UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2015

Commission File Number 001-11302

Exact name of registrant as specified in its charter:

Ohio	**34-6542451**

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

(216) 689-3000

Registrant s telephone number, including area code:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

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

Common Shares with a par value of $1 each	840,860,998 Shares
Title of class	**Outstanding at July 30, 2015**

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KEYCORP

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets

in millions, except per share data	**June 30, 2015 (Unaudited)**	**December 31, 2014**	**June 30, 2014 (Unaudited)**
ASSETS			
Cash and due from banks	**$ 693**	$ 653	$ 604
Short-term investments	**3,222**	4,269	3,176
Trading account assets	**674**	750	890
Securities available for sale	**14,244**	13,360	12,224
Held-to-maturity securities (fair value: $4,992, $4,974, and $5,154)	**5,022**	5,015	5,233
Other investments	**703**	760	899
Loans, net of unearned income of $657, $682, and $709	**58,264**	57,381	55,600
Less: Allowance for loan and lease losses	**796**	794	814
Net loans	**57,468**	56,587	54,786
Loans held for sale	**835**	734	435
Premises and equipment	**788**	841	844
Operating lease assets	**296**	330	306
Goodwill	**1,057**	1,057	979
Other intangible assets	**83**	101	108
Corporate-owned life insurance	**3,502**	3,479	3,438
Derivative assets	**536**	609	549
Accrued income and other assets (including $1 of consolidated LIHTC guaranteed funds VIEs, see Note 9) [(a)]	**3,314**	2,952	3,090
Discontinued assets (including $179 of portfolio loans held for sale at fair value)	**2,169**	2,324	4,237
Total assets	**$ 94,606**	$ 93,821	$ 91,798
LIABILITIES			
Deposits in domestic offices:			
NOW and money market deposit accounts	**$ 36,024**	$ 34,536	$ 33,637
Savings deposits	**2,370**	2,371	2,450
Certificates of deposit ($100,000 or more)	**2,032**	2,040	2,743
Other time deposits	**3,105**	3,259	3,505
Total interest-bearing deposits	**43,531**	42,206	42,335
Noninterest-bearing deposits	**26,640**	29,228	24,781
Deposits in foreign office interest-bearing	**498**	564	683
Total deposits	**70,669**	71,998	67,799

Federal funds purchased and securities sold under repurchase agreements	**444**	575	1,213
Bank notes and other short-term borrowings	**528**	423	521
Derivative liabilities	**560**	784	451
Accrued expense and other liabilities	**1,537**	1,621	1,400
Long-term debt	**10,267**	7,875	8,213
Discontinued liabilities		3	1,680
Total liabilities	**84,005**	83,279	81,277
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 2,900,234, 2,904,839, and 2,904,839 shares	290	291	291
Common shares, $1 par value; authorized 1,400,000,000 shares; issued 1,016,969,905, 1,016,969,905, and 1,016,969,905 shares	**1,017**	1,017	1,017
Capital surplus	**3,898**	3,986	3,987
Retained earnings	**8,614**	8,273	7,950
Treasury stock, at cost (173,362,345, 157,566,493, and 140,147,398 shares)	**(2,884)**	(2,681)	(2,452)
Accumulated other comprehensive income (loss)	**(345)**	(356)	(289)
Key shareholders equity	**10,590**	10,530	10,504
Noncontrolling interests	**11**	12	17
Total equity	**10,601**	10,542	10,521
Total liabilities and equity	**$ 94,606**	$ 93,821	$ 91,798

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

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Income (Unaudited)

dollars in millions, except per share amounts	Three months ended June 30, 2015	2014	Six months ended June 30, 2015	2014
INTEREST INCOME				
Loans	**$ 532**	$ 526	**$ 1,055**	$ 1,045
Loans held for sale	**12**	5	**19**	9
Securities available for sale	**72**	71	**142**	143
Held-to-maturity securities	**24**	23	**48**	45
Trading account assets	**5**	7	**10**	13
Short-term investments	**2**	1	**4**	2
Other investments	**5**	6	**10**	12
Total interest income	**652**	639	**1,288**	1,269
INTEREST EXPENSE				
Deposits	**26**	31	**52**	63
Federal funds purchased and securities sold under repurchase agreements				1
Bank notes and other short-term borrowings	**2**	2	**4**	4
Long-term debt	**40**	33	**77**	65
Total interest expense	**68**	66	**133**	133
NET INTEREST INCOME	**584**	573	**1,155**	1,136
Provision for credit losses	**41**	12	**76**	16
Net interest income after provision for credit losses	**543**	561	**1,079**	1,120
NONINTEREST INCOME				
Trust and investment services income	**111**	94	**220**	192
Investment banking and debt placement fees	**141**	99	**209**	183
Service charges on deposit accounts	**63**	66	**124**	129
Operating lease income and other leasing gains	**24**	35	**43**	64
Corporate services income	**43**	41	**86**	83
Cards and payments income	**47**	43	**89**	81
Corporate-owned life insurance income	**30**	28	**61**	54
Consumer mortgage income	**4**	2	**7**	4
Mortgage servicing fees	**9**	11	**22**	26
Net gains (losses) from principal investing	**11**	27	**40**	51
Other income [(a)]	**5**	9	**24**	23
Total noninterest income	**488**	455	**925**	890
NONINTEREST EXPENSE				
Personnel	**408**	389	**797**	777
Net occupancy	**66**	68	**131**	132
Computer processing	**42**	41	**80**	79
Business services and professional fees	**42**	41	**75**	82

Equipment		**22**		24		**44**		48
Operating lease expense		**12**		10		**23**		20
Marketing		**15**		13		**23**		18
FDIC assessment		**8**		6		**16**		12
Intangible asset amortization		**9**		9		**18**		19
OREO expense, net		**1**		1		**3**		2
Other expense		**86**		85		**170**		162
Total noninterest expense		**711**		687		**1,380**		1,351
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		**320**		329		**624**		659
Income taxes		**84**		76		**158**		168
INCOME (LOSS) FROM CONTINUING OPERATIONS		**236**		253		**466**		491
Income (loss) from discontinued operations, net of taxes of $2, ($16), $5, and ($14) (see Note 11)		**3**		(28)		**8**		(24)
NET INCOME (LOSS)		**239**		225		**474**		467
Less: Net income (loss) attributable to noncontrolling interests		**1**		6		**3**		6
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	**$**	**238**	$	219	**$**	**471**	$	461
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**230**	$	242	**$**	**452**	$	474
Net income (loss) attributable to Key common shareholders		**233**		214		**460**		450
Per common share:								
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.27**	$	.28	**$**	**.53**	$	.54
Income (loss) from discontinued operations, net of taxes				(.03)		**.01**		(.03)
Net income (loss) attributable to Key common shareholders [(b)]		**.28**		.24		**.54**		.51
Per common share assuming dilution:								
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.27**	$	.27	**$**	**.52**	$	.53
Income (loss) from discontinued operations, net of taxes				(.03)		**.01**		(.03)
Net income (loss) attributable to Key common shareholders [(b)]		**.27**		.24		**.53**		.51
Cash dividends declared per common share	**$**	**.075**	$	.065	**$**	**.14**	$	.12
Weighted-average common shares outstanding (000)		**839,454**		875,298		**843,992**		879,986
Effect of convertible preferred stock				20,602				
Effect of common share options and other stock awards		**6,858**		6,237		**7,695**		6,698
Weighted-average common shares and potential common shares outstanding (000) [(c)]		**846,312**		902,137		**851,687**		886,684

(a)

For each of the three months ended June 30, 2015, and June 30, 2014, net securities gains (losses) totaled less than $1 million. For the three months ended June 30, 2015, and June 30, 2014, we did not have any impairment losses related to securities.

(b) EPS may not foot due to rounding.

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

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Comprehensive Income (Unaudited)

in millions	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Net income (loss)	**$ 239**	$ 225	**$ 474**	$ 467
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) on securities available for sale, net of income taxes of ($31), $17, $2, and $34	**(51)**	28	**4**	57
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of ($10), $4, $9, and $3	**(17)**	5	**15**	4
Foreign currency translation adjustments, net of income taxes of $0, $4, ($8), and $0		(1)	**(13)**	(3)
Net pension and postretirement benefit costs, net of income taxes of $2, $1, $3, and $3	**2**	3	**5**	5
Total other comprehensive income (loss), net of tax	**(66)**	35	**11**	63
Comprehensive income (loss)	**173**	260	**485**	530
Less: Comprehensive income attributable to noncontrolling interests	**1**	6	**3**	6
Comprehensive income (loss) attributable to Key	**$ 172**	$ 254	**$ 482**	$ 524

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Changes in Equity (Unaudited)

	Key Shareholders Equity								
dollars in millions, except per share amounts	Preferred Shares Outstanding (000)	Common Shares Outstanding (000)	Preferred Stock	Common Shares	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests
BALANCE AT DECEMBER 31, 2013	2,905	890,724	$ 291	$ 1,017	$ 4,022	$ 7,606	$ (2,281)	$ (352)	$ 17
Net income (loss)						461			6
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of $34								57	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $3								4	
Foreign currency translation adjustments, net of income taxes of $0								(3)	
Net pension and postretirement benefit costs, net of income taxes of $3								5	
Deferred compensation					2				
Cash dividends declared on common shares ($.12 per share)						(106)			
Cash dividends declared on Noncumulative Series A Preferred Stock ($3.875 per share)						(11)			
Common shares repurchased		(17,669)					(236)		
Common shares reissued (returned) for stock options and other employee benefit plans		3,768			(37)		65		
									(6)

Net contribution from (distribution to) noncontrolling interests									
BALANCE AT JUNE 30, 2014	2,905	876,823	$ 291	$ 1,017	$ 3,987	$ 7,950	$ (2,452)	$ (289)	$ 17
BALANCE AT DECEMBER 31, 2014	2,905	859,403	$ 291	$ 1,017	$ 3,986	$ 8,273	$ (2,681)	$ (356)	$ 12
Net income (loss)						471			3
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of $2								**4**	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $9								**15**	
Foreign currency translation adjustments, net of income taxes of ($8)								**(13)**	
Net pension and postretirement benefit costs, net of income taxes of $3								**5**	
Deferred compensation					**12**				
Cash dividends declared on common shares ($.14 per share)						**(119)**			
Cash dividends declared on Noncumulative Series A Preferred Stock ($3.875 per share)						**(11)**			
Common shares repurchased		**(22,881)**					**(325)**		
Series A Preferred Stock exchanged for common shares	**(5)**	**33**	**(1)**				**1**		
Common shares reissued (returned) for stock options and other employee benefit plans		**7,053**			**(100)**		**121**		
Net contribution from (distribution to) noncontrolling interests									**(4)**
	2,900	**843,608**	**$ 290**	**$ 1,017**	**$ 3,898**	**$ 8,614**	**$ (2,884)**	**$ (345)**	**$ 11**

BALANCE AT JUNE 30, 2015

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Cash Flows (Unaudited)

in millions	Six months ended June 30, 2015	2014
OPERATING ACTIVITIES		
Net income (loss)	**$ 474**	$ 467
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for credit losses	**76**	16
Provision (credit) for losses on LIHTC guaranteed funds		(6)
Depreciation, amortization and accretion expense, net	**116**	109
Increase in cash surrender value of corporate-owned life insurance	**(50)**	(48)
Stock-based compensation expense	**33**	21
FDIC reimbursement (payments), net of FDIC expense	**(1)**	
Deferred income taxes (benefit)	**(27)**	9
Proceeds from sales of loans held for sale	**3,726**	1,570
Originations of loans held for sale, net of repayments	**(3,756)**	(1,359)
Net losses (gains) on sales of loans held for sale	**(55)**	(40)
Net losses (gains) from principal investing	**(40)**	(51)
Net losses (gains) and writedown on OREO	**2**	2
Net losses (gains) on leased equipment	**(9)**	(34)
Net securities losses (gains)	**1**	
Net losses (gains) on sales of fixed assets	**2**	1
Net decrease (increase) in trading account assets	**76**	(152)
Other operating activities, net	**(509)**	(242)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**59**	263
INVESTING ACTIVITIES		
Net decrease (increase) in short-term investments, excluding acquisitions	**1,047**	2,414
Purchases of securities available for sale	**(2,451)**	(1,175)
Proceeds from sales of securities available for sale	**11**	
Proceeds from prepayments and maturities of securities available for sale	**1,547**	1,382
Proceeds from prepayments and maturities of held-to-maturity securities	**566**	391
Purchases of held-to-maturity securities	**(575)**	(869)
Purchases of other investments	**(20)**	(26)
Proceeds from sales of other investments	**77**	167
Proceeds from prepayments and maturities of other investments	**5**	1
Net decrease (increase) in loans, excluding acquisitions, sales and transfers	**(1,128)**	(1,269)
Proceeds from sales of portfolio loans	**67**	67
Proceeds from corporate-owned life insurance	**26**	18
Purchases of premises, equipment, and software	**(17)**	(30)
Proceeds from sales of premises and equipment		1
Proceeds from sales of OREO	**10**	10
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**(835)**	1,082
FINANCING ACTIVITIES		

Net increase (decrease) in deposits, excluding acquisitions		**(1,329)**		(1,463)
Net increase (decrease) in short-term borrowings		**(26)**		(143)
Net proceeds from issuance of long-term debt		**2,750**		608
Payments on long-term debt		**(141)**		(26)
Repurchase of common shares		**(325)**		(236)
Net proceeds from reissuance of common shares		**17**		19
Cash dividends paid		**(130)**		(117)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		**816**		(1,358)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS		**40**		(13)
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD		**653**		617
CASH AND DUE FROM BANKS AT END OF PERIOD	**$**	**693**	$	604
Additional disclosures relative to cash flows:				
Interest paid	**$**	**128**	$	133
Income taxes paid (refunded)		**90**		82
Noncash items:				
Reduction of secured borrowing and related collateral	**$**	**103**	$	32
Loans transferred to portfolio from held for sale				10
Loans transferred to held for sale from portfolio		**16**		5
Loans transferred to OREO		**12**		9

See Notes to Consolidated Financial Statements (Unaudited).

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

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

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

References to our 2014 Form 10-K refer to our Form 10-K for the year ended December 31, 2014, which was filed with the U.S. Securities and Exchange Commission and is available on its website (www.sec.gov) and on our website (www.key.com/ir).

AICPA: American Institute of Certified Public Accountants.
ALCO: Asset/Liability Management Committee.
ALLL: Allowance for loan and lease losses.
A/LM: Asset/liability management.
AOCI: Accumulated other comprehensive income (loss).
APBO: Accumulated postretirement benefit obligation.
Austin: Austin Capital Management, Ltd.
BHCs: Bank holding companies.
Board: KeyCorp Board of Directors.
CCAR: Comprehensive Capital Analysis and Review.
CMBS: Commercial mortgage-backed securities.
CMO: Collateralized mortgage obligation.
Common shares: KeyCorp common shares, $1 par value.
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
EBITDA: Earnings before interest, taxes, depreciation, and amortization.
EPS: Earnings per share.
ERM: Enterprise risk management.
EVE: Economic value of equity.
FASB: Financial Accounting Standards Board.
FDIC: Federal Deposit Insurance Corporation.
Federal Reserve: Board of Governors of the Federal Reserve System.
FHLMC: Federal Home Loan Mortgage Corporation.
LCR: Liquidity coverage ratio.
LIBOR: London Interbank Offered Rate.
LIHTC: Low-income housing tax credit.
Moody s: Moody s Investor Services, Inc.
MRM: Market Risk Management group.
N/A: Not applicable.
NASDAQ: The NASDAQ Stock Market LLC.
N/M: Not meaningful.
NOW: Negotiable Order of Withdrawal.
NYSE: New York Stock Exchange.
OCC: Office of the Comptroller of the Currency.
OCI: Other comprehensive income (loss).
OREO: Other real estate owned.
OTTI: Other-than-temporary impairment.
PBO: Projected benefit obligation.
PCI: Purchased credit impaired.
S&P: Standard and Poor s Ratings Services, a Division of The McGraw-Hill Companies, Inc.
SEC: U.S. Securities and Exchange Commission.
Series A Preferred Stock: KeyCorp s 7.750% Noncumulative Perpetual Convertible Preferred Stock, Series A.
SIFIs: Systemically important financial institutions, including BHCs with total consolidated assets of at least $50 billion and nonbank financial companies designated by FSOC for supervision by the Federal Reserve.

FNMA: Federal National Mortgage Association, or Fannie Mae.
FSOC: Financial Stability Oversight Council.
GAAP: U.S. generally accepted accounting principles.
GNMA: Government National Mortgage Association.
ISDA: International Swaps and Derivatives Association.
KAHC: Key Affordable Housing Corporation.
KEF: Key Equipment Finance.
KREEC: Key Real Estate Equity Capital, Inc.
TDR: Troubled debt restructuring.
TE: Taxable-equivalent.
U.S. Treasury: United States Department of the Treasury.
VaR: Value at risk.
VEBA: Voluntary Employee Beneficiary Association.
Victory: Victory Capital Management and/or Victory Capital Advisors.
VIE: Variable interest entity.

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

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

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

We believe that the unaudited consolidated interim financial statements reflect all adjustments of a normal recurring nature and disclosures that are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full year. The interim financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our 2014 Form 10-K.

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

Offsetting Derivative Positions

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

Accounting Guidance Adopted in 2015

Troubled debt restructurings. In August 2014, the FASB issued new accounting guidance that clarifies how to account for certain government-guaranteed mortgage loans upon foreclosure. This accounting guidance was effective for reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us) and could be implemented using either a modified retrospective method or a prospective method. Early adoption was permitted. We elected to implement the new accounting guidance using a prospective approach. The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations.

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

Discontinued operations. In April 2014, the FASB issued new accounting guidance that revises the criteria for determining when disposals should be reported as discontinued operations and modifies the disclosure requirements. This accounting guidance was effective prospectively for reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us). Early adoption was permitted. The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations.

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Investments in qualified affordable housing projects. In January 2014, the FASB issued new accounting guidance that modifies the conditions that must be met to make an election to account for investments in qualified affordable housing projects using the proportional amortization method or the practical expedient method to the proportional amortization method. This accounting guidance was effective retrospectively for reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us). Early adoption was permitted. We elected to amortize our LIHTCs under the practical expedient method to the proportional amortization method. As our LIHTCs were previously accounted for under the effective yield method and related amortization expense was previously classified as income taxes in our Consolidated Statements of Income, the adoption of this accounting guidance did not have a material effect on our financial condition or results of operations. We provide additional information regarding our LIHTCs in Note 9.

Troubled debt restructurings. In January 2014, the FASB issued new accounting guidance that clarifies the definition of when an in substance repossession or foreclosure occurs for purposes of creditor reclassification of residential real estate collateralized consumer mortgage loans by derecognizing the loan and recognizing the collateral asset. This accounting guidance was effective for reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us) and could be implemented using either a modified retrospective method or prospective method. Early adoption was permitted. We elected to implement the new accounting guidance using a prospective approach. The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations. We provide the disclosure related to consumer residential mortgages required by this new accounting guidance in Note 4 (Asset Quality).

Accounting Guidance Pending Adoption at June 30, 2015

Fair value measurement. In May 2015, the FASB issued new disclosure guidance that eliminates the requirement to categorize investments measured using the net asset value practical expedient in the fair value hierarchy table. Entities will be required to disclose the fair value of investments measured using the net asset value practical expedient so that financial statement users can reconcile amounts reported in the fair value hierarchy table to amounts reported on the balance sheet. This disclosure will be presented for interim and annual reporting periods beginning after December 15, 2015 (March 31, 2016, for us) on a retrospective basis. Early adoption is permitted. The adoption of this disclosure guidance will not affect our financial condition or results of operations.

Cloud computing fees. In April 2015, the FASB issued new accounting guidance that clarifies a customer s accounting for fees paid in a cloud computing arrangement. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and can be implemented using either a prospective method or a retrospective method. Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

Imputation of interest. In April 2015, the FASB issued new accounting guidance that requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and should be implemented using a retrospective method. Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

Consolidation. In February 2015, the FASB issued new accounting guidance that changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The new guidance amends the current accounting guidance to address limited partnerships and similar legal entities, certain investment funds, fees paid to a decision maker or service provider, and the impact of fee arrangements and related parties on the primary beneficiary determination. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and should be implemented using a modified retrospective basis. Retrospective application to all relevant prior periods and early adoption is permitted. We are currently evaluating the impact that this accounting guidance may have on our financial condition or results of operations.

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Derivatives and hedging. In November 2014, the FASB issued new accounting guidance that clarifies how current guidance should be interpreted when evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. An entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, when evaluating the nature of a host contract. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and should be implemented using a modified retrospective basis. Retrospective application to all relevant prior periods and early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

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

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

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

Revenue recognition. In May 2014, the FASB issued new accounting guidance that revises the criteria for determining when to recognize revenue from contracts with customers and expands disclosure requirements. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us) and can be implemented using either a retrospective method or a cumulative-effect approach. In July 2015, the FASB agreed to defer implementation of the new revenue recognition accounting guidance by one year; the FASB has not yet issued the guidance regarding the deferral of the effective date. Based on the FASB s decision, the accounting guidance would be effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018, for us). Under the issued accounting guidance, early adoption is not permitted; however, the FASB agreed to allow early adoption with the decision to defer the effective date for the accounting guidance. We have elected to implement this new accounting guidance using a cumulative-effect approach. Our preliminary analysis suggests that the adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations. There are many aspects of this new accounting guidance that are still being interpreted, and the FASB has recently proposed updates to certain aspects of the guidance. Therefore, the results of our materiality analysis may change based on the conclusions reached as to the application of the new guidance.

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2. Earnings Per Common Share

Basic earnings per share is the amount of earnings (adjusted for dividends declared on our preferred stock) available to each common share outstanding during the reporting periods. Diluted earnings per share is the amount of earnings available to each common share outstanding during the reporting periods adjusted to include the effects of potentially dilutive common shares. Potentially dilutive common shares include incremental shares issued for the conversion of our convertible Series A Preferred Stock, stock options, and other stock-based awards. Potentially dilutive common shares are excluded from the computation of diluted earnings per share in the periods where the effect would be antidilutive. For diluted earnings per share, net income available to common shareholders can be affected by the conversion of our convertible Series A Preferred Stock. Where the effect of this conversion would be dilutive, net income available to common shareholders is adjusted by the amount of preferred dividends associated with our Series A Preferred Stock.

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

	Three months ended June 30,		**Six months ended June 30,**	
dollars in millions, except per share amounts	**2015**	**2014**	**2015**	**2014**
EARNINGS				
Income (loss) from continuing operations	**$ 236**	$ 253	**$ 466**	$ 491
Less: Net income (loss) attributable to noncontrolling interests	**1**	6	**3**	6
Income (loss) from continuing operations attributable to Key	**235**	247	**463**	485
Less: Dividends on Series A Preferred Stock	**5**	5	**11**	11
Income (loss) from continuing operations attributable to Key common shareholders	**230**	242	**452**	474
Income (loss) from discontinued operations, net of taxes [(a)]	**3**	(28)	**8**	(24)
Net income (loss) attributable to Key common shareholders	**$ 233**	$ 214	**$ 460**	$ 450
WEIGHTED-AVERAGE COMMON SHARES				
Weighted-average common shares outstanding (000)	**839,454**	875,298	**843,992**	879,986
Effect of convertible preferred stock		20,602		
Effect of common share options and other stock awards	**6,858**	6,237	**7,695**	6,698
Weighted-average common shares and potential common shares outstanding (000) [(b)]	**846,312**	902,137	**851,687**	886,684

EARNINGS PER COMMON SHARE

Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.27**	$	.28	**$**	**.53**	$	.54
Income (loss) from discontinued operations, net of taxes [a]				(.03)		**.01**		(.03)
Net income (loss) attributable to Key common shareholders [c]		**.28**		.24		**.54**		.51
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**$**	**.27**	$	.27	**$**	**.52**	$	.53
Income (loss) from discontinued operations, net of taxes [a]				(.03)		**.01**		(.03)
Net income (loss) attributable to Key common shareholders assuming dilution [c]		**.27**		.24		**.53**		.51

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

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

(c) EPS may not foot due to rounding.

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3. Loans and Loans Held for Sale

Our loans by category are summarized as follows:

in millions	June 30, 2015	December 31, 2014	June 30, 2014
Commercial, financial and agricultural [(a)]	**$ 29,285**	$ 27,982	$ 26,327
Commercial real estate:			
Commercial mortgage	**7,874**	8,047	7,946
Construction	**1,254**	1,100	1,047
Total commercial real estate loans	**9,128**	9,147	8,993
Commercial lease financing [(b)]	**4,010**	4,252	4,241
Total commercial loans	**42,423**	41,381	39,561
Residential prime loans:			
Real estate residential mortgage	**2,252**	2,225	2,189
Home equity:			
Key Community Bank	**10,296**	10,366	10,379
Other	**236**	267	300
Total home equity loans	**10,532**	10,633	10,679
Total residential prime loans	**12,784**	12,858	12,868
Consumer other Key Community Bank	**1,595**	1,560	1,514
Credit cards	**753**	754	718
Consumer other:			
Marine	**673**	779	888
Other	**36**	49	51
Total consumer other	**709**	828	939
Total consumer loans	**15,841**	16,000	16,039
Total loans [(c)] [(d)]	**$ 58,264**	$ 57,381	$ 55,600

(a) Loan balances include $89 million, $88 million, and $94 million of commercial credit card balances at June 30, 2015, December 31, 2014, and June 30, 2014, respectively.

(b) Commercial lease financing includes receivables held as collateral for a secured borrowing of $191 million, $302 million, and $375 million at June 30, 2015, December 31, 2014, and June 30, 2014, respectively. Principal reductions are based on the cash payments received from these related receivables. Additional information pertaining to this secured borrowing is included in Note 18 (Long-Term Debt) beginning on page 202 of our 2014 Form 10-K.

(c)

At June 30, 2015, total loans include purchased loans of $125 million, of which $12 million were PCI loans. At December 31, 2014, total loans include purchased loans of $138 million, of which $13 million were PCI loans. At June 30, 2014, total loans include purchased loans of $151 million, of which $15 million were PCI loans.

(d) Total loans exclude loans of $2 billion at June 30, 2015, $2.3 billion at December 31, 2014, and $4.2 billion at June 30, 2014, related to the discontinued operations of the education lending business. Additional information pertaining to these loans is provided in Note 11 (Acquisitions and Discontinued Operations).

Our loans held for sale are summarized as follows:

in millions	**June 30, 2015**	**December 31, 2014**	**June 30, 2014**
Commercial, financial and agricultural	**$ 217**	$ 63	$ 181
Real estate commercial mortgage	**576**	638	221
Commercial lease financing	**7**	15	10
Real estate residential mortgage	**35**	18	23
Total loans held for sale [(a)]	**$ 835**	$ 734	$ 435

(a) Total loans held for sale exclude loans held for sale of $179 million at June 30, 2015, related to the discontinued operations of the education lending business. Additional information pertaining to these loans is provided in Note 11.

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

in millions	**June 30, 2015**	December 31, 2014	June 30, 2014
Balance at beginning of the period	**$ 1,649**	$ 784	$ 401
New originations	**1,650**	2,465	978
Transfers from (to) held to maturity, net	**6**	2	(8)
Loan sales	**(2,466)**	(2,516)	(934)
Loan draws (payments), net	**(4)**	(1)	(2)
Balance at end of period [(a)]	**$ 835**	$ 734	$ 435

(a) Total loans held for sale exclude loans held for sale of $179 million at June 30, 2015, related to the discontinued operations of the education lending business. Additional information pertaining to these loans is provided in Note 11.

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4. Asset Quality

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

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

Our nonperforming assets and past due loans were as follows:

in millions	**June 30, 2015**	**December 31, 2014**	**June 30, 2014**
Total nonperforming loans [(a), (b)]	**$ 419**	$ 418	$ 396
Nonperforming loans held for sale			1
OREO [(c)]	**20**	18	12
Other nonperforming assets	**1**		1
Total nonperforming assets	**$ 440**	$ 436	$ 410
Nonperforming assets from discontinued operations education lending [(d)]	**$ 6**	$ 11	$ 19
Restructured loans included in nonperforming loans	**$ 170**	$ 157	$ 142
Restructured loans with an allocated specific allowance [(e)]	**79**	82	59
Specifically allocated allowance for restructured loans [(f)]	**36**	34	30
Accruing loans past due 90 days or more	**$ 66**	$ 96	$ 83
Accruing loans past due 30 through 89 days	**181**	235	274

(a) Loan balances exclude $12 million, $13 million, and $15 million of PCI loans at June 30, 2015, December 31, 2014, and June 30, 2014, respectively.
(b) Includes carrying value of consumer residential mortgage loans in the process of foreclosure of approximately $116 million at June 30, 2015.
(c) Includes carrying value of foreclosed residential real estate of approximately $15 million at June 30, 2015.
(d) Restructured loans of approximately $19 million, $17 million, and $18 million are included in discontinued operations at June 30, 2015, December 31, 2014, and June 30, 2014, respectively. See Note 11 (Acquisitions and Discontinued Operations) for further discussion.
(e) Included in individually impaired loans allocated a specific allowance.
(f) Included in allowance for individually evaluated impaired loans.

We evaluate purchased loans for impairment in accordance with the applicable accounting guidance. Purchased loans that have evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that

all contractually required payments will not be collected are deemed PCI and initially recorded at fair value without recording an allowance for loan losses. At the 2012 acquisition date, the estimated gross contractual amount receivable of all PCI loans totaled $41 million. The estimated cash flows not expected to be collected (the nonaccretable amount) were $11 million, and the accretable amount was approximately $5 million. The difference between the fair value and the cash flows expected to be collected from the purchased loans is accreted to interest income over the remaining term of the loans.

At June 30, 2015, the outstanding unpaid principal balance and carrying value of all PCI loans was $18 million and $12 million, respectively. Changes in the accretable yield during the first six months of 2015 included accretion and net reclassifications of less than $1 million, resulting in an ending balance of $5 million at June 30, 2015.

At June 30, 2015, the approximate carrying amount of our commercial nonperforming loans outstanding represented 76% of their original contractual amount owed, total nonperforming loans outstanding represented 80% of their original contractual amount owed, and nonperforming assets in total were carried at 80% of their original contractual amount owed.

At June 30, 2015, our 20 largest nonperforming loans totaled $120 million, representing 29% of total loans on nonperforming status. At June 30, 2014, our 20 largest nonperforming loans totaled $55 million, representing 14% of total loans on nonperforming status.

Nonperforming loans and loans held for sale reduced expected interest income by $8 million for the six months ended June 30, 2015, and $16 million for the year ended December 31, 2014.

The following tables set forth a further breakdown of individually impaired loans as of June 30, 2015, December 31, 2014, and June 30, 2014:

June 30, 2015 *in millions*	**Recorded Investment** [a]	**Unpaid Principal Balance** [b]	**Specific Allowance**	**Average Recorded Investment**
With no related allowance recorded:				
Commercial, financial and agricultural	**$ 9**	**$ 56**		**$ 15**
Commercial real estate:				
Commercial mortgage	**10**	**14**		**12**
Construction	**7**	**7**		**7**
Total commercial real estate loans	**17**	**21**		**19**
Total commercial loans	**26**	**77**		**34**
Real estate residential mortgage	**22**	**22**		**22**
Home equity:				
Key Community Bank	**60**	**60**		**61**
Other	**2**	**2**		**2**
Total home equity loans	**62**	**62**		**63**
Consumer other:				
Marine	**1**	**1**		**1**
Total consumer other	**1**	**1**		**1**
Total consumer loans	**85**	**85**		**86**
Total loans with no related allowance recorded	**111**	**162**		**120**
With an allowance recorded:				
Commercial, financial and agricultural	**73**	**86**	**$ 24**	**67**
Commercial real estate:				
Commercial mortgage	**6**	**7**	**1**	**6**
Total commercial real estate loans	**6**	**7**	**1**	**6**
Total commercial loans	**79**	**93**	**25**	**73**
Real estate residential mortgage	**33**	**33**	**5**	**33**
Home equity:				

Key Community Bank	**53**	**53**	**17**	**51**
Other	**10**	**10**	**2**	**11**
Total home equity loans	**63**	**63**	**19**	**62**
Consumer other Key Community Bank	**3**	**3**		**3**
Credit cards	**3**	**3**		**3**
Consumer other:				
Marine	**40**	**40**	**3**	**40**
Other	**2**	**2**		**2**
Total consumer other	**42**	**42**	**3**	**42**
Total consumer loans	**144**	**144**	**27**	**143**
Total loans with an allowance recorded	**223**	**237**	**52**	**216**
Total	**$ 334**	**$ 399**	**$ 52**	**$ 336**

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

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

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December 31, 2014 *in millions*	Recorded Investment [a]	Unpaid Principal Balance [b]	Specific Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial, financial and agricultural	$ 6	$ 17		$ 8
Commercial real estate:				
Commercial mortgage	15	20		19
Construction	5	6		7
Total commercial real estate loans	20	26		26
Total commercial loans	26	43		34
Real estate residential mortgage	24	24		30
Home equity:				
Key Community Bank	62	63		63
Other	1	1		2
Total home equity loans	63	64		65
Consumer other:				
Marine	2	2		2
Total consumer other	2	2		2
Total consumer loans	89	90		97
Total loans with no related allowance recorded	115	133		131
With an allowance recorded:				
Commercial, financial and agricultural	37	37	$ 9	28
Commercial real estate:				
Commercial mortgage	6	6	2	6
Construction	3	3	1	2
Total commercial real estate loans	9	9	3	8
Total commercial loans	46	46	12	36
Real estate residential mortgage	31	31	5	25
Home equity:				
Key Community Bank	46	46	16	43
Other	11	11	2	11
Total home equity loans	57	57	18	54
Consumer other Key Community Bank	4	4		3
Credit cards	4	4		4
Consumer other:				
Marine	43	43	5	45

Other		2		2				2
Total consumer other		45		45		5		47
Total consumer loans		141		141		28		133
Total loans with an allowance recorded		187		187		40		169
Total	$	302	$	320	$	40	$	300

(a) The Recorded Investment represents the face amount of the loan increased or decreased by applicable accrued interest, net deferred loan fees and costs, and unamortized premium or discount, and reflects direct charge-offs. This amount is a component of total loans on our consolidated balance sheet.
(b) The Unpaid Principal Balance represents the customer s legal obligation to us.

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June 30, 2014 *in millions*	Recorded Investment [a]	Unpaid Principal Balance [b]	Specific Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial, financial and agricultural	$ 12	$ 18		$ 23
Commercial real estate:				
Commercial mortgage	23	28		23
Construction	6	17		6
Total commercial real estate loans	29	45		29
Total commercial loans	41	63		52
Real estate residential mortgage	25	25		26
Home equity:				
Key Community Bank	66	66		68
Other	2	2		2
Total home equity loans	68	68		70
Consumer other:				
Marine	2	2		2
Total consumer other	2	2		2
Total consumer loans	95	95		98
Total loans with no related allowance recorded	136	158		150
With an allowance recorded:				
Commercial, financial and agricultural	5	7	$ 3	6
Commercial real estate:				
Commercial mortgage	2	3	1	2
Construction				
Total commercial real estate loans	2	3	1	2
Total commercial loans	7	10	4	8
Real estate residential mortgage	29	29	5	28
Home equity:				
Key Community Bank	37	37	15	36
Other	11	11	3	11
Total home equity loans	48	48	18	47
Consumer other Key Community Bank	3	3		3
Credit cards	4	4		4
Consumer other:				
Marine	48	48	5	49

Other		1		1				1
Total consumer other		49		49		5		50
Total consumer loans		133		133		28		132
Total loans with an allowance recorded		140		143		32		140
Total	$	276	$	301	$	32	$	290

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

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

For the six months ended June 30, 2015, and June 30, 2014, interest income recognized on the outstanding balances of accruing impaired loans totaled $3 million and $4 million, respectively.

At June 30, 2015, aggregate restructured loans (accrual and nonaccrual loans) totaled $300 million, compared to $270 million at December 31, 2014, and $266 million at June 30, 2014. We added $73 million in restructured loans during the first six months of 2015, which were offset by $43 million in payments and charge-offs.

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A further breakdown of TDRs included in nonperforming loans by loan category as of June 30, 2015, follows:

June 30, 2015 *dollars in millions*	**Number of Loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	**12**	**$ 74**	**$ 58**
Commercial real estate:			
Real estate commercial mortgage	**12**	**32**	**8**
Total commercial real estate loans	**12**	**32**	**8**
Total commercial loans	**24**	**106**	**66**
Real estate residential mortgage	**352**	**21**	**21**
Home equity:			
Key Community Bank	**1,076**	**77**	**70**
Other	**117**	**3**	**3**
Total home equity loans	**1,193**	**80**	**73**
Consumer other Key Community Bank	**28**	**1**	**1**
Credit cards	**289**	**2**	**2**
Consumer other:			
Marine	**104**	**8**	**7**
Other	**21**	**1**	
Total consumer other	**125**	**9**	**7**
Total consumer loans	**1,987**	**113**	**104**
Total nonperforming TDRs	**2,011**	**219**	**170**
Prior-year accruing: [(a)]			
Commercial, financial and agricultural	**14**	**6**	**3**
Commercial real estate:			
Real estate commercial mortgage	**1**	**2**	**1**
Total commercial real estate loans	**1**	**2**	**1**
Total commercial loans	**15**	**8**	**4**
Real estate residential mortgage	**491**	**36**	**36**
Home equity:			
Key Community Bank	**807**	**48**	**42**
Other	**331**	**10**	**8**
Total home equity loans	**1,138**	**58**	**50**

Consumer other Key Community Bank	**48**	**2**	**2**
Credit cards	**489**	**3**	**2**
Consumer other:			
Marine	**419**	**60**	**34**
Other	**73**	**2**	**2**
Total consumer other	**492**	**62**	**36**
Total consumer loans	**2,658**	**161**	**126**
Total prior-year accruing TDRs	**2,673**	**169**	**130**
Total TDRs	**4,684**	**$ 388**	**$ 300**

(a) All TDRs that were restructured prior to January 1, 2015, and are fully accruing.

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A further breakdown of TDRs included in nonperforming loans by loan category as of December 31, 2014, follows:

December 31, 2014 *dollars in millions*	**Number of Loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	14	$ 25	$ 23
Commercial real estate:			
Real estate commercial mortgage	10	38	13
Real estate construction	1	5	
Total commercial real estate loans	11	43	13
Total commercial loans	25	68	36
Real estate residential mortgage	453	27	27
Home equity:			
Key Community Bank	1,184	79	72
Other	158	4	4
Total home equity loans	1,342	83	76
Consumer other Key Community Bank	37	2	1
Credit cards	290	2	2
Consumer other:			
Marine	206	17	14
Other	38	1	1
Total consumer other	244	18	15
Total consumer loans	2,366	132	121
Total nonperforming TDRs	2,391	200	157
Prior-year accruing: [(a)]			
Commercial, financial and agricultural	20	6	3
Commercial real estate:			
Real estate commercial mortgage	1	2	1
Total commercial real estate loans	1	2	1
Total commercial loans	21	8	4
Real estate residential mortgage	381	29	29
Home equity:			
Key Community Bank	674	41	36
Other	310	9	8

Total home equity loans	984	50	44
Consumer other Key Community Bank	45	2	2
Credit cards	514	4	2
Consumer other:			
Marine	373	54	31
Other	67	2	1
Total consumer other	440	56	32
Total consumer loans	2,364	141	109
Total prior-year accruing TDRs	2,385	149	113
Total TDRs	4,776	$ 349	$ 270

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

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A further breakdown of TDRs included in nonperforming loans by loan category as of June 30, 2014, follows:

June 30, 2014 *dollars in millions*	**Number of Loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	24	$ 20	$ 10
Commercial real estate:			
Real estate commercial mortgage	11	40	14
Real estate construction	3	15	2
Total commercial real estate loans	14	55	16
Total commercial loans	38	75	26
Real estate residential mortgage	521	34	34
Home equity:			
Key Community Bank	1,086	68	64
Other	126	4	3
Total home equity loans	1,212	72	67
Consumer other Key Community Bank	33	1	1
Credit cards	60		
Consumer other:			
Marine	207	15	13
Other	36	1	1
Total consumer other	243	16	14
Total consumer loans	2,069	123	116
Total nonperforming TDRs	2,107	198	142
Prior-year accruing: [(a)]			
Commercial, financial and agricultural	32	7	3
Commercial real estate:			
Real estate commercial mortgage	4	17	9
Total commercial real estate loans	4	17	9
Total commercial loans	36	24	12
Real estate residential mortgage	287	21	21
Home equity:			
Key Community Bank	759	43	39
Other	322	10	8

Total home equity loans	1,081		53	47
Consumer other Key Community Bank	54		2	2
Credit cards	653		5	3
Consumer other:				
Marine	428		60	37
Other	73		2	2
Total consumer other	501		62	39
Total consumer loans	2,576		143	112
Total prior-year accruing TDRs	2,612		167	124
Total TDRs	4,719	$	365	$ 266

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

We classify loan modifications as TDRs when a borrower is experiencing financial difficulties and we have granted a concession without commensurate financial, structural, or legal consideration. All commercial and consumer loan TDRs, regardless of size, are individually evaluated for impairment to determine the probable loss content and are assigned a specific loan allowance if deemed appropriate. This designation has the effect of moving the loan from the general reserve methodology (i.e., collectively evaluated) to the specific reserve methodology (i.e., individually evaluated) and may impact the ALLL through a charge-off or increased loan loss provision. These components affect the ultimate allowance level. Additional information regarding TDRs for discontinued operations is provided in Note 11.

Commercial loan TDRs are considered defaulted when principal and interest payments are 90 days past due. Consumer loan TDRs are considered defaulted when principal and interest payments are more than 60 days past due. During the three months ended June 30, 2015, there were no significant commercial loan TDRs, and 65 consumer loan TDRs with a combined recorded investment of $3 million that experienced payment defaults from modifications resulting in TDR status during 2014. During the three months ended June 30, 2014, there were no significant commercial loan TDRs, and 107 consumer loan TDRs with a combined recorded investment of $4 million that experienced payment defaults from modifications resulting in TDR status during 2013. As TDRs are individually evaluated for impairment under the specific reserve methodology, subsequent defaults do not generally have a significant additional impact on the ALLL.

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Our loan modifications are handled on a case-by-case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet the borrower s financial needs. Our concession types are primarily interest rate reductions, forgiveness of principal, and other modifications. The commercial TDR other concession category includes modification of loan terms, covenants, or conditions. The consumer TDR other concession category primarily includes those borrowers debts that are discharged through Chapter 7 bankruptcy and have not been formally re-affirmed.

The following table shows the post-modification outstanding recorded investment by concession type for our commercial and consumer accruing and nonaccruing TDRs and other selected financial data.

in millions	**June 30, 2015**	December 31, 2014	June 30, 2014
Commercial loans:			
Interest rate reduction	**$ 60**	$ 13	$ 27
Forgiveness of principal	**2**	2	5
Other	**8**	25	6
Total	**$ 70**	$ 40	$ 38
Consumer loans:			
Interest rate reduction	**$ 142**	$ 140	$ 139
Forgiveness of principal	**4**	4	4
Other	**84**	86	85
Total	**$ 230**	$ 230	$ 228
Total commercial and consumer TDRs [a]	**$ 300**	$ 270	$ 266
Total loans	**58,264**	57,381	55,600

(a) Commitments outstanding to lend additional funds to borrowers whose loan terms have been modified in TDRs are $8 million, $5 million, and $1 million at June 30, 2015, December 31, 2014, and June 30, 2014, respectively.

Our policies for determining past due loans, placing loans on nonaccrual, applying payments on nonaccrual loans, and resuming accrual of interest for our commercial and consumer loan portfolios are disclosed in Note 1 (Summary of Significant Accounting Policies) under the heading Nonperforming Loans beginning on page 116 of our 2014 Form 10-K.

At June 30, 2015, approximately $57.6 billion, or 98.8%, of our total loans were current, compared to $56.6 billion, or 98.7%, at December 31, 2014, and $54.8 billion, or 98.6%, at June 30, 2014. At June 30, 2015, total past due loans and nonperforming loans of $666 million represented approximately 1.2% of total loans, compared to $749 million, or 1.3%, at December 31, 2014, and $753 million, or 1.4% at June 30, 2014.

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The following aging analysis of past due and current loans as of June 30, 2015, December 31, 2014, and June 30, 2014, provides further information regarding Key s credit exposure.

June 30, 2015 *in millions*	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 and Greater Days Past Due**	**Nonperforming Loans**	**Total Past Due and Nonperforming Loans**	**Purchased Credit Impaired**	**Total Loans**
LOAN TYPE								
Commercial, financial and agricultural	$ 29,137	$ 26	$ 5	$ 17	$ 100	$ 148		$ 29,285
Commercial real estate:								
Commercial mortgage	7,823	6	2	17	26	51		7,874
Construction	1,242				12	12		1,254
Total commercial real estate loans	9,065	6	2	17	38	63		9,128
Commercial lease financing	3,967	20	3	2	18	43		4,010
Total commercial loans	$ 42,169	$ 52	$ 10	$ 36	$ 156	$ 254		$ 42,423
Real estate residential mortgage	$ 2,155	$ 13	$ 3	$ 3	$ 67	$ 86	$ 11	$ 2,252
Home equity:								
Key Community Bank	10,043	43	22	11	176	252	1	10,296
Other	221	4	2	1	8	15		236
Total home equity loans	10,264	47	24	12	184	267	1	10,532
Consumer other Key Community Bank	1,577	8	3	6	1	18		1,595
Credit cards	735	5	3	8	2	18		753
Consumer other:								
Marine	651	10	3	1	8	22		673
Other	35				1	1		36
Total consumer other	686	10	3	1	9	23		709
Total consumer loans	$ 15,417	$ 83	$ 36	$ 30	$ 263	$ 412	$ 12	$ 15,841
Total loans	$ 57,586	$ 135	$ 46	$ 66	$ 419	$ 666	$ 12	$ 58,264

December 31, 2014 *in millions*	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 and Greater Days Past**	**Nonperforming Loans**	**Total Past Due and Nonperforming**	**Purchased Credit Impaired**	**Total Loans**

				Due		Loans		
LOAN TYPE								
Commercial, financial and agricultural	$ 27,858	$ 19	$ 14	$ 32	$ 59	$ 124		$ 27,982
Commercial real estate:								
Commercial mortgage	7,981	6	10	16	34	66		8,047
Construction	1,084	2		1	13	16		1,100
Total commercial real estate loans	9,065	8	10	17	47	82		9,147
Commercial lease financing	4,172	30	21	11	18	80		4,252
Total commercial loans	$ 41,095	$ 57	$ 45	$ 60	$ 124	$ 286		$ 41,381
Real estate residential mortgage	$ 2,111	$ 12	$ 7	$ 4	$ 79	$ 102	$ 12	$ 2,225
Home equity:								
Key Community Bank	10,098	46	22	14	185	267	1	10,366
Other	249	5	2	1	10	18		267
Total home equity loans	10,347	51	24	15	195	285	1	10,633
Consumer other Key Community Bank	1,541	9	3	5	2	19		1,560
Credit cards	733	6	4	9	2	21		754
Consumer other:								
Marine	746	11	5	2	15	33		779
Other	46	1		1	1	3		49
Total consumer other	792	12	5	3	16	36		828
Total consumer loans	$ 15,524	$ 90	$ 43	$ 36	$ 294	$ 463	$ 13	$ 16,000
Total loans	$ 56,619	$ 147	$ 88	$ 96	$ 418	$ 749	$ 13	$ 57,381

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June 30, 2014 *in millions*	Current	30-59 Days Past Due	60-89 Days Past Due	90 and Greater Days Past Due	Nonperforming Loans	Total Past Due and Nonperforming Loans	Purchased Credit Impaired	Total Loans
LOAN TYPE								
Commercial, financial and agricultural	$ 26,212	$ 52	$ 11	$ 15	$ 37	$ 115		$ 26,327
Commercial real estate:								
Commercial mortgage	7,855	18	15	19	38	90	$ 1	7,946
Construction	1,029	2	2	5	9	18		1,047
Total commercial real estate loans	8,884	20	17	24	47	108	1	8,993
Commercial lease financing	4,186	32	4	4	15	55		4,241
Total commercial loans	$ 39,282	$ 104	$ 32	$ 43	$ 99	$ 278	$ 1	$ 39,561
Real estate residential mortgage	$ 2,061	$ 16	$ 6	$ 4	$ 89	$ 115	$ 13	$ 2,189
Home equity:								
Key Community Bank	10,115	46	22	17	178	263	1	10,379
Other	281	5	2	1	11	19		300
Total home equity loans	10,396	51	24	18	189	282	1	10,679
Consumer other Key Community Bank	1,493	9	4	6	2	21		1,514
Credit cards	698	6	4	9	1	20		718
Consumer other:								
Marine	855	13	3	2	15	33		888
Other	47	1	1	1	1	4		51
Total consumer other	902	14	4	3	16	37		939
Total consumer loans	$ 15,550	$ 96	$ 42	$ 40	$ 297	$ 475	$ 14	$ 16,039
Total loans	$ 54,832	$ 200	$ 74	$ 83	$ 396	$ 753	$ 15	$ 55,600

The prevalent risk characteristic for both commercial and consumer loans is the risk of loss arising from an obligor s inability or failure to meet contractual payment or performance terms. Evaluation of this risk is stratified and monitored by the loan risk rating grades assigned for the commercial loan portfolios and the regulatory risk ratings assigned for the consumer loan portfolios.

Most extensions of credit are subject to loan grading or scoring. Loan grades are assigned at the time of origination, verified by credit risk management, and periodically re-evaluated thereafter. This risk rating methodology blends our judgment with quantitative modeling. Commercial loans generally are assigned two internal risk ratings. The first rating reflects the probability that the borrower will default on an obligation; the second rating reflects expected recovery rates on the credit facility. Default probability is determined based on, among other factors, the financial strength of the borrower, an assessment of the borrower s management, the borrower s competitive position within its

industry sector, and our view of industry risk in the context of the general economic outlook. Types of exposure, transaction structure, and collateral, including credit risk mitigants, affect the expected recovery assessment.

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

Credit quality indicators for our commercial and consumer loan portfolios, excluding $12 million and $15 million of PCI loans at June 30, 2015, and June 30, 2014, respectively, based on bond rating, regulatory classification, and payment activity as of June 30, 2015, and June 30, 2014, are as follows:

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Commercial Credit Exposure

Credit Risk Profile by Creditworthiness Category [(a)]

June 30,

in millions

RATING [(b), (c)]		Commercial, financial and agricultural 2015	Commercial, financial and agricultural 2014	RE Commercial 2015	RE Commercial 2014	RE Construction 2015	RE Construction 2014	Commercial Lease 2015	Commercial Lease 2014	Total 2015	Total 2014
AAA	AA	**$ 396**	$ 364	**$ 3**	$ 3	**$ 1**	$ 1	**$ 504**	$ 712	**$ 904**	$ 1,080
A		**1,189**	1,091	**4**	1		1	**484**	382	**1,677**	1,475
BBB	BB	**25,931**	23,534	**7,318**	7,412	**1,084**	907	**2,853**	2,968	**37,186**	34,821
B		**653**	545	**278**	287	**138**	99	**103**	99	**1,172**	1,030
CCC	C	**1,116**	793	**271**	242	**31**	39	**66**	80	**1,484**	1,154
Total		**$ 29,285**	$ 26,327	**$ 7,874**	$ 7,945	**$ 1,254**	$ 1,047	**$ 4,010**	$ 4,241	**$ 42,423**	$ 39,560

(a) Credit quality indicators are updated on an ongoing basis and reflect credit quality information as of the dates indicated.
(b) Our bond rating to internal loan grade conversion system is as follows: AAA - AA = 1, A = 2, BBB - BB = 3 - 13, B = 14 - 16, and CCC - C = 17 - 20.
(c) Our internal loan grade to regulatory-defined classification is as follows: Pass = 1-16, Special Mention = 17, Substandard = 18, Doubtful = 19, and Loss = 20.

Consumer Credit Exposure

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

June 30,

in millions

GRADE	Residential Prime 2015	Residential Prime 2014
Pass	**$ 12,506**	$ 12,554
Substandard	**266**	300
Total	**$ 12,772**	$ 12,854

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

June 30,	**Consumer Key Community Bank**		**Credit cards**		**Consumer Marine**		**Consumer Other**		**Total**	
in millions	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Performing	**$ 1,594**	$ 1,512	**$ 751**	$ 717	**$ 665**	$ 873	**$ 35**	$ 50	**$ 3,045**	$ 3,152
Nonperforming	**1**	2	**2**	1	**8**	15	**1**	1	**12**	19
Total	**$ 1,595**	$ 1,514	**$ 753**	$ 718	**$ 673**	$ 888	**$ 36**	$ 51	**$ 3,057**	$ 3,171

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

(b) Our past due payment activity to regulatory classification conversion is as follows: pass = less than 90 days; and substandard = 90 days and greater plus nonperforming loans.

We determine the appropriate level of the ALLL on at least a quarterly basis. The methodology is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses beginning on page 117 of our 2014 Form 10-K. We apply expected loss rates to existing loans with similar risk characteristics as noted in the credit quality indicator table above and exercise judgment to assess the impact of factors such as changes in economic conditions, changes in credit policies or underwriting standards, and changes in the level of credit risk associated with specific industries and markets.

For all commercial and consumer loan TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance of $2.5 million or greater, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. We estimate the extent of the individual impairment for commercial loans and TDRs by comparing the recorded investment of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan s observable market price. Secured consumer loan TDRs that are discharged through Chapter 7 bankruptcy and not formally re-affirmed are adjusted to reflect the fair value of the underlying collateral, less costs to sell. Non-Chapter 7 consumer loan TDRs are combined in homogenous pools and assigned a specific allocation based on the estimated present value of future cash flows using the loan s effective interest rate. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses. The ALLL at June 30, 2015, represents our best estimate of the probable credit losses inherent in the loan portfolio at that date.

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Although quantitative modeling factors such as default probability and expected recovery rates are constantly changing as the financial strength of the borrower and overall economic conditions change, we have not changed the accounting policies or methodology that we use to estimate the ALLL.

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

At June 30, 2015, the ALLL was $796 million, or 1.37% of loans, compared to $814 million, or 1.46% of loans, at June 30, 2014. At June 30, 2015, the ALLL was 190% of nonperforming loans, compared to 205.6% at June 30, 2014.

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

	Three months ended June 30,		Six months ended June 30,	
in millions	**2015**	**2014**	**2015**	**2014**
Balance at beginning of period continuing operations	**$ 794**	$ 834	**$ 794**	$ 848
Charge-offs	**(52)**	(56)	**(99)**	(113)
Recoveries	**16**	26	**35**	63
Net loans and leases charged off	**(36)**	(30)	**(64)**	(50)
Provision for loan and lease losses from continuing operations	**37**	10	**66**	16
Foreign currency translation adjustment	**1**			
Balance at end of period continuing operations	**$ 796**	$ 814	**$ 796**	$ 814

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

in millions	**December 31, 2014**	**Provision**	**Charge-offs**	**Recoveries**	**June 30, 2015**
Commercial, financial and agricultural	$ 391	**$ 49**	**$ (33)**	**$ 11**	**$ 418**
Real estate commercial mortgage	148	**(4)**	**(2)**	**2**	**144**
Real estate construction	28	**3**	**(1)**	**1**	**31**
Commercial lease financing	56	**(5)**	**(3)**	**5**	**53**
Total commercial loans	623	**43**	**(39)**	**19**	**646**
Real estate residential mortgage	23	**(1)**	**(3)**	**1**	**20**
Home equity:					
Key Community Bank	66	**3**	**(15)**	**3**	**57**
Other	5		**(3)**	**2**	**4**

Total home equity loans	71	**3**	**(18)**	**5**	**61**
Consumer other Key Community Bank	22	**7**	**(12)**	**4**	**21**
Credit cards	33	**13**	**(16)**	**1**	**31**
Consumer other:					
Marine	21		**(10)**	**5**	**16**
Other	1	**1**	**(1)**		**1**
Total consumer other:	22	**1**	**(11)**	**5**	**17**
Total consumer loans	171	**23**	**(60)**	**16**	**150**
Total ALLL continuing operations	794	**66**[(a)]	**(99)**	**35**	**796**
Discontinued operations	29	**1**	**(16)**	**8**	**22**
Total ALLL including discontinued operations	$ 823	**$ 67**	**$ (115)**	**$ 43**	**$ 818**

(a) Excludes provision for losses on lending-related commitments of $10 million.

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in millions	December 31, 2013	Provision	Charge-offs	Recoveries	June 30, 2014
Commercial, financial and agricultural	$ 362	$ 13	$ (23)	$ 21	$ 373
Real estate commercial mortgage	165	(5)	(3)	2	159
Real estate construction	32	(11)	(2)	15	34
Commercial lease financing	62	(3)	(5)	6	60
Total commercial loans	621	(6)	(33)	44	626
Real estate residential mortgage	37	(9)	(5)	2	25
Home equity:					
Key Community Bank	84	9	(20)	4	77
Other	11	1	(6)	3	9
Total home equity loans	95	10	(26)	7	86
Consumer other Key Community Bank	29	8	(16)	3	24
Credit cards	34	13	(18)	1	30
Consumer other:					
Marine	29	1	(14)	5	21
Other	3	(1)	(1)	1	2
Total consumer other:	32		(15)	6	23
Total consumer loans	227	22	(80)	19	188
Total ALLL continuing operations	848	16[(a)]	(113)	63	814
Discontinued operations	39	9	(24)	8	32
Total ALLL including discontinued operations	$ 887	$ 25	$ (137)	$ 71	$ 846

(a) Excludes provision for losses on lending-related commitments.

Our ALLL from continuing operations decreased by $18 million, or 2.2%, from the second quarter of 2014 primarily because of the improvement in the credit quality of our loan portfolios. The quality of new loan originations as well as decreasing levels of classified and nonperforming loans also resulted in a reduction in our general allowance. Our general allowance applies expected loss rates to our existing loans with similar risk characteristics as well as any adjustments to reflect our current assessment of qualitative factors such as changes in economic conditions, underwriting standards, and concentrations of credit. Our delinquency trends declined during 2014 and into 2015 due to continued improved credit quality, relatively stable economic conditions, and continued run-off in our exit loan portfolio, reflecting our effort to maintain a moderate enterprise risk tolerance.

For continuing operations, the loans outstanding individually evaluated for impairment totaled $334 million, with a corresponding allowance of $52 million at June 30, 2015. Loans outstanding collectively evaluated for impairment totaled $57.9 billion, with a corresponding allowance of $743 million at June 30, 2015. At June 30, 2015, PCI loans evaluated for impairment totaled $12 million, with a corresponding allowance of $1 million. There was no provision for loan and lease losses on these PCI loans during the six months ended June 30, 2015. At June 30, 2014, the loans outstanding individually evaluated for impairment totaled $276 million, with a corresponding allowance of $32

million. Loans outstanding collectively evaluated for impairment totaled $55.3 billion, with a corresponding allowance of $781 million at June 30, 2014. At June 30, 2014, PCI loans evaluated for impairment totaled $15 million, with a corresponding allowance of $1 million. There was no provision for loan and lease losses on these PCI loans during the six months ended June 30, 2014.

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A breakdown of the individual and collective ALLL and the corresponding loan balances as of June 30, 2015, follows:

June 30, 2015	Allowance				Outstanding		
	Individually Evaluated for	Collectively Evaluated for	Purchased Credit		Individually Evaluated for	Collectively Evaluated for	Purchased Credit
in millions	Impairment	Impairment	Impaired	Loans	Impairment	Impairment	Impaired
Commercial, financial and agricultural	$ 24	$ 394		$ 29,285	$ 82	$ 29,203	
Commercial real estate:							
Commercial mortgage	1	143		7,874	16	7,858	
Construction		31		1,254	7	1,247	
Total commercial real estate loans	1	174		9,128	23	9,105	
Commercial lease financing		53		4,010		4,010	
Total commercial loans	25	621		42,423	105	42,318	
Real estate residential mortgage	5	14	$ 1	2,252	56	2,185	$ 11
Home equity:							
Key Community Bank	17	40		10,296	112	10,183	1
Other	2	2		236	12	224	
Total home equity loans	19	42		10,532	124	10,407	1
Consumer other Key Community Bank		21		1,595	3	1,592	
Credit cards		31		753	3	750	
Consumer other:							
Marine	3	13		673	41	632	
Other		1		36	2	34	
Total consumer other	3	14		709	43	666	
Total consumer loans	27	122	1	15,841	229	15,600	12
Total ALLL continuing operations	52	743	1	58,264	334	57,918	12
Discontinued operations	1	21		1,962	19	1,943	
Total ALLL including discontinued operations	$ 53	$ 764	$ 1	$ 60,226	$ 353	$ 59,861	$ 12

A breakdown of the individual and collective ALLL and the corresponding loan balances as of December 31, 2014, follows:

	Allowance				Outstanding		
	Individually	Collectively	Purchased		Individually	Collectively	Purchased

December 31, 2014	**Evaluated for**	**Evaluated for**	**Credit**		**Evaluated for**	**Evaluated for**	**Credit**
in millions	**Impairment**	**Impairment**	**Impaired**	**Loans**	**Impairment**	**Impairment**	**Impaired**
Commercial, financial and agricultural	$ 9	$ 382		$ 27,982	$ 43	$ 27,939	
Commercial real estate:							
Commercial mortgage	2	146		8,047	21	8,025	$ 1
Construction	1	27		1,100	8	1,092	
Total commercial real estate loans	3	173		9,147	29	9,117	1
Commercial lease financing		56		4,252		4,252	
Total commercial loans	12	611		41,381	72	41,308	1
Real estate residential mortgage	5	17	$ 1	2,225	55	2,159	11
Home equity:							
Key Community Bank	16	50		10,366	108	10,257	1
Other	2	3		267	12	255	
Total home equity loans	18	53		10,633	120	10,512	1
Consumer other Key Community Bank		22		1,560	4	1,556	
Credit cards		33		754	4	750	
Consumer other:							
Marine	5	16		779	45	734	
Other		1		49	2	47	
Total consumer other	5	17		828	47	781	
Total consumer loans	28	142	1	16,000	230	15,758	12
Total ALLL continuing operations	40	753	1	57,381	302	57,066	13
Discontinued operations	1	28		2,295 (a)	17	2,278 (a)	
Total ALLL including discontinued operations	$ 41	$ 781	$ 1	$ 59,676	$ 319	$ 59,344	$ 13

(a) Amount includes $191 million of loans carried at fair value that are excluded from ALLL consideration.

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

June 30, 2014	**Allowance**			**Outstanding**			
in millions	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Purchased Credit Impaired**	**Loans**	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Purchased Credit Impaired**
Commercial, financial and agricultural	$ 3	$ 370		$ 26,327	$ 17	$ 26,310	
Commercial real estate:							
Commercial mortgage	1	158		7,946	25	7,920	$ 1
Construction		34		1,047	6	1,041	
Total commercial real estate loans	1	192		8,993	31	8,961	1
Commercial lease financing		60		4,241		4,241	
Total commercial loans	4	622		39,561	48	39,512	1
Real estate residential mortgage	5	19	$ 1	2,189	55	2,121	13
Home equity:							
Key Community Bank	15	62		10,379	103	10,275	1
Other	3	6		300	12	288	
Total home equity loans	18	68		10,679	115	10,563	1
Consumer other Key Community Bank		24		1,514	3	1,511	
Credit cards		30		718	4	714	
Consumer other:							
Marine	5	16		888	50	838	
Other		2		51	1	50	
Total consumer other	5	18		939	51	888	
Total consumer loans	28	159	1	16,039	228	15,797	14
Total ALLL continuing operations	32	781	1	55,600	276	55,309	15
Discontinued operations	2	30		4,162 (a)	17	4,145 (a)	
Total ALLL including discontinued operations	$ 34	$ 811	$ 1	$ 59,762	$ 293	$ 59,454	$ 15

(a) Amount includes $1.9 billion of loans carried at fair value that are excluded from ALLL consideration.

The liability for credit losses inherent in lending-related unfunded commitments, such as letters of credit and unfunded loan commitments, is included in accrued expense and other liabilities on the balance sheet. We establish the amount of this reserve by considering both historical trends and current market conditions quarterly, or more often if deemed necessary. Our liability for credit losses on lending-related commitments was $45 million at June 30, 2015. When combined with our ALLL, our total allowance for credit losses represented 1.44% of loans at June 30, 2015, compared to 1.53% at June 30, 2014.

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

	Three months ended June 30,		**Six months ended June 30,**	
in millions	**2015**	**2014**	**2015**	**2014**
Balance at beginning of period	**$ 41**	$ 35	**$ 35**	$ 37
Provision (credit) for losses on lending-related commitments	**4**	2	**10**	
Balance at end of period	**$ 45**	$ 37	**$ 45**	$ 37

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5. Fair Value Measurements

Fair Value Determination

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

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

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

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

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

We recognize transfers between levels of the fair value hierarchy at the end of the reporting period. Quarterly, we review any changes to our valuation methodologies to ensure they are appropriate and justified, and refine our valuation methodologies if more market-based data becomes available. The Fair Value Committee, which is governed by ALCO, oversees the valuation process for all lines of business and support areas, as applicable. Various Working Groups that report to the Fair Value Committee analyze and approve the underlying assumptions and valuation adjustments. Changes in valuation methodologies for Level 1 and Level 2 instruments are presented to the Accounting Policy group for approval. Changes in valuation methodologies for Level 3 instruments are presented to the Fair Value Committee for approval. The Working Groups are discussed in more detail in the qualitative disclosures within

this note and in Note 11 (Acquisitions and Discontinued Operations). Formal documentation of the fair valuation methodologies is prepared by the lines of business and support areas as appropriate. The documentation details the asset or liability class and related general ledger accounts, valuation techniques, fair value hierarchy level, market participants, accounting methods, valuation methodology, group responsible for valuations, and valuation inputs.

Additional information regarding our accounting policies for determining fair value is provided in Note 1 (Summary of Significant Accounting Policies) under the heading Fair Value Measurements beginning on page 118 of our 2014 Form 10-K.

Qualitative Disclosures of Valuation Techniques

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

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

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

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

- Securities are classified as Level 3 when there is limited activity in the market for a particular instrument. To determine fair value in such cases, depending on the complexity of the valuations required, we use internal models based on certain assumptions or a third-party valuation service. At June 30, 2015, our Level 3 instruments consist of a convertible preferred security. Our Strategy group is responsible for reviewing the valuation model and determining the fair value of this investment on a quarterly basis. The security is valued using a cash flow analysis of the associated private company issuer. The valuation of the security is negatively impacted by a projected net loss of the associated private company and positively impacted by a projected net gain.

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

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

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

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

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

Private equity and mezzanine investments. Private equity and mezzanine investments consist of investments in debt and equity securities through our Real Estate Capital line of business. They include direct investments made in specific properties, as well as indirect investments made in funds that pool assets of many investors to invest in properties. There is no active market for these investments, so we employ other valuation methods. The portion of our Real Estate Capital line of business involved with private equity and mezzanine investments is accounted for as an investment company in accordance with the applicable accounting guidance, whereby all investments are recorded at fair value.

Private equity and mezzanine investments are classified as Level 3 assets since our judgment significantly influences the determination of fair value. Our Fund Management, Asset Management, and Accounting groups are responsible for reviewing the valuation models and determining the fair value of these investments on a quarterly basis. Direct investments in properties are initially valued based upon the transaction price. This amount is then adjusted to fair value based on current market conditions using the discounted cash flow method based on the expected investment exit date. The fair values of the assets are reviewed and adjusted quarterly. The Company did not have any significant direct equity and mezzanine investments at June 30, 2015.

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Consistent with accounting guidance, indirect investments are valued using a methodology that allows the use of statements from the investment manager to calculate net asset value per share. A primary input used in estimating fair value is the most recent value of the capital accounts as reported by the general partners of the funds in which we invest. The calculation to determine the investment s fair value is based on our percentage ownership in the fund multiplied by the net asset value of the fund, as provided by the fund manager. Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect investments. As of June 30, 2015, management has not committed to a plan to sell these investments. Therefore, these investments continue to be valued using the net asset value per share methodology. For more information about the Volcker Rule, see the discussion under the heading Other Regulatory Developments under the Dodd-Frank Act Volcker Rule in the section entitled Supervision and Regulation beginning on page 16 of our 2014 Form 10-K.

Investments in real estate private equity funds are included within private equity and mezzanine investments. The main purpose of these funds is to acquire a portfolio of real estate investments that provides attractive risk-adjusted returns and current income for investors. Certain of these investments do not have readily determinable fair values and represent our ownership interest in an entity that follows measurement principles under investment company accounting.

The following table presents the fair value of our indirect investments and related unfunded commitments at June 30, 2015. We did not provide any financial support to investees related to our direct and indirect investments for the six months ended June 30, 2015, and June 30, 2014.

June 30, 2015		**Unfunded**
in millions	**Fair Value**	**Commitments**
INVESTMENT TYPE		
Indirect investments		
Passive funds [(a)]	**$ 9**	**$ 1**
Total	**$ 9**	**$ 1**

(a) We invest in passive funds, which are multi-investor private equity funds. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying investments in the funds. Some funds have no restrictions on sale, while others require investors to remain in the fund until maturity. The funds will be liquidated over a period of one to four years. The purpose of KREEC s funding is to allow funds to make additional investments and keep a certain market value threshold in the funds. KREEC is obligated to provide financial support, as all investors are required, to fund based on their ownership percentage, as noted in the Limited Partnership Agreements.

Principal investments. Principal investments consist of investments in equity and debt instruments made by our principal investing entities. They include direct investments (investments made in a particular company) and indirect investments (investments made through funds that include other investors). Our principal investing entities are accounted for as investment companies in accordance with the applicable accounting guidance, whereby each investment is adjusted to fair value with any net realized or unrealized gain/loss recorded in the current period s earnings. This process is a coordinated and documented effort by the Principal Investing Entities Deal Team (individuals from one of the independent investment managers who oversee these instruments), accounting staff, and

the Investment Committee (individual employees and a former employee of Key and one of the independent investment managers). This process involves an in-depth review of the condition of each investment depending on the type of investment.

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

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

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

Our indirect investments are classified as Level 3 assets since our significant inputs are not observable in the marketplace. Indirect investments include primary and secondary investments in private equity funds engaged mainly in venture- and growth-oriented investing. These investments do not have readily determinable fair values. Indirect investments are valued using a methodology that is consistent with accounting guidance that allows us to estimate fair value based upon net asset value per share (or its equivalent, such as member units or an ownership interest in partners capital to which a proportionate share of net assets is attributed). The significant unobservable input used in estimating fair value is primarily the most recent value of the capital accounts as reported by the general partners of the funds in which we invest. Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect investments. As of June 30, 2015, management has not committed to a plan to sell these investments. Therefore, these investments continue to be valued using the net asset value per share methodology.

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

The following table presents the fair value of our direct and indirect principal investments and related unfunded commitments at June 30, 2015, as well as financial support provided for the three and six months ended June 30, 2015, and June 30, 2014:

			Financial support provided							
			Three months ended June 30,				Six months ended June 30,			
	June 30, 2015		2015		2014		2015		2014	
in millions	**Fair Value**	**Unfunded Commitments**	**Funded Commitments**	**Funded Other**	**Funded Commitments**	**Funded Other**	**Funded Commitments**	**Funded Other**	**Funded Commitments**	**Funded Other**
INVESTMENT TYPE										
Direct investments [a]	**$ 70**					$ 1		**$ 2**		$ 2
Indirect investments [b]	**282**	**$ 54**	**$ 3**		$ 4		**$ 5**		$ 6	
Total	**$ 352**	**$ 54**	**$ 3**		$ 4	$ 1	**$ 5**	**$ 2**	$ 6	$ 2

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

(b) Our indirect investments consist of buyout funds, venture capital funds, and fund of funds. These investments are generally not redeemable. Instead, distributions are received through the liquidation of the underlying investments of the fund. An investment in any one of these funds typically can be sold only with the approval of the fund s general partners. We estimate that the underlying investments of the funds will be liquidated over a period of one to nine years. The purpose of funding our capital commitments to these investments is to allow the funds to make additional follow-on investments and pay fund expenses until the fund dissolves. We, and all other investors in the fund, are obligated to fund the full amount of our respective capital commitments to the fund based on our and their respective ownership percentages, as noted in the applicable Limited Partnership Agreement.

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

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

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

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

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

Certain assets and liabilities are measured at fair value on a recurring basis in accordance with GAAP. The following tables present these assets and liabilities at June 30, 2015, December 31, 2014, and June 30, 2014.

June 30, 2015

in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Trading account assets:				
U.S. Treasury, agencies and corporations		$ 580		$ 580
States and political subdivisions		23		23
Collateralized mortgage obligations				
Other mortgage-backed securities		37		37
Other securities	$ 2	24		26
Total trading account securities	2	664		666
Commercial loans		8		8
Total trading account assets	2	672		674
Securities available for sale:				
States and political subdivisions		19		19
Collateralized mortgage obligations		11,751		11,751
Other mortgage-backed securities		2,452		2,452
Other securities	12		$ 10	22
Total securities available for sale	12	14,222	10	14,244
Other investments:				
Principal investments:				
Direct			70	70
Indirect			282	282
Total principal investments			352	352
Equity and mezzanine investments:				
Direct				
Indirect			9	9
Total equity and mezzanine investments			9	9
Total other investments			361	361
Derivative assets:				
Interest rate		840	16	856
Foreign exchange	121	10		131
Commodity		379		379
Credit		1	3	4

Derivative assets	121	1,230	19	1,370
Netting adjustments [a]				(834)
Total derivative assets	121	1,230	19	536
Accrued income and other assets		2		2
Total assets on a recurring basis at fair value	$ 135	$ 16,126	$ 390	$ 15,817
LIABILITIES MEASURED ON A RECURRING BASIS				
Bank notes and other short-term borrowings:				
Short positions	$ 1	$ 527		$ 528
Derivative liabilities:				
Interest rate		568		568
Foreign exchange	100	8		108
Commodity		365		365
Credit		5		5
Derivative liabilities	100	946		1,046
Netting adjustments [a]				(486)
Total derivative liabilities	100	946		560
Accrued expense and other liabilities		2		2
Total liabilities on a recurring basis at fair value	$ 101	$ 1,475		$ 1,090

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

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December 31, 2014

in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Trading account assets:				
U.S. Treasury, agencies and corporations		$ 555		$ 555
States and political subdivisions		38		38
Collateralized mortgage obligations				
Other mortgage-backed securities		124		124
Other securities	$ 2	29		31
Total trading account securities	2	746		748
Commercial loans		2		2
Total trading account assets	2	748		750
Securities available for sale:				
States and political subdivisions		23		23
Collateralized mortgage obligations		11,270		11,270
Other mortgage-backed securities		2,035		2,035
Other securities	22		$ 10	32
Total securities available for sale	22	13,328	10	13,360
Other investments:				
Principal investments:				
Direct	2		102	104
Indirect			302	302
Total principal investments	2		404	406
Equity and mezzanine investments:				
Direct				
Indirect			10	10
Total equity and mezzanine investments			10	10
Total other investments	2		414	416
Derivative assets:				
Interest rate		924	13	937
Foreign exchange	91	2		93
Commodity		608		608
Credit		2	3	5
Derivative assets	91	1,536	16	1,643
Netting adjustments [(a)]				(1,034)
Total derivative assets	91	1,536	16	609
Accrued income and other assets				
Total assets on a recurring basis at fair value	$ 117	$ 15,612	$ 440	$ 15,135

LIABILITIES MEASURED ON A RECURRING BASIS				
Bank notes and other short-term borrowings:				
Short positions		$ 423		$ 423
Derivative liabilities:				
Interest rate		644		644
Foreign exchange	$ 77	4		81
Commodity		594		594
Credit		6	$ 1	7
Derivative liabilities	77	1,248	1	1,326
Netting adjustments [(a)]				(542)
Total derivative liabilities	77	1,248	1	784
Accrued expense and other liabilities				
Total liabilities on a recurring basis at fair value	$ 77	$ 1,671	$ 1	$ 1,207

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

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June 30, 2014

in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Trading account assets:				
U.S. Treasury, agencies and corporations		$ 660		$ 660
States and political subdivisions		33		33
Collateralized mortgage obligations		19		19
Other mortgage-backed securities		144		144
Other securities	$ 5	26		31
Total trading account securities	5	882		887
Commercial loans		3		3
Total trading account assets	5	885		890
Securities available for sale:				
States and political subdivisions		31		31
Collateralized mortgage obligations		9,866		9,866
Other mortgage-backed securities		2,305		2,305
Other securities	22			22
Total securities available for sale	22	12,202		12,224
Other investments:				
Principal investments:				
Direct			$ 146	146
Indirect			399	399
Total principal investments			545	545
Equity and mezzanine investments:				
Direct				
Indirect			16	16
Total equity and mezzanine investments			16	16
Total other investments			561	561
Derivative assets:				
Interest rate		964	20	984
Foreign exchange	51	5		56
Commodity		181	1	182
Credit			4	4
Derivative assets	51	1,150	25	1,226
Netting adjustments [(a)]				(677)
Total derivative assets	51	1,150	25	549
Accrued income and other assets		4		4
Total assets on a recurring basis at fair value	$ 78	$ 14,241	$ 586	$ 14,228

LIABILITIES MEASURED ON A RECURRING BASIS				
Bank notes and other short-term borrowings:				
Short positions	$ 1	$ 520		$ 521
Derivative liabilities:				
Interest rate		653		653
Foreign exchange	52	4		56
Commodity		177		177
Credit		7	$ 1	8
Derivative liabilities	52	841	1	894
Netting adjustments [a]				(443)
Total derivative liabilities	52	841	1	451
Accrued expense and other liabilities		4		4
Total liabilities on a recurring basis at fair value	$ 53	$ 1,365	$ 1	$ 976

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

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Changes in Level 3 Fair Value Measurements

The following table shows the change in the fair values of our Level 3 financial instruments for the three and six months ended June 30, 2015, and June 30, 2014. We mitigate the credit risk, interest rate risk, and risk of loss related to many of these Level 3 instruments by using securities and derivative positions classified as Level 1 or Level 2. Level 1 and Level 2 instruments are not included in the following table. Therefore, the gains or losses shown do not include the impact of our risk management activities.

in millions	Beginning of Period Balance	Gains (Losses) Included in Earnings	Purchases	Sales	Settlements	Transfers into Level 3 [d]	Transfers out of Level 3 [d]	End of Period Balance [f]	Unrealized Gains (Losses) Included in Earnings
Six months ended June 30, 2015									
Securities available for sale									
Other securities	$ 10							$ 10	
Other investments									
Principal investments									
Direct	102	$ 16[b]	$ 2	$ (50)				70	$ (3)[b]
Indirect	302	25[b]	4	(49)				282	(15)[b]
Equity and mezzanine investments									
Direct		2[b]		(2)					2[b]
Indirect	10	6[b]		(7)				9	6[b]
Derivative instruments [a]									
Interest rate	13	(1)[c]	1			$ 8[e]	$ (5)[e]	16	
Commodity									
Credit	2	(4)[c]			$ 5			3	
Three months ended June 30, 2015									
Securities available for sale									
Other securities	$ 10							$ 10	
Other investments									
Principal investments									
Direct	73	$ 3[b]	$ 1	$ (7)				70	$ (3)[b]
Indirect	301	8[b]	3	(30)				282	(7)[b]
Equity and mezzanine investments									
Direct									

Indirect	9	7[b]		(7)			9	7[b]
Derivative instruments[a]								
Interest rate	10	(3)[c]	1			$ 8[e]	16	
Commodity								
Credit	2	(1)[c]			$ 2		3	

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in millions	Beginning of Period Balance	Gains (Losses) Included in Earnings	Purchases	Sales	Settlements	Transfers into Level 3 [d]	Transfers out of Level 3 [d]	End of Period Balance [f]	Unrealized Gains (Losses) Included in Earnings
Six months ended June 30, 2014									
Other investments									
Principal investments									
Direct	$ 141	$ 11 [b]	$ 1	$ (7)				$ 146	$ 20 [b]
Indirect	413	40 [b]	5	(59)				399	12 [b]
Equity and mezzanine investments									
Direct									
Indirect	23	(1) [b]			$ (6)			16	(1) [b]
Derivative instruments [a]									
Interest rate	25	2 [c]	3	(2)		$ 5 [e]	$ (13) [e]	20	
Commodity						1 [e]		1	
Credit	3	(5) [c]			5			3	
Three months ended June 30, 2014									
Other investments									
Principal investments									
Direct	$ 141	$ 7 [b]	$ 1	$ (3)				$ 146	$ 14 [b]
Indirect	403	20 [b]	4	(28)				399	3 [b]
Equity and mezzanine investments									
Direct									
Indirect	20				$ (4)			16	
Derivative instruments [a]									
Interest rate	22	1 [c]	1	(1)		$ 2 [e]	$ (5) [e]	20	
Commodity						1 [e]		1	
Credit	3	(3) [c]			3			3	

(a) Amounts represent Level 3 derivative assets less Level 3 derivative liabilities.
(b) Realized and unrealized gains and losses on principal investments are reported in net gains (losses) from principal investing on the income statement. Realized and unrealized losses on private equity and mezzanine investments are reported in other income on the income statement.
(c) Realized and unrealized gains and losses on derivative instruments are reported in corporate services income and other income on the income statement.
(d) Our policy is to recognize transfers into and transfers out of Level 3 as of the end of the reporting period.
(e) Certain derivatives previously classified as Level 2 were transferred to Level 3 because Level 3 unobservable inputs became significant. Certain derivatives previously classified as Level 3 were transferred to Level 2 because Level 3 unobservable inputs became less significant.

(f) There were no issuances for the six-month periods ended June 30, 2015, and June 30, 2014.

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Assets Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis in accordance with GAAP. The adjustments to fair value generally result from the application of accounting guidance that requires assets and liabilities to be recorded at the lower of cost or fair value, or assessed for impairment. The following table presents our assets measured at fair value on a nonrecurring basis at June 30, 2015, December 31, 2014, and June 30, 2014:

	June 30, 2015			
in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A NONRECURRING BASIS				
Impaired loans			$ 8	$ 8
Loans held for sale [(a)]				
Accrued income and other assets			5	5
Total assets on a nonrecurring basis at fair value			$ 13	$ 13

	December 31, 2014			
in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A NONRECURRING BASIS				
Impaired loans			$ 5	$ 5
Loans held for sale [(a)]				
Accrued income and other assets			7	7
Total assets on a nonrecurring basis at fair value			$ 12	$ 12

	June 30, 2014			
in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A NONRECURRING BASIS				
Impaired loans			$ 6	$ 6
Loans held for sale [(a)]				
Accrued income and other assets			5	5
Total assets on a nonrecurring basis at fair value			$ 11	$ 11

(a) During the first half of 2015, we transferred $7 million of commercial and consumer loans and leases at their current fair value from held-for-sale status to the held-to-maturity portfolio, compared to $11 million during 2014, and $10 million during the first half of 2014.

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

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

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

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

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

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

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

Loans held for sale. Through a quarterly analysis of our loan portfolios held for sale, which include both performing and nonperforming loans, we determine any adjustments necessary to record the portfolios at the lower of cost or fair value in accordance with GAAP. Our analysis concluded that there were no loans held for sale adjusted to fair value at June 30, 2015, December 31, 2014, or June 30, 2014.

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

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

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

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

Valuations of direct financing leases and operating lease assets held for sale are performed using an internal model that relies on market data, such as swap rates and bond ratings, as well as our own assumptions about the exit market for the leases and details about the individual leases in the portfolio. The inputs based on our assumptions include changes in the value of leased items and internal credit ratings. These leases have been classified as Level 3 assets. KEF has master sale and assignment agreements with numerous institutional investors. Historically, multiple quotes

are obtained, with the most reasonable formal quotes retained. These nonbinding quotes generally lead to a sale to one of the parties who provided the quote. Leases for which we receive a current nonbinding bid, and the sale is considered probable, may be classified as Level 2. The validity of these quotes is supported by historical and continued dealings with these institutions that have fulfilled the nonbinding quote in the past. In a distressed market where market data is not available, an estimate of the fair value of the leased asset may be used to value the lease, resulting in a Level 3 classification. In an inactive market, the market value of the assets held for sale is determined as the present value of the future cash flows discounted at the current buy rate. KEF Accounting calculates an estimated fair value buy rate based on the credit premium inherent in the relevant bond index and the appropriate swap rate on the measurement date. The amount of the adjustment is calculated as book value minus the present value of future cash flows discounted at the calculated buy rate.

Goodwill and other intangible assets. On a quarterly basis, we review impairment indicators to determine whether we need to evaluate the carrying amount of goodwill and other intangible assets assigned to Key Community Bank and Key Corporate Bank. We also perform an annual impairment test for goodwill. Accounting guidance permits an entity to first assess qualitative factors to determine whether additional goodwill impairment testing is required. However, we did not choose to utilize a qualitative assessment in our annual goodwill impairment testing performed during the fourth quarter of 2014. Fair value of our reporting units is determined using both an income approach (discounted cash flow method) and a market approach (using publicly traded company and recent transactions data), which are weighted equally.

Inputs used include market-available data, such as industry, historical, and expected growth rates, and peer valuations, as well as internally driven inputs, such as forecasted earnings and market participant insights. Since this valuation relies on a significant number of unobservable inputs, we have classified goodwill as Level 3. We use a third-party valuation services provider to perform the annual, and if necessary, any interim, Step 1 valuation process, and to perform a Step 2 analysis, if needed, on our reporting units. Annual and any interim valuations prepared by the third-party valuation services provider are reviewed by the appropriate individuals within Key to ensure that the assumptions used in preparing the analysis are appropriate and properly supported. For additional information on the results of recent goodwill impairment testing, see Note 10 (Goodwill and Other Intangible Assets) beginning on page 173 of our 2014 Form 10-K.

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

Our primary assumptions include attrition rates, alternative costs of funds, and rates paid on deposits. For additional information on the results of other intangible assets impairment testing, see Note 10 beginning on page 173 of our 2014 Form 10-K.

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

Commercial Real Estate Valuation Process: When a loan is reclassified from loan status to OREO because we took possession of the collateral, the Asset Recovery Group Loan Officer, in consultation with our OREO group, obtains a broker price opinion or a third-party appraisal, which is used to establish the fair value of the underlying collateral. The determined fair value of the underlying collateral less estimated selling costs becomes the carrying value of the OREO asset. In addition to valuations from independent third-party sources, our OREO group also writes down the carrying balance of OREO assets once a bona fide offer is contractually accepted, where the accepted price is lower than the current balance of the

particular OREO asset. The fair value of OREO property is re-evaluated every 90 days, and the OREO asset is adjusted as necessary.

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

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Quantitative Information about Level 3 Fair Value Measurements

The range and weighted-average of the significant unobservable inputs used to fair value our material Level 3 recurring and nonrecurring assets at June 30, 2015, December 31, 2014, and June 30, 2014, along with the valuation techniques used, are shown in the following table:

June 30, 2015 *dollars in millions*	**Fair Value of Level 3 Assets**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Recurring				
Other investments principal investments direct:	$ 70	Individual analysis of the condition of each investment		
Debt instruments			EBITDA multiple	5.40 - 6.00 (5.50)
Equity instruments of private companies			EBITDA multiple (where applicable)	6.00 - 6.80 (6.70)
Equity instruments of public companies		Market approach	Discount	N/A (8.00)
Nonrecurring				
Impaired loans	8	Fair value of underlying collateral	Discount	00.00 - 64.00% (35.00%)
Goodwill	1,057	Discounted cash flow and market data	Earnings multiple of peers	11.40 - 15.90 (12.92)
			Equity multiple of peers	1.20 - 1.22 (1.21)
			Control premium	10.00 - 30.00% (19.70%)
			Weighted-average cost of capital	13.00 - 14.00% (13.52%)

December 31, 2014 *dollars in millions*	**Fair Value of Level 3 Assets**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Recurring				
Other investments principal investments direct:	$ 102	Individual analysis of the condition of each investment		
Debt instruments			EBITDA multiple	5.40 - 6.00 (5.50)
Equity instruments of private companies			EBITDA multiple (where applicable)	5.50 - 6.20 (5.80)
			Revenue multiple (where applicable)	4.30 - 4.30 (4.30)
Nonrecurring				
Impaired loans	5		Discount	

		Fair value of underlying collateral		10.00 - 64.00% (62.00%)
Goodwill	1,057	Discounted cash flow and market data	Earnings multiple of peers	11.40 - 15.90 (12.92)
			Equity multiple of peers	1.20 - 1.22 (1.21)
			Control premium	10.00 - 30.00% (19.70%)
			Weighted-average cost of capital	13.00 - 14.00% (13.52%)

June 30, 2014 *dollars in millions*	**Fair Value of Level 3 Assets**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Recurring				
Other investments principal investments direct:	$ 146	Individual analysis of the condition of each investment		
Debt instruments			EBITDA multiple	5.90 - 6.00 (6.00)
Equity instruments of private companies			EBITDA multiple (where applicable)	5.50 - 6.50 (5.90)
			Revenue multiple (where applicable)	0.50 - 4.10 (3.80)
Nonrecurring				
Impaired loans	6	Fair value of underlying collateral	Discount	0.00 - 70.00% (29.00%)
Goodwill	979	Discounted cash flow and market data	Earnings multiple of peers	10.10 - 14.40 (11.59)
			Equity multiple of peers	1.17 - 1.29 (1.24)
			Control premium	N/A (35.00 %)
			Weighted-average cost of capital	N/A (13.00%)

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Fair Value Disclosures of Financial Instruments

The levels in the fair value hierarchy ascribed to our financial instruments and the related carrying amounts at June 30, 2015, December 31, 2014 and June 30, 2014, are shown in the following table.

	June 30, 2015					
		Fair Value				
in millions	Carrying Amount	Level 1	Level 2	Level 3	Netting Adjustment	Total
ASSETS						
Cash and short-term investments [a]	**$ 3,915**	**$ 3,915**				**$ 3,915**
Trading account assets [b]	**674**	**2**	**$ 672**			**674**
Securities available for sale [b]	**14,244**	**12**	**14,222**	**$ 10**		**14,244**
Held-to-maturity securities [c]	**5,022**		**4,992**			**4,992**
Other investments [b]	**703**		**342**	**361**		**703**
Loans, net of allowance [d]	**57,468**			**56,012**		**56,012**
Loans held for sale [b]	**835**			**835**		**835**
Derivative assets [b]	**536**	**121**	**1,230**	**19**	**$ (834)[f]**	**536**
LIABILITIES						
Deposits with no stated maturity [a]	**$ 65,034**		**$ 65,034**			**$ 65,034**
Time deposits [e]	**5,635**	**$ 498**	**5,195**			**5,693**
Short-term borrowings [a]	**972**	**1**	**971**			**972**
Long-term debt [e]	**10,267**	**10,037**	**506**			**10,543**
Derivative liabilities [b]	**560**	**100**	**946**		**$ (486)[f]**	**560**

	December 31, 2014					
		Fair Value				
in millions	Carrying Amount	Level 1	Level 2	Level 3	Netting Adjustment	Total
ASSETS						
Cash and short-term investments [a]	$ 4,922	$ 4,922				$ 4,922
Trading account assets [b]	750	2	$ 748			750
Securities available for sale [b]	13,360	22	13,328	$ 10		13,360
Held-to-maturity securities [c]	5,015		4,974			4,974
Other investments [b]	760	2	344	414		760
Loans, net of allowance [d]	56,587			54,993		54,993
Loans held for sale [b]	734			734		734
Derivative assets [b]	609	91	1,536	16	$ (1,034)[f]	609
LIABILITIES						
Deposits with no stated maturity [a]	$ 66,135		$ 66,135			$ 66,135
Time deposits [e]	5,863	$ 564	5,361			5,925
Short-term borrowings [a]	998		998			998
Long-term debt [e]	7,875	7,625	626			8,251
Derivative liabilities [b]	784	77	1,248	$ 1	$ (542)[f]	784

June 30, 2014

		Fair Value				
in millions	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Netting Adjustment**	**Total**
ASSETS						
Cash and short-term investments [a]	$ 3,780	$ 3,780				$ 3,780
Trading account assets [b]	890	5	$ 885			890
Securities available for sale [b]	12,224	22	12,202			12,224
Held-to-maturity securities [c]	5,233		5,154			5,154
Other investments [b]	899		338	$ 561		899
Loans, net of allowance [d]	54,786			53,702		53,702
Loans held for sale [b]	435			435		435
Derivative assets [b]	549	51	1,150	25	$ (677)[f]	549
LIABILITIES						
Deposits with no stated maturity [a]	$ 60,868		$ 60,868			$ 60,868
Time deposits [e]	6,931	$ 682	6,322			7,004
Short-term borrowings [a]	1,734	1	1,733			1,734
Long-term debt [e]	8,213	7,687	962			8,649
Derivative liabilities [b]	451	52	841	$ 1	$ (443)[f]	451

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Valuation Methods and Assumptions

(a) Fair value equals or approximates carrying amount. The fair value of deposits with no stated maturity does not take into consideration the value ascribed to core deposit intangibles.
(b) Information pertaining to our methodology for measuring the fair values of these assets and liabilities is included in the sections entitled Qualitative Disclosures of Valuation Techniques and Assets Measured at Fair Value on a Nonrecurring Basis in this note.
(c) Fair values of held-to-maturity securities are determined by using models that are based on security-specific details, as well as relevant industry and economic factors. The most significant of these inputs are quoted market prices, interest rate spreads on relevant benchmark securities, and certain prepayment assumptions. We review the valuations derived from the models to ensure they are reasonable and consistent with the values placed on similar securities traded in the secondary markets.
(d) The fair value of loans is based on the present value of the expected cash flows. The projected cash flows are based on the contractual terms of the loans, adjusted for prepayments and use of a discount rate based on the relative risk of the cash flows, taking into account the loan type, maturity of the loan, liquidity risk, servicing costs, and a required return on debt and capital. In addition, an incremental liquidity discount is applied to certain loans, using historical sales of loans during periods of similar economic conditions as a benchmark. The fair value of loans includes lease financing receivables at their aggregate carrying amount, which is equivalent to their fair value.
(e) Fair values of time deposits and long-term debt are based on discounted cash flows utilizing relevant market inputs.
(f) Netting adjustments represent the amounts recorded to convert our derivative assets and liabilities from a gross basis to a net basis in accordance with applicable accounting guidance. The net basis takes into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related cash collateral. Total derivative assets and liabilities include these netting adjustments.

We use valuation methods based on exit market prices in accordance with applicable accounting guidance. We determine fair value based on assumptions pertaining to the factors that a market participant would consider in valuing the asset. A substantial portion of our fair value adjustments are related to liquidity. During 2014 and the first half of 2015, the fair values of our loan portfolios have generally remained stable, primarily due to increasing liquidity in the loan markets. If we were to use different assumptions, the fair values shown in the preceding table could change. Also, because the applicable accounting guidance for financial instruments excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements, the fair value amounts shown in the table above do not, by themselves, represent the underlying value of our company as a whole.

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

Loans at carrying value, net of allowance, of $1.9 billion ($1.6 billion at fair value) at June 30, 2015, $2.1 billion ($1.8 billion at fair value) at December 31, 2014, and $2.2 billion ($1.9 billion at fair value) at June 30, 2014;

Portfolio loans held for sale at fair value of $179 million at June 30, 2015;

Portfolio loans at fair value of $191 million at December 31, 2014, and $209 million at June 30, 2014; and

Loans in the trusts at fair value of $1.7 billion at June 30, 2014.

Securities issued by the education lending securitization trusts, which are the primary liabilities of the trusts, totaling $1.7 billion in fair value at June 30, 2014, are also excluded from the above table.

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

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

Residential real estate mortgage loans. Residential real estate mortgage loans with carrying amounts of $2.3 billion at June 30, 2015, $2.2 billion at December 31, 2014, and $2.2 billion at June 30, 2014, are included in Loans, net of allowance in the previous table.

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

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6. Securities

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

Other securities held in the available-for-sale portfolio consist of marketable equity securities that are traded on a public exchange such as the NYSE or NASDAQ and convertible preferred stock of a privately held company.

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

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

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

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

in millions	June 30, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
States and political subdivisions	**$ 19**			**$ 19**
Collateralized mortgage obligations	**11,765**	**$ 101**	**$ 115**	**11,751**
Other mortgage-backed securities	**2,439**	**21**	**8**	**2,452**
Other securities	**20**	**2**		**22**
Total securities available for sale	**$ 14,243**	**$ 124**	**$ 123**	**$ 14,244**
HELD-TO-MATURITY SECURITIES				
Collateralized mortgage obligations	**$ 4,463**	**$ 17**	**$ 43**	**$ 4,437**
Other mortgage-backed securities	**539**		**4**	**535**
Other securities	**20**			**20**
Total held-to-maturity securities	**$ 5,022**	**$ 17**	**$ 47**	**$ 4,992**

in millions	December 31, 2014 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
States and political subdivisions	$ 22	$ 1		$ 23
Collateralized mortgage obligations	11,310	96	$ 136	11,270
Other mortgage-backed securities	2,004	32	1	2,035
Other securities	29	3		32
Total securities available for sale	$ 13,365	$ 132	$ 137	$ 13,360
HELD-TO-MATURITY SECURITIES				
Collateralized mortgage obligations	$ 4,755	$ 15	$ 57	$ 4,713
Other mortgage-backed securities	240	1		241
Other securities	20			20
Total held-to-maturity securities	$ 5,015	$ 16	$ 57	$ 4,974

in millions	June 30, 2014 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
States and political subdivisions	$ 30	$ 1		$ 31
Collateralized mortgage obligations	9,912	135	$ 181	9,866
Other mortgage-backed securities	2,273	33	1	2,305

Other securities	18	4		22
Total securities available for sale	$ 12,233	$ 173	$ 182	$ 12,224
HELD-TO-MATURITY SECURITIES				
Collateralized mortgage obligations	$ 5,213	$ 12	$ 91	$ 5,134
Other securities	20			20
Total held-to-maturity securities	$ 5,233	$ 12	$ 91	$ 5,154

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The following table summarizes our securities that were in an unrealized loss position as of June 30, 2015, December 31, 2014, and June 30, 2014.

	Duration of Unrealized Loss Position					
	Less than 12 Months		12 Months or Longer		Total	
in millions	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2015						
Securities available for sale:						
Collateralized mortgage obligations	**$ 2,784**	**$ 46**	**$ 2,624**	**$ 69**	**$ 5,408**	**$ 115**
Other mortgage-backed securities	**1,060**	**8**			**1,060**	**8**
Other securities [(a)]			**3**		**3**	
Held-to-maturity:						
Collateralized mortgage obligations	**1,236**	**12**	**1,278**	**31**	**2,514**	**43**
Other mortgage-backed securities	**475**	**4**			**475**	**4**
Other securities [(b)]	**4**				**4**	
Total temporarily impaired securities	**$ 5,559**	**$ 70**	**$ 3,905**	**$ 100**	**$ 9,464**	**$ 170**
December 31, 2014						
Securities available for sale:						
Collateralized mortgage obligations	$ 3,019	$ 52	$ 2,932	$ 84	$ 5,951	$ 136
Other mortgage-backed securities			78	1	78	1
Other securities [(a)]	4		2		6	
Held-to-maturity:						
Collateralized mortgage obligations	1,005	11	1,994	46	2,999	57
Total temporarily impaired securities	$ 4,028	$ 63	$ 5,006	$ 131	$ 9,034	$ 194
June 30, 2014						
Securities available for sale:						
Collateralized mortgage obligations	$ 268	$ 1	$ 4,653	$ 180	$ 4,921	$ 181
Other mortgage-backed securities			85	1	85	1
Other securities [(a)]	1		2		3	
Held-to-maturity:						
Collateralized mortgage obligations	811	9	2,351	82	3,162	91
Total temporarily impaired securities	$ 1,080	$ 10	$ 7,091	$ 263	$ 8,171	$ 273

(a) Gross unrealized losses totaled less than $1 million for other securities available for sale as of June 30, 2015, December 31, 2014 and June 30, 2014.

(b) Gross unrealized losses totaled less than $1 million for other securities held-to-maturity as of June 30, 2015.

At June 30, 2015, we had $115 million of gross unrealized losses related to 65 fixed-rate CMOs that we invested in as part of our overall A/LM strategy. These securities had a weighted-average maturity of 4 years at June 30, 2015. We also had $8 million of gross unrealized losses related to 23 other mortgage-backed securities positions, which had a weighted-average maturity of 4.9 years at June 30, 2015. Because these securities have a fixed interest rate, their fair value is sensitive to movements in market interest rates. These unrealized losses are considered temporary since we expect to collect all contractually due amounts from these securities. Accordingly, these investments were reduced to their fair value through OCI, not earnings.

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

The debt securities identified as other-than-temporarily impaired are written down to their current fair value. For those debt securities that we intend to sell, or more-likely-than-not will be required to sell, prior to the expected recovery of the amortized cost, the entire impairment (i.e., the difference between amortized cost and the fair value) is recognized in earnings. For those debt securities that we do not intend to sell, or more-likely-than-not will not be required to sell, prior to expected recovery, the credit portion of OTTI is recognized in earnings, while the remaining OTTI is recognized in equity as a component of AOCI on the balance sheet. As shown in the following table, we did not have any impairment losses recognized in earnings for the three months ended June 30, 2015.

Three months ended June 30, 2015	
in millions	
Balance at March 31, 2015	**$ 4**
Impairment recognized in earnings	
Balance at June 30, 2015	**$ 4**

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

Six months ended June 30, 2015	
in millions	
Realized gains	
Realized losses	**$ 1**
Net securities gains (losses)	**$ (1)**

At June 30, 2015, securities available for sale and held-to-maturity securities totaling $7 billion were pledged to secure securities sold under repurchase agreements, to secure public and trust deposits, to facilitate access to secured funding, and for other purposes required or permitted by law.

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

June 30, 2015	**Securities Available for Sale**		**Held-to-Maturity Securities**	
in millions	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	**$ 257**	**$ 260**	**$ 7**	**$ 7**
Due after one through five years	**12,710**	**12,716**	**4,476**	**4,450**
Due after five through ten years	**1,273**	**1,265**	**539**	**535**
Due after ten years	**3**	**3**		
Total	**$ 14,243**	**$ 14,244**	**$ 5,022**	**$ 4,992**

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7. Derivatives and Hedging Activities

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

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

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

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

At June 30, 2015, after taking into account the effects of bilateral collateral and master netting agreements, we had $76 million of derivative assets and a positive $7 million of derivative liabilities that relate to contracts entered into for hedging purposes. Our hedging derivative liabilities are in an asset position largely because we have contracts with positive fair values as a result of master netting agreements. As of the same date, after taking into account the effects of bilateral collateral and master netting agreements and a reserve for potential future losses, we had derivative assets of $460 million and derivative liabilities of $567 million that were not designated as hedging instruments.

Additional information regarding our accounting policies for derivatives is provided in Note 1 (Summary of Significant Accounting Policies) under the heading Derivatives beginning on page 121 of our 2014 Form 10-K.

Derivatives Designated in Hedge Relationships

Net interest income and the EVE change in response to changes in the mix of assets, liabilities, and off-balance sheet instruments; associated interest rates tied to each instrument; differences in the repricing and maturity characteristics of interest-earning assets and interest-bearing liabilities; and changes in interest rates. We utilize derivatives that have

been designated as part of a hedge relationship in accordance with the applicable accounting guidance to minimize the exposure and volatility of net interest income and EVE to interest rate fluctuations. The primary derivative instruments used to manage interest rate risk are interest rate swaps, which convert the contractual interest rate index of agreed-upon amounts of assets and liabilities (i.e., notional amounts) to another interest rate index.

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

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

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

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

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

Derivatives Not Designated in Hedge Relationships

On occasion, we enter into interest rate swap contracts to manage economic risks but do not designate the instruments in hedge relationships. Excluding contracts addressing customer exposures, the amount of derivatives hedging risks on an economic basis at June 30, 2015, was not significant.

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

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

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

These contracts are not designated as part of hedge relationships.

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

The following table summarizes the fair values of our derivative instruments on a gross and net basis as of June 30, 2015, December 31, 2014, and June 30, 2014. The change in the notional amounts of these derivatives by type from December 31, 2014, to June 30, 2015, indicates the volume of our derivative transaction activity during the first half of 2015. The notional amounts are not affected by bilateral collateral and master netting agreements. The derivative asset and liability balances are presented on a gross basis, prior to the application of bilateral collateral and master netting agreements. Total derivative assets and liabilities are adjusted to take into account the impact of legally enforceable master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related cash collateral. Where master netting agreements are not in effect or are not enforceable under bankruptcy laws, we do not adjust those derivative assets and liabilities with counterparties. Securities collateral related to legally enforceable master netting agreements is not offset on the balance sheet. Our derivative instruments are included in derivative assets or derivative liabilities on the balance sheet, as indicated in the following table:

	June 30, 2015			December 31, 2014			June 30, 2014		
		Fair Value			Fair Value			Fair Value	
in millions	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:									
Interest rate	**$ 17,324**	**$ 267**	**$ 22**	$ 15,095	$ 272	$ 26	$ 14,459	$ 307	$ 17
Foreign exchange	**333**	**17**	**4**	371	8		425	4	8
Total	**17,657**	**284**	**26**	15,466	280	26	14,884	311	25
Derivatives not designated as hedging instruments:									
Interest rate	**45,067**	**589**	**546**	43,771	665	618	44,041	677	636
Foreign exchange	**6,486**	**114**	**104**	4,024	85	81	6,338	52	48
Commodity	**1,537**	**379**	**365**	1,544	608	594	1,854	182	177
Credit	**505**	**4**	**5**	512	5	7	653	4	8
Total	**53,595**	**1,086**	**1,020**	49,851	1,363	1,300	52,886	915	869
Netting adjustments [(a)]		**(834)**	**(486)**		(1,034)	(542)		(677)	(443)
Net derivatives in the balance sheet	**71,252**	**536**	**560**	65,317	609	784	67,770	549	451
Other collateral [(b)]		**(96)**	**(216)**		(155)	(241)		(65)	(380)
Net derivative amounts	**$ 71,252**	**$ 440**	**$ 344**	$ 65,317	$ 454	$ 543	$ 67,770	$ 484	$ 71

(a) Netting adjustments represent the amounts recorded to convert our derivative assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance.

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

Fair value hedges. Instruments designated as fair value hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. The effective portion of a change in the fair value of an instrument designated as a fair value hedge is recorded in earnings at the same time as a change in fair value of the hedged item, resulting in no effect on net income. The ineffective portion of a change in the fair value of such a hedging instrument is recorded in other income on the income statement with no corresponding offset. During the six-month period ended June 30, 2015, we did not exclude any portion of these hedging instruments from the assessment of hedge effectiveness. While there is some immaterial ineffectiveness in our hedging relationships, all of our fair value hedges remained highly effective as of June 30, 2015.

The following table summarizes the pre-tax net gains (losses) on our fair value hedges for the six-month periods ended June 30, 2015, and June 30, 2014, and where they are recorded on the income statement.

		Six months ended June 30, 2015			
in millions	Income Statement Location of Net Gains (Losses) on Derivative	Net Gains (Losses) on Derivative	Hedged Item	Income Statement Location of Net Gains (Losses) on Hedged Item	Net Gains (Losses) on Hedged Item
Interest rate	Other income	**$ (17)**	Long-term debt	Other income	**$ 17** (a)
Interest rate	Interest expense	Long-term debt **60**			
Total		**$ 43**			**$ 17**

		Six months ended June 30, 2014			
in millions	Income Statement Location of Net Gains (Losses) on Derivative	Net Gains (Losses) on Derivative	Hedged Item	Income Statement Location of Net Gains (Losses) on Hedged Item	Net Gains (Losses) on Hedged Item
Interest rate	Other income	$ 13	Long-term debt	Other income	$ (13) (a)
Interest rate	Interest expense	Long-term debt 66			
Total		$ 79			(13)

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

Cash flow hedges. Instruments designated as cash flow hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. Initially, the effective portion of a gain or loss on a cash flow hedge is recorded as a component of AOCI on the balance sheet. This amount is subsequently reclassified into income when the hedged transaction affects earnings (e.g., when we pay variable-rate interest on debt, receive variable-rate interest on commercial loans, or sell commercial real estate loans). The ineffective portion of cash flow hedging transactions is included in other income on the income statement. During the six-month period ended June 30, 2015, we did not exclude any portion of these hedging instruments from the assessment of hedge effectiveness. While there is some immaterial ineffectiveness in our hedging relationships, all of our cash flow hedges remained highly effective as of June 30, 2015.

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Considering the interest rates, yield curves, and notional amounts as of June 30, 2015, we would expect to reclassify an estimated $37 million of after-tax net losses on derivative instruments from AOCI to income during the next 12 months for our cash flow hedges. In addition, we expect to reclassify approximately $1 million of net gains related to terminated cash flow hedges from AOCI to income during the next 12 months. As of June 30, 2015, the maximum length of time over which we hedge forecasted transactions is 13 years.

Net investment hedges. We enter into foreign currency forward contracts to hedge our exposure to changes in the carrying value of our investments as a result of changes in the related foreign exchange rates. Instruments designated as net investment hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. Initially, the effective portion of a gain or loss on a net investment hedge is recorded as a component of AOCI on the balance sheet when the terms of the derivative match the notional and currency risk being hedged. The effective portion is subsequently reclassified into income when the hedged transaction affects earnings (e.g., when we dispose of or liquidate a foreign subsidiary). At June 30, 2015, AOCI reflected unrecognized after-tax gains totaling $28 million related to cumulative changes in the fair value of our net investment hedges, which offset the unrecognized after-tax foreign currency losses on net investment balances. The ineffective portion of net investment hedging transactions is included in other income on the income statement, but there was no net investment hedge ineffectiveness as of June 30, 2015. We did not exclude any portion of our hedging instruments from the assessment of hedge effectiveness during the six-month period ended June 30, 2015.

The following table summarizes the pre-tax net gains (losses) on our cash flow and net investment hedges for the six-month periods ended June 30, 2015, and June 30, 2014, and where they are recorded on the income statement. The table includes the effective portion of net gains (losses) recognized in OCI during the period, the effective portion of net gains (losses) reclassified from OCI into income during the current period, and the portion of net gains (losses) recognized directly in income, representing the amount of hedge ineffectiveness.

	Six months ended June 30, 2015				
in millions	**Net Gains (Losses) Recognized in OCI (Effective Portion)**	**Income Statement Location of Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)**	**Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)**	**Income Statement Location of Net Gains (Losses) Recognized in Income (Ineffective Portion)**	**Net Gains (Losses) Recognized in Income (Ineffective Portion)**
Cash Flow Hedges					
Interest rate	**$ 48**	Interest income Loans	**$ 45**	Other income	
Interest rate	**1**	Interest expense Long-term debt	**(2)**	Other income	
Interest rate	**1**	Investment banking and debt placement fees		Other income	
Net Investment Hedges					
Foreign exchange contracts	**17**	Other Income		Other income	

Total	**$ 67**		**$ 43**		

	Six months ended June 30, 2014				
in millions	**Net Gains (Losses) Recognized in OCI (Effective Portion)**	**Income Statement Location of Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)**	**Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)**	**Income Statement Location of Net Gains (Losses) Recognized in Income (Ineffective Portion)**	**Net Gains (Losses) Recognized in Income (Ineffective Portion)**
Cash Flow Hedges					
Interest rate	$ 40	Interest income Loans	$ 31	Other income	
Interest rate	(4)	Interest expense Long-term debt	(2)	Other income	
Interest rate		Investment banking and debt placement fees		Other income	
Net Investment Hedges					
Foreign exchange contracts	(1)	Other Income	(1)	Other income	
Total	$ 35		$ 28		

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

in millions	**December 31, 2014**	**2015 Hedging Activity**	**Reclassification of Gains to Net Income**	**June 30, 2015**
AOCI resulting from cash flow and net investment hedges	$ (8)	**$ 42**	**$ (27)**	**$ 7**

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

The following table summarizes the pre-tax net gains (losses) on our derivatives that are not designated as hedging instruments for the six-month periods ended June 30, 2015, and June 30, 2014, and where they are recorded on the income statement.

	Six months ended June 30, 2015			**Six months ended June 30, 2014**		
in millions	**Corporate Services Income**	**Other Income**	**Total**	**Corporate Services Income**	**Other Income**	**Total**
NET GAINS (LOSSES)						
Interest rate	**$ 9**		**$ 9**	$ 9		$ 9
Foreign exchange	**18**		**18**	17		17
Commodity	**3**		**3**	2		2
Credit		**$ (7)**	**(7)**		$ (8)	(8)
Total net gains (losses)	**$ 30**	**$ (7)**	**$ 23**	$ 28	$ (8)	$ 20

Counterparty Credit Risk

Like other financial instruments, derivatives contain an element of credit risk. This risk is measured as the expected positive replacement value of the contracts. We use several means to mitigate and manage exposure to credit risk on derivative contracts. We generally enter into bilateral collateral and master netting agreements that provide for the net settlement of all contracts with a single counterparty in the event of default. Additionally, we monitor counterparty credit risk exposure on each contract to determine appropriate limits on our total credit exposure across all product types. We review our collateral positions on a daily basis and exchange collateral with our counterparties in accordance with standard ISDA documentation, central clearing rules, and other related agreements. We generally hold collateral in the form of cash and highly rated securities issued by the U.S. Treasury, government-sponsored enterprises, or GNMA. The cash collateral netted against derivative assets on the balance sheet totaled $364 million at June 30, 2015, $518 million at December 31, 2014, and $289 million at June 30, 2014. The cash collateral netted against derivative liabilities totaled $16 million at June 30, 2015, $26 million at December 31, 2014, and $55 million at June 30, 2014. The relevant agreements that allow us to access the central clearing organizations to clear derivative transactions are not considered to be qualified master netting agreements. Therefore, we cannot net derivative contracts or offset those contracts with related cash collateral with these counterparties. At June 30, 2015, we posted $114 million of cash collateral with clearing organizations and held $3 million of cash collateral from clearing organizations. At December 31, 2014, we posted $56 million of cash collateral with clearing organizations and did not hold any cash collateral from clearing organizations. At June 30, 2014, we posted $35 million of cash collateral with clearing organizations and did not hold any cash collateral from clearing organizations. This additional cash collateral is included in accrued income and other assets and accrued expense and other liabilities on the balance sheet.

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

in millions	**June 30, 2015**	December 31, 2014	June 30, 2014
Largest gross exposure (derivative asset) to an individual counterparty	**$ 105**	$ 133	$ 117
Collateral posted by this counterparty	**44**	100	47
Derivative liability with this counterparty	**90**	31	108
Collateral pledged to this counterparty	**37**		44
Net exposure after netting adjustments and collateral	**8**	2	6

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

in millions	**June 30, 2015**	**December 31, 2014**	**June 30, 2014**
Interest rate	**$ 606**	$ 607	$ 657
Foreign exchange	**50**	41	29
Commodity	**243**	478	152
Credit	**1**	1	
Derivative assets before collateral	**900**	1,127	838
Less: Related collateral	**364**	518	289
Total derivative assets	**$ 536**	$ 609	$ 549

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

We enter into transactions with broker-dealers and banks for various risk management purposes. These types of transactions generally are high dollar volume. We generally enter into bilateral collateral and master netting agreements with these counterparties. We began clearing certain types of derivative transactions with these counterparties in June 2013, whereby the central clearing organizations become our counterparties subsequent to novation of the original derivative contracts. In addition, we began entering into derivative contracts through swap execution facilities during the quarter ended March 31, 2014. The swap clearing and swap trade execution requirements were mandated by the Dodd-Frank Act for the purpose of reducing counterparty credit risk and increasing transparency in the derivative market. At June 30, 2015, we had gross exposure of $714 million to broker-dealers and banks. We had net exposure of $162 million after the application of master netting agreements and cash collateral, where such qualifying agreements exist. We had net exposure of $41 million after considering $121 million of additional collateral held in the form of securities.

We enter into transactions with clients to accommodate their business needs. These types of transactions generally are low dollar volume. We generally enter into master netting agreements with these counterparties. In addition, we mitigate our overall portfolio exposure and market risk by buying and selling U.S. Treasuries and Eurodollar futures, and entering into offsetting positions and other derivative contracts, sometimes with entities other than broker-dealers and banks. Due to the smaller size and magnitude of the individual contracts with clients, we generally do not exchange collateral in connection with these derivative transactions. To address the risk of default associated with the uncollateralized contracts, we have established a credit valuation adjustment (included in derivative assets) in the amount of $11 million at June 30, 2015, which we estimate to be the potential future losses on amounts due from client counterparties in the event of default. At December 31, 2014, the credit valuation adjustment was $9 million. At June 30, 2015, we had gross exposure of $413 million to client counterparties and other entities that are not broker-dealers or banks for derivatives that have associated master netting agreements. We had net exposure of $374 million on our derivatives with these counterparties after the application of master netting agreements, collateral, and the related reserve. In addition, the derivatives for one counterparty were guaranteed by a third party with a letter of credit totaling $25 million.

Credit Derivatives

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

The following table summarizes the fair value of our credit derivatives purchased and sold by type as of June 30, 2015, December 31, 2014, and June 30, 2014. The fair value of credit derivatives presented below does not take into account the effects of bilateral collateral or master netting agreements.

	June 30, 2015			**December 31, 2014**			**June 30, 2014**		
in millions	**Purchased**	**Sold**	**Net**	**Purchased**	**Sold**	**Net**	**Purchased**	**Sold**	**Net**
Single-name credit default swaps	**$ (2)**		**$ (2)**	$ (3)		$ (3)	$ (3)		$ (3)
Traded credit default swap indices	**2**		**2**	1		1	(1)		(1)
Other		**$ (1)**	**(1)**						
Total credit derivatives		**$ (1)**	**$ (1)**	$ (2)		$ (2)	$ (4)		$ (4)

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

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

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

The following table provides information on the types of credit derivatives sold by us and held on the balance sheet at June 30, 2015, December 31, 2014, and June 30, 2014. The notional amount represents the maximum amount that the seller could be required to pay. The payment/performance risk assessment is based on the default probabilities for the underlying reference entities debt obligations using a Moody s credit ratings matrix known as Moody s Idealized Cumulative Default Rates. The payment/performance risk shown in the table represents a weighted-average of the default probabilities for all reference entities in the respective portfolios. These default probabilities are directly correlated to the probability that we will have to make a payment under the credit derivative contracts.

	June 30, 2015			**December 31, 2014**			**June 30, 2014**		
dollars in millions	**Notional Amount**	**Average Term (Years)**	**Payment / Performance Risk**	**Notional Amount**	**Average Term (Years)**	**Payment / Performance Risk**	**Notional Amount**	**Average Term (Years)**	**Payment / Performance Risk**
Single-name credit default swaps	**$ 5**	**.22**	**.87 %**	$ 5	.72	.87 %	$ 45	.34	4.76 %
Other	**6**	**2.51**	**8.36**	6	2.89	9.58	9	3.06	5.82
Total credit derivatives sold	**$ 11**			$ 11			$ 54		

Credit Risk Contingent Features

We have entered into certain derivative contracts that require us to post collateral to the counterparties when these contracts are in a net liability position. The amount of collateral to be posted is based on the amount of the net liability and thresholds generally related to our long-term senior unsecured credit ratings with Moody s and S&P. Collateral requirements also are based on minimum transfer amounts, which are specific to each Credit Support Annex (a component of the ISDA Master Agreement) that we have signed with the counterparties. In a limited number of instances, counterparties have the right to terminate their ISDA Master Agreements with us if our ratings fall below a certain level, usually investment-grade level (i.e., Baa3 for Moody s and BBB- for S&P). At June 30, 2015, KeyBank s ratings were A3 with Moody s and A- with S&P, and KeyCorp s ratings were Baa1 with Moody s and BBB+ wi
As of June 30, 2015, the aggregate fair value of all derivative contracts with credit risk contingent features (i.e., those containing collateral posting or termination provisions based on our ratings) held by KeyBank that were in a net liability position totaled $243 million, which includes $212 million in derivative assets and $455 million in derivative liabilities. We had $218 million in cash and securities collateral posted to cover those positions as of June 30, 2015. The aggregate fair value of all derivative contracts with credit risk contingent features held by KeyCorp as of June 30, 2015, that were in a net liability position totaled $6 million, which consists solely of derivative liabilities. We had $6 million in collateral posted to cover those positions as of June 30, 2015.

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The following table summarizes the additional cash and securities collateral that KeyBank would have been required to deliver under the ISDA Master Agreements had the credit risk contingent features been triggered for the derivative contracts in a net liability position as of June 30, 2015, December 31, 2014, and June 30, 2014. The additional collateral amounts were calculated based on scenarios under which KeyBank s ratings are downgraded one, two, or three ratings as of June 30, 2015, December 31, 2014, and June 30, 2014, and take into account all collateral already posted. A similar calculation was performed for KeyCorp, and no additional collateral would have been required as of June 30, 2015, while additional collateral of less than $1 million and $3 million would have been required as of December 31, 2014, and June 30, 2014, respectively. For more information about the credit ratings for KeyBank and KeyCorp, see the discussion under the heading Factors affecting liquidity in the section entitled Liquidity risk management in Item 2 of this report.

	June 30, 2015		**December 31, 2014**		**June 30, 2014**	
in millions	**Moody s**	**S&P**	**Moody s**	**S&P**	**Moody s**	**S&P**
KeyBank s long-term senior unsecured credit ratings	**A3**	**A-**	A3	A-	A3	A-
One rating downgrade	**$ 4**	**$ 4**	$ 1	$ 1	$ 1	$ 1
Two rating downgrades	**4**	**4**	1	1	1	1
Three rating downgrades	**6**	**6**	3	3	1	1

KeyBank s long-term senior unsecured credit rating is currently four ratings above noninvestment grade at Moody s and S&P. If KeyBank s ratings had been downgraded below investment grade as of June 30, 2015, payments of up to $7 million would have been required to either terminate the contracts or post additional collateral for those contracts in a net liability position, taking into account all collateral already posted. If KeyCorp s ratings had been downgraded below investment grade as of June 30, 2015, payments of less than $1 million would have been required to either terminate the contracts or post additional collateral for those contracts in a net liability position, taking into account all collateral already posted.

8. Mortgage Servicing Assets

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

	Six months ended June 30,	
in millions	**2015**	**2014**
Balance at beginning of period	**$ 323**	$ 332
Servicing retained from loan sales	**28**	13
Purchases	**25**	28
Amortization	**(47)**	(50)
Balance at end of period	**$ 329**	$ 323
Fair value at end of period	**$ 423**	$ 402

The fair value of mortgage servicing assets is determined by calculating the present value of future cash flows associated with servicing the loans. This calculation uses a number of assumptions that are based on current market conditions. The range and weighted-average of the significant unobservable inputs used to fair value our mortgage servicing assets at June 30, 2015, and June 30, 2014, along with the valuation techniques, are shown in the following table:

June 30, 2015		**Significant**	**Range**
dollars in millions	**Valuation Technique**	**Unobservable Input**	**(Weighted-Average)**
Mortgage servicing assets	Discounted cash flow	Prepayment speed	1.70 - 14.90% (4.70%)
		Expected defaults	1.00 - 3.00% (1.80%)
		Residual cash flows discount rate	7.00 - 15.00% (7.80%)
		Escrow earn rate	0.70 - 3.30% (2.00%)
		Servicing cost	$150 - $2,750 ($1,088)
		Loan assumption rate	0.20 - 3.00% (1.41%)
		Percentage late	0.00 - 2.00% (0.32%)

June 30, 2014		**Significant**	**Range**
dollars in millions	**Valuation Technique**	**Unobservable Input**	**(Weighted-Average)**
Mortgage servicing assets	Discounted cash flow	Prepayment speed	2.00 - 11.60% (5.70%)
		Expected defaults	1.00 - 3.00% (2.00%)
		Residual cash flows discount rate	7.00 - 14.10% (7.80%)
		Escrow earn rate	0.50 - 2.90% (1.60%)
		Servicing cost	$150 - $5,000 ($990)

Loan assumption rate	0.00 - 3.00% (1.59%)
Percentage late	0.00 - 2.00% (0.33%)

If these economic assumptions change or prove incorrect, the fair value of mortgage servicing assets may also change. Expected credit losses, escrow earn rates, and discount rates are critical to the valuation of servicing assets. Estimates of these assumptions are based on how a market participant would view the respective rates and reflect historical data associated with the loans, industry trends, and other considerations. Actual rates may differ from those estimated due to changes in a variety of economic factors. A decrease in the value assigned to the escrow earn rates would cause a decrease in the fair value of our mortgage servicing assets. An increase in the assumed default rates of commercial mortgage loans or an increase in the assigned discount rates would cause a decrease in the fair value of our mortgage servicing assets.

Contractual fee income from servicing commercial mortgage loans totaled $22 million for the six-month period ended June 30, 2015, and $26 million for the six-month period ended June 30, 2014. We have elected to account for servicing assets using the amortization method. The amortization of servicing assets is determined in proportion to, and over the period of, the estimated net servicing income. The amortization of servicing assets for each period, as shown in the table at the beginning of this note, is recorded as a reduction to fee income. Both the contractual fee income and the amortization are recorded in mortgage servicing fees on the income statement.

Additional information pertaining to the accounting for mortgage and other servicing assets is included in Note 1 (Summary of Significant Accounting Policies) under the heading Servicing Assets on page 122 of our 2014 Form 10-K.

9. Variable Interest Entities

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

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

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

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

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

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

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

	Consolidated VIEs		**Unconsolidated VIEs**		
in millions	**Total Assets**	**Total Liabilities**	**Total Assets**	**Total Liabilities**	**Maximum Exposure to Loss**
June 30, 2015					
LIHTC funds	**$ 1**	**$ 1**	**$ 55**		
LIHTC investments	**N/A**	**N/A**	**1,305**	**$ 4**	**$ 520**
December 31, 2014					
LIHTC funds	$ 1	$ 1	$ 55		
LIHTC investments	N/A	N/A	1,234	$ 4	$ 521
June 30, 2014					
LIHTC funds	$ 1	$ 2	$ 97		
Education loan securitization trusts	1,730	1,677	N/A	N/A	N/A
LIHTC investments	N/A	N/A	1,549	$ 5	$ 508

Our involvement with VIEs is described below.

Consolidated VIEs

LIHTC guaranteed funds. KAHC formed limited partnership funds that invested in LIHTC operating partnerships. Interests in these funds were offered in syndication to qualified investors who paid a fee to KAHC for a guaranteed return. We also earned syndication fees from the guaranteed funds and continue to earn asset management fees. The guaranteed funds assets, primarily investments in LIHTC operating partnerships, totaled $1 million at June 30, 2015, December 31, 2014, and June 30, 2014. These investments are recorded in accrued income and other assets on the balance sheet and serve as collateral for the guaranteed funds limited obligations.

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

In accordance with the applicable accounting guidance for distinguishing liabilities from equity, third-party interests associated with our LIHTC guaranteed funds are considered mandatorily redeemable instruments and are recorded in accrued expense and other liabilities on the balance sheet. However, the FASB has indefinitely deferred the measurement and recognition provisions of this accounting guidance for mandatorily redeemable third-party interests associated with finite-lived subsidiaries, such as our LIHTC guaranteed funds. We adjust our financial statements each period for the third-party investors share of the guaranteed funds profits and losses. At June 30, 2015, we estimated the settlement value of these third-party interests to be between zero and $4 million, while the recorded value, including reserves, totaled $4 million. The partnership agreement for each of our guaranteed funds requires the fund to be dissolved by a certain date.

Unconsolidated VIEs

LIHTC nonguaranteed funds. Although we hold interests in certain nonguaranteed funds that we formed and funded, we have determined that we are not the primary beneficiary because we do not absorb the majority of the funds expected losses and do not have the power to direct activities that most significantly influence the economic performance of these entities. Assets of these unconsolidated nonguaranteed funds totaled $55 million at June 30, 2015, and December 31, 2014, and $97 million at June 30, 2014. Our maximum exposure to loss in connection with these funds is minimal, and we do not have any liability recorded related to the funds. We have not formed nonguaranteed funds since October 2003.

LIHTC investments. Through Key Community Bank, we have made investments directly in LIHTC operating partnerships formed by third parties. As a limited partner in these operating partnerships, we are allocated tax credits and deductions associated with the underlying properties. We have determined that we are not the primary beneficiary of these investments because the general partners have the power to direct the activities that most significantly influence the economic performance of their respective partnerships and have the obligation to absorb expected losses and the right to receive benefits. Assets of these unconsolidated LIHTC operating partnerships totaled approximately $835 million at June 30, 2015, $764 million at December 31, 2014, and $780 million at June 30, 2014. At June 30, 2015, our maximum exposure to loss in connection with these partnerships is the unamortized investment balance of $404 million plus $112 million of tax credits claimed but subject to recapture and $4 million of tax credits with a return guarantee agreement with LIHTC investors. We do not have any liability recorded related to these investments because we believe the likelihood of any loss is remote. We have not obtained any significant direct investments (either individually or in the aggregate) in LIHTC operating partnerships since September 2003.

We have additional investments in unconsolidated LIHTC operating partnerships that are held by the consolidated LIHTC guaranteed funds. Total assets of these operating partnerships were approximately $470 million at June 30, 2015, and December 31, 2014, and $769 million at June 30, 2014. The tax credits and deductions associated with these properties are allocated to the funds investors based on their ownership percentages. We have determined that we are not the primary beneficiary of these partnerships because the general partners have the power to direct the activities that most significantly impact their economic performance, and the obligation to absorb expected losses and right to receive residual returns. Information regarding our exposure to loss in connection with these guaranteed funds is included in Note 15 under the heading Return guarantee agreement with LIHTC investors.

We amortize these investments over the period that we expect to receive the tax benefits. During the first six months of 2015, we recognized $59 million of amortization and $66 million of tax credits associated with these investments within income taxes on our income statement. During the first six months of 2014, we recognized $51 million of amortization and $60 million of tax credits associated with these investments within income taxes on our income statement. We had $1.1 billion and $988 million of investments in LIHTC at June 30, 2015, and June 30, 2014, respectively. These investments are recorded in accrued income and other assets on our balance sheet.

Commercial and residential real estate investments and principal investments. Our Principal Investing unit and the Real Estate Capital line of business make equity and mezzanine investments, some of which are in VIEs. These investments are held by nonregistered investment companies subject to the provisions of the AICPA Audit and Accounting Guide, Audits of Investment Companies. We currently are not applying the accounting or disclosure provisions in the applicable accounting guidance for consolidations to these investments, which remain unconsolidated. The FASB had previously deferred the effective date of this guidance for such nonregistered investment companies. New accounting guidance was issued in February 2015 that removes this deferral. The effective date for this guidance is January 1, 2016, for us. Additional information regarding this new accounting guidance is provided in Note 1 (Basis of Presentation).

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10. Income Taxes

Income Tax Provision

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

The effective tax rate, which is the provision for income taxes as a percentage of income from continuing operations before income taxes, was 26.3% for the second quarter of 2015 and 23.1% for the second quarter of 2014. The effective tax rates are below our combined federal and state statutory tax rate of 37.2% primarily due to income from investments in tax-advantaged assets such as corporate-owned life insurance and credits associated with investments in low-income housing projects.

Deferred Tax Asset

At June 30, 2015, from continuing operations, we had a net federal deferred tax asset of $195 million and a net state deferred tax asset of $24 million, compared to a net federal deferred tax asset of $174 million and a net state deferred tax asset of $20 million at December 31, 2014, and a net federal deferred tax asset of $135 million and a net state deferred tax asset of $6 million at June 30, 2014, included in accrued income and other assets on the balance sheet. To determine the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded, we conduct a quarterly assessment of all available evidence. This evidence includes, but is not limited to, taxable income in prior periods, projected future taxable income, and projected future reversals of deferred tax items. These assessments involve a degree of subjectivity and may undergo change. Based on these criteria, we had a valuation allowance of less than $1 million at June 30, 2015, and at December 31, 2014, and $1 million at June 30, 2014, associated with certain state net operating loss carryforwards and state credit carryforwards.

Unrecognized Tax Benefits

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

Deferred tax assets were reduced in the financial statements for unrecognized tax benefits by less than $1 million at June 30, 2015, and by $1 million at December 31, 2014, and June 30, 2014.

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11. Acquisitions and Discontinued Operations

Acquisitions

Pacific Crest Securities. On September 3, 2014, we acquired Pacific Crest Securities, a leading technology-focused investment bank and capital markets firm based in Portland, Oregon. This acquisition, which was accounted for as a business combination, expanded our corporate and investment banking business unit and added technology to our other industry verticals. During the fourth quarter of 2014, we recorded identifiable intangible assets of $13 million and goodwill of $78 million in Key Corporate Bank for this acquisition. The identifiable intangible assets and the goodwill related to this acquisition are non-deductible for tax purposes. Additional information regarding the identifiable intangible assets and the goodwill related to this acquisition is provided in Note 10 (Goodwill and Other Intangible Assets) beginning on page 173 of our 2014 Form 10-K.

Discontinued operations

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

As of January 1, 2010, we consolidated our 10 outstanding education lending securitization trusts since we held the residual interests and are the master servicer with the power to direct the activities that most significantly influence the economic performance of the trusts.

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

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

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

in millions	Three months ended June 30, 2015	2014	Six months ended June 30, 2015	2014
Net interest income	**$ 10**	$ 23	**$ 20**	$ 46
Provision for credit losses		6	**2**	10
Net interest income after provision for credit losses	**10**	17	**18**	36
Noninterest income	**(1)**	(56)	**3**	(70)
Noninterest expense	**4**	6	**8**	12
Income (loss) before income taxes	**5**	(45)	**13**	(46)
Income taxes	**2**	(17)	**5**	(17)
Income (loss) from discontinued operations, net of taxes [(a)]	**$ 3**	$ (28)	**$ 8**	$ (29)

(a) Includes after-tax charges of $5 million and $8 million for the three-month periods ended June 30, 2015, and June 30, 2014, respectively, and $11 million and $17 million for the six-month periods ended June 30, 2015, and June 30, 2014, respectively, determined by applying a matched funds transfer pricing methodology to the liabilities assumed necessary to support the discontinued operations.

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

in millions	**June 30, 2015**	December 31, 2014	June 30, 2014
Held-to-maturity securities	**$ 1**	$ 1	
Trust loans at fair value			$ 1,711
Portfolio loans at fair value		191	209
Loans, net of unearned income [(a)]	**1,962**	2,104	2,242
Less: Allowance for loan and lease losses	**22**	29	32
Net loans	**1,940**	2,266	4,130
Portfolio loans held for sale at fair value	**179**		
Trust accrued income and other assets at fair value			19
Accrued income and other assets	**34**	38	41
Total assets	**$ 2,154**	$ 2,305	$ 4,190
Trust accrued expense and other liabilities at fair value			$ 17
Trust securities at fair value			1,660
Total liabilities			$ 1,677

(a) At June 30, 2015, December 31, 2014, and June 30, 2014, unearned income was less than $1 million.
The discontinued education lending business consisted of loans in portfolio (recorded at fair value) and loans in portfolio (recorded at carrying value with appropriate valuation reserves). As of June 30, 2015, we decided to sell the portfolio loans that are recorded at fair value, and these loans were reclassified to portfolio loans held for sale at fair value within discontinued operations. The assets and liabilities in the securitization trusts (recorded at fair value) were removed with the deconsolidation of the securitization trusts on September 30, 2014.

At June 30, 2015, education loans include 1,767 TDRs with a recorded investment of approximately $19 million (pre-modification and post-modification). A specifically allocated allowance of $1 million was assigned to these loans as of June 30, 2015. There have been no significant payment defaults. There are no significant commitments outstanding to lend additional funds to these borrowers. Additional information regarding TDR classification and ALLL methodology is provided in Note 4 (Asset Quality).

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

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

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

At June 30, 2015, there were $179 million of loans held for sale that were previously purchased from three of the outstanding securitizations trusts pursuant to the legal terms of these particular trusts. These loans were transferred to held for sale in June 2015 and continue to be accounted for at fair value. As of June 30, 2015, the portfolio loans held for sale were valued based on indicative bids to sell the loans. These portfolio loans were previously valued using an internal discounted cash flow model, which was affected by assumptions for defaults, loss severity, discount rates, and prepayments. These loans are considered Level 3 assets since we rely on unobservable inputs when determining fair value. Our valuation process for these loans as well as the trust loans and securities is discussed in more detail below. Portfolio loans held for sale accounted for at fair value had a value of $179 million at June 30, 2015. Portfolio loans accounted for at fair value had a value of $191 million at December 31, 2014, and $209 million at June 30, 2014.

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

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

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

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

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

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

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

The following table shows the significant unobservable inputs used to measure the fair value of the portfolio loans held for sale, portfolio loans, and education loan securitization trust loans and securities accounted for at fair value at June 30, 2015, December 31, 2014, and June 30, 2014:

June 30, 2015 *dollars in millions*	**Fair Value of Level 3 Assets and Liabilities**	**Valuation Technique**	**Significant Unobservable Input**	**Range**
Portfolio loans held for sale accounted for at fair value	$ 179	Market approach	Indicative bids	88.24 - 105.55%

December 31, 2014 *dollars in millions*	**Fair Value of Level 3 Assets and Liabilities**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Portfolio loans accounted for at fair value	$ 191	Discounted cash flow	Prepayment speed	5.40 - 5.60% (5.50%)
			Loss severity	2.00 - 77.00% (25.66%)
			Discount rate	3.90 - 4.00% (3.92%)
			Default rate	.86 - 1.70% (1.12%)

June 30, 2014 *dollars in millions*	**Fair Value of Level 3 Assets and Liabilities**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Trust loans and portfolio loans accounted for at fair value	$ 1,920	Discounted cash flow	Prepayment speed	4.00 - 13.50% (6.97%)
			Loss severity	2.00 - 82.00% (52.01%)
			Discount rate	2.10 - 10.50% (3.52%)
			Default rate	8.50 - 26.00% (20.59%)
Trust securities	1,660	Discounted cash flow	Discount rate	1.20 - 3.00% (2.16%)

The following table shows the principal and fair value amounts for our portfolio loans held for sale at fair value, portfolio loans at carrying value, trust loans at fair value, and portfolio loans at fair value at June 30, 2015, December 31, 2014, and June 30, 2014. Our policies for determining past due loans, placing loans on nonaccrual, applying payments on nonaccrual loans, and resuming accrual of interest are disclosed in Note 1 (Summary of Significant Accounting Policies) under the heading Nonperforming Loans beginning on page 116 of our

2014 Form 10-K.

	June 30, 2015		December 31, 2014		June 30, 2014	
in millions	**Principal**	**Fair Value**	**Principal**	**Fair Value**	**Principal**	**Fair Value**
Portfolio loans held for sale at fair value						
Accruing loans past due 90 days or more	**$ 5**	**$ 5**				
Portfolio loans at carrying value						
Accruing loans past due 90 days or more	**$ 26**	**N/A**	$ 29	N/A	$ 29	N/A
Loans placed on nonaccrual status	**6**	**N/A**	11	N/A	9	N/A
Trust loans at fair value						
Accruing loans past due 90 days or more					$ 23	$ 23
Loans placed on nonaccrual status					7	7
Portfolio loans at fair value						
Accruing loans past due 90 days or more			$ 5	$ 5	$ 6	$ 6
Loans placed on nonaccrual status					1	1

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The following table shows the portfolio loans held for sale at fair value, portfolio loans at fair value, and the consolidated trusts assets and liabilities at fair value and their related contractual values at June 30, 2015, December 31, 2014, and June 30, 2014.

	June 30, 2015		December 31, 2014		June 30, 2014	
in millions	Contractual Amount	Fair Value	Contractual Amount	Fair Value	Contractual Amount	Fair Value
ASSETS						
Portfolio loans held for sale	**$ 179**	**$ 179**				
Portfolio loans			$ 192	$ 191	$ 207	$ 209
Trust loans					1,740	1,711
Trust other assets					19	19
LIABILITIES						
Trust securities					$ 1,752	$ 1,660
Trust other liabilities					17	17

The following tables present the assets and liabilities of the portfolio loans held for sale, portfolio loans, and consolidated education loan securitization trusts measured at fair value as well as the portfolio loans that are measured at fair value on a recurring basis at June 30, 2015, December 31, 2014, and June 30, 2014.

June 30, 2015

in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Portfolio loans held for sale			**$ 179**	**$ 179**
Total assets on a recurring basis at fair value			**$ 179**	**$ 179**

December 31, 2014

in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Portfolio loans			$ 191	$ 191
Total assets on a recurring basis at fair value			$ 191	$ 191

June 30, 2014

in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Portfolio loans			$ 209	$ 209
Trust loans			1,711	1,711

Trust other assets	19	19
Total assets on a recurring basis at fair value	$ 1,939	$ 1,939
LIABILITIES MEASURED ON A RECURRING BASIS		
Trust securities	$ 1,660	$ 1,660
Trust other liabilities	17	17
Total liabilities on a recurring basis at fair value	$ 1,677	$ 1,677

The following table shows the change in the fair values of the Level 3 portfolio loans held for sale, portfolio loans, and consolidated education loan securitization trusts and portfolio loans for the three- and six-month periods ended June 30, 2015, and June 30, 2014.

in millions	Portfolio Student Loans Held For Sale	Portfolio Student Loans	Trust Student Loans	Trust Other Assets	Trust Securities	Trust Other Liabilities
Balance at December 31, 2014		**$ 191**				
Gains (losses) recognized in earnings [a]		**1**				
Settlements		**(13)**				
Loans transferred to held for sale	**$ 179**	**(179)**				
Balance at June 30, 2015 [b]	**$ 179**					
Balance at March 31, 2015		**$ 187**				
Gains (losses) recognized in earnings [a]		**(2)**				
Settlements		**(6)**				
Loans transferred to held for sale	**$ 179**	**(179)**				
Balance at June 30, 2015 [b]	**$ 179**					
Balance at December 31, 2013		$ 147	$ 1,960	$ 20	$ 1,834	$ 20
Gains (losses) recognized in earnings [a]		(4)	(34)		33	
Purchases		74				
Sales			(74)			
Settlements		(8)	(141)	(1)	(207)	(3)
Balance at June 30, 2014 [b]		$ 209	$ 1,711	$ 19	$ 1,660	$ 17
Balance at March 31, 2014		$ 143	$ 1,893	$ 19	$ 1,796	$ 20
Gains (losses) recognized in earnings [a]		(4)	(36)		17	
Purchases		74				
Sales			(74)			
Settlements		(4)	(72)		(153)	(3)
Balance at June 30, 2014 [b]		$ 209	$ 1,711	$ 19	$ 1,660	$ 17

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

(b) There were no issuances, transfers into Level 3, or transfers out of Level 3 for the three- and six-month periods ended June 30, 2015, and June 30, 2014.

Victory Capital Management and Victory Capital Advisors. On July 31, 2013, we completed the sale of Victory to a private equity fund. During March 2014, client consents were secured and assets under management were finalized and, as a result, we recorded an additional after-tax cash gain of $6 million as of March 31, 2014. Since February 21,

2013, when we agreed to sell Victory, we have accounted for this business as a discontinued operation.

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

	Three months ended June 30,		**Six months ended June 30,**	
in millions	**2015**	**2014**	**2015**	**2014**
Net interest income		$ 1		$ 2
Noninterest income				10
Noninterest expense				
Income (loss) before income taxes		1		12
Income taxes		1		5
Income (loss) from discontinued operations, net of taxes				$ 7

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

in millions	June 30, 2015	December 31, 2014	June 30, 2014
Seller note [(a)]			$ 28
Total assets			$ 28
Accrued expense and other liabilities			
Total liabilities			

(a) At June 30, 2014, the only remaining asset of Victory was the Seller note. The Seller note was paid off during the fourth quarter of 2014.

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

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

	Three months ended June 30,		Six months ended June 30,	
in millions	2015	2014	2015	2014
Noninterest expense				$ 4
Income (loss) before income taxes				(4)
Income taxes				(2)
Income (loss) from discontinued operations, net of taxes				$ (2)

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

in millions	June 30, 2015	December 31, 2014	June 30, 2014
Cash and due from banks	**$ 15**	$ 19	$ 19
Total assets	**$ 15**	$ 19	$ 19

Accrued expense and other liabilities	$	3	$	3
Total liabilities	$	3	$	3

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

in millions	Three months ended June 30, 2015	2014	Six months ended June 30, 2015	2014
Net interest income	**$ 10**	$ 24	**$ 20**	$ 48
Provision for credit losses		6	**2**	10
Net interest income after provision for credit losses	**10**	18	**18**	38
Noninterest income	**(1)**	(56)	**3**	(60)
Noninterest expense	**4**	6	**8**	16
Income (loss) before income taxes	**5**	(44)	**13**	(38)
Income taxes	**2**	(16)	**5**	(14)
Income (loss) from discontinued operations, net of taxes [(a)]	**$ 3**	$ (28)	**$ 8**	$ (24)

(a) Includes after-tax charges of $5 million and $8 million for the three-month periods ended June 30, 2015, and June 30, 2014, respectively, and $11 million and $17 million for the six-month periods ended June 30, 2015, and June 30, 2014, respectively, determined by applying a matched funds transfer pricing methodology to the liabilities assumed necessary to support the discontinued operations.

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

in millions	June 30, 2015	December 31, 2014	June 30, 2014
Cash and due from banks	**$ 15**	$ 19	$ 19
Held-to-maturity securities	**1**	1	
Seller note			28
Trust loans at fair value			1,711
Portfolio loans at fair value		191	209
Loans, net of unearned income [(a)]	**1,962**	2,104	2,242
Less: Allowance for loan and lease losses	**22**	29	32
Net loans	**1,940**	2,266	4,130
Portfolio loans held for sale at fair value	**179**		
Trust accrued income and other assets at fair value			19
Accrued income and other assets	**34**	38	41
Total assets	**$ 2,169**	$ 2,324	$ 4,237
			$ 17

Trust accrued expense and other liabilities at fair value			
Accrued expense and other liabilities	$	3	3
Trust securities at fair value			1,660
Total liabilities	$	3	$ 1,680

(a) At June 30, 2015, December 31, 2014, and June 30, 2014, unearned income was less than $1 million.

12. Securities Financing Activities

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

During the third quarter of 2014, our broker-dealer subsidiary, KeyBanc Capital Markets, Inc. (KBCM), moved from a self-clearing organization to using a third-party organization for clearing purposes. In connection with this change, KBCM became an introducing broker-dealer, whereby it no longer needs to fund its business operations by entering into repurchase, reverse repurchase, or securities borrowed agreements. KBCM had no securities financing agreements outstanding at June 30, 2015, or December 31, 2014.

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The following table summarizes our securities financing agreements at June 30, 2015, December 31, 2014, and June 30, 2014:

	June 30, 2015			
in millions	**Gross Amount Presented in Balance Sheet**	**Netting Adjustments [(a)]**	**Collateral [(b)]**	**Net Amounts**
Offsetting of financial assets:				
Reverse repurchase agreements	**$ 3**	**$ (3)**		
Total	**$ 3**	**$ (3)**		
Offsetting of financial liabilities:				
Repurchase agreements [(c)]	**$ 4**	**$ (3)**	**$ (1)**	
Total	**$ 4**	**$ (3)**	**$ (1)**	

	December 31, 2014			
in millions	**Gross Amount Presented in Balance Sheet**	**Netting Adjustments [(a)]**	**Collateral [(b)]**	**Net Amounts**
Offsetting of financial assets:				
Reverse repurchase agreements	$ 3	$ (1)	$ (2)	
Total	$ 3	$ (1)	$ (2)	
Offsetting of financial liabilities:				
Repurchase agreements	$ 1	$ (1)		
Total	$ 1	$ (1)		

	June 30, 2014			
in millions	**Gross Amount Presented in Balance Sheet**	**Netting Adjustments [(a)]**	**Collateral [(b)]**	**Net Amounts**
Offsetting of financial assets:				
Reverse repurchase agreements	$ 540	$ (216)	$ (315)	$ 9

Securities borrowed	24		(23)	1
Total	$ 564	$ (216)	$ (338)	$ 10
Offsetting of financial liabilities:				
Repurchase agreements	$ 495	$ (216)	$ (279)	
Total	$ 495	$ (216)	$ (279)	

(a) Netting adjustments take into account the impact of master netting agreements that allow us to settle with a single counterparty on a net basis.
(b) These adjustments take into account the impact of bilateral collateral agreements that allow us to offset the net positions with the related collateral. The application of collateral cannot reduce the net position below zero. Therefore, excess collateral, if any, is not reflected above.
(c) Repurchase agreements are collateralized by U.S. Treasury securities and contracted on an overnight basis.

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

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13. Employee Benefits

Pension Plans

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

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

	Three months ended June 30,		**Six months ended June 30,**	
in millions	**2015**	**2014**	**2015**	**2014**
Interest cost on PBO	**$ 10**	$ 12	**$ 20**	$ 24
Expected return on plan assets	**(14)**	(17)	**(28)**	(34)
Amortization of losses	**5**	4	**9**	8
Net pension cost (benefit)	**$ 1**	$ (1)	**$ 1**	$ (2)

Other Postretirement Benefit Plans

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

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

	Three months ended June 30,		**Six months ended June 30,**	
in millions	**2015**	**2014**	**2015**	**2014**
Interest cost on APBO	**$ 1**	$ 1	**$ 2**	$ 2
Expected return on plan assets		(1)	**(1)**	(2)
Amortization of unrecognized prior service credit	**(1)**		**(1)**	
Net postretirement benefit cost				

14. Trust Preferred Securities Issued by Unconsolidated Subsidiaries

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

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

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

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

As of June 30, 2015, the trust preferred securities issued by the KeyCorp capital trusts represent $85 million, or .9%, of our total qualifying Tier 1 capital, net of goodwill.

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

dollars in millions	**Trust Preferred Securities, Net of Discount [a]**	**Common Stock**	**Principal Amount of Debentures, Net of Discount [b]**	**Interest Rate of Trust Preferred Securities and Debentures [c]**	**Maturity of Trust Preferred Securities and Debentures**
June 30, 2015					
KeyCorp Capital I	**$ 156**	**$ 6**	**$ 162**	**1.014%**	**2028**
KeyCorp Capital II	**107**	**4**	**111**	**6.875**	**2029**
KeyCorp Capital III	**139**	**4**	**143**	**7.750**	**2029**
Total	**$ 402**	**$ 14**	**$ 416**	**4.903%**	
December 31, 2014	$ 408	$ 14	$ 422	4.926%	
June 30, 2014	$ 397	$ 14	$ 411	4.856%	

(a) The trust preferred securities must be redeemed when the related debentures mature, or earlier if provided in the governing indenture. Each issue of trust preferred securities carries an interest rate identical to that of the related debenture. Certain trust preferred securities include basis adjustments related to fair value hedges totaling $62 million at June 30, 2015, $68 million at December 31, 2014, and $57 million at June 30, 2014. See Note 7 (Derivatives and Hedging Activities) for an explanation of fair value hedges.

(b) We have the right to redeem these debentures. If the debentures purchased by KeyCorp Capital I are redeemed before they mature, the redemption price will be the principal amount, plus any accrued but unpaid interest. If the debentures purchased by KeyCorp Capital II or KeyCorp Capital III are redeemed before they mature, the redemption price will be the greater of: (i) the principal amount, plus any accrued but unpaid interest, or (ii) the sum of the present values of principal and interest payments discounted at the Treasury Rate (as defined in the applicable indenture), plus 20 basis points for KeyCorp Capital II or 25 basis points for KeyCorp Capital III or 50 basis points in the case of redemption upon either a tax or a capital treatment event for either KeyCorp Capital II or KeyCorp Capital III, plus any accrued but unpaid interest. The principal amount of certain debentures includes basis adjustments related to fair value hedges totaling $62 million at June 30, 2015, $68 million at December 31, 2014, and $57 million at June 30, 2014. See Note 7 for an explanation of fair value hedges. The principal amount of debentures, net of discounts, is included in long-term debt on the balance sheet.

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

15. Contingent Liabilities and Guarantees

Legal Proceedings

See Note 20 (Commitments, Contingent Liabilities and Guarantees) under the heading Legal Proceedings on page 206 of our 2014 Form 10-K for a description of a proceeding styled *In Re: Checking Account Overdraft Litigation.*

Other litigation. From time to time, in the ordinary course of business, we and our subsidiaries are subject to various other litigation, investigations, and administrative proceedings. Private, civil litigations may range from individual actions involving a single plaintiff to putative class action lawsuits with potentially thousands of class members. Investigations may involve both formal and informal proceedings, by both government agencies and self-regulatory bodies. These other matters may involve claims for substantial monetary relief. At times, these matters may present novel claims or legal theories. Due to the complex nature of these various other matters, it may be years before some matters are resolved. While it is impossible to ascertain the ultimate resolution or range of financial liability, based on information presently known to us, we do not believe there is any other matter to which we are a party, or involving any of our properties that, individually or in the aggregate, would reasonably be expected to have a material adverse effect on our financial condition. We continually monitor and reassess the potential materiality of these other litigation matters. We note, however, that in light of the inherent uncertainty in legal proceedings there can be no assurance that the ultimate resolution will not exceed established reserves. As a result, the outcome of a particular matter, or a combination of matters, may be material to our results of operations for a particular period, depending upon the size of the loss or our income for that particular period.

Guarantees

We are a guarantor in various agreements with third parties. The following table shows the types of guarantees that we had outstanding at June 30, 2015. Information pertaining to the basis for determining the liabilities recorded in connection with these guarantees is included in Note 1 (Summary of Significant Accounting Policies) under the heading Guarantees beginning on page 124 of our 2014 Form 10-K.

June 30, 2015 *in millions*	**Maximum Potential Undiscounted Future Payments**	**Liability Recorded**
Financial guarantees:		
Standby letters of credit	**$ 10,933**	**$ 64**
Recourse agreement with FNMA	**1,714**	**4**
Return guarantee agreement with LIHTC investors	**4**	**4**
Written put options [(a)]	**2,092**	**82**
Total	**$ 14,743**	**$ 154**

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

We determine the payment/performance risk associated with each type of guarantee described below based on the probability that we could be required to make the maximum potential undiscounted future payments shown in the preceding table. We use a scale of low (0% to 30% probability of payment), moderate (greater than 30% to 70% probability of payment), or high (greater than 70% probability of payment) to assess the payment/performance risk, and have determined that the payment/performance risk associated with each type of guarantee outstanding at June 30, 2015, is low.

Standby letters of credit. KeyBank issues standby letters of credit to address clients financing needs. These instruments obligate us to pay a specified third party when a client fails to repay an outstanding loan or debt instrument or fails to perform some contractual nonfinancial obligation. Any amounts drawn under standby letters of credit are treated as loans to the client; they bear interest (generally at variable rates) and pose the same credit risk to us as a loan. At June 30, 2015, our standby letters of credit had a remaining weighted-average life of 3 years, with remaining actual lives ranging from less than one year to as many as 12 years.

Recourse agreement with FNMA. We participate as a lender in the FNMA Delegated Underwriting and Servicing program. FNMA delegates responsibility for originating, underwriting, and servicing mortgages, and we assume a limited portion of the risk of loss during the remaining term on each commercial mortgage loan that we sell to FNMA. We maintain a reserve for such potential losses in an amount that we believe approximates the fair value of our liability. At June 30, 2015, the outstanding commercial mortgage loans in this program had a weighted-average remaining term of 7.9 years, and the unpaid

principal balance outstanding of loans sold by us as a participant was $6 billion. As shown in the preceding table, the maximum potential amount of undiscounted future payments that we could be required to make under this program is equal to approximately one-third of the principal balance of loans outstanding at June 30, 2015. If we are required to make a payment, we would have an interest in the collateral underlying the related commercial mortgage loan; any loss we incur could be offset by the amount of any recovery from the collateral.

Return guarantee agreement with LIHTC investors. KAHC, a subsidiary of KeyBank, offered limited partnership interests to qualified investors. Partnerships formed by KAHC invested in low-income residential rental properties that qualify for federal low-income housing tax credits under Section 42 of the Internal Revenue Code. In certain partnerships, investors paid a fee to KAHC for a guaranteed return that is based on the financial performance of the property and the property s confirmed LIHTC status throughout a 15-year compliance period. Typically, KAHC fulfills these guaranteed returns by distributing tax credits and deductions associated with the specific properties. If KAHC defaults on its obligation to provide the guaranteed return, KeyBank is obligated to make any necessary payments to investors. No recourse or collateral is available to offset our guarantee obligation other than the underlying income streams from the properties and the residual value of the operating partnership interests.

As shown in the previous table, KAHC maintained a reserve in the amount of $4 million at June 30, 2015, which is sufficient to cover estimated future obligations under the guarantees. The maximum exposure to loss reflected in the table represents undiscounted future payments due to investors for the return on and of their investments.

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

Written put options. In the ordinary course of business, we write put options for clients that wish to mitigate their exposure to changes in interest rates and commodity prices. At June 30, 2015, our written put options had an average life of 2 years. These instruments are considered to be guarantees, as we are required to make payments to the counterparty (the client) based on changes in an underlying variable that is related to an asset, a liability, or an equity security that the client holds. We are obligated to pay the client if the applicable benchmark interest rate or commodity price is above or below a specified level (known as the strike rate). These written put options are accounted for as derivatives at fair value, as further discussed in Note 7 (Derivatives and Hedging Activities). We mitigate our potential future payment obligations by entering into offsetting positions with third parties.

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

Default guarantees. Some lines of business participate in guarantees that obligate us to perform if the debtor (typically a client) fails to satisfy all of its payment obligations to third parties. We generally undertake these guarantees for one of two possible reasons: (i) either the risk profile of the debtor should provide an investment return, or (ii) we are supporting our underlying investment in the debtor. We do not hold collateral for the default guarantees. If we were required to make a payment under a guarantee, we would receive a pro rata share should the third party collect some or all of the amounts due from the debtor. At June 30, 2015, we did not have any default guarantees.

Other Off-Balance Sheet Risk

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

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

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

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16. Accumulated Other Comprehensive Income

Our changes in AOCI for the three and six months ended June 30, 2015, and June 30, 2014, are as follows:

in millions	Unrealized gains (losses) on securities available for sale	Unrealized gains (losses) on derivative financial instruments	Foreign currency translation adjustment	Net pension and postretirement benefit costs	Total
Balance at December 31, 2014	$ (4)	$ (8)	$ 22	$ (366)	$ (356)
Other comprehensive income before reclassification, net of income taxes	**3**	**42**	**(14)**		**31**
Amounts reclassified from accumulated other comprehensive income, net of income taxes [(a)]	**1**	**(27)**	**1**	**5**	**(20)**
Net current-period other comprehensive income, net of income taxes	**4**	**15**	**(13)**	**5**	**11**
Balance at June 30, 2015		**$ 7**	**$ 9**	**$ (361)**	**$ (345)**
Balance at March 31, 2015	**$ 51**	**$ 24**	**$ 9**	**$ (363)**	**$ (279)**
Other comprehensive income before reclassification, net of income taxes	**(52)**	**(3)**	**(1)**		**(56)**
Amounts reclassified from accumulated other comprehensive income, net of income taxes [(a)]	**1**	**(14)**	**1**	**2**	**(10)**
Net current-period other comprehensive income, net of income taxes	**(51)**	**(17)**		**2**	**(66)**
Balance at June 30, 2015		**$ 7**	**$ 9**	**$ (361)**	**$ (345)**
Balance at December 31, 2013	$ (63)	$ (11)	$ 42	$ (320)	$ (352)
Other comprehensive income before reclassification, net of income taxes	57	22			79
Amounts reclassified from accumulated other comprehensive income, net of		(18)	(3)	5	(16)

income taxes [a]									
Net current-period other comprehensive income, net of income taxes		57		4		(3)		5	63
Balance at June 30, 2014	$	(6)	$	(7)	$	39	$	(315)	$ (289)
Balance at March 31, 2014	$	(34)	$	(12)	$	40	$	(318)	$ (324)
Other comprehensive income before reclassification, net of income taxes		28		15					43
Amounts reclassified from accumulated other comprehensive income, net of income taxes [a]				(10)		(1)		3	(8)
Net current-period other comprehensive income, net of income taxes		28		5		(1)		3	35
Balance at June 30, 2014	$	(6)	$	(7)	$	39	$	(315)	$ (289)

(a) See table below for details about these reclassifications.

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Our reclassifications out of AOCI for the three and six months ended June 30, 2015, and June 30, 2014, are as follows:

Six months ended June 30, 2015 *in millions*		**Amount Reclassified from Accumulated Other Comprehensive Income**	**Affected Line Item in the Statement Where Net Income is Presented**
Unrealized gains (losses) on available for sale securities			
Realized losses	$	(1)	Other income
		(1)	Income (loss) from continuing operations before income taxes
			Income taxes
	$	(1)	Income (loss) from continuing operations
Unrealized gains (losses) on derivative financial instruments			
Interest rate	$	45	Interest income Loans
Interest rate		(2)	Interest expense Long term debt
		43	Income (loss) from continuing operations before income taxes
		16	Income taxes
	$	27	Income (loss) from continuing operations
Foreign currency translation adjustment			
	$	(1)	Corporate services income
		(1)	Income (loss) from continuing operations before income taxes
			Income taxes
	$	(1)	Income (loss) from continuing operations
Net pension and postretirement benefit costs			
Amortization of losses	$	(9)	Personnel expense
Amortization of unrecognized prior service cost		1	Personnel expense

		(8)	Income (loss) from continuing operations before income taxes
		(3)	Income taxes
	$	**(5)**	Income (loss) from continuing operations

Three months ended June 30, 2015 *in millions*		**Amount Reclassified from Accumulated Other Comprehensive Income**	**Affected Line Item in the Statement Where Net Income is Presented**
Unrealized gains (losses) on available for sale securities			
Realized losses	**$**	**(1)**	Other income
		(1)	Income (loss) from continuing operations before income taxes
			Income taxes
	$	**(1)**	Income (loss) from continuing operations
Unrealized gains (losses) on derivative financial instruments			
Interest rate	**$**	**23**	Interest income Loans
Interest rate		**(1)**	Interest expense Long term debt
		22	Income (loss) from continuing operations before income taxes
		8	Income taxes
	$	**14**	Income (loss) from continuing operations
Foreign currency translation adjustment			
	$	**(1)**	Corporate services income
		(1)	Income (loss) from continuing operations before income taxes
			Income taxes
	$	**(1)**	Income (loss) from continuing operations
Net pension and postretirement benefit costs			
Amortization of losses	**$**	**(5)**	Personnel expense
Amortization of unrecognized prior service cost		**1**	Personnel expense

	(4)	Income (loss) from continuing operations before income taxes
	(2)	Income taxes
$	**(2)**	Income (loss) from continuing operations

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Six months ended June 30, 2014 *in millions*	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains (losses) on derivative financial instruments			
Interest rate	$	31	Interest income Loans
Interest rate		(2)	Interest expense Long term debt
Foreign exchange contracts		(1)	Other income
		28	Income (loss) from continuing operations before income taxes
		10	Income taxes
	$	18	Income (loss) from continuing operations
Foreign currency translation adjustment			
	$	3	Corporate services income
		3	Income (loss) from continuing operations before income taxes
			Income taxes
	$	3	Income (loss) from continuing operations
Net pension and postretirement benefit costs Amortization of losses	$	(8)	Personnel expense
		(8)	Income (loss) from continuing operations before income taxes
		(3)	Income taxes
	$	(5)	Income (loss) from continuing operations

Three months ended June 30, 2014 *in millions*	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains (losses) on derivative financial instruments			
Interest rate	$	16	Interest income Loans

Interest rate		(1)	Interest expense Long term debt
Foreign exchange contracts		(1)	Other income
		14	Income (loss) from continuing operations before income taxes
		4	Income taxes
	$	10	Income (loss) from continuing operations
Foreign currency translation adjustment			
			Corporate services income
			Income (loss) from continuing operations before income taxes
	$	(1)	Income taxes
	$	1	Income (loss) from continuing operations
Net pension and postretirement benefit costs			
Amortization of losses	$	(4)	Personnel expense
		(4)	Income (loss) from continuing operations before income taxes
		(1)	Income taxes
	$	(3)	Income (loss) from continuing operations

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17. Shareholders Equity

Comprehensive Capital Plan

As previously reported and as authorized by the Board and pursuant to our 2015 capital plan submitted to and not objected to by the Federal Reserve, we have authority to repurchase up to $725 million of our common shares, which include repurchases to offset issuances of common shares under our employee compensation plans. Common share repurchases under the 2015 capital plan began in the second quarter of 2015 and are expected to be executed through the second quarter of 2016. During the second quarter of 2015, we completed $129 million of common share repurchases under this authorization.

Our 2015 capital plan also proposed an increase in our quarterly common share dividend from $.065 to $.075 per share. This dividend increase was approved in May 2015 by the Board, who subsequently declared a quarterly dividend of $.075 per common share for the second quarter of 2015. An additional potential increase in our quarterly common share dividend, up to $.085 per share, will be considered by the Board in 2016 for the fifth quarter of the 2015 capital plan.

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18. Line of Business Results

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

Key Community Bank

Key Community Bank serves individuals and small to mid-sized businesses through its 12-state branch network.

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

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

Key Corporate Bank

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

Other Segments

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

Reconciling Items

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

The table on the following pages shows selected financial data for our major business segments for the three- and six-month periods ended June 30, 2015, and June 30, 2014.

The information was derived from the internal financial reporting system that we use to monitor and manage our financial performance. GAAP guides financial accounting, but there is no authoritative guidance for management accounting the way we use our judgment and experience to make reporting decisions. Consequently, the line of

business results we report may not be comparable to line of business results presented by other companies.

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

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

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

The consolidated provision for credit losses is allocated among the lines of business primarily based on their actual net loan charge-offs, adjusted periodically for loan growth and changes in risk profile. The amount of the consolidated provision is based on the methodology that we use to estimate our consolidated ALLL. This methodology is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses beginning on page 117 of our 2014 Form 10-K.

Income taxes are allocated based on the statutory federal income tax rate of 35% and a blended state income tax rate (net of the federal income tax benefit) of 2.2%.

Capital is assigned to each line of business based on economic equity.
Developing and applying the methodologies that we use to allocate items among our lines of business is a dynamic process. Accordingly, financial results may be revised periodically to reflect enhanced alignment of expense base allocation drivers, changes in the risk profile of a particular business, or changes in our organizational structure.

Three months ended June 30,	**Key Community Bank**		**Key Corporate Bank**	
dollars in millions	**2015**	**2014**	**2015**	**2014**
SUMMARY OF OPERATIONS				
Net interest income (TE)	**$ 362**	$ 361	**$ 227**	$ 210
Noninterest income	**197**	192	**250**	185
Total revenue (TE) [(a)]	**559**	553	**477**	395
Provision for credit losses	**7**	25	**38**	(4)
Depreciation and amortization expense	**14**	16	**11**	7
Other noninterest expense	**435**	427	**241**	200
Income (loss) from continuing operations before income taxes (TE)	**103**	85	**187**	192
Allocated income taxes and TE adjustments	**38**	32	**52**	54
Income (loss) from continuing operations	**65**	53	**135**	138
Income (loss) from discontinued operations, net of taxes				
Net income (loss)	**65**	53	**135**	138
Less: Net income (loss) attributable to noncontrolling interests				3
Net income (loss) attributable to Key	**$ 65**	$ 53	**$ 135**	$ 135
AVERAGE BALANCES [(b)]				
Loans and leases	**$ 30,707**	$ 30,034	**$ 25,298**	$ 22,886
Total assets [(a)]	**32,758**	32,132	**31,228**	28,007
Deposits	**50,766**	50,232	**19,708**	16,357
OTHER FINANCIAL DATA				
Net loan charge-offs [(b)]	**$ 20**	$ 33	**$ 12**	$ (2)
Return on average allocated equity [(b)]	**9.75%**	7.83%	**30.15%**	35.72%
Return on average allocated equity	**9.75**	7.83	**30.15**	35.72
Average full-time equivalent employees [(c)]	**7,400**	7,569	**2,058**	1,940

Six months ended June 30,	**Key Community Bank**		**Key Corporate Bank**	
dollars in millions	**2015**	**2014**	**2015**	**2014**
SUMMARY OF OPERATIONS				
Net interest income (TE)	**$ 720**	$ 724	**$ 440**	$ 406
Noninterest income	**388**	375	**438**	380
Total revenue (TE) [(a)]	**1,108**	1,099	**878**	786
Provision for credit losses	**36**	36	**46**	(7)
Depreciation and amortization expense	**29**	34	**20**	14
Other noninterest expense	**860**	846	**447**	394
	183	183	**365**	385

Income (loss) from continuing operations before income taxes (TE)				
Allocated income taxes and TE adjustments	**68**	68	**101**	111
Income (loss) from continuing operations	**115**	115	**264**	274
Income (loss) from discontinued operations, net of taxes				
Net income (loss)	**115**	115	**264**	274
Less: Net income (loss) attributable to noncontrolling interests			**2**	2
Net income (loss) attributable to Key	**$ 115**	$ 115	**$ 262**	$ 272
AVERAGE BALANCES [b]				
Loans and leases	**$ 30,684**	$ 29,916	**$ 25,012**	$ 22,441
Total assets [a]	**32,737**	32,025	**30,765**	27,591
Deposits	**50,592**	50,073	**19,141**	16,175
OTHER FINANCIAL DATA				
Net loan charge-offs [b]	**$ 49**	$ 61	**$ 8**	$ (14)
Return on average allocated equity [b]	**8.57%**	8.41%	**28.89%**	35.87%
Return on average allocated equity	**8.57**	8.41	**28.89**	35.87
Average full-time equivalent employees [c]	**7,426**	7,633	**2,057**	1,928

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

(b) From continuing operations.

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

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Other Segments		Total Segments		Reconciling Items		Key	
2015	2014	2015	2014	2015	2014	2015	2014
	$ 6	$ 589	$ 577	$ 2	$ 2	$ 591	$ 579
$ 44	81	491	458	(3)	(3)	488	455
44	87	1,080	1,035	(1)	(1)	1,079	1,034
(4)	(8)	41	13		(1)	41	12
2	3	27	26	38	38	65	64
13	17	689	644	(43)	(21)	646	623
33	75	323	352	4	(17)	327	335
1	18	91	104		(22)	91	82
32	57	232	248	4	5	236	253
				3	(28)	3	(28)
32	57	232	248	7	(23)	239	225
1	3	1	6			1	6
$ 31	$ 54	$ 231	$ 242	$ 7	$ (23)	$ 238	$ 219
$ 1,903	$ 2,615	$ 57,908	$ 55,535	$ 70	$ 76	$ 57,978	$ 55,611
27,023	25,897	91,009	86,036	650	705	91,659	86,741
442	635	70,916	67,224	(78)	(101)	70,838	67,123
$ 3		$ 35	$ 31	$ 1	$ (1)	$ 36	$ 30
31.72%	43.93%	19.05%	20.55%	.28%	.35%	8.90%	9.47%
31.72	43.93	19.05	20.55	.49	(1.61)	9.01	8.40
14	46	9,472	9,555	3,983	4,312	13,455	13,867

Other Segments		Total Segments		Reconciling Items		Key	
2015	2014	2015	2014	2015	2014	2015	2014
$ 4	$ 16	$ 1,164	$ 1,146	$ 4	$ 2	$ 1,168	$ 1,148
107	137	933	892	(8)	(2)	925	890
111	153	2,097	2,038	(4)		2,093	2,038
(7)	(12)	75	17	1	(1)	76	16
5	6	54	54	75	76	129	130
25	40	1,332	1,280	(81)	(59)	1,251	1,221
88	119	636	687	1	(16)	637	671
11	24	180	203	(9)	(23)	171	180
77	95	456	484	10	7	466	491
				8	(24)	8	(24)
77	95	456	484	18	(17)	474	467
1	4	3	6			3	6

$ 76	$ 91	**$ 453**	$ 478	**$ 18**	$ (17)	**$ 471**	$ 461
$ 1,973	$ 2,763	**$ 57,669**	$ 55,120	**$ 77**	$ 61	**$ 57,746**	$ 55,181
26,484	25,902	**89,986**	85,518	**664**	684	**90,650**	86,202
454	605	**70,187**	66,853	**(80)**	(142)	**70,107**	66,711
$ 7	$ 4	**$ 64**	$ 51		$ (1)	**$ 64**	$ 50
37.94%	36.41%	**18.50%**	20.12%	**.36%**	.25%	**4.38%**	4.66%
37.94	36.41	**18.50**	20.12	**.64**	(.61)	**4.45**	4.43
15	59	**9,498**	9,620	**4,014**	4,341	**13,512**	13,961

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

The Board of Directors and Shareholders of KeyCorp

We have reviewed the consolidated balance sheets of KeyCorp as of June 30, 2015 and 2014, and the related consolidated statements of income and comprehensive income for the three- and six-month periods ended June 30, 2015 and 2014, and the consolidated statements of changes in equity and cash flows for the six-month periods ended June 30, 2015 and 2014. These financial statements are the responsibility of KeyCorp s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of KeyCorp as of December 31, 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended (not presented herein) and we expressed an unqualified opinion on those consolidated financial statements in our report dated March 2, 2015. In our opinion, the accompanying consolidated balance sheet of KeyCorp as of December 31, 2014, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Cleveland, Ohio
August 3, 2015 Ernst & Young LLP

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Item 2. Management s Discussion & Analysis of Financial Condition & Results of Operations

Introduction

This section reviews the financial condition and results of operations of KeyCorp and its subsidiaries for the quarterly and year-to-date periods ended June 30, 2015, and June 30, 2014. 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 and notes that we refer to are presented in the table of contents.

References to our 2014 Form 10-K refer to our Form 10-K for the year ended December 31, 2014, which has been filed with the SEC and is available on its website (www.sec.gov) and on our website (www.key.com/ir).

Terminology

Throughout this discussion, references to Key, we, our, us, and similar terms refer to the consolidated entity consis 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, Victory, and Austin. The education lending business and Austin have been accounted for as ***discontinued operations*** since 2009. Victory was classified as a ***discontinued operation*** in our first quarter 2013 financial reporting as a result of the sale of this business as announced on February 21, 2013, and closed on July 31, 2013.

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

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

For regulatory purposes, capital is divided into two classes. Federal regulations currently prescribe that at least one-half of a bank or BHC s ***total risk-based capital*** must qualify as ***Tier 1 capital***. Both total and Tier 1 capital serve as bases for several measures of capital adequacy, which is an important indicator of financial stability and condition. As described under the heading Regulatory capital and liquidity Capital planning and stress testing in the section entitled Supervision and Regulation that begins on page 9 of our 2014 Form 10-K, 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 evaluated a component of Tier 1 capital,

known as ***Tier 1 common equity***, using the definitions of Tier 1 capital and total risk-weighted assets that were in effect in 2014, as well as a transition plan for full implementation of the ***Regulatory Capital Rules***. The Capital section of this report under the heading Capital adequacy provides more information on total capital, Tier 1 capital, Tier 1 common equity, and the Regulatory Capital Rules, including ***Common Equity Tier 1***, and describes how these measures are calculated.

Additionally, a comprehensive list of the acronyms and abbreviations used throughout this discussion is included in Note 1 (Basis of Presentation).

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Selected financial data

Our financial performance for each of the last five quarters is summarized in Figure 1.

Figure 1. Selected Financial Data

	2015		**2014**			**Six months ended June 30,**	
dollars in millions, except per share amounts	**Second**	**First**	**Fourth**	**Third**	**Second**	**2015**	**2014**
FOR THE PERIOD							
Interest income	**$ 652**	**$ 636**	$ 646	$ 639	$ 639	**$ 1,288**	$ 1,269
Interest expense	**68**	**65**	64	64	66	**133**	133
Net interest income	**584**	**571**	582	575	573	**1,155**	1,136
Provision for credit losses	**41**	**35**	22	19	12	**76**	16
Noninterest income	**488**	**437**	490	417	455	**925**	890
Noninterest expense	**711**	**669**	704	706	687	**1,380**	1,351
Income (loss) from continuing operations before income taxes	**320**	**304**	346	267	329	**624**	659
Income (loss) from continuing operations attributable to Key	**235**	**228**	251	203	247	**463**	485
Income (loss) from discontinued operations, net of taxes [a]	**3**	**5**	2	(17)	(28)	**8**	(24)
Net income (loss) attributable to Key	**238**	**233**	253	186	219	**471**	461
Income (loss) from continuing operations attributable to Key common shareholders	**230**	**222**	246	197	242	**452**	