6)%
Earning assets	**75,055**	73,729	76,211	80,318	89,759	82,865	(2.0)
Total assets	**89,236**	88,785	91,843	93,287	104,531	98,228	(1.9)
Deposits	**65,993**	61,956	60,610	65,571	65,127	62,934	1.0
Long-term debt	**6,847**	9,520	10,592	11,558	14,995	11,957	(10.6)
Key common shareholders equity	**9,980**	9,614	8,380	7,942	7,408	7,746	5.2
Key shareholders equity	**10,271**	9,905	11,117	10,663	10,480	7,746	5.8
PERFORMANCE RATIOS FROM CONTINUING OPERATIONS							
Return on average total assets	**1.05%**	1.17%	.66%	(1.35)%	(1.29)%	1.02%	N/A
Return on average common equity	**8.39**	9.26	5.06	(19.00)	(16.22)	12.11	N/A
Return on average tangible common equity [(b), (e)]	**9.32**	10.30	5.73	(23.76)	(20.57)	14.63	N/A
Net interest margin (TE)	**3.21**	3.16	3.26	2.83	2.15	3.50	N/A
Cash efficiency ratio [(b)]	**67.78**	67.93	67.25	73.47	80.24	62.28	N/A

PERFORMANCE RATIOS FROM CONSOLIDATED OPERATIONS							
Return on average total assets	**.99%**	1.04%	.59%	(1.34)%	(1.41)%	.97%	N/A
Return on average common equity	**8.48**	8.79	4.78	(19.62)	(18.32)	11.90	N/A
Return on average tangible common equity [(b), (e)]	**9.42**	9.78	5.41	(24.48)	(23.23)	14.38	N/A
Net interest margin (TE)	**3.13**	3.09	3.16	2.81	2.16	3.46	N/A
Loan to deposit [(c)]	**85.77**	87.00	90.30	97.30	120.87	128.20	N/A
CAPITAL RATIOS AT DECEMBER 31,							
Key shareholders equity to assets	**11.51**	11.16	12.10	11.43	10.03	7.89	N/A
Key common shareholders equity to assets	**11.18**	10.83	9.12	8.51	7.09	7.89	N/A
Tangible common equity to tangible assets [(b), (e)]	**10.15**	9.88	8.19	7.56	5.98	6.61	N/A
Tier 1 common equity [(b)]	**11.36**	11.26	9.34	7.50	5.62	5.74	N/A
Tier 1 risk-based capital	**12.15**	12.99	15.16	12.75	10.92	7.44	N/A
Total risk-based capital	**15.13**	16.51	19.12	16.95	14.82	11.38	N/A
Leverage	**11.41**	11.79	13.02	11.72	11.05	8.39	N/A
TRUST AND BROKERAGE ASSETS							
Assets under management	**$ 49,684**[(f)]	$ 51,732	$ 59,815	$ 66,939	$ 64,717	$ 85,442	N/A
Nonmanaged and brokerage assets	**25,197**	30,639	28,069	19,631	22,728	33,918	N/A
OTHER DATA							
Average full-time-equivalent employees	**15,589**	15,381	15,610	16,698	18,095	18,934	(3.8)%
Branches	**1,088**	1,058	1,033	1,007	986	955	2.6

(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.

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

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

(d) EPS may not foot due to rounding.

(e) December 31, 2012, excludes $55 million of average ending purchased credit card receivable intangible assets. December 31, 2012, excludes $123 million of period end credit card receivable intangible assets.

(f) This figure has been revised from what has previously been disclosed in our earnings release on January 24, 2013.

Economic overview

The economy continued to tread water in 2012, with overall GDP and payroll growth remaining modest and in-line with 2010 and 2011 levels. The quarterly flow of data also followed a similar pattern as that of the prior two years, with a relatively solid start, mid-year slump, and modest recovery by year-end. In both 2010 and 2011, slowing growth in the middle of the year was largely due to a series of external shocks the sovereign debt crisis and BP oil spill in 2010, and the Arab Spring and Japanese tsunami in 2011. The recovery was further challenged in 2011 by the debt ceiling debate and subsequent credit rating downgrade. In 2012, the story was less about shocks and more about constant, and at times strengthening, headwinds. Once again, the economy had a strong start, but paused heading into the summer as the debt crisis and renewed recession in Europe, along with slowing growth in the emerging markets, grabbed headlines and sapped export demand. In addition to these global concerns, rising political and policy uncertainty in the U.S. led to a sharp pullback in business investment. Central banks around the world, including the Fed and the European Central Bank, came to the rescue with a range of policy tools, which stabilized financial markets and set the stage for a moderate uptick in growth in the second half of the year. The S&P 500 equity index managed to avoid a major market correction and ended the year up 13%, compared to relatively no change during 2011.

For the year, 2.17 million new jobs were added, up from the 2011 total of 2.10 million jobs added. The unemployment rate fell further, from 8.5% to 7.8%. While job growth was a factor, improvement in this measure was also driven by a steady decline in the participation rate, which stood at a 25-year low at year-end. With substantial labor market slack remaining, wage growth deteriorated through much of the year and income growth was weak. Consumer spending, meanwhile, held up reasonably well, resulting in a falling savings rate. A slowing rate of inflation supported incomes, and therefore spending, through the first half of the year, but shifted to a drag at mid-year due to a sharp rise in energy prices. By year-end, inflation fell again as energy prices retreated, with headline CPI of just 1.7% in December of 2012 (compared to 3.0% one year earlier). Core inflation also moderated through the year, ending 2012 at 1.4% (down from 1.9% in 2011).

The housing market shifted from a drag to a boost in 2012, with solid improvement in nearly all metrics. With the economy continuing its modest expansion, and home prices appearing to stabilize, demand for for-sale housing posted steady gains. Sales of existing homes rose to an annualized pace of 4.94 million in December 2012, down slightly from the previous month, but up 13% from 2011. New home sales also improved, reaching a pace of 369,000. As with existing homes, sales were down month-over-month, but up 9% over 2011 levels. As the share of distressed transactions fell, prices stabilized in the first half of the year and registered consistent gains in the second half, with the median price for existing homes up 11% year-over-year in December 2012. Housing starts accelerated further, up 28% over the prior year s pace, driven by substantial gains in both multifamily and single family construction.

The Federal Reserve remained active and accommodative in 2012, keeping the federal funds target rate near zero, expanding their balance sheet further, and making significant changes to their communications. After remaining on hold in the first half of the year, the Fed announced additional policy actions in June as growth deteriorated. At that time, Operation Twist, the Federal Reserve s process of buying and selling short- and long-term bonds, was extended through year-end. In September, the Fed announced a third round of quantitative easing, with $40 billion in mortgage-backed securities purchased each month. Importantly, the Fed left the program open-ended both in quantity and time. Also in September, the Fed extended their federal funds interest rate guidance to mid-2015. In November, the Fed capped a busy year with additional asset purchases and the adoption of numerical thresholds. Based on these thresholds, the federal funds rate will be kept near zero at least as long as unemployment remains above 6.5 percent and the inflation forecast remains below 2.5 percent. The

movement in rates through the year partially reflected Fed actions, but also clearly tracked the economy and perception of risk. Looking at the 10-year U.S. Treasury, the yield moved from 1.9% at the beginning of the year, approached 2.2% in March as the economy appeared to take off and Fed commentary turned more hawkish, and then fell below 1.5% in July as the economy stumbled and the European debt crisis reignited. As Europe stabilized and economic data improved, the 10-year yield moved higher, ending the year at 1.8%, even as Fed accommodation grew.

Long-term financial goals

Our long-term financial goals are as follows:

¿ Target a loan-to-core deposit ratio range of 90% to 100%;

¿ Return to a moderate risk profile by targeting a net 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 ratio of noninterest income to total revenue of greater than 40%;

¿ Create positive operating leverage and target an efficiency ratio in the range of 60% to 65%; and

¿ Achieve 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 fourth quarter of 2012 and the year ended 2012.

Figure 2. Evaluation of Our Long-Term Financial Goals

KEY Business Model	Key Metrics [a]	4Q12	2012	Targets	Action Plans
Core funded	Loan to deposit ratio [b]	86 %	86 %	90 - 100 %	Use integrated model to grow relationships and loans Improve deposit mix
Returning to a moderate risk profile	NCOs to average loans	.44 %	.69 %	.40 - .60 %	Focus on relationship clients Exit noncore portfolios Limit concentrations Focus on risk-adjusted returns
	Provision to average loans	.44 %	.45 %		
Growing high quality, diverse revenue streams	Net interest margin	3.37 %	3.21 %	> 3.50 %	Improve funding mix Focus on risk-adjusted returns
	Noninterest incometo total revenue	43 %	46 %	> 40 %	Grow client relationships Capitalize on Key s total client solutions and cross-selling capabilities
Creating positive operating leverage	Cash efficiency ratio [c]	69 %	68 %	60 - 65 %	Improve efficiency and effectiveness Better utilize technology Change cost base to more variable from fixed
Executing our strategies	Return on average assets	.97 %	1.05 %	1.00 - 1.25 %	Execute our client insight-driven relationship model Focus on operating leverage Improved funding mix with lower cost core deposits

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

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

(c) Excludes intangible asset amortization; Non-GAAP measure: 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. To that end, our 2012/2013 strategic focus is to build enduring relationships through client-focused solutions and extraordinary service. Our strategic priorities for enhancing long-term shareholder value are as follows:

¿ ***Execute on our business model.*** We will continue to refine and execute on our relationship business model, which sets us apart from our competitors. We expect the model to keep generating organic growth as it helps us expand engagement with existing clients as well as attract new customers.

¿ ***Maintain moderate risk profile.*** We have substantially improved our credit quality over the past several years by adhering to a robust set of enterprise-wide risk practices. We will strive to maintain our moderate risk profile.

¿ ***Accelerate revenue opportunities.*** We will find ways to leverage our franchise, as we did in 2012, when we expanded our retail footprint, enhanced our payment capabilities, and invested in on-line and mobile banking.

¿ ***Improve operating leverage.*** We continue to focus on growing revenue and creating a more efficient cost structure that is aligned with the current operating environment. To achieve this objective, we will persist in leveraging technology and growing in ways that are sustainable and consistent with our relationship business model.

¿ ***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 in both the intermediate and long term.

Strategic developments

We initiated the following actions during 2012 and 2011 to support our corporate strategy:

¿ We continued to show solid profitability in 2012. The results for 2012 were primarily due to loan growth, continued repricing of our interest-bearing liabilities to from current market rates, additional payment capabilities in the form of credit cards and improved mobile banking, and moving forward with our efficiency initiative, as our leadership team continues our strategy of focused execution.

¿ On July 13, 2012, we completed our acquisition of 37 retail branches in Western New York, adding approximately $2 billion in assets and deposits. On September 14, 2012, associated with this acquisition we acquired approximately $68 million of credit card receivables. This acquisition provides an opportunity to utilize our existing cost structure across a larger base.

¿ On August 1, 2012, approximately $718 million in Key-branded credit card assets were acquired from Elan Financial Services as part of our strategy to diversify our revenue stream and to provide opportunities for future growth.

¿ We committed to lend $5 billion to small- and medium-sized businesses by the end of 2014. We began this program in September of 2011, and we have already met our goal well ahead of our pledge.

¿ During 2012, we continued to benefit from improved asset quality. From one year ago, nonperforming loans declined by $53 million to $674 million, and nonperforming assets decreased by $124 million to $735 million. Net loan charge-offs during 2012 declined to $345 million, or .69% of average loan balances, compared to $541 million, or 1.11 % of average loan balances during 2011.

¿ During 2012, we took advantage of the low interest rate environment and nontaxable treatment of gains pursuant to a previous settlement with the IRS through the early termination of leveraged leases. These terminations resulted in gains in noninterest income of $90 million, offset by $29 million in net interest income write-offs of fees and capitalized loan origination costs.

¿ We made progress on our previously announced efficiency initiative goal during 2012. We are committed to achieving an expense run rate reduction of $150 to $200 million by December 2013, of which $60 million annualized was achieved during 2012. For the year ended December 31, 2012, our cash efficiency ratio was 68%. Using our current levels of revenue and expense, these initiatives are intended to move us toward our cash efficiency ratio target range of 60% to 65% by the first quarter of 2014.

¿ On July 12, 2012, we redeemed trust preferred securities issued by KeyCorp Capital VII and KeyCorp Capital X totaling approximately $707 million.

¿ During 2012, we continued our commitment to disciplined capital management. The repurchase program was also included in our 2012 capital plan submitted to the Federal Reserve as part of CCAR and not objected to by the Federal Reserve. With the repurchases completed through December 31, 2012, we have remaining authority to repurchase up to $88 million of our Common Shares for general repurchase and repurchases in connection with employee elections under our compensation and benefit programs. Our existing repurchase program does not have an expiration date. Common Share repurchases under the current authorization are expected to be executed through the first quarter of 2013.

¿ At December 31, 2012, our capital ratios remained strong with a Tier 1 common equity ratio of 11.36%, our loan loss reserves were adequate at 1.68% to period-end loans and we were core funded with a loan-to-deposit ratio of 86%. 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.

¿ In May 2012, our Board of Directors approved an increase in our quarterly cash dividend and declared a quarterly cash dividend of $.05 per Common Share, or $.20 on an annualized basis in accordance with our Capital Plan.

¿ We were recognized in a survey by American Customer Satisfaction Index, published in December of 2012, for exceeding bank industry averages in measures such as Customer Expectations, Customer Satisfaction, Customer Loyalty, and Overall Quality. We also surpassed scores received by the nation s largest banks.

Highlights of Our 2012 Performance

Financial performance

For 2012, we announced net income from continuing operations attributable to Key common shareholders of $827 million, or $.88 per Common Share. These results compare to net income from continuing operations attributable to Key common shareholders of $857 million, or $.92 per Common Share, for 2011.

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*	**2012**	2011	2010
SUMMARY OF OPERATIONS			
Income (loss) from continuing operations attributable to Key	**$ 849**	$ 964	$ 577
Income (loss) from discontinued operations, net of taxes (a)	**9**	(44)	(23)
Net income (loss) attributable to Key	**$ 858**	$ 920	$ 554
Income (loss) from continuing operations attributable to Key	**$ 849**	$ 964	$ 577
Less: Dividends on Series A Preferred Stock	**22**	23	23
Cash dividends on Series B Preferred Stock		31	125
Amortization of discount on Series B Preferred Stock (b)		53	16
Income (loss) from continuing operations attributable to Key common shareholders	**827**	857	413
Income (loss) from discontinued operations, net of taxes (a)	**9**	(44)	(23)
Net income (loss) attributable to Key common shareholders	**$ 836**	$ 813	$ 390
PER COMMON SHARE ASSUMING DILUTION			
Income (loss) from continuing operations attributable to Key common shareholders	**$ .88**	$ .92	$ .47
Income (loss) from discontinued operations, net of taxes (a)	**.01**	(.05)	(.03)
Net income (loss) attributable to Key common shareholders (c)	**$ .89**	$ .87	$ .44

(a) In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. As a result of these decisions, we have accounted for these businesses as discontinued operations. The loss from discontinued operations for the years ended December 31, 2011, and 2010, were primarily attributable to fair value adjustments related to the education lending securitization trusts.

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

(c) EPS may not foot due to rounding.

In 2012, our full-year result reflects success in executing our strategies to grow loans, add payment capabilities to our product line in the form of credits cards and improved mobile banking, and moving forward on our efficiency initiative.

Our efficiency initiative ended 2012 with annual run rate savings of approximately $60 million. We continue to invest in the future revenue growth of our company by upgrading our technology to meet the needs of our clients. We remain committed to delivering on our goal of achieving a cash efficiency ratio in the range of 60% to 65% as we enter 2014.

The net interest margin from continuing operations was 3.21% for 2012. This was an increase of five basis points from 2011. This increase was primarily attributable to lower funding costs and increased loan fees. We continue to experience an improvement in the mix of deposits by reducing the level of higher cost certificates of deposit and growing lower cost transaction accounts. Our current expectation, assuming the policy of low interest rates by the Federal Reserve continues, is for the net interest margin to be in the 3.30% range for the first quarter of 2013 and for continued downward pressure in the one to three basis point range per quarter thereafter during 2013.

Average total loans increased $1.8 billion, or 3.6% during 2012 compared to 2011. The average balances of commercial, financial and agricultural loans increased from $17.5 billion to $21.1 billion, or approximately 20.8% which led our year-over-year average loan growth. We have continued to have success in growing our commercial loan portfolio by acquiring new clients in our focus industries as well as expanding existing relationships. For 2013, we anticipate average total loans to grow in the mid to upper single digit range, continuing to be led by growth

in our commercial and industrial loans.

We originated new or renewed lending commitments to consumers and businesses of approximately $37.8 billion during 2012, compared to approximately $36.6 billion in 2011.

Our consolidated loan to deposit ratio was 86% at December 31, 2012, compared to 87% at December 31, 2011.

Our trend of improving the mix of deposits continued during 2012 as we experienced a $7.1 billion or 14% increase in non-time deposits. Approximately $5.0 billion of our certificates of deposit outstanding at December 31, 2012, with a 1.20% average cost are scheduled to mature over the next twelve months. The maturation of these certificates of deposit and other liability repricing opportunities will continue help to offset repricing pressure on our assets. This improved funding mix reduced the cost of interest-bearing deposits, during 2012 compared to 2011.

Our asset quality statistics continued to improve during 2012. Net charge-offs declined to $345 million, or .69% of average loan balances for 2012, compared to $541 million, or 1.11% for 2011. In addition, our nonperforming loans declined to $674 million, or 1.28% of period end loans at December 31, 2012, compared to $727 million, or 1.47% at December 31, 2011. Our allowance for loan losses stood at $888 million, or 1.68% of period end loans, compared to $1 billion, or 2.03% at December 31, 2011, and represented 132% and 138% coverage of nonperforming loans at December 31, 2012, and December 31, 2011, respectively. Information pertaining to our progress in reducing our commercial real estate exposure and our exit loan portfolio is presented in the section entitled Credit risk management. Our expectation for net charge offs and provision expense during 2013 is to remain within our long-term targeted range of 40 to 60 basis points.

Our tangible common equity ratio and Tier 1 common ratio both remain strong at December 31, 2012, at 10.15% and 11.36% respectively, as compared to 9.88% and 11.26% at December 31, 2011. These ratios have placed us in the top quartile of our peer group for these measures. We have identified four primary uses of capital. The first is investing in our businesses, supporting our clients and our loan growth. Second is maintaining or increasing our common stock dividend. Third is to return capital in the form of share repurchase to our shareholders. Fourth is to be disciplined and opportunistic about how we invest in our franchise to include selective acquisitions over time. Our capital management remains focused on value creation. To that end, in 2012, we returned approximately 50% of our net income to shareholders through both common share repurchases and dividends. We also used our capital to acquire market share in Western New York and to develop new revenue streams in the credit card and payment systems businesses.

The Federal Reserve is currently conducting a review of our 2013 Capital Plan under the CCAR process. Until such time as they have completed their review and have no objection to our plan, we are not permitted to take any further actions to implement our plan for quarters subsequent to the first quarter of 2013. For the 2013 CCAR process, the Federal Reserve has advised that it will provide us, and each BHC subject to CCAR, with the initial results of the Federal Reserve s post-stress capital analysis on March 7, 2013. We will then have the opportunity to make a one-time downward adjustment to our 2013 Capital Plan, if necessary, before the Federal Reserve renders its final public objection or no-objection decision. In the event the Federal Reserve would, in whole or in part, object to our plan in its final public decision, we may submit a request for reconsideration of our plan within 10 days, which the Federal Reserve is required to respond to within 10 days. In such circumstances, absent receipt of a no-objection following a request for reconsideration, we would be required to re-submit our plan within 30 days. Upon receipt of a re-submitted capital plan, the Federal Reserve has 75 days to notify the BHC of its objection or no-objection. Should we receive an objection, it would likely delay any actions on capital management until later in the calendar year.

We continue to look for opportunities to rationalize and optimize our existing branch network. In 2012, our focus related to our branch network shifted more toward relocations and consolidations to reposition our branch footprint into more attractive markets. During 2012, we closed 19 underperforming branches as part of our plan. Another 40 to 50 branch closures are planned for 2013, with the majority of these closures planned for the second quarter of 2013.

Figure 4 presents certain non-GAAP financial measures related to tangible common equity, return on tangible common equity and Tier 1 common equity. Tier 1 common equity, a non-GAAP financial measure, is a component of Tier 1 risk-based capital. Tier 1 common equity is not formally defined by GAAP or prescribed in amount by federal banking regulations. 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. Since early 2009, the Federal Reserve has focused its assessment of capital adequacy on a component of 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 Basel Committee s final Basel III framework for strengthening international capital and liquidity regulation, which U.S. regulators propose to implement in the near future, also makes Tier 1 common equity a priority. Finally, the enactment of the Dodd-Frank Act also changed the regulatory capital standards that apply to BHCs by requiring regulators to create rules phasing out the treatment of trust preferred securities and cumulative preferred securities as Tier 1 eligible capital. At the end of a three-year phase-out period that commenced on January 1, 2013, our trust preferred securities will be treated only as Tier 2 capital. The Supervision and Regulation section in Item 1. Business of this report contains more information about these regulatory initiatives.

The table also shows the computation for pre-provision net revenue, which is not formally defined by GAAP. Management believes that eliminating the effects of the provision for loan and lease losses makes it easier to analyze our ability to absorb loan losses by presenting our results on a more comparable basis, period to period.

The cash efficiency ratio performance measure removes the impact of our intangible asset amortization from the calculation. Management believes 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 investors frequently use non-GAAP financial measures 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. These non-GAAP measures are not necessarily comparable to similar measures that may be represented by other companies.

Figure 4. GAAP to Non-GAAP Reconciliations

Year ended December 31,				
dollars in millions	**2012**		**2011**	
Tangible common equity to tangible assets at period end				
Key shareholders equity (GAAP)	**$ 10,271**		$ 9,905	
Less: Intangible assets [a]	**1,027**		934	
Preferred Stock, Series A	**291**		291	
Tangible common equity (non-GAAP)	**$ 8,953**		$ 8,680	
Total assets (GAAP)	**$ 89,236**		$ 88,785	
Less: Intangible assets [a]	**1,027**		934	
Tangible assets (non-GAAP)	**$ 88,209**		$ 87,851	
Tangible common equity to tangible assets ratio (non-GAAP)	**10.15**	**%**	9.88	%
Tier 1 common equity at period end				
Key shareholders equity (GAAP)	**$ 10,271**		$ 9,905	
Qualifying capital securities	**339**		1,046	
Less: Goodwill	**979**		917	
Accumulated other comprehensive income (loss) [b]	**(172)**		(72)	
Other assets [c]	**114**		72	
Total Tier 1 capital (regulatory)	**9,689**		10,034	
Less: Qualifying capital securities	**339**		1,046	
Preferred Stock, Series A	**291**		291	
Total Tier 1 common equity (non-GAAP) [d]	**$ 9,059**		$ 8,697	
Net risk-weighted assets (regulatory) [c]	**$ 79,734**		$ 77,214	
Tier 1 common equity ratio (non-GAAP) [d]	**11.36**	**%**	11.26	%
Pre-provision net revenue				
Net interest income (GAAP)	**$ 2,264**		$ 2,267	
Plus: Taxable-equivalent adjustment	**24**		25	
Noninterest income	**1,967**		1,808	
Less: Noninterest expense	**2,907**		2,790	
Pre-provision net revenue from continuing operations (non-GAAP)	**$ 1,348**		$ 1,310	
Average tangible common equity				
Average Key shareholders equity (GAAP)	**$ 10,144**		$ 10,133	
Less: Intangible assets (average) [a]	**978**		935	
Preferred Stock, Series B (average)			590	
Preferred Stock, Series A (average)	**291**		291	
Average tangible common equity (non-GAAP)	**$ 8,875**		$ 8,317	
Return on average tangible common equity from continuing operations				
Income (loss) from continuing operations attributable to Key common shareholders	**$ 827**		$ 857	
Average tangible common equity (non-GAAP)	**8,875**		8,317	
Return on average tangible common equity from continuing operations (non-GAAP)	**9.32**	**%**	10.30	%

Return on average tangible common equity consolidated							
Net income (loss) attributable to Key common shareholders		**$**	**836**		$	813	
Average tangible common equity (non-GAAP)			**8,875**			8,317	
Return on average tangible common equity consolidated (non-GAAP)			**9.42**	**%**		9.78	%
Cash efficiency ratio							
Noninterest expense (GAAP)		**$**	**2,907**		$	2,790	
Less:	Intangible asset amortization on credit cards		**14**				
	Other intangible asset amortization		**9**			4	
	Adjusted noninterest expense (non-GAAP)	**$**	**2,884**		$	2,786	
Net interest income (GAAP)		**$**	**2,264**		$	2,267	
Plus:	Taxable-equivalent adjustment		**24**			25	
	Noninterest income		**1,967**			1,808	
	Total taxable-equivalent revenue (non-GAAP)	**$**	**4,255**		$	4,100	
Cash efficiency ratio (non-GAAP)			**67.78**		%	67.95	%

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Figure 4. GAAP to Non-GAAP Reconciliations, continued

dollars in millions	Three months ended 12-31-12	9-30-12
Tier 1 common equity under Basel III (estimates)		
Tier 1 common equity under Basel I	**$ 9,059**	$ 8,969
Adjustments from Basel I to Basel III:		
Cumulative other comprehensive income [e]	**(197)**	(145)
Deferred tax assets [f]	**(80)**	(72)
Tier 1 common equity anticipated under Basel III [d]	**$ 8,782**	$ 8,752
Total risk-weighted assets under Basel I	**$ 79,734**	$ 79,363
Adjustments from Basel I to Basel III:		
Market risk impact	**970**	579
Loan commitments less than one year	**951**	1,127
Residential mortgage and home equity loans	**1,855**	1,855
Other	**1,110**	1,119
Total risk-weighted assets under Basel III [g]	**$ 84,620**	$ 84,043
Tier 1 common equity ratio under Basel III	**10.38 %**	10.41 %

(a) December 31, 2012, excludes $123 million of period end and $55 million of average ending purchased credit card receivable intangible assets that are not fully excludable for capital purposes.

(b) 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.

(c) 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, 2012, and December 31, 2011.

(d) Tier 1 common equity is a non-GAAP financial measure that is used by investors, analysts and bank regulatory agencies to assess the capital position of financial services companies. Management reviews Tier 1 common equity along with other measures of capital as part of its financial analyses.

(e) Includes AFS mark-to-market, cash flow hedges on items recognized at fair value on the balance sheet, and defined benefit pension liability.

(f) Deferred tax asset subject to future taxable income for realization, primarily tax credit carryforwards.

(g) The amount of regulatory capital and risk-weighted assets estimated under Basel III (when fully phased in) is based upon the federal banking agencies proposed rules to implement Basel III and the Standardized Approach.

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 taxable 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 six 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 net interest income by average earning assets.

Taxable-equivalent net interest income for 2012 was $2.3 billion, and the net interest margin was 3.21%. These results compare to taxable-equivalent net interest income of $2.3 billion and a net interest margin of 3.16% for the prior year. Total 2012 net interest income remained flat compared to the prior year as a reduction in interest income on earning assets was offset by interest expense savings on deposits and borrowings. The decrease in interest income is primarily attributable to a lower level and change in mix of average earning assets, resulting from pay downs on higher yielding loans and investments. The decrease in interest expense is primarily attributable to continued improvement in the mix of deposits through the maturity of higher costing certificates of deposit and the growth of low cost non-time and noninterest bearing deposit balances. We also have benefitted from a reduction of long-term debt.

Average earning assets for 2012 totaled $71.8 billion, which was $1.1 billion, or 2%, lower than the 2011 level. The reduction reflects a $3.0 billion reduction in our investments portfolio as securities were only partially reinvested to accommodate loan growth of $1.8 billion and debt maturities and redemptions.

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

Year ended December 31,	2012			2011			2010		
dollars in millions	**Average Balance**	**Interest** (a)	**Yield/ Rate** (a)	**Average Balance**	**Interest** (a)	**Yield/ Rate** (a)	**Average Balance**	**Interest** (a)	**Yield/ Rate** (a)
ASSETS									
Loans: [b],[c]									
Commercial, financial and agricultural	**$ 21,141** [j]	**$ 810**	**3.83 %**	$ 17,507	705	4.03 %	$ 17,500	813	4.64 %
Real estate commercial mortgage	**7,656**	**339**	**4.43**	8,437	380	4.50	10,027	491	4.90
Real estate construction	**1,171**	**56**	**4.74**	1,677	73	4.36	3,495	149	4.26
Commercial lease financing	**5,142**	**187**	**3.64**	5,846	293	5.01	6,754	352	5.21
Total commercial loans	**35,110**	**1,392**	**3.96**	33,467	1,451	4.34	37,776	1,805	4.78
Real estate residential mortgage	**2,049**	**100**	**4.86**	1,850	97	5.25	1,828	102	5.57
Home equity:									
Key Community Bank	**9,520**	**384**	**4.03**	9,390	387	4.12	9,773	411	4.20
Other	**473**	**37**	**7.81**	598	46	7.66	751	57	7.59
Total home equity loans	**9,993**	**421**	**4.21**	9,988	433	4.34	10,524	468	4.45
Consumer other Key Community Bank	**1,269**	**121**	**9.53**	1,167	113	9.62	1,158	132	11.44
Credit Card	**288**	**40**	**13.99**						
Consumer other:									
Marine	**1,551**	**97**	**6.26**	1,992	125	6.28	2,497	155	6.23
Other	**102**	**8**	**8.14**	142	11	7.87	188	15	7.87
Total consumer other	**1,653**	**105**	**6.38**	2,134	136	6.38	2,685	170	6.34
Total consumer loans	**15,252**	**787**	**5.16**	15,139	779	5.14	16,195	872	5.39
Total loans	**50,362**	**2,179**	**4.33**	48,606	2,230	4.59	53,971	2,677	4.96
Loans held for sale	**579**	**20**	**3.45**	387	14	3.58	453	17	3.62
Securities available for sale [b],[g]	**13,422**	**399**	**3.08**	18,766	584	3.20	18,800	646	3.50
Held-to-maturity securities [b]	**3,511**	**69**	**1.97**	514	12	2.35	20	2	10.56
Trading account assets	**718**	**18**	**2.48**	878	26	2.97	1,068	37	3.47
Short-term investments	**2,116**	**6**	**.27**	2,543	6	.25	2,684	6	.24
Other investments [g]	**1,141**	**38**	**3.27**	1,264	42	3.14	1,442	49	3.08
Total earning assets	**71,849**	**2,729**	**3.82**	72,958	2,914	4.02	78,438	3,434	4.39
Allowance for loan and lease losses	**(919)**			(1,250)			(2,207)		
Accrued income and other assets	**9,961**			10,385			11,243		
Discontinued assets education lending business	**5,524**			6,203			6,677		
Total assets	**$ 86,415**			$ 88,296			$ 94,151		
LIABILITIES									
NOW and money market deposit accounts	**$ 29,673**	**56**	**.19**	27,001	71	.26	25,712	91	.35
Savings deposits	**2,218**	**1**	**.05**	1,958	1	.06	1,867	1	.06
Certificates of deposit ($100,000 or more) [h]	**3,574**	**94**	**2.64**	4,931	149	3.02	8,486	275	3.24
Other time deposits	**5,386**	**104**	**1.92**	7,185	166	2.31	10,545	301	2.86

Deposits in foreign office	**767**	**2**	**.23**		807	3	.30	926	3	.34
Total interest-bearing deposits	**41,618**	**257**	**.62**		41,882	390	.93	47,536	671	1.41
Federal funds purchased and securities sold under repurchase agreements	**1,814**	**4**	**.19**		1,981	5	.27	2,044	6	.31
Bank notes and other short-term borrowings	**413**	**7**	**1.69**		619	11	1.84	545	14	2.63
Long-term debt[(h), (i)]	**4,673**	**173**	**4.10**		7,293	216	3.18	7,211	206	3.09
Total interest-bearing liabilities	**48,518**	**441**	**.92**		51,775	622	1.21	57,336	897	1.58
Noninterest-bearing deposits	**20,217**				17,381			15,856		
Accrued expense and other liabilities	**1,989**				2,687			3,131		
Discontinued liabilities education lending business [(e), (i)]	**5,524**				6,203			6,677		
Total liabilities	**76,248**				78,046			83,000		
EQUITY										
Key shareholders equity	**10,144**				10,133			10,895		
Noncontrolling interests	**23**				117			256		
Total equity	**10,167**				10,250			11,151		
Total liabilities and equity	**$ 86,415**				$ 88,296			$ 94,151		
Interest rate spread (TE)			**2.90**	**%**			2.81 %			2.81 %
Net interest income (TE) and net interest margin (TE)		**2,288**	**3.21**	**%**		2,292	3.16 %		2,537	3.26 %
TE adjustment [(b)]		**24**				25			26	
Net interest income, GAAP basis		**$ 2,264**				$ 2,267			$ 2,511	

Prior to the third quarter of 2009, average balances have not been adjusted to reflect our January 1, 2008, adoption of the applicable accounting guidance related to offsetting certain derivative contracts on the consolidated balance sheet.

(a) Results are from continuing operations. Interest excludes the interest associated with the liabilities referred to in (e) 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) In late March 2009, Key transferred $1.5 billion of loans from the construction portfolio to the commercial mortgage portfolio in accordance with regulatory guidelines pertaining to the classification of loans that have reached a completed status.

(e) Discontinued liabilities include the liabilities of the education lending business and the dollar amount of any additional liabilities assumed necessary to support the assets associated with this business.

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

2009			2008			2007			Compound Annual Rate of Change (2007-2012)	
Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance	Interest
$ 23,181	1,038	4.48%	$ 26,372	$ 1,446	5.48 %	$ 22,415	$ 1,622	7.23%	(1.2)%	(13.0)%
11,310	(d) 557	4.93	10,576	640	6.05	8,802	675	7.67	(2.8)	(12.9)
6,206	(d) 294	4.74	8,109	461	5.68	8,237	653	7.93	(32.3)	(38.8)
8,220	369	4.48	9,642	(425) (f)	(4.41)	10,154	606	5.97	(12.7)	(21.0)
48,917	2,258	4.61	54,699	2,122	3.88	49,608	3,556	7.17	(6.7)	(17.1)
1,764	104	5.91	1,909	117	6.11	1,525	101	6.64	6.1	(0.2)
10,214	445	4.36	9,846	564	5.73	9,671	686	7.09	(0.3)	(11.0)
945	71	7.52	1,171	90	7.67	1,144	89	7.84	(16.2)	(16.1)
11,159	516	4.63	11,017	654	5.93	10,815	775	7.17	(1.6)	(11.5)
1,202	127	10.62	1,275	130	10.22	1,367	144	10.53	(1.5)	(3.4)
									N/M	N/M
3,097	193	6.22	3,586	226	6.30	3,390	214	6.30	(14.5)	(14.6)
247	20	7.93	315	26	8.25	319	28	8.93	(20.4)	(22.2)
3,344	213	6.35	3,901	252	6.46	3,709	242	6.52	(14.9)	(15.4)
17,469	960	5.50	18,102	1,153	6.37	17,416	1,262	7.25	(2.6)	(9.0)
66,386	3,218	4.85	72,801	3,275	4.50	67,024	4,818	7.19	(5.6)	(14.7)
650	29	4.37	1,404	76	5.43	1,705	108	6.35	(19.4)	(28.6)
11,169	462	4.19	8,126	406	5.04	7,560	380	5.04	12.2	1.0
25	2	8.17	27	4	11.73	36	2	6.68	149.9	103.0
1,238	47	3.83	1,279	56	4.38	917	38	4.10	(4.8)	(13.9)
4,149	12	.28	1,615	31	1.96	846	37	4.34	20.1	(30.5)
1,478	51	3.11	1,563	51	3.02	1,524	52	3.33	(5.6)	(6.1)
85,095	3,821	4.49	86,815	3,899	4.49	79,612	5,435	6.82	(2.0)	(12.9)
(2,273)			(1,341)			(944)			(.5)	
12,349			14,736			12,672			(4.7)	
4,269			4,180			3,544			9.3	
$ 99,440			$ 104,390			$ 94,884			(1.9)%	
$ 24,345	124	.51	$ 26,429	427	1.62	$ 24,070	762	3.17	4.3%	(40.7)
1,787	2	.07	1,796	6	.32	1,591	3	.19	6.9	(19.7)
12,612	462	3.66	9,385	398	4.25	6,389	321	5.02	(11.0)	(21.8)
14,535	529	3.64	13,300	556	4.18	11,767	550	4.68	(14.5)	(28.3)
802	2	.27	3,501	81	2.31	4,287	209	4.87	(29.1)	(60.5)
54,081	1,119	2.07	54,411	1,468	2.70	48,104	1,845	3.84	(2.9)	(32.6)
1,618	5	.31	2,847	57	2.00	4,330	208	4.79	(16.0)	(54.6)
1,907	16	.84	5,931	130	2.20	2,423	104	4.28	(29.8)	(41.7)
9,455	275	3.16	10,392	382	3.94	9,222	493	5.48	(12.7)	(18.9)
67,061	1,415	2.13	73,581	2,037	2.80	64,079	2,650	4.15	(5.4)	(30.1)

12,964			10,596			13,418			8.5	
4,340			6,920			5,969			(19.7)	
4,269			4,180			3,544			9.3	
88,634			95,277			87,010			(2.6)	
10,592			8,923			7,722			5.6	
214			190			152			(31.5)	
10,806			9,113			7,874			5.2	
$ 99,440			$ 104,390			$ 94,884			(1.9)%	
		2.36 %			1.69 %			2.67 %		
	2,406	2.83 % (f)		1,862	2.15 %		2,785	3.50 %		(3.9)
	26			(454)			99			(24.7)
	2,380			$ 2,316			$ 2,686			(3.4)%

(f) During the fourth quarter of 2008, our taxable-equivalent net interest income was reduced by $18 million as a result of an agreement reached with the IRS on all material aspects related to the IRS global tax settlement pertaining to certain leveraged lease financing transactions. During the second quarter of 2008, our taxable-equivalent net interest income was reduced by $838 million following an adverse federal court decision on our tax treatment of a leveraged sale-leaseback transaction. During the first quarter of 2008, we increased our tax reserves for certain LILO transactions and recalculated our lease income in accordance with prescribed accounting standards. These actions reduced our first quarter 2008 taxable-equivalent net interest income by $34 million. Excluding all of these reductions, the taxable-equivalent yield on our commercial lease financing portfolio would have been 4.82% for 2008, and our taxable-equivalent net interest margin would have been 3.13%.

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

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

(i) 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.

(j) Commercial, financial and agricultural average balance includes $36 million of assets from commercial credit cards.

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

in millions	2012 vs. 2011 Average Volume	Yield/ Rate	Net Change (a)	2011 vs. 2010 Average Volume	Yield/ Rate	Net Change (a)
INTEREST INCOME						
Loans	$ 79	$ (130)	$ (51)	$ (255)	$ (192)	$ (447)
Loans held for sale	7	(1)	6	(2)	(1)	(3)
Securities available for sale	(160)	(25)	(185)	(1)	(61)	(62)
Held-to-maturity securities	59	(2)	57	13	(3)	10
Trading account assets	(4)	(4)	(8)	(6)	(5)	(11)
Short-term investments	(1)	1				
Other investments	(4)		(4)	(6)	(1)	(7)
Total interest income (TE)	(24)	(161)	(185)	(257)	(263)	(520)
INTEREST EXPENSE						
NOW and money market deposit accounts	7	(22)	(15)	4	(24)	(20)
Certificates of deposit ($100,000 or more)	(37)	(18)	(55)	(109)	(17)	(126)
Other time deposits	(37)	(25)	(62)	(84)	(51)	(135)
Deposits in foreign office		(1)	(1)			
Total interest-bearing deposits	(67)	(66)	(133)	(189)	(92)	(281)
Federal funds purchased and securities sold under repurchase agreements		(1)	(1)		(1)	(1)
Bank notes and other short-term borrowings	(4)		(4)	2	(5)	(3)
Long-term debt	(89)	46	(43)	2	8	10
Total interest expense	(160)	(21)	(181)	(185)	(90)	(275)
Net interest income (TE)	$ 136	$ (140)	$ (4)	$ (72)	$ (173)	$ (245)

(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

Noninterest income for 2012 was $2.0 billion, up $159 million, or 9%, from 2011. In 2011, noninterest income decreased by $146 million, or 7%, compared to 2010.

Gains on leased equipment increased $86 million from 2011, primarily due to early terminations in the leveraged lease portfolio. Net gains (losses) from loan sales doubled from 2011 due to an increase in volume in our commercial mortgage banking business. Other income increased $64 million, primarily due to gains on the redemption of trust preferred securities. Investment banking and capital markets income also increased $31 million from one year ago due to a $26 million improvement (reduction) of losses related to previously-held Visa shares. These increases were partially offset by a $47 million decline in operating lease income due to product run-off and a $42 million decrease in electronic banking fees as a result of government pricing controls on debit card transactions that went into effect on October 1, 2011.

Noninterest income for 2011 decreased $92 million from 2010 when excluding the gain realized from the sale of Tuition Management Systems and the $54 million in income generated by that business unit during 2010. Operating lease income decreased $51 million due to product run-off. Deposit service charges decreased $20 million during 2011, reflecting the full-year impact of the implementation in the third quarter of 2010 of Regulation E under the Electronic Fund Transfer Act of 1978. Favorable results from letter of credit and loan fees and net gains from principal investing (including results attributable to noncontrolling interests) were more than offset by declines in trust and investment services income, corporate-owned life insurance income, net securities gains, insurance income and investment banking and capital market income.

Figure 7. Noninterest Income

Year ended December 31, *dollars in millions*	**2012**	**2011**	**2010**	**Change 2012 vs. 2011** **Amount**	**Percent**
Trust and investment services income	**$ 421**	$ 434	$ 444	$ (13)	(3.0) %
Service charges on deposit accounts	**287**	281	301	6	2.1
Operating lease income	**75**	122	173	(47)	(38.5)
Letter of credit and loan fees	**221**	213	194	8	3.8
Corporate-owned life insurance income	**122**	121	137	1	.8
Net securities gains (losses)		1	14	(1)	(100.0)
Electronic banking fees	**72**	114	117	(42)	(36.8)
Gains on leased equipment	**111**	25	20	86	344.0
Insurance income	**50**	53	64	(3)	(5.7)
Net gains (losses) from loan sales	**150**	75	76	75	100.0
Net gains (losses) from principal investing	**72**	78	66	(6)	(7.7)
Investment banking and capital markets income	**165**	134	145	31	23.1
Other income	**221**	157	203	64	40.8
Total noninterest income	**$ 1,967**	$ 1,808	$ 1,954	$ 159	8.8 %

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 are our largest source of noninterest income. The primary components of revenue generated by these services are shown in Figure 8. The 2012 and 2011 decreases of $13 million, or 3%, and $10 million, or 2%, respectively, were primarily attributable to lower institutional asset management and custody fees, which more than offset increases in personal asset management and custody fees.

Figure 8. Trust and Investment Services Income

Year ended December 31, *dollars in millions*	**2012**	**2011**	**2010**	**Change 2012 vs. 2011** **Amount**	**Percent**
Brokerage commissions and fee income	**$ 134**	$ 132	$ 134	$ 2	1.5 %
Personal asset management and custody fees	**161**	153	149	8	5.2
Institutional asset management and custody fees	**126**	149	161	(23)	(15.4)
Total trust and investment services income	**$ 421**	$ 434	$ 444	$ (13)	(3.0) %

A significant portion of our trust and investment services income depends on the value and mix of assets under management. At December 31, 2012, our bank, trust and registered investment advisory subsidiaries had assets under management of $49.7 billion, compared to $51.7 billion at December 31, 2011. As shown in Figure 9, decreases in the securities lending and money market portfolios were partially offset by increases in the equity and fixed income portfolios. Our securities lending business has been declining due to our de-emphasis of this business resulting in lower transaction volumes, client departures, and fewer assets under management. The previously announced plan to liquidate the Victory Money Market Mutual Funds was completed in 2012. The assets in these funds were either transferred back to Key in the form of non-time deposits, alternative investments, or other Money Market Mutual Funds, or back to the clients. The decrease in the value of our portfolio of hedge funds was attributable to our 2009 decision to wind down the operations of Austin (results included in discontinued operations). The decline in the equity portfolio in 2011 from 2010 was due in part to asset outflows and market value declines.

Figure 9. Assets Under Management

December 31, *dollars in millions*	**2012**	2011	2010	**Change 2012 vs. 2011** Amount	Percent
Assets under management by investment type:					
Equity	**$ 31,296**	$ 30,086	$ 38,083	$ 1,210	4.0 %
Securities lending	**3,147**	4,950	5,716	(1,803)	(36.4)
Fixed income	**12,516**	10,684	10,191	1,832	17.1
Money market	**2,725**	5,850	5,544	(2,135)	(36.5)
Hedge funds [a]		162	281	(162)	(100.0)
Total	**$ 49,684** [b]	$ 51,732	$ 59,815	$ (1,058)	(2.0) %
Proprietary mutual funds included in assets under management:					
Money market		$ 3,503	$ 4,047	$ (3,503)	(100.0) %
Equity	**$ 5,732**	6,014	7,587	(282)	(4.7)
Fixed income	**1,799**	1,096	1,007	703	64.1
Total	**$ 7,531**	$ 10,613	$ 12,641	$ (3,082)	(29.0) %

(a) Hedge funds are related to the discontinued operations of Austin.

(b) This figure has been revised from what has previously been disclosed in our earnings release on January 24, 2013.

Service charges on deposit accounts

The increase in service charges on deposit accounts in 2012 was primarily due to core deposit account growth. The decrease in 2011 was primarily due to implementation of Regulation E pursuant to the Electronic Fund Transfer Act of 1978, which went into effect on July 1, 2010, for new clients and August 15, 2010, for our existing clients, partially offset by deposit account growth.

Operating lease income

Operating lease income recorded in our Equipment Finance line of business decreased $47 million during 2012 and decreased $51 million in 2011 compared to the prior years due to product run-off. Accordingly, as shown in Figure 11, operating lease expense also declined.

Investment banking and capital markets income (loss)

As shown in Figure 10, income from investment banking and capital markets activities increased $31 million in 2012 after having decreased $11 million in 2011.

Investment banking income increased $19 million in 2012 as investment advisory fees increased $12 million and debt and equity underwriting fees increased $4 million. Other investment income decreased $8 million from 2011 resulting from lower gains on sale of certain investments made by our Real Estate Capital and Corporate Banking Services line of business in Key Corporate Bank. Dealer trading and derivative income (loss) increased $26 million from 2011, primarily due to improved fixed income sales. Foreign exchange income decreased $6 million in 2012 due to lower transaction volume.

Investment banking income decreased $20 million in 2011 compared to 2010 primarily due to decreased levels of equity financings and advisor fees. Other investment income increased $15 million from 2010 resulting from gains on sale of certain investments made by our Real Estate Capital and Corporate Banking Services line of business. Dealer trading and derivative income (loss) decreased $6 million from 2010 as a decrease in the provision for losses related to customer derivatives was more than offset by an increase related to credit default swap valuation adjustments. Also impacting this line item was a $24 million charge resulting from Visa s late fourth quarter 2011 announcement of a planned increase to its litigation escrow deposit.

Figure 10. Investment Banking and Capital Markets Income (Loss)

Year ended December 31,				Change 2012 vs. 2011	
dollars in millions	**2012**	**2011**	**2010**	**Amount**	**Percent**
Investment banking income (loss)	**$ 111**	$ 92	$ 112	$ 19	20.7 %
Income (loss) from other investments	**13**	21	6	(8)	(38.1)
Dealer trading and derivatives income (loss), proprietary [(a), (b)]	**(2)**	(24)	(15)	22	N/M
Dealer trading and derivatives income (loss), non-proprietary [(b)]	**6**	2	(1)	4	200.0
Total dealer trading and derivatives income (loss)	**4**	(22)	(16)	26	N/M
Foreign exchange income (loss)	**37**	43	43	(6)	(14.0)
Total investment banking and capital markets income (loss)	**$ 165**	$ 134	$ 145	$ 31	23.1 %

(a) For the year ended December 31, 2012 equity securities trading and credit portfolio management securities trading comprise the majority of this amount. These losses were partially offset by income of $6 million related to fixed income, foreign exchange, interest rate, and energy derivative trading activities. For the year ended December 31, 2011 fixed income, equity securities trading, and credit portfolio management activities comprise the majority of this amount. These losses were partially offset by income of $3 million related to foreign exchange and interest rate 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 the proposed rulemaking under the Volcker Rule. The prohibitions and restrictions on proprietary trading activities contemplated by the Volcker Rule and the rules proposed thereunder are not yet final. Therefore, the ultimate impact of the rules proposed under the Volcker Rule is not yet known.

Corporate-owned life insurance income

Corporate-owned life insurance income remained essentially unchanged in 2012 from one year ago. The $16 million, or 12%, decrease in corporate-owned life insurance income from 2010 to 2011 was primarily due to the impact of a nonrecurring $12 million bonus dividend received in 2010.

Net gains (losses) from loan sales

Net gains (losses) from loan sales are derived from two primary sources, commercial mortgage banking activities and residential mortgage loan originations. Net gains from loan sales doubled in 2012, primarily due to an increase in volume in our commercial mortgage banking business. Results in 2011 were essentially unchanged from 2010. The types of loans sold during 2012 and 2011 are presented in Figure 20.

Net gains (losses) from principal investing

Principal investments consist of direct and indirect investments in predominantly privately-held companies. Our principal investing income is susceptible to volatility since most of it is derived from mezzanine debt and equity investments in small to medium-sized businesses. These investments are carried on the balance sheet at fair value ($627 million at December 31, 2012, and $709 million at December 31, 2011). During 2011, employees who managed our various principal investments formed two independent entities that serve as investment managers of these investments. Under this arrangement, which was mutually agreeable to both parties, these individuals are no longer employees of Key. As a result of these changes, we deconsolidated certain of these direct and indirect investments totaling $234 million. The net gains (losses) presented in Figure 7 derive from changes in fair values as well as sales of principal investments.

Noninterest expense

As shown in Figure 11, noninterest expense for 2012 was $2.9 billion, up $117 million, or 4%, from 2011. In 2011, noninterest expense declined by $244 million, or 8% from 2010.

In 2012, personnel expense increased by $98 million, driven by higher levels of expense in each category shown in Figure 12. Nonpersonnel expense increased $19 million, primarily due to increases in several expense categories $19 million in intangible asset amortization, $12 million in the provision for losses on lending-related commitments, $23 million in other expense, $8 million in marketing and $7 million in business services and professional fees. These increases in nonpersonnel expense were partially offset by a $37 million decrease in operating lease expense due to product run-off and a $21 million decrease in the FDIC assessment.

Of the overall $117 million increase in noninterest expense in 2012, $61 million is attributable to the acquisition of the credit card portfolios and 37 branches in Western New York, and $25 million is cost attributable to Key s efficiency initiative.

In 2011, personnel expense increased by $49 million driven by higher levels of incentive compensation. Nonpersonnel expense decreased $293 million, primarily due to a $72 million decrease in the FDIC assessment, a $55 million decrease in net OREO expense, a $48 million decrease in operating lease expense due to product run-off, and favorable reductions across several expense categories as a result of our expense management efforts. These favorable results were partially offset by the provision for unfunded commitments, which was a credit of $28 million in 2011 compared to a credit of $48 million in 2010.

Figure 11. Noninterest Expense

Year ended December 31,				**Change 2012 vs. 2011**	
dollars in millions	**2012**	**2011**	**2010**	**Amount**	**Percent**
Personnel	**$ 1,618**	$ 1,520	$ 1,471	$ 98	6.4 %
Net occupancy	**260**	258	270	2	.8
Operating lease expense	**57**	94	142	(37)	(39.4)
Computer processing	**166**	166	185		
Business services and professional fees	**193**	186	176	7	3.8
FDIC assessment	**31**	52	124	(21)	(40.4)
OREO expense, net	**15**	13	68	2	15.4
Equipment	**107**	103	100	4	3.9
Marketing	**68**	60	72	8	13.3
Provision (credit) for losses on lending-related commitments	**(16)**	(28)	(48)	12	N/M
Intangible asset amortization on credit cards	**14**			14	N/M
Other intangible asset amortization	**9**	4	14	5	125.0
Other expense	**385**	362	460	23	6.4
Total noninterest expense	**$ 2,907**	$ 2,790	$ 3,034	$ 117	4.2 %
Average full-time equivalent employees (a)	**15,589**	15,381	15,610	208	1.4 %

(a) The number of average full-time-equivalent employees has not been 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 12, personnel expense, the largest category of our noninterest expense, increased by $98 million, or 6%, in 2012, following a $49 million, or 3%, increase in 2011. Salaries increased $70 million due to several factors higher levels of contract labor for technology investments attributable to the credit card portfolio acquisitions and related implementation of new payment systems and merchant services processing; increased hiring of client-facing personnel including our acquisition of 37 branches in Western New York; and base salary increases. Employee benefits increased $13 million, primarily due to pension expense and higher medical claims. Incentive compensation increased $7 million as a result of higher commission expenses driven by increased activity in debt and equity placements. Stock-based compensation also increased $6 million while severance expense increased $2 million.

Of the overall $98 million increase in personnel expense in 2012, $8 million is attributable to the acquisition of the credit card portfolios and 37 branches in Western New York and $18 million is attributable to Key s efficiency initiative. Technology contract programming expense increased $47 million.

The 2011 increase in personnel expense was largely due to a $40 million increase in incentive compensation accruals on improved profitability. Employee benefits expense increased $5 million due to increased medical claim expenses. Salaries expense increased $6 million due to higher levels of contract labor as the reduction in the number of average full-time equivalent employees offset the impact of base salary increases. Severance expense also increased by $5 million, while stock-based compensation decreased by $7 million.

Figure 12. Personnel Expense

Year ended December 31,				**Change 2012 vs. 2011**	
dollars in millions	**2012**	**2011**	**2010**	**Amount**	**Percent**
Salaries	**$ 989**	$ 919	$ 913	$ 70	7.6 %
Incentive compensation	**313**	306	266	7	2.3
Employee benefits	**242**	229	224	13	5.7
Stock-based compensation [(a)]	**51**	45	52	6	13.3
Severance	**23**	21	16	2	9.5
Total personnel expense	**$ 1,618**	$ 1,520	$ 1,471	$ 98	6.4 %

(a) Excludes directors stock-based compensation of $4 million in 2012, less than $1 million in 2011, and $2 million in 2010 reported as other expense in Figure 11.

Intangible asset amortization

In 2012, the acquisition of the credit card portfolio as well as 37 branches in Western New York resulted in an increase in intangible amortization of $19 million.

Operating lease expense

The decrease in operating lease expense in both 2012 and 2011 compared to the prior year is primarily attributable to product run-off. Income related to the rental of leased equipment is presented in Figure 7 as operating lease income.

FDIC Assessment

FDIC assessment expense decreased in 2012 and 2011 as a result of the change in the calculation method for deposit insurance assessments, as discussed in the Deposit Insurance and Assessments section in the Supervision and Regulation section in Item 1. Business of this report.

OREO expense

In 2012, OREO expense increased modestly by $2 million. In 2011, improved liquidity for income-producing properties that began in 2010 and carried through into 2011 resulted in an $8 million increase in net gains on sale of OREO while valuation write-downs decreased $43 million from 2010.

Provision (credit) for losses on lending-related commitments

The provision for losses on lending-related commitments fluctuated during the years shown as a result of variability in underlying credit quality and levels of unfunded commitments.

Other expense

In 2012, the $23 million increase in other expense included $3 million in one-time expenses and $14 million in recurring expenses associated with the acquisition of the credit card portfolios and 37 branches in Western New York. In 2011, the $98 million decrease in other expense was due to favorable reductions across several expense categories as a result of our expense management efforts.

Income taxes

We recorded a tax provision from continuing operations of $239 million for 2012, compared to a tax provision of $369 million for 2011 and $186 million for 2010. The effective tax rate, which is the provision for income taxes as a percentage of income from continuing operations before income taxes, was 21.8% for 2012, compared to 27.4% for 2011 and 23.4% for 2010.

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 addition, in 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.

At December 31, 2012, we have recorded a valuation allowance of $3 million against the gross deferred tax assets for certain state net operating loss and state credit carryforwards.

During 2010, we recorded domestic deferred income tax expense of $32 million to reflect management s change in assertion as to indefinitely reinvesting in non-U.S. subsidiaries.

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 21 (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 13 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 13. Major Business Segments - Taxable-Equivalent (TE) Revenue from Continuing Operations and Income (Loss) from Continuing Operations Attributable to Key

Year ended December 31,				Change 2012 vs. 2011	
dollars in millions	**2012**	**2011**	**2010**	**Amount**	**Percent**
REVENUE FROM CONTINUING OPERATIONS (TE)					
Key Community Bank	**$ 2,209**	$ 2,234	$ 2,390	$ (25)	(1.1) %
Key Corporate Bank	**1,609**	1,578	1,641	31	2.0
Other Segments	**449**	307	422	142	46.3
Total Segments	**4,267**	4,119	4,453	148	3.6
Reconciling Items [(a)]	**(12)**	(19)	38	7	N/M
Total	**$ 4,255**	$ 4,100	$ 4,491	$ 155	3.8%
INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO KEY					
Key Community Bank	**$ 106**	$ 212	$ 155	$ (106)	(50.0) %
Key Corporate Bank	**453**	568	427	(115)	(20.2)
Other Segments	**245**	175	(1)	70	40.0
Total Segments	**804**	955	581	(151)	(15.8)
Reconciling Items [(a)]	**45**	9	(4)	36	400.0
Total	**$ 849**	$ 964	$ 577	$ (115)	(11.9) %

Key Community Bank summary of operations

As shown in Figure 14, Key Community Bank recorded net income attributable to Key of $106 million for 2012, compared to $212 million for 2011, and $155 million for 2010. The decline in 2012 was due to an increase in noninterest expense and a decrease in total revenue.

Taxable-equivalent net interest income declined by $52 million, or 3.5%, from 2011. Average loans and leases grew $1.5 billion, or 5.8%, while average deposits increased by $1 billion, or 2.2%, compared to 2011. The Western New York branch and credit card portfolio acquisitions contributed $58 million to net interest income, $436 million to average loans and leases, and $903 million to deposits. The positive contribution to net interest income from the acquisitions was offset by a reduction in the value of deposits in 2012 compared to one year ago.

Noninterest income increased by $27 million, or 3.6%, from 2011. The Western New York branch and credit card portfolio acquisitions contributed $24 million mainly in credit card fees, trust and investment services income, and service charges on deposit accounts. Trust and investment services income increased $14 million due to an increase in assets under management resulting from market appreciation and increased production as well as the acquisitions. Other income increased $48 million, primarily due to gains realized on the sale of certain tax credits and an increase in credit card fees. Net gains (losses) from loan sales were also $12 million higher in 2012. These increases in noninterest income were partially offset by a $42 million decline in electronic banking fees resulting from government pricing controls on debit transactions that went into effect October 1, 2011.

The provision for loan and lease losses declined by $4 million, or 2.5%, from 2011. Excluding the acquisition of the credit card portfolio and the Chapter 7 bankruptcy loans, the provision for loans and leases would have decreased by $86 million compared to 2011. Net loan charge-offs declined $82 million, or 28.7%, from 2011 as a result of continued progress in the economic environment and further improvement in the credit quality of the portfolio.

Noninterest expense increased by $150 million, or 8.2%, from 2011. The Western New York branch and credit card portfolio acquisitions contributed $61 million to the increase in noninterest expense spread across several expense categories, including personnel, loan servicing, and intangible asset amortization. Various other

expenses including internally-allocated support costs, occupancy costs, and overhead costs also increased from 2011.

In 2011, the $57 million increase in net income attributable to Key compared to 2010 was due to decreases in the provision for loan and lease losses of $253 million, partially offset by declines in taxable-equivalent net interest income and noninterest income.

Figure 14. Key Community Bank

Year ended December 31,				**Change 2012 vs. 2011**	
dollars in millions	**2012**	**2011**	**2010**	**Amount**	**Percent**
SUMMARY OF OPERATIONS					
Net interest income (TE)	**$ 1,436**	$ 1,488	$ 1,618	$ (52)	(3.5) %
Noninterest income	**773**	746	772	27	3.6
Total revenue (TE)	**2,209**	2,234	2,390	(25)	(1.1)
Provision (credit) for loan and lease losses	**156**	160	413	(4)	(2.5)
Noninterest expense	**1,975**	1,825	1,817	150	8.2
Income (loss) before income taxes (TE)	**78**	249	160	(171)	(68.7)
Allocated income taxes (benefit) and TE adjustments	**(28)**	37	5	(65)	N/M
Net income (loss) attributable to Key	**$ 106**	$ 212	$ 155	$ (106)	(50.0) %
AVERAGE BALANCES					
Loans and leases	**$ 27,830**	$ 26,308	$ 27,044	$ 1,522	5.8 %
Total assets	**31,519**	29,744	30,254	1,775	6.0
Deposits	**48,925**	47,893	49,653	1,032	2.2
Assets under management at year end	**$ 22,334**	$ 17,938	$ 18,788	$ 4,396	24.5 %

ADDITIONAL KEY COMMUNITY BANK DATA

Year ended December 31,				**Change 2012 vs. 2011**	
dollars in millions	**2012**	**2011**	**2010**	**Amount**	**Percent**
AVERAGE DEPOSITS OUTSTANDING					
NOW and money market deposit accounts	**$ 24,485**	$ 21,961	$ 19,683	$ 2,524	11.5 %
Savings deposits	**2,212**	1,952	1,855	260	13.3
Certificates of deposits ($100,000 or more)	**3,070**	4,021	6,065	(951)	(23.7)
Other time deposits	**5,371**	7,169	10,497	(1,798)	(25.1)
Deposits in foreign office	**357**	385	428	(28)	(7.3)
Noninterest-bearing deposits	**13,430**	12,405	11,125	1,025	8.3
Total deposits	**$ 48,925**	$ 47,893	$ 49,653	$ 1,032	2.2 %
HOME EQUITY LOANS					
Average balance	**$ 9,520**	$ 9,390	$ 9,773		
Weighted-average loan-to-value ratio (at date of origination)	**70 %**	70 %	70 %		
Percent first lien positions	**55**	53	53		
OTHER DATA					
Branches	**1,088**	1,058	1,033		
Automated teller machines	**1,611**	1,579	1,531		

Key Corporate Bank summary of operations

As shown in Figure 15, Key Corporate Bank recorded net income from continuing operations attributable to Key of $453 million for 2012, compared to $568 million for 2011 and $427 million for 2010. The 2012 decline was driven by an increase in the provision for loan and lease losses, partially offset by an increase in taxable-equivalent net interest income and a decrease in noninterest expense.

Taxable-equivalent net interest income increased by $29 million, or 4.1%, in 2012 compared to 2011. Average earning assets increased $1.4 billion, or 7.5% from 2011, while the spread rate remained flat year over year, resulting in a $33 million increase in the earning asset spread. Deposit balances grew $1.8 billion, or 17.0% from 2011, but this growth in balance was offset by a reduction in the value of deposits due to historically low interest rates.

Noninterest income increased by $2 million, or .2%, from 2011 driven by increases of $67 million in net gains (losses) from loan sales from commercial mortgage banking activities in the Real Estate Capital line of business, $10 million in letter of credit and loan fees, and $6 million in investment banking and capital markets income. These increases were offset by decreases of $32 million in operating lease revenue, $24 million in trust and investment services income related to a reduction in assets under management, and a $25 million decline in other income due to gains realized in 2011 related to the disposition of certain investments held by the Real Estate Capital line of business.

The provision for loan and lease losses was a charge of $24 million in 2012 compared to a credit of $198 million in 2011. The 2012 charge was driven by growth in the loan and lease portfolio but still reflects lower levels of net loan charge-offs, and a continued release of loss reserves due to improved credit quality. Net loan charges-offs decreased $74 million from 2011 to $64 million in 2012.

Noninterest expense declined by $16 million, or 1.8%, from 2011, primarily due to a $24 million decline in operating lease expense on product run-off. This reduction was partially offset by a $9 million increase in net OREO expense resulting from a lower level of gains in 2012 than recorded in 2011.

The 2011 improvement in net income from continuing operations attributable to Key compared to 2010 resulted from a decrease in the provision for loan and lease losses, an increase in noninterest income, and a decrease in noninterest expense, partially offset by a decrease in net interest income. Taxable-equivalent net interest income declined by $91 million, or 11.3%, in 2011 compared to 2010, primarily due to decreased deposit balances and a reduction in the value of deposits due to historically low interest rates. Noninterest income increased $28 million, or 3.3%, driven by increases in letter of credit and loan fees and gains on the disposition of certain investments held by the Real Estate Capital line of business. The provision for loan and lease losses decreased $170 million as a result of improved credit quality. Noninterest expense decreased $119 million, or 11.9%, driven by net OREO gains recorded in 2011 versus net OREO expense in 2010, along with decreases in operating lease expense on product run-off, and decreases in other various expense categories.

Figure 15. Key Corporate Bank

Year ended December 31, *dollars in millions*	**2012**	2011	2010	Change 2012 vs. 2011 Amount	Percent
SUMMARY OF OPERATIONS					
Net interest income (TE)	**$ 740**	$ 711	$ 802	$ 29	4.1 %
Noninterest income	**869**	867	839	2	.2
Total revenue (TE)	**1,609**	1,578	1,641	31	2.0
Provision (credit) for loan and lease losses	**24**	(198)	(28)	222	N/M
Noninterest expense	**864**	880	999	(16)	(1.8)
Income (loss) before income taxes (TE)	**721**	896	670	(175)	(19.5)
Allocated income taxes and TE adjustments	**265**	327	244	(62)	(19.0)
Net income (loss)	**456**	569	426	(113)	(19.9)
Less: Net income (loss) attributable to noncontrolling interests	**3**	1	(1)	2	200.0
Net income (loss) attributable to Key	**$ 453**	$ 568	$ 427	$ (115)	(20.2) %
AVERAGE BALANCES					
Loans and leases	**$ 18,871**	$ 17,403	$ 20,372	$ 1,468	8.4 %
Loans held for sale	**500**	302	314	198	65.6
Total assets	**22,989**	21,548	24,349	1,441	6.7
Deposits	**12,631**	10,795	12,235	1,836	17.0
Assets under management at year end	**$ 27,350(a)**	$ 33,794	$ 41,027	$ (5,454)	(16.1) %

ADDITIONAL KEY CORPORATE BANK DATA

Year ended December 31, *dollars in millions*	**2012**	2011	2010	Change Amount	Percent
NONINTEREST INCOME					
Trust and investment services income	**$ 227**	$ 251	$ 266	$ (24)	(9.6) %
Investment banking and debt placement fees [(a)]	**320**	225	208	95	42.2
Operating lease income and other leasing gains [(b)]	**80**	112	130	(32)	(28.6)
Corporate services income [(c)]	**121**	142	129	(21)	(14.8)
Other noninterest income	**121**	137	106	(16)	(11.7)
Total noninterest income	**$ 869**	$ 867	$ 839	$ 2	.2 %

(a) This figure has been revised from what has previously been disclosed in our earnings release on January 24, 2013.

(b) Included in Investment banking and capital markets income (loss), Net gains (losses) from loan sales, and Letter of credit and loan fees on the Consolidated Statements of Income.

(c) Included in Operating lease income and Gains on leased equipment on the Consolidated Statements of Income.

(d) Included in Service charges on deposit accounts, Letter of credit and loan fees, and Investment banking and capital markets income (loss) on the Consolidated Statements of Income.

Other Segments

Other Segments consists of Corporate Treasury, our Principal Investing unit and various exit portfolios. Other Segments generated net income attributable to Key of $245 million for 2012, compared to $175 million for 2011. The 2012 results reflect increases in taxable-equivalent net

interest income and noninterest income of $32 million and $110 million, respectively. Included in noninterest income was an increase in gains on leased equipment of $85 million, primarily due to the termination of certain leveraged leases in 2012, and a $54 million gain on the redemption of certain trust preferred securities. Noninterest expense also declined $25 million. These improvements were partially offset by an increase in the provision for loan and lease losses of $67 million.

In 2011, Other Segments generated net income attributable to Key of $175 million, compared to a net loss of $1 million for 2010. The 2011 results reflected a $22 million decrease in taxable-equivalent net interest income and a decline in the provision for loan and lease losses of $278 million, offset by various other items.

Financial Condition

Loans and loans held for sale

Figure 16 shows the composition of our loan portfolio at December 31, for each of the past five years.

Figure 16. Composition of Loans

December 31,	2012			2011			2010		
dollars in millions	Amount	Percent of Total		Amount	Percent of Total		Amount	Percent of Total	
COMMERCIAL									
Commercial, financial and agricultural [a]	**$ 23,242**	**44.0**	%	$ 19,759	39.9	%	$ 16,441	32.8	%
Commercial real estate: [b]									
Commercial mortgage	**7,720**	**14.6**		8,037	16.2		9,502	19.0	
Construction	**1,003**	**1.9**		1,312	2.6		2,106	4.2	
Total commercial real estate loans	**8,723**	**16.5**		9,349	18.8		11,608	23.2	
Commercial lease financing	**4,915**	**9.3**		5,674	11.4		6,471	12.9	
Total commercial loans	**36,880**	**69.8**		34,782	70.1		34,520	68.9	
CONSUMER									
Real estate residential mortgage	**2,174**	**4.1**		1,946	3.9		1,844	3.7	
Home equity:									
Key Community Bank	**9,816**	**18.6**		9,229	18.6		9,514	19.0	
Other	**423**	**.8**		535	1.1		666	1.3	
Total home equity loans	**10,239**	**19.4**		9,764	19.7		10,180	20.3	
Consumer other Key Community Bank	**1,349**	**2.5**		1,192	2.4		1,167	2.3	
Credit cards	**729**	**1.4**							
Consumer other:									
Marine	**1,358**	**2.6**		1,766	3.6		2,234	4.5	
Other	**93**	**.2**		125	.3		162	.3	
Total consumer other	**1,451**	**2.8**		1,891	3.9		2,396	4.8	
Total consumer loans	**15,942**	**30.2**		14,793	29.9		15,587	31.1	
Total loans [c], [d]	**$ 52,822**	**100.0**	%	$ 49,575	100.0	%	$ 50,107	100.0	%

	2009				2008		
	Amount		Percent of Total		Amount	Percent of Total	
COMMERCIAL							
Commercial, financial and agricultural	$ 19,248		32.7	%	$ 27,260	37.4	%
Commercial real estate: [b]							
Commercial mortgage	10,457	(e)	17.8		10,819	14.9	
Construction	4,739	(e)	8.1		7,717	10.6	
Total commercial real estate loans	15,196		25.9		18,536	25.5	
Commercial lease financing	7,460		12.7		9,039	12.4	
Total commercial loans	41,904		71.3		54,835	75.3	
CONSUMER							
Real estate residential mortgage	1,796		3.1		1,908	2.6	
Home equity:							
Key Community Bank	10,048		17.1		10,124	13.9	
Other	838		1.4		1,051	1.4	
Total home equity loans	10,886		18.5		11,175	15.3	
Consumer other Key Community Bank	1,181		2.0		1,233	1.7	
Credit cards							
Consumer other:							
Marine	2,787		4.7		3,401	4.7	
Other	216		.4		283	.4	
Total consumer other	3,003		5.1		3,684	5.1	

Total consumer loans		16,866	28.7			18,000	24.7	
Total loans [c]	$	58,770	100.0	%	$	72,835	100.0	%

(a) December 31, 2012, loan balance includes $90 million of commercial credit card balances.

(b) See Figure 17 for a more detailed breakdown of our commercial real estate loan portfolio at December 31, 2012.

(c) Excludes loans in the amount of $5.2 billion at December 31, 2012, $5.8 billion at December 31, 2011, $6.5 billion at December 31, 2010, $3.5 billion at December 30, 2009, and $3.7 billion at December 30, 2008, related to the discontinued operations of the education lending business.

(d) December 31, 2012, includes purchased loans of $217 million of which $23 million were PCI.

(e) In late March 2009, we transferred $1.5 billion of loans from the construction portfolio to the commercial mortgage portfolio in accordance with regulatory guidelines pertaining to the classification of loans for projects that have reached a completed status.

At December 31, 2012, total loans outstanding from continuing operations were $52.8 billion, compared to $49.6 billion at the end of 2011 and $50.1 billion at the end of 2010. Loans related to the discontinued operations of the education lending business and excluded from total loans were $5.2 billion at December 31, 2012, $5.8 billion at December 31, 2011, and $6.5 billion at December 31, 2010. Further information regarding our discontinued operations is provided in the section titled Consumer loan portfolio within this discussion. The increase in our outstanding loans from continuing operations over the past year results primarily from increased lending activity in our commercial, financial, and agricultural portfolio along with the credit card portfolio and branch acquisition. 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 $36.9 billion at December 31, 2012, an increase of $2.1 billion, or 6.0%, compared to December 31, 2011.

Commercial, financial and agricultural. As shown in Figure 16, our Commercial, Financial and Agricultural loans, also referred to as Commercial and Industrial, represent 44.0% and 39.9% of our total loan portfolio at December 31, 2012, and 2011, 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 $3.5 billion, or 17.6%, from one year ago. This growth in our commercial and industrial portfolio is primarily attributable to our clients in the manufacturing, technology and healthcare industries. We are experiencing growth in new high credit quality loan commitments, and utilization with clients in our middle market segment, and in our Institutional and Capital Markets business. Additionally, we are increasing loans to real estate investment trust (REIT) clients and institutionally-backed commercial real estate (CRE) funds. REITs and institutional CRE funds effectively enable us to lend to entities that generally have more diverse cash flows, lower debt levels and better access to the capital markets than private owners or developers.

Commercial real estate loans. Our CRE lending business is conducted through two primary sources: our 14-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 54.3% of our average year-to-date commercial real estate loans, compared to 55.5% one year ago. KeyBank Real Estate Capital generally focuses on larger owners and operators of commercial real estate.

CRE loans represent 16.5% of our total loan portfolio at December 31, 2012, compared to 18.8% one year ago. These loans include both owner and nonowner occupied properties, which at December 31, 2012, represented 23.7% of our commercial loan portfolio, compared to 26.9% one year ago. These loans have decreased $626 million, or 6.7%, to $8.7 billion at December 31, 2012, from $9.3 billion at December 31, 2011. This decrease in our CRE portfolio has resulted from many of our clients taking advantage of historically low long-term interest rates to refinance their loans in the permanent loan market. We have also been de-risking the portfolio by changing our focus from developers to owners of completed and stabilized 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 shown in Figure 17, at December 31, 2012, our CRE portfolio included mortgage loans of $7.7 billion and construction loans of $1.0 billion, representing 14.6% and 1.9%, respectively, of our total loans. Nonowner-occupied loans represented 10.6% of our total loans and owner-occupied loans represented 5.9% of our total loans. The average size of mortgage loans originated during 2012 was $3.5 million, and our largest mortgage loan at December 31, 2012, had a balance of $73 million. At December 31, 2012, our average construction loan commitment was $3.9 million. Our largest construction loan commitment was $56.8 million, and our largest construction loan amount outstanding was $56.7 million.

Also shown in Figure 17, at December 31, 2012, 64.0% of our commercial real estate loans were for nonowner-occupied properties, compared to 65.1% at December 31, 2011. Approximately 14.9% and 18.5% of these loans were construction loans at December 31, 2012, and 2011, 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.

Figure 17. Commercial Real Estate Loans

December 31, 2012	**Geographic Region**							**Percent of**		**Commercial**
dollars in millions	**West**	**Southwest**	**Central**	**Midwest**	**Southeast**	**Northeast**	**Total**	**Total**	**Construction**	**Mortgage**
Nonowner-occupied:										
Retail properties	$ 155	$ 144	$ 93	$ 157	$ 376	$ 181	$ 1,106	12.7 %	$ 184	$ 922
Multifamily properties	248	168	268	353	311	139	1,487	17.1	349	1,138
Health facilities	220		185	168	88	133	794	9.1	54	740
Office buildings	206	15	87	137	48	107	600	6.9	48	552
Warehouses	199	1	22	72	121	180	595	6.8	17	578
Manufacturing facilities	4		1	3	89	3	100	1.1	4	96
Hotels/Motels	85		23	20	52	12	192	2.2		192
Residential properties	13	12	21	37	29	27	139	1.6	89	50
Land and development	18	6	27	8	16	23	98	1.1	80	18
Other	63	1	41	102	144	124	475	5.4	8	467
Total nonowner-occupied	1,211	347	768	1,057	1,274	929	5,586	64.0	833	4,753
Owner-occupied	1,287	33	332	725	70	690	3,137	36.0	170	2,967
Total	$ 2,498	$ 380	$ 1,100	$ 1,782	$ 1,344	$ 1,619	$ 8,723	100.0 %	$ 1,003	$ 7,720
Nonowner-occupied:										
Nonperforming loans	$ 5	$ 46	$	$ 15	$ 47	$ 14	$ 127	N/M	$ 54	$ 73
Accruing loans past due 90 days or more						5	5	N/M		5
Accruing loans past due 30 through 89 days	2		1	9		1	13	N/M	2	11

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

During 2012, nonperforming loans related to our nonowner-occupied properties decreased by $47 million from $174 million at December 31, 2011, to $127 million at December 31, 2012, as a result of continued improvement in asset quality and market conditions. This compares to a decrease of $234 million during 2011.

Since December 31, 2011, our nonowner occupied commercial real estate portfolio has been reduced by approximately $501 million, or 8.2%, 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 commercial real estate 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 our commercial real estate loan portfolio could be adversely affected.

Commercial lease financing. We conduct commercial lease financing arrangements through our Key Equipment Finance 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 13.3% of commercial loans at December 31, 2012, and 16.3% at December 31, 2011.

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 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 performanced under the restructured loan terms over the past year.

If the loan terms are extended at less than normal market rates for similar lending arrangements, we transfer the loans to the Asset Recovery Group for resolution. During 2012, there were $284 million of new restructured loans, of which $109 million related to commercial loans and $175 million to consumer loans.

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

Figure 18 quantifies restructured loans and TDRs. As of December 31, 2012, $72 million of secured loans discharged through Chapter 7 bankruptcy and not reaffirmed by the borrower were reclassified as consumer TDRs. Regardless of delinquency status, these loans were accounted for at the fair market value of the collateral less selling costs, are classified as nonaccrual, and are included in nonperforming loans.

Figure 18. Commercial TDRs by Note Type and Accrual Status

December 31, *in millions*		**2012**		**2011**
Commercial TDRs by Note Type				
Tranche A	**$**	**117**	$	206
Tranche B				2
Total Commercial TDRs	**$**	**117**	$	208
Commercial TDRs by Accrual Status				
Nonaccruing	**$**	**96**	$	150
Accruing		**21**		58
Held for sale				
Total Commercial TDRs	**$**	**117**	$	208
Total Commercial and Consumer TDRs	**$**	**320**	$	276

We use an A-B note structure for our TDRs, breaking the existing loan into two tranches. First, we create an A note. As 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 upgraded internal quality risk rating classification. Moreover, the borrower retains ownership and control of the underlying collateral (typically, commercial real estate), 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 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.

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 paydown, 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 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.

As of December 31, 2012, we had $39 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 increased by $1.1 billion, or 7.8%, from one year ago. The home equity portfolio is the largest segment of our consumer loan portfolio. Approximately 95.9% of this portfolio at December 31, 2012, is derived from our Key Community Bank. 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 $587 million, or 6.4%, over the past twelve months as a result of stabilized home values, improved employment, and favorable borrowing conditions.

As shown in Figure 14, we hold the first lien position for approximately 55% of the Key Community Bank home equity portfolio at December 31, 2012, and 53% at December 31, 2011. 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).

Regulatory guidance issued in January 2012 addressed specific risks and required actions within home equity portfolios associated with second lien loans. At December 31, 2012, 45% of our home equity portfolio is secured by second lien mortgages. During the second quarter of 2012, approximately $4.9 billion of second lien home equity loans were reviewed by a third party service to determine the payment status of the associated first lien. The resulting data identified approximately $48 million of second lien home equity loans with an associated first lien that is either 120 days or more past due or in foreclosure, or for which the first mortgage delinquency timeframe is unknown. In accordance with the above mentioned regulatory guidance, these loans were classified as nonperforming in the second quarter of 2012. The classification of these identified second liens as nonperforming loans did not have an impact on the ALLL during the second quarter of 2012 or subsequent

quarters because, as noted above, we have previously considered the risk characteristics of this portfolio of loans in our loss estimation methodology. On at least a quarterly basis, we will continue to monitor the risk characteristics of these loans when determining whether our loss estimation methods are appropriate. This regulatory guidance related to the classification of second lien home equity loans was implemented prospectively, and therefore prior periods were not adjusted.

In conjunction with the updated regulatory guidance that was issued in the third quarter of 2012, at December 31, 2012, home equity loans include $72 million of performing secured loans that were discharged through Chapter 7 bankruptcy and not formally re-affirmed.

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*	**2012**		2011	2010	2009	2008
SOURCES OF YEAR END LOANS						
Key Community Bank	**$ 9,816**		$ 9,229	$ 9,514	$ 10,048	$ 10,124
Other	**423**		535	666	838	1,051
Total	**$ 10,239**		$ 9,764	$ 10,180	$ 10,886	$ 11,175
Nonperforming loans at year end	**$ 231**	**(a), (b)**	$ 120	$ 120	$ 128	$ 91
Net loan charge-offs for the year	**118**		130	175	165	86
Yield for the year [c]	**4.21 %**		4.34 %	4.45 %	4.63 %	5.93 %

(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.

(c) From continuing operations.

Loans held for sale

As shown in Note 4 (Loans and Loans Held for Sale), our loans held for sale were $599 million at December 31, 2012, compared to $728 million at December 31, 2011. There were no loans held for sale related to the discontinued operations of the education lending business at December 31, 2012, and December 31, 2011.

At December 31, 2012, loans held for sale included $477 million of commercial mortgages, which decreased by $90 million from December 31, 2011, and $85 million of residential mortgage loans which decreased by $10 million from December 31, 2011. 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).

During 2012, we recorded net gains (losses) from loan sales of $150 million on the income statement, of which $59 million related to sales of loans classified as held for sale. This $59 million was comprised of net unrealized losses of $4 million and net realized gains of $63 million. We have not been significantly impacted by market volatility in the subprime mortgage lending industry, having exited this business in 2006.

Loan sales

As shown in Figure 20, during 2012, we sold $3.5 billion of commercial real estate loans, $1.8 billion of residential real estate loans, and $144 million of commercial loans. Most of these sales came from the held-for-sale portfolio. Sales of mortgage loans held by our real estate investment entity, leases and other loans not classified as held for sale generated net gains of $91 million in 2012. Additionally, there were no education loans sold (included in discontinued assets on the balance sheet).

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 2012 and 2011.

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

in millions	Commercial	Commercial Real Estate	Commercial Lease Financing	Residential Real Estate	Total
2012					
Fourth quarter	**$ 38**	**$ 1,233**	**$ 53**	**$ 493**	**$ 1,817**
Third quarter	**46**	**787**	**47**	**503**	**1,383**
Second quarter	**24**	**808**	**26**	**379**	**1,237**
First quarter	**36**	**715**	**22**	**400**	**1,173**
Total	**$ 144**	**$ 3,543**	**$ 148**	**$ 1,775**	**$ 5,610**
2011					
Fourth quarter	$ 31	$ 500		$ 404	$ 935
Third quarter	23	355		303	681
Second quarter	18	761		250	1,029
First quarter	46	397		438	881
Total	$ 118	$ 2,013		$ 1,395	$ 3,526

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	**2012**	2011	2010	2009	2008
Commercial real estate loans [a]	**$ 107,630**	$ 99,608	$ 117,071	$ 123,599	$ 123,256
Education loans [b]				3,810	4,267
Commercial lease financing	**520**	521	706	649	713
Commercial loans	**343**	306	269	247	208
Total	**$ 108,493**	$ 100,435	$ 118,046	$ 128,305	$ 128,444

(a) We acquired the servicing for commercial mortgage loan portfolios with an aggregate principal balance of $11.8 billion during 2012, $3.5 billion during 2011, $1.6 billion during 2010, $7.2 billion during 2009 and $1 billion during 2008.

(b) We adopted new accounting guidance on January 1, 2010, which required us to consolidate our education loan securitization trusts and resulted in the addition of approximately $2.8 billion of assets, and the same amount of liabilities and equity, to our balance sheet. Of this amount, $890 million were included in our net risk-weighted assets under current federal banking regulations.

In the event of default by a borrower, we are subject to recourse with respect to approximately $1 billion of the $108 billion of loans administered or serviced at December 31, 2012. Additional information about this recourse arrangement is included in Note 16 (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 commercial real estate 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, 2012, approximately 29.4% 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, 2012

in millions	**Within One Year**	**One - Five Years**	**Over Five Years**	**Total**
Commercial, financial and agricultural	$ 7,701	$ 12,712	$ 2,829	$ 23,242
Real estate construction	330	550	123	1,003
Real estate residential and commercial mortgage	2,017	4,157	3,720	9,894
	$ 10,048	$ 17,419	$ 6,672	$ 34,139
Loans with floating or adjustable interest rates [(a)]		$ 14,611	$ 3,504	$ 18,115
Loans with predetermined interest rates [(b)]		2,808	3,168	5,976
		$ 17,419	$ 6,672	$ 24,091

(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.

Securities

Our securities portfolio totaled $16 billion at December 31, 2012, compared to $18.1 billion at December 31, 2011. Available-for-sale securities were $12.1 billion at December 31, 2012, compared to $16 billion at December 31, 2011, reflecting the liquidity needs arising from changes in our loan and deposit balances and investments in held-to-maturity securities. Held-to-maturity securities were $3.9 billion at December 31, 2012, compared to $2.1 billion at December 31, 2011, primarily reflecting increases in agency mortgage-backed securities as we continue to prepare for potential future changes in regulatory capital rules. Essentially all of our held-to-maturity securities portfolio was invested in CMOs at December 31, 2012.

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 highly 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	**2012**	2011	2010
FHLMC	**$ 7,923**	$ 8,984	$ 10,373
FNMA	**5,246**	5,583	7,357
GNMA	**2,746**	3,464	4,004
Total [a]	**$ 15,915**	$ 18,031	$ 21,734

(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 CMOs, which are debt securities secured by a pool of mortgages or mortgage-backed securities. CMOs generate interest income and serve as collateral to support certain pledging agreements. At December 31, 2012, we had $12 billion invested in CMOs and other mortgage-backed securities in the available-for-sale portfolio, compared to $15.9 billion at December 31, 2011.

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, 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 2012, 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 throughout the year served to provide the liquidity necessary to address the funding requirements arising from ongoing loan growth and occasional debt maturities, as well as the branch acquisition (including credit card assets obtained in September 2012) in July 2012 and the acquisition of Key-branded credit card assets in August 2012.

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	U.S. Treasury, Agencies and Corporations	States and Political Subdivisions	Collateralized Mortgage Obligations (a)	Other Mortgage-Backed Securities (a)	Other Securities (b)	Total	Weighted-Average Yield (c)
December 31, 2012							
Remaining maturity:							
One year or less		**$ 1**	**$ 1,265**	**$ 1**	**5**	**$ 1,272**	**3.18 %**
After one through five years		**14**	**10,199**	**518**	**$ 38**	**10,769**	**2.86**
After five through ten years		**34**		**15**		**49**	**5.64**
After ten years				**4**		**4**	**5.53**
Fair value		**$ 49**	**$ 11,464**	**$ 538**	**$ 43**	**$ 12,094**	
Amortized cost		**47**	**11,148**	**491**	**42**	**11,728**	**2.91 %**
Weighted-average yield (c)		**5.97 %**	**2.79 %**	**5.25 %**	**%**	**2.91 % (d)**	
Weighted-average maturity		**5.6 years**	**2.2 years**	**2.4 years**	**1.8 years**	**2.2 years**	
December 31, 2011							
Fair value		$ 63	$ 15,162	$ 778	$ 9	$ 16,012	
Amortized cost		60	14,707	715	8	15,490	3.19 %
December 31, 2010							
Fair value	$ 8	$ 172	$ 20,665	$ 1,069	$ 19	$ 21,933	
Amortized cost	8	170	20,344	998	15	21,535	3.28 %

(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 $43 million of securities at December 31, 2012, that have no stated yield.

Held-to-maturity securities

Federal Agency CMOs constitute essentially all of our held-to-maturity securities. The remaining balance comprises foreign bonds and capital securities. Our held-to-maturity securities increased during the second half of 2011 and throughout 2012 due to purchases of Federal Agency CMOs, as we increased this portfolio in response to potential future changes in regulatory capital rules. Figure 25 shows the composition, yields and remaining maturities of these securities.

Figure 25. Held-to-Maturity Securities

dollars in millions	Collateralized Mortgage Obligations	States and Political Subdivisions	Other Securities	Total	Weighted-Average Yield (a)
December 31, 2012					
Remaining maturity:					
One year or less			**$ 9**	**$ 9**	**3.78 %**
After one through five years	**$ 3,913**		**9**	**3,922**	**1.92**
Amortized cost	**$ 3,913**		**$ 18**	**$ 3,931**	**1.92 %**
Fair value	**3,974**		**18**	**3,992**	

Weighted-average yield	**1.92 %**		**2.99 %** [(b)]	**1.92 %** [(b)]	
Weighted-average maturity	**2.7 years**		**1.5 years**	**2.7 years**	
December 31, 2011					
Amortized cost	$ 2,091		$ 18	$ 2,109	2.06 %
Fair value	2,115		18	2,133	
December 31, 2010					
Amortized cost	$	$ 1	$ 16	$ 17	3.71 %
Fair value		1	16	17	

(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, 2012, that have no stated yield.

Other investments

Principal investments investments in equity and mezzanine instruments made by our Principal Investing unit represented 58.9% of other investments at December 31, 2012. 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 ($627 million at December 31, 2012, and $709 million at December 31, 2011). During the first half of 2011, employees who managed our various principal investments formed two independent entities that now serve as investment managers of these investments. Under this arrangement, which was mutually agreeable to both parties, these individuals are no longer employees of Key. As a result of these changes, which were made during the second quarter of 2011, we deconsolidated certain of these direct and indirect investments, totaling $234 million.

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.

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. During 2012, net gains from our principal investing activities (including results attributable to noncontrolling interests) totaled $72 million, which includes $15 million of net unrealized gains. 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 2012, average domestic deposits were $61.1 billion and represented 85.0% of the funds we used to support loans and other earning assets, compared to $58.5 billion and 80.1% during 2011. The composition of our average deposits is shown in Figure 5 in the section entitled Net interest income.

The increase in average domestic deposits in 2012, compared to 2011, was due to the growth from demand deposits, as increases in interest-bearing liquid deposits were largely offset by declines in certificates of deposit ($100,000 or more) and other time deposits. The Western New York branch acquisition added approximately $2 billion of mostly non-time consumer deposits to the fourth quarter 2012 average balances.

Approximately $5.0 billion of our certificates of deposit outstanding at December 31, 2012, mature over the next year at a 1.20% average cost. Re-pricing opportunities will continue to benefit our net interest margin. Improved funding mix and previous maturities of our certificates of deposit have reduced the cost of total deposits, which is down from 2011.

Wholesale funds, consisting of deposits in our foreign office and short-term borrowings, averaged $3.0 billion during 2012, compared to $3.4 billion during 2011. The change from 2011 resulted from a $40 million decrease in foreign office deposits, a $206 million decrease in bank notes and other short-term borrowings, and a $167 million decrease in federal funds purchased and securities sold under agreements to repurchase.

At December 31, 2012, Key had $3.3 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, 2012

dollars in millions	Domestic Offices	Foreign Offices	Total
Remaining maturity:			
Three months or less	$ 974	$ 407	$ 1,381
After three through six months	395		395
After six through twelve months	592		592
After twelve months	918		918
Total	$ 2,879	$ 407	$ 3,286

Capital

At December 31, 2012, our shareholders equity was $10.3 billion, up $366 million from December 31, 2011. 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 a BHC to submit an annual comprehensive capital plan as well as to update such plan to reflect material changes in a firm s risk profile, business strategies, or corporate structure, including but not limited to changes in planned capital actions. As previously reported, as authorized by our Board and pursuant to our 2012 capital plan submitted to the Federal Reserve as part of CCAR and not objected to by the Federal Reserve, beginning in the second quarter of 2012, KeyCorp had authority to repurchase up to $344 million of our Common Shares for general repurchase and repurchases in connection with employee elections under our compensation and benefit programs.

We have remaining authority to repurchase up to $88 million of our Common Shares for general repurchase and repurchases in connection with employee elections under our compensation and benefit programs. Our existing repurchase program does not have an expiration date. Common Share repurchases under the current authorization are expected to be executed through the first quarter of 2013.

As previously reported, our 2012 capital plan also included an increase in our quarterly Common Share dividend from $.03 to $.05 per share, which went into effect during the second quarter of 2012. Future dividends will be evaluated by the Board of Directors based upon our earnings, financial condition, and other factors, including regulatory review. Further information regarding the capital plan process and CCAR is included in the Supervision and Regulation section of this report in Item 1. Business under the heading Capital Assessment and Review of Capital Actions.

Provisions of the Dodd-Frank Act and the Basel III NPR provide for the phase-out of Tier 1 capital treatment for capital securities beginning in 2013. As a result, our outstanding trust preferred securities will eventually become Tier 2 capital. The Supervision and Regulation section of this report contains more detailed information about the Basel III NPR.

On July 12, 2012, KeyCorp redeemed all of the enhanced trust preferred securities of KeyCorp Capital X in the amount of $568 million and all of the trust preferred securities of KeyCorp Capital VII in the amount of $139 million.

Repurchase of TARP CPP preferred stock, warrant and completion of equity and debt offerings

As previously reported during 2011, we completed the repurchase of the $2.5 billion of Series B Preferred Stock and corresponding warrant issued to the U.S. Treasury Department. As a result of the repurchase, we recorded a $49 million one-time deemed dividend in the first quarter of 2011 related to the remaining difference between the

repurchase price and the carrying value of the preferred shares at the time of repurchase. On April 20, 2011, we repurchased the warrant directly from the U.S. Treasury for $70 million. Beginning with the second quarter of 2011, the repurchase resulted in the elimination of quarterly dividends of $31 million and discount amortization of $4 million, or $140 million on an annual basis, related to these preferred shares. In total, we paid $2.867 billion to the U.S. Treasury during the investment period in the form of dividends, principal and repurchase of the warrant, resulting in a return to the U.S. Treasury of $367 million above the initial investment of $2.5 billion on November 14, 2008.

Dividends

During the first quarter of 2012, we made a dividend payment of $.03 per share, or $29 million, on our Common Shares. During each of the second, third, and fourth quarters of 2012, we made a dividend payment of $.05 per share, or $47 million, on our Common Shares.

Also in 2012, we made four quarterly dividend payments of $1.9375 per share, or $6 million, on our Series A Preferred Stock.

For additional information about quarterly dividends for 2012 and 2011, see Figure 44 of this report.

Common Shares outstanding

Our Common Shares are traded on the New York Stock Exchange under the symbol KEY with 32,084 holders of record at December 31, 2012. Our book value per Common Share was $10.78 based on 925.8 million shares outstanding at December 31, 2012, compared to $10.09 based on 953.0 million shares outstanding at December 31, 2011. At December 31, 2012, our tangible book value per Common Share was $9.67, compared to $9.11 at December 31, 2011.

Figure 44 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, 2007, 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 (2007 2012)[(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

		2012 Quarters				
in thousands	**2012**	**Fourth**	**Third**	**Second**	**First**	**2011**
Shares outstanding at beginning of period	**953,008**	**936,195**	**945,473**	**956,102**	**953,008**	880,608
Common shares issued (repurchased)	**(30,637)**	**(10,530)**	**(9,639)**	**(10,468)**		70,621
Shares reissued (returned) under employee benefit plans	**3,398**	**104**	**361**	**(161)**	**3,094**	1,779
Shares outstanding at end of period	**925,769**	**925,769**	**936,195**	**945,473**	**956,102**	953,008

At December 31, 2012, we had 91.2 million treasury shares, compared to 64.0 million treasury shares at December 31, 2011. During 2012, shares previously issued in conjunction with our employee benefit plans were returned to us. Going forward we expect to reissue treasury shares as needed in connection with stock-based compensation awards and for other corporate purposes.

In the past, we have periodically repurchased Common Shares in the open market or through privately negotiated transactions under a repurchase program authorized by our Board of Directors. The program does not have an expiration date, and we have outstanding Board authority to repurchase $88 million in Common Shares. We did not repurchase any Common Shares during all of 2011 or 2010 other than the shares acquired from employees in connection with our stock compensation plan. As discussed in further detail in the Supervision and Regulation section in Item 1. Business of this report, we are required to annually submit a capital plan to the Federal Reserve setting forth capital actions, including any share repurchases our Board of Directors and management may propose to make during the year. Pursuant to that requirement, we have submitted our capital plan for review to the Federal Reserve that contemplates, among other uses of our capital, additional share repurchases in 2013.

Capital adequacy

Capital adequacy is an important indicator of financial stability and performance. All of our capital ratios remain in excess of regulatory requirements at December 31, 2012. Our capital and liquidity are intended to position us well to weather an adverse credit cycle while continuing to serve our clients needs, as well as to adjust to the regulations currently being proposed by the federal banking agencies to implement Basel III and provisions of

the Dodd-Frank Act. Our shareholders equity to assets ratio was 11.51% at December 31, 2012, compared to 11.16% at December 31, 2011. Our tangible common equity to tangible assets ratio was 10.15% at December 31, 2012, compared to 9.88% at December 31, 2011.

Banking industry regulators prescribe minimum capital ratios for BHCs and their banking subsidiaries. Risk-based capital guidelines require a minimum level of capital as a percent of risk-weighted assets. Risk-weighted assets consist of total assets plus certain off-balance sheet and market risk items, subject to adjustment for predefined credit risk factors. Currently, banks and BHCs must maintain, at a minimum, Tier 1 capital as a percent of risk-weighted assets of 4.00% and total capital as a percent of risk-weighted assets of 8.00%. As of December 31, 2012, our Tier 1 risk-based capital ratio and our total risk-based capital ratios were 12.15% and 15.13%, respectively, compared to 12.99% and 16.51%, respectively, at December 31, 2011.

Another indicator of capital adequacy, the leverage ratio, is defined as Tier 1 capital as a percentage of average quarterly tangible assets. BHCs that either have the highest supervisory rating or have implemented the Federal Reserve s risk-adjusted measure for market risk as we have must maintain a minimum leverage ratio of 3.00%. All other bank holding companies must maintain a minimum ratio of 4.00%. As of December 31, 2012, our leverage ratio was 11.41%, compared to 11.79% at December 31, 2011.

The enactment of the Dodd-Frank Act changes the regulatory capital standards that apply to BHCs by requiring regulators to create rules phasing out the treatment of capital securities and cumulative preferred securities as eligible Tier 1 capital. The three year phase-out period, which commenced January 1, 2013, will ultimately result in our trust preferred securities issued by the KeyCorp capital trusts being treated only as Tier 2 capital. These changes in effect apply the same leverage and risk-based capital requirements that apply to depository institutions to BHCs, savings and loan holding companies, and nonbank financial companies identified as systemically important. The Supervision and Regulation section in Item 1. Business of this report contains more detailed information regarding capital.

As of December 31, 2012, our Tier 1 risk-based capital ratio, leverage ratio, and total risk-based capital ratio were 12.15%, 11.41%, and 15.13%, respectively. The trust preferred securities issued by the KeyCorp capital trusts contribute $339 million or 43, 40, and 43 basis points to our Tier 1 risk-based capital ratio, Tier 1 leverage ratio, and total risk-based capital ratio, respectively, as of December 31, 2012. The proposed new minimum capital ratios together with the estimated capital ratios of Key at December 31, 2012, calculated on a fully phased-in basis under the Basel III and Standardized Approach NPRs are set forth in the New Minimum Capital Requirements table in the Supervision and Regulation section in Part 1 of this report.

Federal bank regulators group FDIC-insured depository institutions into five categories, ranging from well-capitalized to critically undercapitalized. A well-capitalized institution must meet or exceed the prescribed threshold ratios of 6.00% for Tier 1 risk-based capital, 5.00% for Tier 1 leverage capital, and 10.00% for total risk-based capital and must not be subject to any written agreement, order or directive to meet and maintain a specific capital level for any capital measure. If these provisions applied to BHCs, we believe we would qualify as well-capitalized at December 31, 2012, and we believe there has not been any change in condition or event since that date that would cause a change in capital category. Analysis on an estimated basis, accounting for the phase-out of our trust preferred securities as Tier 1 eligible (and therefore as Tier 2 instead) as of December 31, 2012, also determines that we would qualify as well-capitalized under current regulatory guidelines (Basel I), with the estimated Tier 1 risk-based capital ratio, estimated leverage ratio, and estimated total risk-based capital ratio being 11.73%, 11.01%, and 15.13%, respectively. The Revised Prompt Corrective Action Standards table in the Supervision and Regulation section in Part 1. Business of this report discloses the proposed new threshold capital ratios for a well capitalized and an adequately capitalized institution. The regulatory defined capital categories serve a limited supervisory function. Investors should not use our estimated ratios as a representation of our overall financial condition or prospects of KeyCorp. A discussion of the regulatory capital standards and other related capital adequacy regulatory standards is included in Item 1. Business in the Supervision and Regulation section of this report under the heading Capital.

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. As a result of the financial crisis, the Federal Reserve has intensified its assessment of capital adequacy 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 Dodd-Frank Act and set forth in Basel III, which the Federal banking agencies have recently proposed to implement, are consistent with the renewed focus on Tier 1 common equity and the consolidated capitalization of banks, BHCs, and covered nonbank financial companies, which resulted from the financial crisis. Tier 1 common equity is neither formally defined by GAAP nor prescribed in amount by federal banking regulations; this measure is considered to be a non-GAAP financial measure. Figure 4 in the Highlights of Our 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 11.36% at December 31, 2012, compared to 11.26% at December 31, 2011.

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. As we anticipated, at December 31, 2012, and December 31, 2011, we had no net deferred tax assets deducted from Tier 1 capital and risk-weighted assets. At December 31, 2012, for Key s consolidated operations, we had a federal net deferred tax asset of $83 million and a state deferred tax liability of $13 million compared to a federal deferred tax asset of $60 million and a state deferred tax liability of $24 million at December 31, 2011. We have recorded a valuation allowance of $3 million against the gross deferred tax assets associated with certain state net operating loss carryforwards and state credit carryforwards.

Basel III

A detailed discussion of current rulemaking underway in the U.S. to implement Basel III is in the Supervision and Regulation section in Item 1. Business of this report. The New Minimum Capital Requirements table in the Supervision and Regulation section discloses the proposed new minimum capital ratios together with the estimated capital ratios of Key at December 31, 2012, calculated on a fully phased-in basis under the Basel III and Standardized Approach NPRs. Given our strong capital position, we expect to be able to satisfy the Basel III capital framework when U.S. capital regulations corresponding to it are finalized. While we also have a strong liquidity position, the Basel III liquidity framework could require us and other U.S. banks to initiate additional liquidity management initiatives, including adding additional liquid assets, issuing term debt, and modifying our product pricing for loans, commitments, and deposits.

Figure 29 represents the details of our regulatory capital position at December 31, 2012, and December 31, 2011, under the existing Basel I standards.

Figure 29. Capital Components and Risk-Weighted Assets

December 31,

dollars in millions		**2012**		**2011**
TIER 1 CAPITAL				
Key shareholders equity	**$**	**10,271**	$	9,905
Qualifying capital securities		**339**		1,046
Less: Goodwill		**979**		917
Accumulated other comprehensive income [(a)]		**(172)**		(72)
Other assets [(b)]		**114**		72
Total Tier 1 capital		**9,689**		10,034
TIER 2 CAPITAL				
Allowance for losses on loans and liability for losses on lending-related commitments [(c)]		**972**		970
Qualifying long-term debt		**1,405**		1,744
Total Tier 2 capital		**2,377**		2,714
Total risk-based capital	**$**	**12,066**	$	12,748
TIER 1 COMMON EQUITY				
Tier 1 capital	**$**	**9,689**	$	10,034
Less: Qualifying capital securities		**339**		1,046
Series A Preferred Stock		**291**		291
Total Tier 1 common equity	**$**	**9,059**	$	8,697
RISK-WEIGHTED ASSETS				
Risk-weighted assets on balance sheet	**$**	**63,995**	$	61,900
Risk-weighted off-balance sheet exposure		**16,575**		15,901
Less: Goodwill		**980**		917
Other assets [(b)]		**367**		560
Plus: Market risk-equivalent assets		**511**		1,073
Gross risk-weighted assets		**79,734**		77,397
Less: Excess allowance for loan and lease losses				183
Net risk-weighted assets	**$**	**79,734**	$	77,214
AVERAGE QUARTERLY TOTAL ASSETS	**$**	**86,239**	$	86,594
CAPITAL RATIOS				
Tier 1 risk-based capital		**12.15 %**		12.99 %
Total risk-based capital		**15.13**		16.51
Leverage [(d)]		**11.41**		11.79
Tier 1 common equity		**11.36**		11.26

(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 deferred tax assets, disallowed intangible assets (excluding goodwill) and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at December 31, 2012, and December 31, 2011.

(c) The allowance for loan and lease losses 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 allowance for loan and lease losses includes $55 million and $104 million at December 31, 2012, and December 31, 2011, respectively, of allowance classified as discontinued assets on the balance sheet.

(d) 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.

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, 2012, is presented in Note 16 (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.

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 16 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, 2012, 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, 2012 *dollars 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	$ 58,132				$ 58,132
Time deposits of $100,000 or more	2,368	$ 678	$ 148	$ 92	3,286
Other time deposits	3,070	1,177	254	74	4,575
Federal funds purchased and securities sold under repurchase agreements	1,609				1,609
Bank notes and other short-term borrowings	287				287
Long-term debt	786	2,746	866	2,449	6,847
Noncancelable operating leases	124	231	169	263	787
Liability for unrecognized tax benefits	7				7
Purchase obligations:					
Banking and financial data services	28	45	6		79
Telecommunications	31	14	5		50
Professional services	20	11	10	5	46
Technology equipment and software	17	19	7	3	46
Other	7	6	1		14
Total purchase obligations	103	95	29	8	235
Total	$ 66,486	$ 4,927	$ 1,466	$ 2,886	$ 75,765
Lending-related and other off-balance sheet commitments:					
Commercial, including real estate	$ 8,049	$ 5,960	$ 7,730	$ 602	$ 22,341
Home equity	234	548	1,180	5,293	7,255
Credit cards	3,611				3,611
When-issued and to-be-announced securities commitments	96				96
Commercial letters of credit	84	13	3		100
Principal investing commitments	21	15	24	34	94
Liabilities of certain limited partnerships and other commitments		4		1	5
Total	$ 12,095	$ 6,540	$ 8,937	$ 5,930	$ 33,502

(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 16 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, liquidity, market, compliance, operational, strategic, and reputation 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 serves in an oversight capacity ensuring that Key s risks are managed in a manner that is effective, balanced and adds value for the shareholders. The KeyCorp Board of Directors 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 KeyCorp Audit Committee assists the Board in oversight of financial statement integrity, regulatory and legal compliance, independent auditors qualifications and independence and all risk review functions including internal audit. The Audit Committee discusses policies related to risk assessment and risk management and the processes related to risk review and compliance. The Audit Committee has responsibility over financial reporting, compliance risk and legal matters, the implementation, management and evaluation of operational risk controls and information, security and fraud risk, and associated reputation and strategic risks.

The KeyCorp Risk Committee assists the Board in oversight of strategies, policies, procedures and practices relating to the management of credit risk, market risk, interest rate risk, and liquidity risk, including the actions taken to mitigate these risks, as well as reputational and strategic risks. The Risk Committee also oversees the maintenance of appropriate regulatory and economic capital, reviews the Enterprise Risk Management (ERM) reports, and approves any material changes to the charter of the ERM Committee.

The Audit and Risk Committees meet jointly, as appropriate, to discuss matters that relate to each committee s responsibilities. In addition to regularly scheduled bi-monthly meetings, the Audit Committee convenes to discuss the content of our financial disclosures and quarterly earnings releases. 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 Risk Committee of our Board of Directors. Annually, the Board of Directors reviews and approves the ERM Program, as well as the risk appetite and 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.

Tier 2 Risk Governance Committees support the ERM Committee by identifying early warning events and trends, escalating emerging risks and discussing forward-looking assessments. Membership of the Risk Governance Committees includes representatives 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 comport with regulatory expectations.

Market risk management

The cash flows and values of financial instruments change as a function of changes in market rates or prices, such as interest rates, foreign exchange rates, equity prices, commodity prices, credit spreads, volatilities or equity prices. 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.

Interest rate risk management

Most of our market risk is derived from interest rate fluctuations. 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.

¿ ***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 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.

Typically, the amount of net interest income at risk is measured by simulating the change in net interest income that would occur if the federal funds target rate were to gradually increase or decrease by 200 basis points over the next twelve months, and term rates were to move in a similar fashion. In light of the low interest rate environment, beginning in the fourth quarter of 2008, we modified the standard rate scenario of a gradual decrease of 200 basis points over twelve months 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 31 presents the results of the simulation analysis at December 31, 2012, and 2011. At December 31, 2012, our simulated exposure to changes in interest rates was moderately asset sensitive. ALCO policy limits 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 twelve months would adversely affect net interest income over the same period by more than 4%. As shown in Figure 31, we are operating within these limits.

Figure 31. Simulated Change in Net Interest Income

December 31, 2012		
Basis point change assumption (short-term rates)	**-25**	**+200**
ALCO policy limits	**-4.00 %**	**-4.00 %**
Interest rate risk assessment	**-.76 %**	**1.25 %**
December 31, 2011		
Basis point change assumption (short-term rates)	-25	+200
ALCO policy limits	-4.00 %	-4.00 %
Interest rate risk assessment	-.51 %	2.35 %

The FOMC has indicated it anticipates that economic conditions are likely to warrant exceptionally low levels for the federal funds rate at least through late 2015. We continued to execute investment and hedging activities to migrate toward a more modest asset-sensitive position. Hedging activities reflect the changes in the growth, mix, and maturity of customer deposits. 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.

The results of additional simulation analyses that make use of alternative interest rate paths and customer behavior assumptions indicate that net interest income improvement in a rising rate environment could be diminished, and actual results may be different than the policy simulation results in Figure 31. Net interest income improvements are highly dependent on the timing, magnitude, frequency, and path of interest rate increases and assumption inputs for deposit repricing relationships, lending spreads, and the balance behavior of transaction accounts.

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 twelve-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 twelve-, twenty-four and thirty-six 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 noncontractual 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.

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 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 32 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 32. Portfolio Swaps by Interest Rate Risk Management Strategy

	December 31, 2012					December 31, 2011	
				Weighted-Average			
dollars in millions	**Notional Amount**	**Fair Value**	**Maturity (Years)**	**Receive Rate**	**Pay Rate**	**Notional Amount**	**Fair Value**
Receive fixed/pay variable conventional A/LM [a]	$ **15,290**	$ **83**	**2.7**	**.7 %**	**.2 %**	$ 9,315	$ 29
Receive fixed/pay variable conventional debt	**3,519**	**426**	**4.5**	**3.9**	**.3**	5,361	499
Pay fixed/receive variable conventional debt	**259**	**(26)**	**9.7**	**.3**	**2.7**	391	(26)
Foreign currency conventional debt						554	(147)
Total portfolio swaps	$ **19,068**	$ **483** [b]	**3.1**	**1.3 %**	**.3 %**	$ 15,621	$ 355 [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 $66 million and $60 million for December 31, 2012, and 2011, respectively.

Management of other market risks

Key also incurs market risk as a result of trading, investing and client facilitation activities, principally within our investment banking and capital markets lines of business. Key has exposures to a wide range of interest rates, equity prices, foreign exchange rates, 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 products. 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.

We use a statistical technique known as VaR as one of the tools to measure, monitor and review the market risk exposures of our trading portfolios. We use a VaR simulation 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 trading portfolios. Our Market Risk Management group calculates and distributes daily VaR-based measurements to management in various lines of business. Using two years of historical information, the model estimates the maximum potential one-day loss with a 95% confidence level. Statistically, this means that losses will exceed VaR, on average, five out of 100 trading days, or three to four times each quarter. We perform back-testing procedures to evaluate the accuracy of our VaR model and continue to enhance the modeling techniques and inputs and assumptions used to ensure proper measurement and monitoring of market risks.

We manage exposure to market risk in accordance with VaR limits for trading activity that have been approved by our Market Risk Committee as part of our ERM Program. At December 31, 2012, the aggregate one-day trading limit set by the committee was $6.2 million for all trading portfolios. We are operating within these constraints. During 2012, our aggregate period end, daily average, minimum and maximum VaR amounts were $.7 million, $1.1 million, $.5 million and $2 million, respectively. During 2011, our aggregate period end, daily average, minimum and maximum VaR amounts were $1.3 million, $1.5 million, $1 million and $2.1 million, respectively.

In addition to comparing VaR exposure against limits on a daily basis, we monitor loss limits, use sensitivity measures, and conduct stress tests and scenario analysis. We report our market risk exposure and results of monitoring activities to the Risk Committee of the Board of Directors and to the Market Risk Committee.

Liquidity risk management

We define liquidity as the ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, and fund asset growth and new business transactions 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.

Oversight of the liquidity risk management process is governed by the Risk Committee of the KeyCorp Board of Directors, the KeyBank Board of Directors, the ERM Committee and the ALCO. These groups regularly review various liquidity reports, including 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. We communicate with individuals within and outside of the company on a daily basis to discuss emerging issues.

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.

On March 8, 2012, Fitch (a credit rating agency) downgraded KeyCorp s Series A Preferred Stock to BB and KeyCorp s trust preferred securities to BB+. These rating downgrades were a result of a change in Fitch s rating criteria that similarly affected securities ratings for many financial institutions.

Our credit ratings at December 31, 2012, are shown in Figure 33. We believe that 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 33. Credit Ratings

December 31, 2012	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	BBB-	BBB-
Moody s	P-2	Baa1	Baa2	Baa3	Ba1
Fitch	F1	A-	BBB+	BB+	BB
DBRS	R-2(high)	BBB(high)	BBB	BBB	BB(low)
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

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Managing liquidity risk

We regularly monitor our funding sources and measure our capacity to obtain funds in a variety of 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 so the stress tests are more strenuous and 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, 2012, totaled $8.6 billion, consisting of $4.3 billion of unpledged securities, $1.4 billion of securities available for secured funding at the Federal Home Loan Bank of Cincinnati, and $2.9 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, 2012, our unused borrowing capacity secured by loan collateral was $14.6 billion at the Federal Reserve Bank of Cleveland and $4.7 billion at the Federal Home Loan Bank of Cincinnati.

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, 2012, our loan to deposit ratio was 86%), 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, described in Note 15 (Long-Term Debt), that enable the parent company and KeyBank to raise funds in the public and private markets when the capital markets are functioning normally. The proceeds from most of these programs can be used for general corporate purposes, including acquisitions. Each of the programs is replaced or renewed as needed. There are no restrictive financial covenants in any of these programs.

In August 2012, KeyBank adopted a $20 billion Global Bank Note Program. This program is similar to prior KeyBank note programs and allows KeyBank to issue notes, domestically and abroad, with original maturities of seven days or more for senior notes or five years or more for subordinated notes. These notes may be denominated in U.S. dollars or in foreign currencies. Each note will be the sole obligation of KeyBank. On January 29, 2013, Key issued $1 billion of Senior Bank Notes due February 1, 2018 under the Global Bank Note Program. These Notes have a coupon of 1.65% per annum and are not redeemable prior to maturity.

In 2012, Key s outstanding note balance decreased by $3.0 billion. Maturities of $1.9 billion in medium term notes and $300 million in subordinated notes occurred for KeyBank, while KeyCorp had maturities of $438 million in medium term notes and payoffs totaling $707 million related to redeemed trust preferred securities.

Liquidity for KeyCorp

The parent company 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 three primary measures to assess parent company liquidity: net cash position, a cash coverage metric, and the liquidity gap. The net cash position measures the ability to fund debt maturing in 24 months or less with existing liquid assets. The cash coverage metric measures the ability to meet all projected obligations. The liquidity gap represents the difference between projected liquid assets and anticipated financial obligations over several time horizons. We generally issue term debt to manage our liquidity position within targeted ranges. The parent company generally maintains cash and short-term investments in an amount sufficient to meet projected debt maturities over the next 24 months. At December 31, 2012, 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 policies.

Typically, the parent company meets its liquidity requirements through regular dividends from KeyBank. 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. In 2012, KeyBank paid the parent $1.8 billion in dividends, while nonbank subsidiaries did not make any dividend payments to the parent. The parent did not make any capital infusions to KeyBank in 2012. As of January 1, 2013, KeyBank had fully utilized its regulatory capacity to pay dividends to KeyCorp.

During the first quarter of 2011, KeyCorp completed a $625 million equity offering at a price of $8.85 per Common Share. At the same time, KeyCorp issued $1 billion, 5.1% Senior Medium-Term Notes, Series I. The proceeds from the sale of Common Shares and medium-term notes were used, along with other available funds, to repurchase the Series B Preferred Stock issued to the U.S. Treasury. The repurchase eliminated future quarterly dividends of $31 million and discount amortization (non-cash) of $4 million, or $140 million on an annual basis, related to these preferred shares.

Our liquidity position and recent activity

Over the past twelve 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 decreased as a result of debt maturities, trust preferred securities redemptions, and net customer loan and deposit flows. However, the liquid asset portfolio still continues to exceed the amount we estimate would be necessary to manage through an adverse liquidity event by providing sufficient time to develop and execute a longer term solution. On January 29, 2013, Key issued $1 billion of Senior Bank Notes due February 1, 2018 under the Global Bank Note Program. This issuance provided additional liquidity to support normal business flows and maintain our liquid asset portfolio within target levels.

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. We periodically repurchase Common Shares in the open market or through privately negotiated transactions under a repurchase program authorized by our Board of Directors. Additional information on KeyCorp s Common Share repurchase program is included in Part II, Item 2. Unregistered Sales of Equity Securities or Use of Proceeds 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 $183 million of cash and cash equivalents and short-term investments in international tax jurisdictions as of December 31, 2012. As we consider alternative long-term strategic and liquidity plans, opportunities to repatriate these amounts would result in approximately $29 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 by approximately $40 million. Accordingly, we have included the total amount as a deferred tax liability at December 31, 2012.

The consolidated statements of cash flows summarize our sources and uses of cash by type of activity for each year ended December 31, 2012, and 2011.

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 a manageable level.

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 $2 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, 2012, 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 $76 million at December 31, 2012. 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 to transfer a portion of the credit risk associated with a particular extension of credit to a third party. At December 31, 2012, we used credit default swaps with a notional amount of $547 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, 2012, the notional amount of credit default swaps sold by us for the purpose of reducing our net credit default swap position was $40 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 trading income component 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, 2012, the ALLL was $888 million, or 1.68% of loans, compared to $1 billion, or 2.03%, at December 31, 2011. The allowance includes $35 million that was specifically allocated for impaired loans of $411 million at December 31, 2012, compared to $51 million that was allocated for impaired loans of $388 million one year ago. For more information about impaired loans, see Note 5 (Asset Quality). At December 31, 2012, the allowance for loan and lease losses was 131.75% of nonperforming loans, compared to 138.10% at December 31, 2011.

Selected asset quality statistics for each of the past five years are presented in Figure 34. The factors that drive these statistics are discussed in the remainder of this section.

Figure 34. Selected Asset Quality Statistics from Continuing Operations

Year ended December 31,

dollars in millions	**2012**	2011	2010	2009	2008
Net loan charge-offs	**$ 345**	$ 541	$ 1,570	$ 2,257	$ 1,131
Net loan charge-offs to average loans	**.69 %**	1.11 %	2.91 %	3.40 %	1.55 %
Allowance for loan and lease losses to annualized net loan charge-offs	**257.39**	185.58	102.17	112.27	144.03
Allowance for loan and lease losses	**$ 888**	$ 1,004	$ 1,604	$ 2,534	$ 1,629
Allowance for credit losses [(a)]	**917**	1,049	1,677	2,655	1,683
Allowance for loan and lease losses to period-end loans	**1.68 %**	2.03 %	3.20 %	4.31 %	2.24 %
Allowance for credit losses to period-end loans	**1.74**	2.12	3.35	4.52	2.31
Allowance for loan and lease losses to nonperforming loans	**131.75**	138.10	150.19	115.87	133.42
Allowance for credit losses to nonperforming loans	**136.05**	144.29	157.02	121.40	137.84
Nonperforming loans at period end	**$ 674**	$ 727	$ 1,068	$ 2,187	$ 1,221
Nonperforming assets at period end	**735**	859	1,338	2,510	1,460
Nonperforming loans to period-end portfolio loans	**1.28 %**	1.47 %	2.13 %	3.72 %	1.68 %
Nonperforming assets to period-end portfolio loans plus					
OREO and other nonperforming assets	**1.39**	1.73	2.66	4.25	2.00

(a) Includes the allowance for loan and lease losses plus the liability for credit losses on lending-related commitments.

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, 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, 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 TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance greater than $2.5 million, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. We estimate the extent of impairment by comparing the recorded investment of the loan with the estimated present value of its expected cash flows, the fair value of its underlying collateral or the loan s observable market price. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses. The ALLL at December 31, 2012, represents our best estimate of the probable credit losses inherent in the loan portfolio at that date.

As shown in Figure 35, our ALLL decreased by $116 million, or 12%, during the past twelve months. This contraction was associated with the improvement in credit quality of the loan portfolio, which has trended more favorably over the past twelve months. Asset quality is improving and has resulted in favorable risk rating migration and a reduction in our general allowance. Our delinquency trends continue to decline while our roll rates keep improving. We attribute this improvement to improving economic activity, more favorable conditions in the housing market, and continued run off in our exit loan portfolio. Our liability for credit losses on lending-related commitments decreased by $16 million to $29 million at December 31, 2012, compared to the same period one year ago. When combined with our allowance for loan and lease losses, our total allowance for credit losses represented 1.74% of loans at the end of the fourth quarter of 2012, compared to 2.12% at the end of the fourth quarter of 2011. We expect the allowance to decrease as a percent of total loans during 2013 as a result of the continued improvement in credit quality that is anticipated.

Figure 35. Allocation of the Allowance for Loan and Lease Losses

mber 31,	2012			2011			2010		
rs 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 o Loan Type t Total Loan**
mercial, cial and ultural	**$ 327**	**36.8 %**	**44.0 %**	$ 334	33.2 %	39.1 %	$ 485	30.2 %	32.
mercial real :									
mercial gage	**198**	**22.3**	**14.6**	272	27.1	16.2	416	25.9	19.
ruction	**41**	**4.6**	**1.9**	63	6.3	2.7	145	9.1	4.
commercial state loans	**239**	**26.9**	**16.5**	335	33.4	18.9	561	35.0	23.
mercial lease cing	**55**	**6.2**	**9.3**	78	7.8	12.2	175	10.9	12.
commercial	**621**	**69.9**	**69.8**	747	74.4	70.2	1,221	76.1	68.
estate ential gage	**30**	**3.4**	**4.1**	37	3.7	3.9	49	3.1	3.
e equity:									
Community	**105**	**11.8**	**18.6**	103	10.2	18.6	120	7.5	19.
	25	**2.8**	**.8**	29	2.9	1.1	57	3.5	1.
home equity	**130**	**14.6**	**19.4**	132	13.1	19.7	177	11.0	20.
umer other Community	**38**	**4.3**	**2.5**	41	4.1	2.4	57	3.6	2.
t cards	**26**	**2.9**	**1.4**						
umer other:									
ne	**39**	**4.4**	**2.6**	46	4.6	3.5	89	5.5	4.
	4	**.5**	**.2**	1	.1	.3	11	.7	.
consumer	**43**	**4.9**	**2.8**	47	4.7	3.8	100	6.2	4.
consumer	**267**	**30.1**	**30.2**	257	25.6	29.8	383	23.9	31.
(a)	**$ 888**	**100.0 %**	**100.0 %**	$ 1,004	100.0 %	100.0 %	$ 1,604	100.0 %	100.

	2009			2008		
	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**
mercial, cial and ultural	$ 796	31.4 %	32.7 %	$ 572	35.1 %	37.4 %
mercial real :						
mercial gage	578	22.8	17.8	228	14.0	14.9
ruction	418	16.5	8.1	346	21.2	10.6
commercial state loans	996	39.3	25.9	574	35.2	25.5
mercial lease cing	280	11.1	12.7	148	9.1	12.4
commercial	2,072	81.8	71.3	1,294	79.4	75.3

estate ential gage		30	1.2	3.1	7	.4	2.6
e equity:							
Community		130	5.1	17.1	61	3.7	13.9
		78	3.1	1.4	69	4.3	1.4
home equity		208	8.2	18.5	130	8.0	15.3
umer other Community		73	2.9	2.0	51	3.2	1.7
umer other:							
ne		140	5.5	4.7	132	8.1	4.7
		11	.4	.4	15	.9	.4
consumer		151	5.9	5.1	147	9.0	5.1
consumer		462	18.2	28.7	335	20.6	24.7
(a)	$	2,534	100.0 %	100.0 %	$ 1,629	100.0 %	100.0 %

(a) Excludes allocations of the allowance for loan and lease losses in the amount of $55 million at December 31, 2012, $104 million at December 31, 2011, $114 million at December 31, 2010, $157 million at December 31, 2009, and $174 million at December 31, 2008, related to the discontinued operations of the education lending business.

Our provision (credit) for loan and lease losses was a provision of $229 million for 2012, compared to a credit of $60 million for 2011. Our net loan charge-offs were $345 million for 2012 compared to $541 million for 2011. Our net loan charge-offs for 2012 included $33 million of charge-offs reported in accordance with updated regulatory guidance requiring loans and leases discharged through Chapter 7 bankruptcy and not reaffirmed by the borrower to be charged-off to the collateral s fair market value less selling costs and classified as nonaccrual, regardless of their delinquency. Additionally, we continue to work down our exit loans and leases, and reduce 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 charge-offs.

Net loan charge-offs

Net loan charge-offs for 2012 totaled $345 million, or .69% of average loans, including $33 million of incremental net loan charge-offs reported in accordance with updated regulatory guidance requiring loans discharged through Chapter 7 bankruptcy and not reaffirmed by the borrower to be charged off to the collateral s fair market value less selling costs and classified as nonaccrual, regardless of their delinquency status. In addition, we incurred $13 million of net charge offs related to our two acquisitions completed in 2012. These results compare to net loan charge-offs of $541 million, or 1.11% for 2011. Figure 36 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 37.

Over the past twelve months, net loan charge-offs decreased $196 million. As shown in Figure 39, our exit loan portfolio accounted for $78 million, or 23%, of total net loan charge-offs for 2012. Net charge-offs in the exit loan portfolio decreased by $37 million from 2011 due to decreases in the commercial and consumer loan portfolios.

Figure 36. Net Loan Charge-offs from Continuing Operations

Year ended December 31,

dollars in millions	**2012**	2011	2010	2009	2008
Commercial, financial and agricultural	**$ 17**	$ 119	$ 478	$ 786	$ 278
Real estate commercial mortgage	**79**	103	330	354	82
Real estate construction	**19**	56	336	634	492
Commercial lease financing	**5**	17	63	106	63
Total commercial loans	**120**	295	1,207	1,880	915
Home equity Key Community Bank	**88**	89	116	93	40
Home equity Other	**30**	41	59	72	46
Credit cards	**11**				
Marine	**37**	48	86	119	67
Other	**59**	68	102	93	63
Total consumer loans	**225**	246	363	377	216
Total net loan charge-offs	**$ 345**	$ 541	$ 1,570	$ 2,257	$ 1,131
Net loan charge-offs to average loans	**.69 %**	1.11 %	2.91 %	3.40 %	1.55 %
Net loan charge-offs from discontinued operations education lending business	**$ 58**	$ 123	$ 121	$ 143	$ 129

Figure 37. Summary of Loan and Lease Loss Experience from Continuing Operations

Year ended December 31, *dollars in millions*	**2012**	**2011**	**2010**	**2009**	**2008**
Average loans outstanding	**$ 50,362**	$ 48,606	$ 53,971	$ 66,386	$ 72,801
Allowance for loan and lease losses at beginning of period	**$ 1,004**	$ 1,604	$ 2,534	$ 1,629	$ 1,195
Loans charged off:					
Commercial, financial and agricultural	**80**	169	565	838	332
Real estate commercial mortgage	**102**	113	360	356	83
Real estate construction	**24**	83	380	643	494
Total commercial real estate loans [(a)]	**126**	196	740	999	577
Commercial lease financing	**27**	42	88	128	83
Total commercial loans	**233**	407	1,393	1,965	992
Real estate residential mortgage	**27**	29	36	20	15
Home equity:					
Key Community Bank	**99**	100	123	97	43
Other	**35**	45	62	74	47
Total home equity loans	**134**	145	185	171	90
Consumer other Key Community Bank	**38**	45	64	67	44
Credit cards	**11**				
Consumer other:					
Marine	**59**	80	129	154	85
Other	**6**	9	15	19	14
Total consumer other	**65**	89	144	173	99
Total consumer loans	**275**	308	429	431	248
Total loans charged off	**508**	715	1,822	2,396	1,240
Recoveries:					
Commercial, financial and agricultural	**63**	50	87	52	54
Real estate commercial mortgage	**23**	10	30	2	1
Real estate construction	**5**	27	44	9	2
Total commercial real estate loans[(a)]	**28**	37	74	11	3
Commercial lease financing	**22**	25	25	22	20
Total commercial loans	**113**	112	186	85	77
Real estate residential mortgage	**3**	3	2	1	1
Home equity:					
Key Community Bank	**11**	11	7	4	3
Other	**5**	4	3	2	1
Total home equity loans	**16**	15	10	6	4
Consumer other Key Community Bank	**6**	8	7	7	6
Consumer other:					
Marine	**22**	32	43	35	18
Other	**3**	4	4	5	3
Total consumer other	**25**	36	47	40	21
Total consumer loans	**50**	62	66	54	32

Total recoveries	**163**	174	252	139	109
Net loans charged off	**(345)**	(541)	(1,570)	(2,257)	(1,131)
Provision (credit) for loan and lease losses	**229**	(60)	638	3,159	1,537
Allowance related to loans acquired, net					32
Foreign currency translation adjustment		1	2	3	(4)
Allowance for loan and lease losses at end of year	**$ 888**	$ 1,004	$ 1,604	$ 2,534	$ 1,629
Liability for credit losses on lending-related commitments at beginning of the year	**$ 45**	$ 73	$ 121	$ 54	$ 80
Provision (credit) for losses on lending-related commitments	**(16)**	(28)	(48)	67	(26)
Liability for credit losses on lending-related commitments at end of the year [(b)]	**$ 29**	$ 45	$ 73	$ 121	$ 54
Total allowance for credit losses at end of the year	**$ 917**	$ 1,049	$ 1,677	$ 2,655	$ 1,683
Net loan charge-offs to average loans	**.69 %**	1.11 %	2.91 %	3.40 %	1.55 %
Allowance for loan and lease losses to annualized net loan charge-offs	**257.39**	185.58	102.17	112.27	144.03
Allowance for loan and lease losses to period-end loans	**1.68**	2.03	3.20	4.31	2.24
Allowance for credit losses to period-end loans	**1.74**	2.12	3.35	4.52	2.31
Allowance for loan and lease losses to nonperforming loans	**131.75**	138.10	150.19	115.87	133.42
Allowance for credit losses to nonperforming loans	**136.05**	144.29	157.02	121.40	137.84
Discontinued operations education lending business:					
Loans charged off	**$ 75**	$ 138	$ 129	$ 147	$ 131
Recoveries	**17**	15	8	4	2
Net loan charge-offs	**$ (58)**	$ (123)	$ (121)	$ (143)	$ (129)

(a) 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 portfolio.

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

Nonperforming assets

Figure 38 shows the composition of our nonperforming assets. These assets totaled $735 million at December 31, 2012, and represented 1.39% of portfolio loans, OREO and other nonperforming assets, compared to $859 million, or 1.73%, at December 31, 2011. 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 38. Summary of Nonperforming Assets and Past Due Loans from Continuing Operations

December 31, *dollars in millions*	**2012**	2011	2010	2009	2008
Commercial, financial and agricultural	**$ 99**	$ 188	$ 242	$ 586	$ 415
Real estate commercial mortgage	**120**	218	255	614	128
Real estate construction	**56**	54	241	641	436
Total commercial real estate loans [a]	**176**	272	496	1,255	564
Commercial lease financing	**16**	27	64	113	81
Total commercial loans	**291**	487	802	1,954	1,060
Real estate residential mortgage	**103**	87	98	73	39
Home equity:					
Key Community Bank	**210**	108	102	107	76
Other	**21**	12	18	21	15
Total home equity loans	**231**	120	120	128	91
Consumer other Key Community Bank	**2**	1	4	4	3
Credit cards	**11**				
Consumer other:					
Marine	**34**	31	42	26	26
Other	**2**	1	2	2	2
Total consumer other	**36**	32	44	28	28
Total consumer loans	**383**	240	266	233	161
Total nonperforming loans [b]	**674**	727	1,068	2,187	1,221
Nonperforming loans held for sale	**25**	46	106	116	90
OREO	**22**	65	129	168	107
Other nonperforming assets	**14**	21	35	39	42
Total nonperforming assets	**$ 735**	$ 859	$ 1,338	$ 2,510	$ 1,460
Accruing loans past due 90 days or more	**$ 78**	$ 164	$ 239	$ 331	$ 413
Accruing loans past due 30 through 89 days	**424**	441	476	933	1,230
Restructured loans accruing and nonaccruing [c]	**320**	276	297	364	
Restructured loans included in nonperforming loans [c]	**249**	191	202	364	
Nonperforming assets from discontinued operations education lending business	**20**	23	40	14	4
Nonperforming loans to year-end portfolio loans	**1.28 %**	1.47 %	2.13 %	3.72 %	1.68 %
Nonperforming assets to year-end portfolio loans plus OREO and other nonperforming assets	**1.39**	1.73	2.66	4.25	2.00

(a) 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 portfolio.

(b) December 31, 2012, amount excludes $23 million of purchased credit impaired loans acquired in July 2012.

(c) Restructured loans (i.e., troubled debt restructurings) 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 38, nonperforming assets decreased during 2012, having declined for the past three years. Most of the reduction came from nonperforming loans, nonperforming loans held for sale, and OREO in the Commercial Real Estate line of business. As shown in Figure 39, our exit loan portfolio accounted for $83 million, or 11%, of total nonperforming assets at December 31, 2012, compared to $119 million, or 14%, at December 31, 2011.

At December 31, 2012, the carrying amount of our commercial nonperforming loans outstanding represented 57% of their original contractual amount owed, total nonperforming loans outstanding represented 73% of their contractual amount owed, and total nonperforming assets represented 70% of their original contractual amount owed. At the same date, OREO represented 39% of its original contractual amount owed, while loans held for sale and other nonperforming assets in the aggregate represented 60% of their contractual amount owed.

At December 31, 2012, our 20 largest nonperforming loans totaled $179 million, representing 27% of total loans on nonperforming status from continuing operations, compared to $237 million representing 33% in the prior year.

Figure 39 shows the composition of our exit loan portfolio at December 31, 2012, and 2011, the net charge-offs recorded on this portfolio, and the nonperforming status of these loans at these dates. The exit loan portfolio represented 5% of total loans and loans held for sale at December 31, 2012, compared to 8% at December 31, 2011. Additional information about loan sales is included in the Loans and loans held for sale section under Loan sales.

Figure 39. Exit Loan Portfolio from Continuing Operations

	Balance Outstanding		**Change 12-31-12 vs. 12-31-11**	**Net Loan Charge-offs**		**Balance on Nonperforming Status**	
in millions	**12-31-12**	**12-31-11**		**12-31-12 (c)**	**12-31-11**	**12-31-12**	**12-31-11**
Residential properties homebuilder	**$ 24**	$ 41	$ (17)	**$ 3**	$5	**$ 10**	$ 23
Marine and RV floor plan	**33**	81	(48)	**8**	9	**10**	45
Commercial lease financing [a]	**997**	1,669	(672)	**(3)**	7	**6**	7
Total commercial loans	**1,054**	1,791	(737)	**8**	21	**26**	75
Home equity Other	**423**	535	(112)	**30**	41	**21**	12
Marine	**1,358**	1,766	(408)	**37**	48	**34**	31
RV and other consumer	**93**	125	(32)	**3**	5	**2**	1
Total consumer loans	**1,874**	2,426	(552)	**70**	94	**57**	44
Total exit loans in loan portfolio	**$ 2,928**	$ 4,217	$ (1,289)	**$ 78**	$ 115	**$ 83**	$ 119
Discontinued operations education lending business (not included in exit loans above) [b]	**$ 5,201**	$ 5,812	$ (611)	**$ 58**	$123	**$ 20**	$ 23

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

(b) Includes loans in Key s education loan securitization trusts.

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

Figure 40 shows credit exposure by industry classification in the largest sector of our loan portfolio, commercial, financial and agricultural loans. During 2012, total commitments and loans outstanding in this sector increased by $5.5 billion and $3.9 billion, respectively.

Figure 40. Commercial, Financial and Agricultural Loans

December 31, 2012	Total Commitments (a)	Loans	Nonperforming Loans	
dollars in millions		Outstanding	Amount	Percent of Loans Outstanding
Industry classification:				
Services	$ 10,461	$ 5,610	$ 7	.1 %
Manufacturing	9,082	4,196	28	.7
Public utilities	5,522	1,424		
Financial services	4,251	2,236	2	.1
Wholesale trade	3,577	1,604	9	.6
Retail trade	2,106	889	3	.3
Mining	1,934	761	5	.7
Dealer floor plan	1,580	1,216	7	.6
Property management	1,361	798	12	1.5
Transportation	1,233	851	9	1.1
Building contractors	1,190	459	10	2.2
Agriculture/forestry/fishing	974	584	2	.3
Insurance	761	112		
Public administration	628	446		
Communications	316	183		
Individuals	4	1		
Other	2,323	1,872	5	.3
Total	$ 47,303	$ 23,242	$ 99	.4 %

(a) Total commitments include unfunded loan commitments, unfunded letters of credit (net of amounts conveyed to others), and loans outstanding.

The types of activity that caused the change in our nonperforming loans during each of the last four quarters and for the years ended December 31, 2012, and 2011 are summarized in Figure 41. Loans placed on nonaccrual declined $139 million during 2012 compared to 2011, as market liquidity continued to improve.

Figure 41. Summary of Changes in Nonperforming Loans from Continuing Operations

		2012 Quarters				
in millions	**2012**	**Fourth**	**Third**	**Second**	**First**	**2011**
Balance at beginning of period	**$ 727**	**$ 653**	**$ 657**	**$ 666**	**$ 727**	$ 1,068
Loans placed on nonaccrual status	**1,128**	**288**	**276**	**350**	**214**	1,267
Charge-offs	**(508)**	**(104)**	**(141)**	**(131)**	**(132)**	(715)
Loans sold	**(163)**	**(44)**	**(43)**	**(49)**	**(27)**	(129)
Payments	**(327)**	**(78)**	**(74)**	**(110)**	**(65)**	(465)
Transfers to OREO	**(38)**	**(7)**	**(10)**	**(6)**	**(15)**	(41)
Transfers to nonperforming loans held for sale	**(24)**	**(8)**		**(16)**		(97)
Transfers to other nonperforming assets	**(15)**	**(1)**		**(14)**		(9)
Loans returned to accrual status	**(106)**	**(25)**	**(12)**	**(33)**	**(36)**	(152)
Balance at end of period	**$ 674**	**$ 674**	**$ 653**	**$ 657**	**$ 666**	$ 727

The types of activity that caused the change in our nonperforming loans held for sale during each of the last four quarters and for the years ended December 31, 2012 and 2011 are summarized in Figure 42.

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

		2012 Quarters				
in millions	**2012**	**Fourth**	**Third**	**Second**	**First**	**2011**
Balance at beginning of period	**$ 46**	**$ 19**	**$ 38**	**$ 24**	**$ 46**	$ 106
Transfers in	**24**	**8**		**16**		97
Net advances / (payments)	**(3)**	**(1)**	**(1)**		**(1)**	(41)
Loans sold	**(20)**	**(1)**	**(17)**	**(1)**	**(1)**	(91)
Transfers to OREO	**(1)**		**(1)**			(25)
Valuation adjustments	**(2)**			**(1)**	**(1)**	(6)
Loans returned to accrual status / other	**(19)**				**(19)**	6
Balance at end of period	**$ 25**	**$ 25**	**$ 19**	**$ 38**	**$ 24**	$ 46

98

Factors that contributed to the change in our OREO during 2012 and 2011 are summarized in Figure 43. As shown in this figure, the decrease in 2012 was primarily attributable to properties sold during 2012.

Figure 43. Summary of Changes in Other Real Estate Owned, Net of Allowance, from Continuing Operations

		2012 Quarters				
in millions	**2012**	**Fourth**	**Third**	**Second**	**First**	**2011**
Balance at beginning of period	**$ 65**	**$ 29**	**$ 28**	**$ 61**	**$ 65**	$ 129
Properties acquired nonperforming loans	**39**	**7**	**11**	**6**	**15**	66
Valuation adjustments	**(18)**	**(2)**	**(2)**	**(7)**	**(7)**	(25)
Properties sold	**(64)**	**(12)**	**(8)**	**(32)**	**(12)**	(105)
Balance at end of period	**$ 22**	**$ 22**	**$ 29**	**$ 28**	**$ 61**	$ 65

Operational 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 will be subject to heightened prudential standards and regulation due to their systemic importance. This heightened level of regulation will increase our operational risk. We have created work teams to respond to and analyze the regulatory requirements that 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 of Directors.

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.

Fourth Quarter Results

Our financial performance for each of the past eight quarters is summarized in Figure 44. Highlights of our results for the fourth quarter of 2012 are summarized below.

Earnings

Our fourth quarter net income from continuing operations attributable to Key common shareholders was $193 million, or $.21 per common share, compared to $201 million, or $.21 per common share for the fourth quarter of 2011. During the fourth quarter of 2012 we incurred $16 million, or $.01 per common share of costs associated with our previously announced efficiency initiative. Fourth quarter 2012 net income attributable to Key common shareholders was $197 million compared to $194 million for the same quarter one year ago.

On an annualized basis, our return on average total assets from continuing operations for the fourth quarter of 2012 was .97%, compared to 1.01% for the fourth quarter of 2011. The annualized return on average common equity from continuing operations was 7.70% for the fourth quarter of 2012, compared to 8.26% for the year-ago quarter.

Net interest income

Our taxable-equivalent net interest income was $607 million for the fourth quarter of 2012, and the net interest margin was 3.37%. These results compare to taxable-equivalent net interest income of $563 million and a net interest margin of 3.13% for the fourth quarter of 2011. The increase in net interest income and the net interest margin was primarily a result of a change in funding mix from the redemption of certain trust preferred securities, maturity of long-term debt, and maturity of higher-costing certificates of deposit during the past year.

Noninterest income

Our noninterest income was $466 million for the fourth quarter of 2012, compared to $414 million for the year-ago quarter. Net gains (losses) from loan sales increased $30 million from the year-ago quarter due to an increase in volume in our commercial mortgage banking business. Investment banking and capital markets income also increased $23 million from one year ago. The fourth quarter of 2011 included a $24 million charge resulting from VISA s announcement of a planned increase to its litigation escrow deposit.

Noninterest expense

Our noninterest expense was $756 million for the fourth quarter of 2012, compared to $717 million for the same period last year. Personnel expense increased $46 million due to several factors an increase in contract labor for technology investments attributable to the previously announced credit card portfolio acquisitions and related implementation of new payment systems and merchant services processing; higher employee benefits due to an increase in medical claims expense and an adjustment to the annual retirement contribution accrual; and severance expense associated with our efficiency initiative. Nonpersonnel expense for the fourth quarter of 2012 decreased $7 million from one year ago. Operating lease expense, OREO, and marketing expense decreased from the year ago quarter. These declines were partially offset by an increase of $11 million related to the amortization of the intangible assets associated with the third quarter 2012 acquisitions of the previously announced credit card portfolio as well as the branches in Western New York.

Provision for loan and lease losses

Our provision for loan and lease losses was $57 million for the fourth quarter of 2012, compared to a credit of $22 million for the year-ago quarter. Our allowance for loan and lease losses was $888 million, or 1.68% of total period-end loans at December 31, 2012, compared to 2.03% at December 31, 2011.

Net loan charge-offs for the fourth quarter of 2012 totaled $58 million, or .44% of average loans, compared to $105 million, or .86%, for the same period last year.

Income taxes

For the fourth quarter of 2012, we recorded a tax provision from continuing operations of $55 million, compared to a tax provision of $69 million for the fourth quarter of 2011. The effective tax rate for the fourth quarter of 2012 was 21.7%, compared with 25.2% for the same quarter one year prior. For the fourth quarter of 2012, the tax rate was lower due to lower pre-tax income and slightly higher tax credits earned during the period.

Figure 44. Selected Quarterly Financial Data

	2012 Quarters				2011 Quarters			
dollars in millions, except per share amounts	**Fourth**	**Third**	**Second**	**First**	Fourth	Third	Second	First
FOR THE PERIOD								
Interest income	**$ 688**	**$ 671**	**$ 662**	**$ 684**	$ 698	$ 705	$ 726	$ 760
Interest expense	**87**	**99**	**124**	**131**	141	156	162	163
Net interest income	**601**	**572**	**538**	**553**	557	549	564	597
Provision (credit) for loan and lease losses	**57**	**109**	**21**	**42**	(22)	10	(8)	(40)
Noninterest income	**466**	**544**	**485**	**472**	414	483	454	457
Noninterest expense	**756**	**734**	**714**	**703**	717	692	680	701
Income (loss) from continuing operations before income taxes	**254**	**273**	**288**	**280**	276	330	346	393
Income (loss) from continuing operations attributable to Key	**199**	**219**	**226**	**205**	207	234	249	274
Income (loss) from discontinued operations, net of taxes [(a)]	**4**		**10**	**(5)**	(7)	(17)	(9)	(11)
Net income (loss) attributable to Key	**203**	**219**	**236**	**200**	200	217	240	263
Income (loss) from continuing operations attributable to Key common shareholders	**193**	**214**	**221**	**199**	201	229	243	184
Income (loss) from discontinued operations, net of taxes [(a)]	**4**		**10**	**(5)**	(7)	(17)	(9)	(11)
Net income (loss) attributable to Key common shareholders	**197**	**214**	**231**	**194**	194	212	234	173
PER COMMON SHARE								
Income (loss) from continuing operations attributable to Key common shareholders	**$ .21**	**$ .23**	**$ .23**	**$ .21**	$ .21	$ .24	$ .26	$ .21
Income (loss) from discontinued operations, net of taxes [(a)]			**.01**	**(.01)**	(.01)	(.02)	(.01)	(.01)
Net income (loss) attributable to Key common shareholders [(d)]	**.21**	**.23**	**.24**	**.20**	.20	.22	.25	.20
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**.21**	**.23**	**.23**	**.21**	.21	.24	.26	.21
Income (loss) from discontinued operations, net of taxes assuming dilution [(a)]			**.01**	**(.01)**	(.01)	(.02)	(.01)	(.01)
Net income (loss) attributable to Key common shareholders assuming dilution [(d)]	**.21**	**.23**	**.24**	**.20**	.20	.22	.25	.19
Cash dividends paid	**.05**	**.05**	**.05**	**.03**	.03	.03	.03	.01
Book value at period end	**10.78**	**10.64**	**10.43**	**10.26**	10.09	10.09	9.88	9.58
Tangible book value at period end	**9.67**	**9.54**	**9.45**	**9.28**	9.11	9.10	8.90	8.59
Market price:								
High	**9.01**	**9.12**	**8.54**	**8.82**	7.89	8.48	9.10	9.77
Low	**7.96**	**7.46**	**6.80**	**7.26**	5.59	5.63	7.82	8.31
Close	**8.42**	**8.74**	**7.74**	**8.50**	7.69	5.93	8.33	8.88
Weighted-average common shares outstanding (000)	**925,725**	**936,223**	**944,648**	**949,342**	948,658	948,702	947,565	881,894
Weighted-average common shares and potential common shares outstanding (000)	**930,382**	**940,764**	**948,087**	**953,971**	951,684	950,686	952,133	887,836
AT PERIOD END								
Loans	**$ 52,822**	**$ 51,419**	**$ 49,605**	**$ 49,226**	$ 49,575	$ 48,195	$ 47,840	$ 48,552
Earning assets	**75,055**	**72,139**	**71,899**	**72,796**	73,729	74,167	73,447	74,593
Total assets	**89,236**	**86,950**	**86,523**	**87,431**	88,785	89,262	88,782	90,438
Deposits	**65,993**	**64,188**	**62,167**	**61,494**	61,956	61,032	60,410	60,810
Long-term debt	**6,847**	**6,119**	**7,521**	**8,898**	9,520	10,717	10,997	11,048
Key common shareholders equity	**9,980**	**9,960**	**9,864**	**9,808**	9,614	9,610	9,428	9,134
Key shareholders equity	**10,271**	**10,251**	**10,155**	**10,099**	9,905	9,901	9,719	9,425

PERFORMANCE RATIOS FROM CONTINUING OPERATIONS								
Return on average total assets	**.97%**	**1.08%**	**1.12%**	**1.02%**	1.01%	1.14%	1.23%	1.32 %
Return on average common equity	**7.70**	**8.57**	**9.06**	**8.25**	8.26	9.52	10.51	8.75
Return on average tangible common equity [(b)]	**8.59**	**9.56**	**10.01**	**9.13**	9.15	10.56	11.69	9.83
Net interest margin (TE)	**3.37**	**3.23**	**3.06**	**3.16**	3.13	3.09	3.19	3.25
Cash efficiency ratio [(b)]	**69.34**	**64.62**	**69.29**	**68.09**	73.29	66.57	66.31	65.98
PERFORMANCE RATIOS FROM CONSOLIDATED OPERATIONS								
Return on average total assets	**.93%**	**1.01%**	**1.10%**	**.93%**	.91%	.98%	1.10%	1.18 %
Return on average common equity	**7.86**	**8.57**	**9.47**	**8.04**	7.97	8.82	10.12	8.23
Return on average tangible common equity [(b)]	**8.77**	**9.56**	**10.46**	**8.90**	8.83	9.77	11.26	9.24
Net interest margin (TE)	**3.29**	**3.14**	**2.99**	**3.08**	3.04	3.02	3.11	3.16
Loan to deposit [(c)]	**85.77**	**86.24**	**86.38**	**86.97**	87.00	85.71	86.10	90.76
CAPITAL RATIOS AT PERIOD END								
Key shareholders equity to assets	**11.51%**	**11.79%**	**11.74%**	**11.55%**	11.16%	11.09%	10.95%	10.42 %
Key common shareholders equity to assets	**11.18**	**11.45**	**11.40**	**11.22**	10.83	10.77	10.62	10.10
Tangible common equity to tangible assets	**10.15**	**10.39**	**10.44**	**10.26**	9.88	9.82	9.67	9.16
Tier 1 common equity [(b)]	**11.36**	**11.30**	**11.63**	**11.55**	11.26	11.28	11.14	10.74
Tier 1 risk-based capital	**12.15**	**12.10**	**12.45**	**13.29**	12.99	13.49	13.93	13.48
Total risk-based capital	**15.13**	**15.17**	**15.83**	**16.68**	16.51	17.05	17.88	17.38
Leverage	**11.41**	**11.37**	**11.35**	**12.12**	11.79	11.93	12.13	11.56
TRUST AND BROKERAGE ASSETS								
Assets under management	**$ 49,684**[(e)]	**$ 49,670**	**$ 49,149**	**$ 52,633**	$ 51,732	$ 51,584	$ 59,253	$ 61,518
Nonmanaged and brokerage assets	**25,197**	**24,220**	**23,912**	**33,021**	30,369	28,007	29,472	29,024
OTHER DATA								
Average full-time-equivalent employees	**15,589**	**15,833**	**15,455**	**15,404**	15,381	15,490	15,349	15,301
Branches	**1,088**	**1,087**	**1,062**	**1,059**	1,058	1,063	1,048	1,040

(a) 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 April 2009, we decided to wind down the operations of Austin, an investment subsidiary that specializes in managing hedge fund investments for its institutional customer base.

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

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

(d) EPS may not foot due to rounding.

(e) This figure has been revised from what has previously been disclosed in our earnings release on January 24, 2013.

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 historical loss rates to existing loans with similar risk characteristics and exercise judgment to assess the impact of factors such as changes in economic conditions, lending policies, underwriting standards, and the level of credit risk associated with specific industries and markets. Other considerations include expected cash flows and estimated collateral values.

For all commercial and consumer troubled debt restructurings, regardless of size, as well as all other impaired commercial loans with an outstanding balance greater than $2.5 million, 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 allowance for loan and lease losses 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 allowance for loan and lease losses 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.

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, 2012, 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 $37 million increase in the allowance. Such adjustments to the allowance for loan and lease losses 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 share; a $37 million increase in the commercial loan portfolio allowance would have reduced earnings on an after-tax basis by approximately $23 million, or $.02 per 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 allowance for loan and lease losses 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, 2012, $14.3 billion, or 16.1%, 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, 2012, $1.1 billion, or 1.5%, 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, 2012, $56 million, or .1%, of our total assets were measured at fair value on a nonrecurring basis. Approximately 3.6% of these assets were classified as Level 1 or Level 2. At December 31, 2012, 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 $627 million at December 31, 2012. A 10% positive or negative variance in that fair value would have increased or decreased our 2012 earnings by approximately $63 million ($39 million after tax, or $.04 per 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. New accounting guidance that was effective January 1, 2012, for us 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 2012. 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. Because the strength of the economic recovery remained uncertain during 2012, we continued to monitor the impairment indicators for goodwill and other intangible assets, and to evaluate the carrying amount of these assets quarterly. The acquisition of 37 retail banking branches in Western New York resulted in a $62 million increase in the goodwill at the Key Community Bank unit. At December 31, 2012, the Key Community Bank reporting unit had $979 million in goodwill, while the Key Corporate Bank reporting unit had no recorded 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 19 (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, 2012, 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 16 (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 16 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, 2012.

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 that it is more-likely-than-not that we will realize our net deferred tax asset in future periods. However, if our assessments prove incorrect, it 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 2012, we did not significantly alter the manner in which we applied our critical accounting policies or developed related assumptions and estimates.

European Sovereign Debt Exposures

Our total European sovereign and non-sovereign debt exposure is presented in Figure 45.

Figure 45. European Sovereign and Non-sovereign Debt Exposures

December 31, 2012 *in millions*	**Short-and Long-Term Commercial Total [(a)]**	**Foreign Exchange and Derivatives with Collateral [(b)]**	**Net Exposure**
France:			
Sovereigns			
Non-sovereign financial institutions		$ (10)	$ (10)
Non-sovereign non-financial institutions	$ 82		82
Total	82	(10)	72
Germany:			
Sovereigns			
Non-sovereign financial institutions		(5)	(5)
Non-sovereign non-financial institutions	344		344
Total	344	(5)	339
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	10		10
Total	10		10
Italy:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions	57		57
Total	57		57
Netherlands:			
Sovereigns			
Non-sovereign financial institutions		3	3
Non-sovereign non-financial institutions	136		136
Total	136	3	139
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	98		98
Total	98	3	101
United Kingdom:			
Sovereigns			
Non-sovereign financial institutions		2	2

Non-sovereign non-financial institutions	202		202
Total	202	2	204
Other Europe: [c]			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions	128		128
Total	128		128
Total Europe:			
Sovereigns			
Non-sovereign financial institutions		(7)	(7)
Non-sovereign non-financial institutions	1,104		1,104
Total	$ 1,104	$ (7)	$ 1,097

(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 90% of our exposure in other Europe is in Belgium, Finland, and Sweden.

Our credit risk exposure is largely concentrated in developed countries with emerging market exposure essentially limited to commercial facilities. At-risk exposures in the rest of the world, which are actively monitored by management, total less than $1 million.

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 77 is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial performance for each of the past eight quarters is summarized in Figure 44 contained in the Fourth Quarter Results section in the MD&A.

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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. Based on that assessment, we believe we maintained an effective system of internal control over financial reporting as of December 31, 2012. Our independent registered public accounting firm has issued an attestation report, dated February 26, 2013, on our internal control over financial reporting, which is included in this annual report.

Beth E. Mooney

Chairman, Chief Executive Officer and President

Jeffrey B. Weeden

Chief Financial Officer

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

Shareholders and Board of Directors

KeyCorp

We have audited KeyCorp s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (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 the Company 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, 2012, 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, 2012 and 2011, 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, 2012, and our report dated February 26, 2013 expressed an unqualified opinion thereon.

Cleveland, Ohio

February 26, 2013

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

KeyCorp

We have audited the accompanying consolidated balance sheets of KeyCorp as of December 31, 2012 and 2011, 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, 2012. 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, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, 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, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2013 expressed an unqualified opinion thereon.

Cleveland, Ohio

February 26, 2013

Consolidated Balance Sheets

December 31, *in millions, except per share data*	**2012**	2011
ASSETS		
Cash and due from banks	**$ 585**	$ 694
Short-term investments	**3,940**	3,519
Trading account assets	**605**	623
Securities available for sale	**12,094**	16,012
Held-to-maturity securities (fair value: $3,992 and $2,133)	**3,931**	2,109
Other investments	**1,064**	1,163
Loans, net of unearned income of $957 and $1,388	**52,822**	49,575
Less: Allowance for loan and lease losses	**888**	1,004
Net loans	**51,934**	48,571
Loans held for sale	**599**	728
Premises and equipment	**965**	944
Operating lease assets	**288**	350
Goodwill	**979**	917
Other intangible assets	**171**	17
Corporate-owned life insurance	**3,333**	3,256
Derivative assets	**693**	945
Accrued income and other assets (including $50 of consolidated LIHTC guaranteed funds VIEs, see Note 11) [(a)]	**2,801**	3,077
Discontinued assets (including $2,395 of consolidated education loan securitization trust VIEs at fair value, see Note 11) [(a)]	**5,254**	5,860
Total assets	**$ 89,236**	$ 88,785
LIABILITIES		
Deposits in domestic offices:		
NOW and money market deposit accounts	**$ 32,380**	$ 27,954
Savings deposits	**2,433**	1,962
Certificates of deposit ($100,000 or more)	**2,879**	4,111
Other time deposits	**4,575**	6,243
Total interest-bearing	**42,267**	40,270
Noninterest-bearing	**23,319**	21,098
Deposits in foreign office interest-bearing	**407**	588
Total deposits	**65,993**	61,956
Federal funds purchased and securities sold under repurchase agreements	**1,609**	1,711
Bank notes and other short-term borrowings	**287**	337
Derivative liabilities	**584**	1,026
Accrued expense and other liabilities	**1,425**	1,763
Long-term debt	**6,847**	9,520
Discontinued liabilities (including $2,181 of consolidated education loan securitization trust VIEs at fair value, see Note 11) [(a)]	**2,182**	2,550
Total liabilities	**78,927**	78,863
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	**4,126**	4,194
Retained earnings	**6,913**	6,246
Treasury stock, at cost (91,201,285 and 63,962,113 shares)	**(1,952)**	(1,815)
Accumulated other comprehensive income (loss)	**(124)**	(28)

Key shareholders equity		**10,271**		9,905
Noncontrolling interests		**38**		17
Total equity		**10,309**		9,922
Total liabilities and equity	**$**	**89,236**	$	88,785

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

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income

Year ended December 31, *dollars in millions, except per share amounts*	**2012**	**2011**	**2010**
INTEREST INCOME			
Loans	**$ 2,155**	$ 2,206	$ 2,653
Loans held for sale	**20**	14	17
Securities available for sale	**399**	583	644
Held-to-maturity securities	**69**	12	2
Trading account assets	**18**	26	37
Short-term investments	**6**	6	6
Other investments	**38**	42	49
Total interest income	**2,705**	2,889	3,408
INTEREST EXPENSE			
Deposits	**257**	390	671
Federal funds purchased and securities sold under repurchase agreements	**4**	5	6
Bank notes and other short-term borrowings	**7**	11	14
Long-term debt	**173**	216	206
Total interest expense	**441**	622	897
NET INTEREST INCOME	**2,264**	2,267	2,511
Provision for loan and lease losses	**229**	(60)	638
Net interest income (expense) after provision for loan and lease losses	**2,035**	2,327	1,873
NONINTEREST INCOME			
Trust and investment services income	**421**	434	444
Service charges on deposit accounts	**287**	281	301
Operating lease income	**75**	122	173
Letter of credit and loan fees	**221**	213	194
Corporate-owned life insurance income	**122**	121	137
Net securities gains (losses) [(a)]		1	14
Electronic banking fees	**72**	114	117
Gains on leased equipment	**111**	25	20
Insurance income	**50**	53	64
Net gains (losses) from loan sales	**150**	75	76
Net gains (losses) from principal investing	**72**	78	66
Investment banking and capital markets income (loss)	**165**	134	145
Other income	**221**	157	203
Total noninterest income	**1,967**	1,808	1,954
NONINTEREST EXPENSE			
Personnel	**1,618**	1,520	1,471
Net occupancy	**260**	258	270
Operating lease expense	**57**	94	142
Computer processing	**166**	166	185
Business services and professional fees	**193**	186	176
FDIC assessment	**31**	52	124
OREO expense, net	**15**	13	68
Equipment	**107**	103	100
Marketing	**68**	60	72
Provision (credit) for losses on lending-related commitments	**(16)**	(28)	(48)
Intangible asset amortization on credit cards	**14**		
Other intangible asset amortization	**9**	4	14
Other expense	**385**	362	460
Total noninterest expense	**2,907**	2,790	3,034

INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		**1,095**		1,345		793
Income taxes		**239**		369		186
INCOME (LOSS) FROM CONTINUING OPERATIONS		**856**		976		607
Income (loss) from discontinued operations, net of taxes of $6, ($26) and ($14) (see Note 13)		**9**		(44)		(23)
NET INCOME (LOSS)		**865**		932		584
Less: Net income (loss) attributable to noncontrolling interests		**7**		12		30
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	**$**	**858**	$	920	$	554
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**827**	$	857	$	413
Net income (loss) attributable to Key common shareholders		**836**		813		390
Per common share:						
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.88**	$	.92	$	.47
Income (loss) from discontinued operations, net of taxes		**.01**		(.05)		(.03)
Net income (loss) attributable to Key common shareholders [b]		**.89**		.87		.45
Per common share assuming dilution:						
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.88**	$	.92	$	.47
Income (loss) from discontinued operations, net of taxes		**.01**		(.05)		(.03)
Net income (loss) attributable to Key common shareholders [b]		**.89**		.87		.44
Cash dividends declared per common share	**$**	**.18**	$	.10	$	.04
Weighted-average common shares outstanding (000) [c]		**938,941**		931,934		874,748
Weighted-average common shares and potential common shares outstanding (000)		**943,259**		935,801		878,153

(a) For 2012, 2011, and 2010, we did not have any impairment losses related to securities.

(b) EPS may not foot due to rounding.

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

Consolidated Statements of Comprehensive Income

Year ended December 31, *in millions*	**2012**	2011	2010
Net income (loss)	**$ 865**	$ 932	$ 584
Other comprehensive income (loss), net of tax:			
Net unrealized gains (losses) on securities available for sale, net of income taxes of ($58), $46, and $69	**(98)**	77	116
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $12, ($6), and ($63)	**20**	(10)	(106)
Foreign currency translation adjustments, net of income taxes	**10**	(4)	4
Net pension and postretirement benefit costs, net of income taxes	**(28)**	(74)	(28)
Total other comprehensive income (loss), net of tax	**(96)**	(11)	(14)
Comprehensive income (loss)	**769**	921	570
Less: Comprehensive income attributable to noncontrolling interests	**7**	12	30
Comprehensive income (loss) attributable to Key	**$ 762**	$ 909	$ 540

See Notes to Consolidated Financial Statements.

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**	**Common Stock Warrant**	**Capital Surplus**	**Retained Earnings**	**Treasury Stock, at Cost**	**Accumulated Other Comprehensive Income (Loss)**	**Noncontrolling Interests**
BALANCE AT DECEMBER 31, 2009	2,930	878,535	$ 2,721	$ 946	$ 87	$ 3,734	$ 5,158	$ (1,980)	$ (3)	$ 270
Cumulative effect adjustment to beginning balance of Retained Earnings							45			
Net income (loss)							554			30
Other comprehensive income (loss):										
Net unrealized gains (losses) on securities available for sale, net of income taxes of $69									116	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of ($63)									(106)	
Foreign currency translation adjustments									4	
Net pension and postretirement benefit costs, net of income taxes									(28)	
Deferred compensation						19				
Cash dividends declared on common shares ($.04 per share)							(36)			
Cash dividends declared on Noncumulative Series A Preferred Stock ($7.75 per share)							(23)			
Cash dividends accrued on Cumulative Series B Preferred Stock (5% per annum)							(125)			
Amortization of discount on Series B Preferred Stock			16				(16)			
Common shares reissued for stock options and other employee benefit plans		2,073				(42)		76		
Net contribution from (distribution to) noncontrolling interests										(43)
BALANCE AT DECEMBER 31, 2010	2,930	880,608	$ 2,737	$ 946	$ 87	$ 3,711	$ 5,557	$ (1,904)	$ (17)	$ 257
Correction of an error in cumulative effect adjustment							(30)			
Net income (loss)							920			12
Other comprehensive income (loss):										
Net unrealized gains (losses) on securities available for sale, net of income taxes of $46									77	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of ($6)									(10)	
Foreign currency translation adjustments, net of income taxes									(4)	
Net pension and postretirement benefit costs, net of income taxes									(74)	
Deferred compensation						(2)				
Cash dividends declared on common shares ($.10 per share)							(94)			
Cash dividends declared on Noncumulative Series A Preferred Stock ($7.75 per share)							(23)			
Cash dividends accrued on Cumulative Series B Preferred Stock (5% per annum)							(31)			
Series B Preferred Stock TARP redemption	(25)		(2,451)				(49)			
Repurchase of common stock warrant					(87)	17				

Amortization of discount on Series B Preferred Stock			4			(4)			
Common shares issuance		70,621		71	533				
Common shares reissued for stock options and other employee benefit plans		1,779			(65)		89		
Other			1						
Net contribution from (distribution to) noncontrolling interests									(252)
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 $12								**20**	
Foreign currency translation adjustments, net of income taxes								**10**	
Net pension and postretirement benefit costs, net of income taxes								**(28)**	
Deferred compensation					**17**				
Cash dividends declared on common shares ($.18 per share)						**(169)**			
Cash dividends declared on Noncumulative Series A Preferred Stock ($7.75 per share)						**(22)**			
Common shares repurchased		**(30,637)**					**(251)**		
Common shares reissued (returned) for stock options and other employee benefit plans		**3,398**			**(85)**		**114**		
Net contribution from (distribution to) noncontrolling interests									**14**
BALANCE AT DECEMBER 31, 2012	**2,905**	**925,769**	**$ 291**	**$ 1,017**	**$ 4,126**	**$ 6,913**	**$ (1,952)**	**$ (124)**	**$ 38**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Year ended December 31, *in millions*	**2012**	**2011**	**2010**
OPERATING ACTIVITIES			
Net income (loss)	**$ 865**	$ 932	$ 584
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Provision (credit) for loan and lease losses	**229**	(60)	638
Depreciation, amortization and accretion expense, net	**240**	270	330
FDIC (payments) net of FDIC expense	**26**	46	105
Deferred income taxes (benefit)	**43**	(310)	80
Net losses (gains) and writedown on OREO	**13**	9	60
Provision (credit) for losses on LIHTC guaranteed funds		(5)	8
Provision (credit) for customer derivative losses	**5**	(21)	4
Net losses (gains) from loan sales	**150**	(75)	(76)
Net losses (gains) from principal investing	**(72)**	(78)	(66)
Provision (credit) for losses on lending-related commitments	**(16)**	(28)	(48)
(Gains) losses on leased equipment	**(111)**	(25)	(20)
Net securities losses (gains)		(1)	(14)
Net decrease (increase) in loans held for sale excluding loan transfers from continuing operations	**60**	(163)	383
Net decrease (increase) in trading account assets	**18**	362	224
Other operating activities, net	**(95)**	1,037	532
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**1,355**	1,890	2,724
INVESTING ACTIVITIES			
Cash received (used) in acquisitions, net of cash acquired	**776**		