KEYCORP /NEW/
Form 10-K
February 26, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT

PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended

December 31, 2013

Commission file number: 1-11302

Exact name of Registrant as specified in its charter:

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

(216) 689-3000
Registrant s Telephone Number, including area code:
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Common Shares, $1 par value	New York Stock Exchange
7.750% Non-Cumulative Perpetual Convertible Preferred Stock, Series A	New York Stock Exchange

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

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

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

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

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

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

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

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

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

The aggregate market value of voting stock held by nonaffiliates of the Registrant was $10,078,228,828 (based on the June 28, 2013, closing price of KeyCorp common shares of $11.04 as reported on the New York Stock Exchange). As of February 24, 2014, there were 889,398,493 common shares outstanding.

Certain specifically designated portions of KeyCorp s definitive Proxy Statement for its 2014 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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Forward-looking Statements

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

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

- deterioration of commercial real estate market fundamentals;
- defaults by our loan counterparties or clients;
- adverse changes in credit quality trends;
- declining asset prices;
- changes in local, regional and international business, economic or political conditions;
- the extensive and increasing regulation of the U.S. financial services industry;
- changes in accounting policies, rules and interpretations;
- increasing capital and liquidity standards under applicable regulatory rules;
- unanticipated changes in our liquidity position, including but not limited to, changes in the cost of liquidity, our ability to enter the financial markets and to secure alternative funding sources;
- our ability to receive dividends from our subsidiary, KeyBank;
- downgrades in our credit ratings or those of KeyBank;
- breaches of security or failures of our technology systems due to technological or other factors and cybersecurity threats;

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

¿ adverse judicial proceedings;

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

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

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

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

¿ the soundness of other financial institutions;

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

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

¿ increased competitive pressure due to industry consolidation;

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

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

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

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KEYCORP

2013 FORM 10-K ANNUAL REPORT

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PART I

ITEM 1. BUSINESS

Overview

KeyCorp, organized in 1958 under the laws of the State of Ohio, is headquartered in Cleveland, Ohio. We are a bank holding company under the Bank Holding Company Act of 1956, as amended (BHCA), and are one of the nation s largest bank-based financial services companies, with consolidated total assets of approximately $92.9 billion at December 31, 2013. KeyCorp is the parent holding company for KeyBank National Association (KeyBank), its principal subsidiary, through which most of our banking services are provided. Through KeyBank and certain other subsidiaries, we provide a wide range of retail and commercial banking, commercial leasing, investment management, consumer finance, commercial mortgage servicing and special servicing, and investment banking products and services to individual, corporate, and institutional clients through two major business segments: Key Community Bank and Key Corporate Bank.

As of December 31, 2013, these services were provided across the country through KeyBank s 1,028 full-service retail banking branches and a network of 1,335 automated teller machines (ATMs) in 12 states, as well as additional offices, online and mobile banking capabilities, and a telephone banking call center. Additional information pertaining to our two business segments is included in the Line of Business Results section in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of this report, and in Note 23 (Line of Business Results) of the Notes to Consolidated Financial Statements presented in Item 8. Financial Statements and Supplementary Data, which are incorporated herein by reference. KeyCorp and its subsidiaries had an average of 14,783 full-time equivalent employees for 2013.

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

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

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

Important Terms Used in this Report

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

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

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Demographics

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

Key Community Bank serves individuals and small to mid-sized businesses by offering a variety of deposit, investment, lending, credit card, and personalized wealth management products and business advisory services. These products and services are provided through our relationship managers and specialists working in our 12-state branch network, which was reorganized during 2013 into nine internally-defined geographic regions: Oregon and Alaska, Washington, Rocky Mountains, Indiana, Western Ohio and Michigan, Eastern Ohio, Eastern New York, New England, and Western New York.

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

l 31, 2013 *illions*	Geographic Region Oregon & Alaska		Washington		Rocky Mountains		Indiana		West Ohio/ Michigan		East Ohio		Eastern New York		New England		Western New York		NonRegion (a)		T
posits	$ 4,289		$ 6,597		$ 4,768		$ 2,312		$ 4,461		$ 8,675		$ 8,055		$ 2,913		$ 5,005		$ 2,648		$ 49
otal	8.6	%	13.3	%	9.6	%	4.6	%	9.0	%	17.4	%	16.2	%	5.9	%	10.1	%	5.3	%	1
loans	$ 1,649		$ 1,815		$ 1,620		$ 806		$ 1,179		$ 2,064		$ 1,753		$ 790		$ 526		$ 2,839		$ 15
otal	11.0	%	12.1	%	10.8	%	5.4	%	7.8	%	13.7	%	11.6	%	5.2	%	3.5	%	18.9	%	1
me	$ 1,338		$ 1,861		$ 1,553		$ 467		$ 832		$ 1,255		$ 1,284		$ 625		$ 760		$ 111		$ 10
otal	13.3	%	18.5	%	15.4	%	4.6	%	8.3	%	12.4	%	12.7	%	6.2	%	7.5	%	1.1	%	1

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

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

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

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Additional Information

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

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

Information contained on or accessible through our website or any other website referenced in this report is not part of this report.

Shareholders may obtain a copy of any of the above-referenced corporate governance documents by writing to our Investor Relations Department at Investor Relations, KeyCorp, 127 Public Square, Mailcode OH-01-27-1113, Cleveland, Ohio 44114-1306; by calling (216) 689-3000; or by sending an e-mail to investor_relations@keybank.com.

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Acquisitions and Divestitures

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

Competition

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

In recent years, mergers and acquisitions have led to greater concentration in the banking industry, placing added competitive pressure on Key s core banking products and services. Consolidation continued during 2013 and led to redistribution of deposits and certain banking assets to larger financial institutions, including through the FDIC least-cost resolution process, albeit at a far slower pace than during 2012 and 2011. Financial institutions with liquidity challenges sought mergers and other resolutions, and the deposits and certain banking assets of the 167 banks that failed between 2011 and 2013, representing $52.6 billion in total assets, were redistributed through the FDIC s least-cost resolution process.

Supervision and Regulation

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

Overview

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

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

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

Our national bank subsidiaries and their subsidiaries are subject to regulation, supervision and examination by the OCC. At December 31, 2013, we operated one full-service, FDIC-insured national bank subsidiary, KeyBank, and two national bank subsidiaries that are limited to fiduciary activities. The FDIC also has certain regulatory, supervisory and examination authority over KeyBank and KeyCorp under the FDIA and the Dodd-Frank Act.

We have other financial services subsidiaries that are subject to regulation, supervision and examination by the Federal Reserve, as well as other applicable state and federal regulatory agencies and self-regulatory organizations. Our securities brokerage and asset management subsidiaries are subject to supervision and regulation by the SEC, FINRA and state securities regulators, and our insurance subsidiaries are subject to regulation by the insurance regulatory authorities of the states in which they operate. Our other nonbank subsidiaries are subject to laws and regulations of both the federal government and the various states in which they are authorized to do business.

Regulatory capital and liquidity

Current regulatory capital requirements

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

The current minimum risk-based capital requirements adopted by federal banking regulators are based on a 1988 international accord (Basel I) developed by the Basel Committee on Banking Supervision (the Basel Committee). Under current requirements, Key and KeyBank generally must maintain a minimum ratio of total capital to risk-weighted assets of 8%. At least half of the total capital must be Tier 1 capital, comprised of qualifying perpetual preferred stock, common shareholders equity (excluding AOCI other than the cumulative effect of foreign currency translation), a limited amount of qualifying trust preferred securities, and certain mandatorily convertible preferred securities. The remainder may consist of Tier 2 capital, including qualifying subordinated debt, certain hybrid capital instruments, perpetual debt, mandatory convertible debt instruments, qualifying perpetual preferred stock, and a limited amount of the allowance for credit losses.

BHCs and banks with securities and commodities trading activities exceeding specified levels are required to maintain capital to cover their market risk exposure in accordance with regulations adopted by federal banking regulators. Market risk includes changes in the market value of trading account, foreign exchange and commodity positions, whether resulting from broad market movements (such as movements in interest rates, equity prices, foreign exchange rates, or commodity prices) or from position specific factors (such as idiosyncratic variation, event risk, and default risk). Because Key and KeyBank each have trading assets and liabilities of at least $1 billion or 10% of total assets, Key is subject to the Federal Reserve s rule and KeyBank is subject to the OCC s rule on market risk regulatory capital, which became effective in January 2013. In December 2013, the Federal Reserve revised, effective April 1, 2014 (or earlier if a BHC elects to adopt it earlier), its market risk capital rule relating to the treatment of certain securitization, sovereign, and investment company exposures as well as the timing of disclosures to align the rule to the Regulatory Capital Rules described below until they become fully effective for all BHCs. As part of the Regulatory Capital Rules described below, the OCC included in its market risk capital rule revisions relating to the treatment of the securitization and sovereign exposures addressed in the Federal Reserve s revisions.

Federal banking regulators also have established a minimum leverage ratio requirement for banking organizations. The leverage ratio is Tier 1 capital divided by adjusted average total assets. The minimum leverage ratio is currently 3% for BHCs and national banks that are considered strong by the Federal Reserve or the OCC, respectively, 3% for any BHC that has implemented the Federal Reserve s risk-based capital measure for market risk, and 4% for all other BHCs and national banks. The current minimum leverage ratio for Key and KeyBank is 3% and 4%, respectively.

BHCs and national banks may be expected to maintain ratios well above the minimum levels, depending upon their particular condition, risk profile or growth plans. At December 31, 2013, Key and KeyBank had regulatory capital in excess of all current minimum risk-based capital (including all adjustments for market risk) and leverage ratio requirements.

The FDIA requires the relevant federal banking regulator to take prompt corrective action with respect to a FDIC-insured depository institution that does not meet certain capital adequacy standards. Such institutions are grouped into one of five prompt corrective action capital categories well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized using the Tier 1 risk-based, total risk-based, and Tier 1 leverage capital ratios as the relevant capital measures. Restrictions on operations, management and capital distributions begin to apply at adequately capitalized status and become progressively stricter as the insured depository institution approaches critically undercapitalized status. An institution is considered well capitalized if it has a total risk-based capital ratio of at least 10.00%, a Tier 1 risk-based capital ratio of at least 6.00% and a Tier 1 leverage capital ratio of at least 5.00%, and is not subject to any written agreement, order or capital directive to meet and maintain a specific capital level for any capital measure. While the prompt corrective action requirements only apply to FDIC-insured depository institutions and not to BHCs, the mandatory prompt corrective action capital restoration plan required of an undercapitalized institution by its relevant regulator must be guaranteed to a limited extent by the institution s parent BHC.

Basel III capital and liquidity frameworks

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

For banks with regulators adopting Basel III capital framework in full, implementation of the Basel III capital framework commenced January 1, 2013, to be fully phased in on January 1, 2019. Beginning January 2013, such banks are required to meet the following minimum capital ratios: 3.5% Common Equity Tier 1 to risk-weighted assets; 4.5% Tier 1 capital to risk-weighted assets; and 8.0% total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets. A capital conservation buffer, effectively raising each of the minimum capital requirements by 2.5%, will be phased-in pro rata over a four-year period beginning January 1, 2016, reaching the full 2.5% on January 1, 2019. Accordingly, such banks subject to the fully phased-in Basel III capital framework would be required to maintain effective minimum capital ratios of: 7% Common Equity Tier 1 to risk-weighted assets, 8.5% Tier 1 capital to risk-weighted assets and 10.5% total capital to risk-weighted assets. A minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to total exposure (including on- and certain off-balance sheet exposures), is also imposed on such banks beginning January 1, 2018. The Basel III capital framework also provides for a countercyclical capital buffer, generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk. The countercyclical capital

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buffer, if imposed, would impose an additional 0% to 2.5% buffer to the capital conservation buffer for Common Equity Tier 1 when fully implemented. The Basel III capital framework also provides for a number of adjustments to and deductions from Tier 1 capital, which began on January 1, 2014. In January 2014, the Basel Committee s oversight body endorsed certain revisions to the leverage ratio framework and disclosure requirements of the Basel III capital framework (the January 2014 Basel III leverage ratio revisions).

The Basel Committee published its international liquidity standards in 2010, and revised these standards in January 2013 (as revised, the Basel III liquidity framework). It established quantitative standards for liquidity by introducing a liquidity coverage ratio (Basel III LCR) and a net stable funding ratio (Basel III NSFR). The Basel III LCR, calculated as the ratio of the stock of high-quality liquid assets divided by total net cash outflows over 30 consecutive calendar days, must be at least 100%. The Basel III NSFR, calculated as the ratio of the available amount of stable funding divided by the required amount of stable funding, must also be at least 100%. The implementation of Basel III LCR begins on January 1, 2015, with minimum requirements beginning at 60%, rising in annual steps of 10% until full implementation on January 1, 2019. The Basel Committee has indicated that revisions to the Basel III NSFR will be made by mid-2016, and the net stable funding ratio will be introduced as a requirement on January 1, 2018. In January 2014, the Basel Committee s oversight body endorsed certain final Basel III LCR disclosure standards and certain proposed Basel III NSFR revisions (the January 2014 Basel III liquidity framework revisions).

U.S. implementation of the Basel III capital framework

In October 2013, the federal banking regulators published the final Basel III capital framework for U.S. banking organizations (the Regulatory Capital Rules). The Regulatory Capital Rules generally implement the Basel III capital framework as described above in the United States, but set a minimum leverage ratio of 4% to be calculated consistently with currently applicable regulatory capital requirements (calculated as Tier 1 capital to average total consolidated assets less any amounts that were also deducted from Tier 1 capital). In addition, the Regulatory Capital Rules address two capital-related provisions of the Dodd-Frank Act: first, the provision that general risk-based and leverage capital requirements applicable to FDIC-insured deposit institutions that are not advanced approaches depository institutions (like KeyBank) act as a floor for the requirements applicable to all BHCs (like KeyCorp) as well as to all advanced approaches banking organizations; and, second, the provision that references to external credit ratings be removed from the regulators rules and replaced with alternative standards of creditworthiness.

The impact of the January 2014 Basel III leverage ratio revisions on U.S. banking organizations, including Key and KeyBank, will be determined by the extent to which they are implemented by the federal banking agencies. Neither the Federal Reserve nor the OCC have proposed any rule to implement these revisions.

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New minimum capital requirements

Under the Regulatory Capital Rules, standardized approach banking organizations, like Key, will be required to meet the minimum capital and leverage ratios set forth in the table below. At December 31, 2013, Key had an estimated Common Equity Tier 1 Capital Ratio of 10.7% under Basel III. Also at December 31, 2013, based on the fully phased-in Regulatory Capital Rules, Key estimates that its capital and leverage ratios would be as set forth in the table below.

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

Regulatory Capital Rules

Ratios (including Capital conservation buffer)	Key December 31, 2013 Estimated		Minimum January 1, 2015		Phase-in Period	Minimum January 1, 2019	
Common Equity Tier 1	10.7	%	4.5	%	None	4.5	%
Capital conservation buffer [(a)]					1/1/16 - 1/1/19	2.5	
Common Equity Tier 1 + Capital conservation buffer			4.5		1/1/16 - 1/1/19	7.0	
Tier 1 Capital	11.0		6.0		None	6.0	
Tier 1 Capital + Capital conservation buffer			6.0		1/1/16 - 1/1/19	8.5	
Total Capital	13.4		8.0		None	8.0	
Total Capital + Capital conservation buffer			8.0		1/1/16 - 1/1/19	10.5	
Leverage [(b)]	10.3		4.0		None	4.0	

(a) Capital conservation buffer must consist of Common Equity Tier 1 capital. Key is not subject to the countercyclical capital buffer of up to 2.5% imposed under the advanced approaches portion of the Regulatory Capital Rules.

(b) Key is not subject to the proposed 3% supplemental leverage ratio requirement imposed under the advanced approaches portion of the Regulatory Capital Rules or to the supplemental leverage buffer of at least 2% proposed for advanced approaches banks under an NPR published by the federal banking agencies in August 2013 (the August 2013 NPR).

Revised prompt corrective action standards

Under the Regulatory Capital Rules, the prompt corrective action capital category threshold ratios applicable to FDIC-insured depository institutions such as KeyBank will be revised, effective January 1, 2015. The Revised Prompt Corrective Action table, below, identifies the capital category threshold ratios for a well capitalized and an adequately capitalized institution under the current rule and the Regulatory Capital Rules.

Well Capitalized and Adequately Capitalized Capital Category Ratios under Current and

Revised Prompt Corrective Action Rules

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

(a) KeyBank is not subject to the enhanced supplementary leverage ratio proposed under the August 2013 NPR.

We believe that, as of December 31, 2013, KeyBank would meet all "well capitalized" capital adequacy requirements under the Regulatory Capital Rules if such requirements were currently effective. As previously indicated, the prompt corrective action requirements only apply to FDIC-insured depository institutions and not to BHCs (like KeyCorp).

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U.S. implementation of the Basel III liquidity framework

In November 2013, the federal banking agencies published a joint NPR seeking comment on proposed rules that would create a minimum liquidity coverage ratio (LCR) for certain internationally active bank and nonbank financial companies (not including Key) and a modified version of the LCR (Modified LCR) for certain depository institution holding companies that are not internationally active (including Key). The LCR and Modified LCR created by the NPR are based on the Basel III liquidity framework and would be an enhanced prudential liquidity standard consistent with the Dodd-Frank Act. Comments on the NPR were due by January 31, 2014.

Under the NPR, KeyCorp would be required to maintain high-quality liquid assets of at least 100% of its total net cash outflow amount determined by prescribed assumptions in a hypothetical stress scenario over a 21-calendar day period. Implementation of the LCR and Modified LCR would begin January 1, 2015, with minimum requirements of 80% rising in equal annual steps of 10% to reach full implementation on January 1, 2017. KeyBank will not be subject to the LCR or the Modified LCR under the NPR unless the OCC determines that application to KeyBank is appropriate in light of its asset size, level of complexity, risk profile, scope of operations, affiliation with foreign or domestic covered entities, or risk to the financial system. KeyCorp is confident that it will be able to comply with the Modified LCR once the proposed rule is finalized and implemented. Notwithstanding the foregoing, there are two components of the NPR that could present some challenges for KeyCorp. If the NPR is implemented as proposed, KeyBank would likely limit the amount of collateralized deposits it accepts from states and municipalities (i.e., preferred deposits), further reduce the amount of interest it pays on those deposits, or eliminate the earnings credits it extends to states and municipalities. Securities issued by U.S. government-sponsored enterprises (GSEs) are a primary tool for liquidity management at Key and currently constitute a significant amount of our stock of high quality liquid assets. The NPR would treat these securities as Level 2A liquid assets instead of Level 1 liquid assets while the GSEs are under conservatorship, limiting our ability to rely on them as high quality liquid assets. Key continues to manage in the direction to be Modified LCR compliant by the end of 2014 through changes to the composition of our investment portfolio and by focusing on growing our client deposits that are not preferred deposits. The impact of the January 2014 Basel III liquidity framework revisions on U.S. banking organizations, including Key and KeyBank, will be determined by the extent to which they are implemented by the federal banking agencies.

Capital planning and stress testing

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

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

KeyCorp filed its 2014 CCAR capital plan on January 6, 2014. Under the Federal Reserve s November 2013 CCAR instructions and guidance, KeyCorp s 2014 capital plan was required to reflect the Regulatory Capital

Rules, including their minimum regulatory capital ratios and transition arrangements, as well as Key s Tier 1 common ratio for each quarter of the planning horizon using the definitions of Tier 1 capital and total risk-weighted assets as in effect in 2013, as well as a transition plan for full implementation of the Regulatory Capital Rules. Results from 2014 CCAR, which will include the 2014 supervisory stress test methodology and certain firm-specific results for the participating 30 covered companies (including KeyCorp), are expected to be released in March 2014.

As part of the annual CCAR, the Federal Reserve conducts an annual supervisory stress test on KeyCorp. As part of this test, the Federal Reserve projects revenue, expenses, losses, and resulting post-stress capital levels, regulatory capital ratios, and the Tier 1 common ratio under conditions that affect the U.S. economy or the financial condition of KeyCorp, including baseline, adverse, and severely adverse scenarios, that are determined annually by the Federal Reserve.

KeyCorp and KeyBank must also conduct their own company-run stress tests to assess the impact of stress scenarios on their consolidated earnings, losses, and capital over a nine-quarter planning horizon, taking into account their current condition, risks, exposures, strategies, and activities. While KeyBank must only conduct an annual stress test, KeyCorp must conduct both an annual and a mid-cycle stress test. KeyCorp and KeyBank are required to report the results of their annual stress tests to the Federal Reserve and OCC in early January of each year, and KeyCorp is required to report the results of its mid-cycle stress test to the Federal Reserve in early July of each year. Summaries of the results of these tests are disclosed, in March of each year for the annual tests and September of each year for the mid-cycle test, on the Regulatory Disclosure tab of Key s Investor Relations website: http://www.key.com/ir.

Dividend restrictions

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

FDIA, Resolution Authority and Financial Stability

Deposit insurance and assessments

The DIF provides insurance coverage for domestic deposits funded through assessments on insured depository institutions like KeyBank. Pursuant to the Dodd-Frank Act, the amount of deposit insurance coverage for deposits increased permanently from $100,000 to $250,000 per depository.

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

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Conservatorship and receivership of insured depository institutions

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

Receivership of certain SIFIs

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

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

In December 2013, the FDIC published a notice for comment regarding its single point of entry resolution strategy under the OLA. This strategy involves the appointment of the FDIC as receiver for the SIFI s top-level U.S. holding company only, while permitting the operating subsidiaries of the failed holding company to continue operations uninterrupted. As receiver, the FDIC would establish a bridge financial company for the failed holding company and would transfer the assets and a very limited set of liabilities of the receivership estate. The claims of unsecured creditors and other claimants in the receivership would be satisfied by the exchange of their claims for the securities of one or more new holding companies emerging from the bridge company. Comments on the notice are due by February 18, 2014.

Depositor preference

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

Resolution plans

BHCs with at least $50 billion in total consolidated assets, like KeyCorp, are required to periodically submit to the Federal Reserve and FDIC a plan discussing how the company could be rapidly and orderly resolved if the company failed or experienced material financial distress. Insured depository institutions with at least $50 billion in total consolidated assets, like KeyBank, are also required to submit a resolution plan to the FDIC. These plans are due annually by December 31 of each year. For 2013, KeyCorp and KeyBank elected to submit a joint resolution plan given Key s organizational structure and business activities and the significance of KeyBank to Key. This resolution plan, the first required from KeyCorp and KeyBank, was submitted on December 9, 2013. In January 2014, the Federal Reserve and FDIC made available on their websites the public sections of resolution plans for the companies that submitted plans for the first time in December 2013. The public section of the joint resolution plan of KeyCorp and KeyBank is available at http://www.federalreserve.gov/bankinforeg/resolution-plans.htm.

Financial Stability Oversight Council

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

The Bank Secrecy Act

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

Other Regulatory Developments under the Dodd-Frank Act

Consumer Financial Protection Bureau

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

During 2013, the CFPB issued a series of final rules related to residential mortgage loan origination and servicing. In particular, in January 2013, the CFPB issued a final rule implementing the ability-to-repay rules and qualified mortgage provisions of the Truth in Lending Act, as amended by the Dodd-Frank Act. Under these rules, a lender must make a reasonable, good faith determination that a borrower is able to repay a mortgage before extending the credit, based on a number of factors and consideration of financial information about the borrower. Loans meeting the definition of qualified mortgage are granted a presumption that the lender satisfied the ability-to-repay requirements. The CFPB has also issued rules affecting other aspects of the residential mortgage loan process, ranging from the customer application to servicing of the loan. These changes and additions to consumer mortgage banking rules have required enhancements to our compliance programs, as well as changes to Key s systems and loan processing practices. The ability to repay and qualified mortgage rules became effective on January 10, 2014.

Debit Card Interchange

Federal Reserve Regulation II Debit Card Interchange Fees and Routing (the Interchange Rule) limits debit card interchange fees and eliminates exclusivity arrangements between issuers and networks for debit card transactions. The relevant portions of the Interchange Rule became effective October 1, 2011.

On July 31, 2013, the U.S. District Court for the District of Columbia issued a ruling in *NACS v. Board of Governors of the Federal Reserve System*, vacating the Interchange Rule. Retail merchants and merchant groups challenged the Federal Reserve s final rule, which allowed debit card issuers to recover from merchants an interchange fee of $.21 per transaction, a fee of five basis points of the value of the transaction, and an additional $.01 fraud prevention adjustment. The district court held that this fee structure, and the Interchange Rule s requirements regarding the number of networks over which each debit card transaction can be processed, did not comply with the Durbin Amendment to the Dodd-Frank Act. On September 19, 2013, the Court of Appeals for the D.C. Circuit granted a joint motion by the parties for expedited appeal of the district court s opinion. The parties filed briefs with the court in December 2013, and oral arguments were held in January 2014. The Interchange Rule remains in effect until resolution of the appeal by the circuit court. We continue to monitor these developments.

Volcker Rule

In December 2013, federal banking regulators issued a joint final rule (the Final Rule) implementing Section 619 of the Dodd-Frank Act, known as the Volcker Rule. The Final Rule prohibits banking entities, such as KeyCorp, KeyBank and their affiliates and subsidiaries, from owning, sponsoring, or having certain relationships with hedge funds and private equity funds (referred to as covered funds) and engaging in short-term proprietary trading of securities, derivatives, commodity futures and options on these instruments.

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

Although the Final Rule will take effect April 1, 2014, the Federal Reserve exercised its unilateral authority to extend the compliance deadline until July 21, 2015. Key does not anticipate that the proprietary trading restrictions in the Final Rule will have a material impact on its business, but it may be required to divest certain fund investments as discussed in more detail under the heading Other investments in Item 7 of this report.

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Derivatives

Title VII of the Dodd-Frank Act imposes a new, comprehensive regulatory regime on the U.S. derivatives markets, subjecting nearly all derivative transactions to CFTC or SEC regulation. In May 2012, the CFTC and the SEC issued joint final rules defining the terms swap dealer and security-based swap dealer. The final rules specified that, generally, a swap dealer is an entity engaging in $3 billion in notional value of non-exempt swap activity in any 12-month period commencing October 12, 2012, subject to an initial phase-in threshold of $8 billion in notional value. As a result, in November 2013, KeyBank provisionally registered as a swap dealer with the CFTC and became a member of the National Futures Association, the self-regulatory organization for participants in the U.S. derivatives industry. As a provisionally-registered swap dealer, KeyBank is required to develop and adhere to a specified compliance program.

The CFTC has also finalized regulations establishing recordkeeping requirements, swap data reporting requirements, swap dealer business conduct standards, mandatory swap clearing requirements, and swap trade execution requirements. Other regulations required by the Dodd-Frank Act, including capital and margin requirements, additional mandatory clearing designations, and position limits, have not been finalized and the timeframe for their completion remains unclear.

Enhanced prudential standards and early remediation requirements

Under the Dodd-Frank Act, the Federal Reserve must impose enhanced prudential standards and early remediation requirements upon BHCs with at least $50 billion in total consolidated assets (like KeyCorp). Prudential standards must include enhanced risk-based capital requirements and leverage limits, enhanced liquidity requirements, a single-counterparty credit limit, enhanced risk management and risk committee requirements, both supervisory and company-run stress tests and, for certain financial companies, a debt-to-equity limit. Early remediation requirements must include limits on capital distributions, acquisitions, and asset growth in early stages of financial decline and capital restoration plans, capital raising requirements, limits on transactions with affiliates, management changes, and asset sales in later stages of financial decline, which are to be triggered by forward-looking indicators including regulatory capital and liquidity measures. On February 18, 2014, the Federal Reserve issued its final rule implementing a number of enhanced prudential standards regarding liquidity, risk management, and capital. Key is currently reviewing the final rule to determine its impact.

Bank transactions with affiliates

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

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

New assessments, fees and other charges

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

ITEM 1A. RISK FACTORS

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

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

I. Credit Risk

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

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

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

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

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

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

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

Declining asset prices could adversely affect us.

During the recession from December 2007 to June 2009, the volatility and disruption that the capital and credit markets experienced reached extreme levels. The severe market disruption in 2008 led to the failure of several substantial financial institutions, causing the widespread liquidation of assets and constraining the credit markets. These asset sales, along with asset sales by other leveraged investors, including some hedge funds, rapidly drove down prices and valuations across a wide variety of traded asset classes. Asset price deterioration has a negative effect on the valuation of many of the asset categories represented on our balance sheet, and reduces our ability to sell assets at prices we deem acceptable. A further recession would likely reverse recent positive trends in asset prices.

We have heightened credit exposure in high-balance loans and loans in environmentally sensitive industries.

As of December 31, 2013, approximately 70% of our loan portfolio consisted of commercial, financial and agricultural loans, commercial real estate loans, including commercial mortgage and construction loans, and commercial leases. These types of loans are typically larger than residential real estate loans and consumer loans.

We also do business with environmentally sensitive industries and in connection with the development of Brownfield sites that provide appropriate business opportunities. We monitor and evaluate our borrowers for compliance with environmental-related covenants, which include covenants requiring compliance with applicable law. Should political or other changes make it difficult for certain of our customers to maintain compliance with applicable covenants, our credit quality could be adversely affected. The deterioration of a larger loan or a group of our loans could cause a significant increase in nonperforming loans, which could result in net loss of earnings from these loans, an increase in the provision for loan and lease losses, and an increase in loan charge-offs.

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II. Compliance Risks

We are subject to extensive government regulation and supervision.

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

Changes to statutes, regulations or regulatory policies or their interpretation or implementation, and continuing to become subject to heightened regulatory practices, requirements or expectations, could affect us in substantial and unpredictable ways. These changes may subject us to additional compliance costs and increase our litigation and regulatory costs should we fail to appropriately comply. Such changes may also limit the types of financial services and products we may offer, affect the investments we make, and change the manner in which we operate. For more information, see Supervision and Regulation in Item 1 of this report.

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

The regulatory environment for the financial services industry is being significantly affected by financial regulatory reform initiatives, including the Dodd-Frank Act.

The United States and other governments have undertaken major reforms of the regulatory oversight structure of the financial services industry. We have faced increased regulation of our industry, and will continue to face such regulation into 2014, as a result of current and future initiatives intended to provide financial market stability and enhance the liquidity and solvency of financial institutions. We also faced increased regulation from efforts designed to protect consumers from financial abuse.

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

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

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

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III. Capital and Liquidity Risk

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

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

The full effect of the Federal Reserve s proposed liquidity standards on Key is uncertain at this time. However, the need to maintain more and higher quality capital, together with new requirements for greater liquidity, could limit our business activities, including lending, and our ability to expand organically or through acquisitions. It could also result in our taking steps to increase our capital that may be dilutive to shareholders or limit our ability to pay dividends or otherwise return capital to shareholders. In addition, new liquidity standards could require us to increase our holdings of highly liquid short- term investments, or change our mix of funding alternatives, and may impact business relationships with certain customers. It could reduce our ability to invest in longer-term assets even if more desirable from a balance sheet management perspective.

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

Federal agencies may no longer support current initiatives or may not implement new initiatives to support the stability of the U.S. financial system.

Since 2008, the federal government has taken unprecedented steps to provide stability to and confidence in the financial markets. For example, the Federal Reserve maintains a variety of stimulus policy measures designed to maintain a low interest rate environment, including its monthly purchases of treasury bonds and mortgage-backed securities, to help stabilize the economy given the FOMC s legal mandates to maximize employment, maintain stable prices, and moderate long-term interest rates. In light of recent moderate improvements in the U.S. economy, federal agencies may no longer continue to support current initiatives. The Federal Reserve announced in December 2013 it will taper its monthly purchases of treasury bonds and mortgage-backed securities as the economy continues to improve. The discontinuation of market-supporting government and agency initiatives, particularly a sudden discontinuation, may have a negative impact, perhaps severe, on the financial markets. These effects could include a sudden move to higher debt yields, which could have a chilling effect on borrowing. In addition, new initiatives or legislation may not be implemented to counter any negative effects of discontinuing programs or, in the event of an economic downturn, to support and stabilize a troubled economy. Even if new legislation or initiatives were necessary, it is uncertain that any legislation or initiative could be implemented in a timely fashion or at all in the current political climate. Additionally, any program implemented or legislation enacted to counter the effects of program discontinuation or a sudden economic downturn may be insufficient to support financial market stability or promote U.S. economic recovery.

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

We are a legal entity separate and distinct from our subsidiaries. With the exception of cash that we raise from debt and equity issuances, we receive substantially all of our cash flow from dividends by our subsidiaries. These dividends are the principal source of funds to pay dividends on our equity securities and interest and principal on

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our debt. Federal banking law and regulations limit the amount of dividends that KeyBank (KeyCorp s largest subsidiary) can pay. For further information on the regulatory restrictions on the payment of dividends by KeyBank, see Supervision and Regulation in Item 1 of this report.

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

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

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

Although we have implemented strategies to maintain sufficient and diverse sources of funding to accommodate planned as well as unanticipated changes in assets and liabilities under both normal and adverse conditions (including by reducing our reliance on wholesale funding sources), a substantial, unexpected or prolonged change in the level or cost of liquidity could have a material adverse effect on us. Certain credit markets that we participate in and rely upon as sources of funding experienced significant disruption and volatility during the 2008 financial crisis. While these disrupted markets have shown signs of recovery, if the cost effectiveness or the availability of supply in these credit markets is reduced for a prolonged period of time, our funding needs may require us to access funding and manage liquidity by other means. These alternatives may include generating client deposits, securitizing or selling loans, extending the maturity of wholesale borrowings, purchasing deposits from other banks, borrowing under certain secured wholesale facilities, using relationships developed with a variety of fixed income investors, and further managing loan growth and investment opportunities. These alternative means of funding may not be available under stressed conditions similar to those experienced in the liquidity crisis of 2007-2009.

Our credit ratings affect our liquidity position.

Our rating agencies regularly evaluate the securities of KeyCorp and KeyBank, and their ratings of our long-term debt and other securities are based on a number of factors, including our financial strength, ability to generate earnings, and other factors. Some of these factors are not entirely within our control, such as conditions affecting the financial services industry and the economy and changes in rating methodologies as a result of the Dodd-Frank Act. There can be no assurance that we will maintain our current credit ratings. A downgrade of the securities of KeyCorp or KeyBank could adversely affect our access to liquidity and could significantly increase our cost of funds, trigger additional collateral or funding requirements, and decrease the number of investors and counterparties willing to lend to us, reducing our ability to generate income.

IV. Operational Risk

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

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

In the event of a failure, interruption or breach of our information systems, we may be unable to avoid impact to our customers. Other U.S. financial service institutions and companies have reported breaches in the security of

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

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

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

We are subject to claims and litigation.

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

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

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

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We are subject to operational risk.

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

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

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

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

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

V. Market Risk

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

The slow economic recovery, and multiple downside shocks, have presented a challenge for Key and adversely affected our business and financial performance. These economic conditions may persist for some time, and continue to have a negative impact on us. A worsening of conditions could aggravate the adverse effects of these difficult economic and market conditions on Key and others in the financial services industry. Risks related to the global economy have eased somewhat, but challenges remain.

In particular, we would face some of the following risks, and other unforeseeable risks, in connection with a downturn in the economic and market environment, whether in domestic or international markets:

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

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

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

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

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

¿ The prolonged continuation of a very low interest rate environment, increasing downward pressure to our net interest income;

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

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

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

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

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

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

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

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

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

We have concentrations of loans and other business activities in geographic regions where our bank branches are located Oregon and Alaska; Washington; Rocky Mountains; Indiana; West Ohio/Michigan; East Ohio; Eastern New York; New England; and Western New York and potential exposure to geographic regions outside of our branch footprint. The moderate U.S. economic recovery has been experienced unevenly in the various regions where we operate, and there can be no assurance that continued improvement in the overall U.S. economy will result in similar improvement, or any improvement at all, in the economy of any particular geographic region. Adverse conditions in a geographic region such as inflation, unemployment, recession, natural disasters, or other factors beyond our control could impact the ability of borrowers in these regions to repay their loans, decrease the value of collateral securing loans made in these regions, or affect the ability of our customers in these regions to continue conducting business with us.

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

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

The soundness of other financial institutions could adversely affect us.

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

VI. Reputation Risk

Damage to our reputation could significantly harm our businesses.

Our ability to attract and retain customers, clients, investors, and highly-skilled management and employees is affected by our reputation. Public perception of the financial services industry has declined since the 2008 financial crisis. We face increased public and regulatory scrutiny resulting from the financial crisis and economic downturn. Significant harm to our reputation can also arise from other sources, including employee misconduct, actual or perceived unethical behavior, litigation or regulatory outcomes, failing to deliver minimum or required standards of service and quality, compliance failures, disclosure of confidential information, and the activities of our clients, customers and counterparties, including vendors. Actions by the financial services industry generally or by certain members or individuals in the industry can also significantly adversely affect our reputation. We could also suffer significant reputational harm if we fail to properly identify and manage potential conflicts of interest. Management of potential conflicts of interests has become increasingly complex as we expand our business activities through more numerous transactions, obligations and interests with and among our clients. The actual or perceived failure to adequately address conflicts of interest could affect the willingness of clients to deal with us, which could adversely affect our businesses.

VII. Strategic Risk

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

Our ability to compete successfully depends on a number of factors, including among others, our ability to develop and execute strategic plans and initiatives. Our strategic priorities include growing revenue, building and maintaining long-term customer relationships, maintaining financial strength, and building on our culture of efficiency. Enhancing relationships with our customers, including by cross-selling additional or new products to them, is very important to our business model and our ability to grow revenue and earnings. Our inability to execute on or achieve the anticipated outcomes of our strategic priorities may affect how the market perceives us and could impede our growth and profitability.

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We operate in a highly competitive industry.

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

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

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

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

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

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

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

Various restrictions on compensation of certain executive officers were imposed under the Dodd-Frank Act and other legislation and regulations. In addition, our incentive compensation structure is subject to review by the

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Federal Reserve, which may identify deficiencies in the structure, causing us to make changes that may affect our ability to offer competitive compensation to these individuals. Our ability to attract and retain talented employees may be affected by these developments, or any new executive compensation limits and regulations.

Potential acquisitions may disrupt our business and dilute shareholder value.

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

VIII. Model Risk

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

The headquarters of KeyCorp and KeyBank are located in Key Tower at 127 Public Square, Cleveland, Ohio 44114-1306. At December 31, 2013, Key leased approximately 686,002 square feet of the complex, encompassing the first twenty-three floors and the 54th through 56th floors of the 57-story Key Tower. As of the same date, KeyBank owned 570 and leased 458 branches. The lease terms for applicable branches are not individually material, with terms ranging from month-to-month to 99 years from inception.

Branches and ATMs by Region

	Oregon & Alaska	Washington	Rocky Mountains	Indiana	West Ohio/ Michigan	East Ohio	Eastern New York	New England	Western New York	Total
Branches	101	156	134	67	104	151	154	67	94	1,028
ATMs	107	196	165	73	132	251	196	84	131	1,335

ITEM 3. LEGAL PROCEEDINGS

As of December 31, 2013, KeyCorp and its subsidiaries and its employees, directors and officers are defendants or putative defendants in a variety of legal proceedings, in the form of regulatory/government investigations as well as private, civil litigation and arbitration proceedings. The private, civil litigations range from individual actions involving a single plaintiff to putative class action lawsuits with potentially thousands of class members. Investigations involve both formal and informal proceedings, by both government agencies and self-regulatory bodies. These legal proceedings are at varying stages of adjudication, arbitration or investigation and involve a variety of claims (including common law tort, contract claims, securities, ERISA, and consumer protection claims). At times, these legal proceedings present novel claims or legal theories.

On at least a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. Where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. These legal reserves may be increased or decreased to reflect any relevant developments on a quarterly basis. Where a loss is not probable or the amount of the loss is not estimable, we have not accrued legal reserves, consistent with applicable accounting guidance. Based on information currently available to us, advice of counsel, and available insurance coverage, we believe that our established reserves are adequate and the liabilities arising from the legal proceedings will not have a material adverse effect on our consolidated financial condition. We note, however, that in light of the inherent uncertainty in legal proceedings there can be no assurance that the ultimate resolution will not exceed established reserves. As a result, the outcome of a particular matter or a combination of matters, may be material to our results of operations for a particular period, depending upon the size of the loss or our income for that particular period.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

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

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

As authorized by our Board of Directors and pursuant to our 2013 capital plan submitted to and not objected to by the Federal Reserve, we had authority to repurchase up to $426 million of our common shares in the open market or through privately negotiated transactions. Subsequently, we received no objection from the Federal Reserve to use, and our Board approved the use of, the cash portion of the net after-tax gain from the sale of Victory (approximately $72 million) for additional common share repurchases. During the fourth quarter of 2013, we completed $99 million of common share repurchases. Common share repurchases under the remaining 2013 capital plan authorization are expected to be executed through the first quarter of 2014.

Calendar month	Total number of shares repurchased (a)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs (b)
October 1 31	1,787,398	$ 12.65	1,777,805	26,750,589
November 1 30	3,439,775	12.81	3,434,250	23,082,362
December 1 31	2,454,813	12.94	2,447,268	20,246,482
Total	7,681,986	$ 12.82	7,659,323	

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

(b) Calculated using the remaining general repurchase amount divided by the closing price of KeyCorp common shares on October 31, 2013, at $12.54, November 30, 2013, at $12.75, and December 31, 2013, at $13.42, plus 13,557,897 shares available under our previously existing program.

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ITEM 6. SELECTED FINANCIAL DATA

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

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

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Throughout the Notes to Consolidated Financial Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations, we use certain acronyms and abbreviations. These terms are defined in Note 1 (Summary of Significant Accounting Policies), which begins on page 115.

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Introduction

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

Terminology

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

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

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

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

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

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

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

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Figure 1. Selected Financial Data

dollars in millions, except per share amounts	2013	2012	2011	2010[a]	2009[a]	Compound Annual Rate of Change (2009-2013)
YEAR ENDED DECEMBER 31,						
Interest income	**$ 2,620**	$ 2,705	$ 2,889	$ 3,408	$ 3,795	(7.1)%
Interest expense	**295**	441	622	897	1,415	(26.9)
Net interest income	**2,325**	2,264	2,267	2,511	2,380	(.5)
Provision (credit) for loan and lease losses	**130**	229	(60)	638	3,159	(47.2)
Noninterest income	**1,766**	1,856	1,688	1,954	2,035	(2.8)
Noninterest expense	**2,820**	2,818	2,684	3,034	3,554	(4.5)
Income (loss) from continuing operations before income taxes	**1,141**	1,073	1,331	793	(2,298)	N/M
Income (loss) from continuing operations attributable to Key	**870**	835	955	577	(1,287)	N/M
Income (loss) from discontinued operations, net of taxes [b]	**40**	23	(35)	(23)	(48)	N/M
Net income (loss) attributable to Key	**910**	858	920	554	(1,335)	N/M
Income (loss) from continuing operations attributable to Key common shareholders	**847**	813	848	413	(1,581)	N/M
Income (loss) from discontinued operations, net of taxes [b]	**40**	23	(35)	(23)	(48)	N/M
Net income (loss) attributable to Key common shareholders	**887**	836	813	390	(1,629)	N/M
PER COMMON SHARE						
Income (loss) from continuing operations attributable to Key common shareholders	**$ .93**	$ .87	$ .91	$ .47	$ (2.27)	N/M
Income (loss) from discontinued operations, net of taxes [b]	**.04**	.02	(.04)	(.03)	(.07)	N/M
Net income (loss) attributable to Key common shareholders [c]	**.98**	.89	.87	.45	(2.34)	N/M
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**$ .93**	$ .86	$ .91	$ .47	$ (2.27)	N/M
Income (loss) from discontinued operations, net of taxes assuming dilution [b]	**.04**	.02	(.04)	(.03)	(.07)	N/M
Net income (loss) attributable to Key common shareholders assuming dilution [c]	**.97**	.89	.87	.44	(2.34)	N/M
Cash dividends paid	**.215**	.18	.10	.04	.0925	18.4%
Book value at year end	**11.25**	10.78	10.09	9.52	9.04	4.5
Tangible book value at year end	**10.11**	9.67	9.11	8.45	7.94	5.0
Market price at year end	**13.42**	8.42	7.69	8.85	5.55	19.3
Dividend payout ratio	**21.9%**	20.2%	11.49%	8.89%	N/M	N/A
Weighted-average common shares outstanding (000)	**906,524**	938,941	931,934	874,748	697,155	5.4
Weighted-average common shares and potential common shares outstanding (000)	**912,571**	943,259	935,801	878,153	697,155	5.5
AT DECEMBER 31.						
Loans	**$ 54,457**	$ 52,822	$ 49,575	$ 50,107	$ 58,770	(1.5)%
Earning assets	**79,467**	75,055	73,729	76,211	80,318	(.2)
Total assets	**92,934**	89,236	88,785	91,843	93,287	(.1)
Deposits	**69,262**	65,993	61,956	60,610	65,571	1.1
Long-term debt	**7,650**	6,847	9,520	10,592	11,558	(7.9)
Key common shareholders equity	**10,012**	9,980	9,614	8,380	7,942	4.7
Key shareholders equity	**10,303**	10,271	9,905	11,117	10,663	(.7)
PERFORMANCE RATIOS FROM CONTINUING OPERATIONS						
Return on average total assets	**1.03%**	1.03%	1.16%	.66%	(1.35)%	N/A
Return on average common equity	**8.48**	8.25	9.17	5.06	(19.00)	N/A
Return on average tangible common equity [d]	**9.45**	9.16	10.20	5.73	(23.8)	N/A

Net interest margin (TE)	**3.12**	3.21	3.16	3.26	2.83	N/A
Cash efficiency ratio [(d)]	**67.5**	67.4	67.3	67.3	73.5	N/A
PERFORMANCE RATIOS FROM CONSOLIDATED OPERATIONS						
Return on average total assets	**1.02%**	.99%	1.04%	.59%	(1.34)%	N/A
Return on average common equity	**8.88**	8.48	8.79	4.78	(19.62)	N/A
Return on average tangible common equity [(d)]	**9.90**	9.42	9.78	5.41	(24.5)	N/A
Net interest margin (TE)	**3.02**	3.13	3.09	3.16	2.81	N/A
Loan to deposit [(e)]	**83.8**	85.8	87.0	90.3	97.3	N/A
CAPITAL RATIOS AT DECEMBER 31,						
Key shareholders equity to assets	**11.09%**	11.51%	11.16%	12.10%	11.43%	N/A
Key common shareholders equity to assets	**10.78**	11.18	10.83	9.12	8.51	N/A
Tangible common equity to tangible assets [(d)]	**9.80**	10.15	9.88	8.19	7.56	N/A
Tier 1 common equity [(d)]	**11.22**	11.36	11.26	9.34	7.50	N/A
Tier 1 risk-based capital	**11.96**	12.15	12.99	15.16	12.75	N/A
Total risk-based capital	**14.33**	15.13	16.51	19.12	16.95	N/A
Leverage	**11.11**	11.41	11.79	13.02	11.72	N/A
TRUST AND BROKERAGE ASSETS						
Assets under management	**$ 36,905**	$ 34,744	$ 51,732	$ 59,815	$ 66,939	N/A
Nonmanaged and brokerage assets	**47,418**	35,550	30,639	28,069	19,631	N/A
OTHER DATA						
Average full-time-equivalent employees	**14,783**	15,589	15,381	15,610	16,698	(2.4)%
Branches	**1,028**	1,088	1,058	1,033	1,007	.4

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

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

(c) EPS may not foot due to rounding.

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

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

Economic overview

The economy continued its modest recovery in 2013, with overall GDP starting slowly and accelerating as the year progressed, resulting in 1.9% growth in 2013. U.S. economic growth during 2013 was plagued by policy and political headwinds. The year began with uncertainty around the potential effects of the looming sequester and a large payroll tax increase. In the second quarter, the Federal Reserve sent mixed messages regarding when it would begin scaling back its latest round of quantitative easing, inadvertently causing interest rates to increase and hindering the housing recovery. In the fourth quarter, the federal government endured a 16-day shutdown, and briefly approached a breach of the federal debt ceiling. In spite of these issues, growth accelerated in the second half of the year. Although the shutdown temporarily disrupted positive momentum, consumer confidence increased, financial markets continued to rise and the housing market rebounded from a summer slump to close out the year. The stock market boomed in 2013, with the S&P 500 equity index increasing 30%, compared to a 13% increase in 2012. Globally, the modest recovery continued; central banks in developed nations maintained easy money policies. In the second half of the year, Europe s recession ended. Emerging markets did not fare as well demand decreased, exports dropped, and China grew at its slowest rate in 20 years.

For the year, 2.19 million new jobs were added in the U.S. The unemployment rate fell further, from 7.9% at December 31, 2012, to 6.7% at December 31, 2013. While job growth was a factor, the majority of the improvement was driven by a decrease in the labor force participation rate, which declined to its lowest level in over 35 years. Wage growth deteriorated through much of the year and income growth was weak, both due in part to the payroll tax hikes and the sequester. However, consumer spending held up reasonably well, resulting in a falling savings rate. A slowing rate of inflation supported incomes, and therefore spending, throughout the year; by December 2013, headline inflation was down to 1.5% (compared to 1.7% one year earlier). Core inflation also remained low through the year, ending 2013 at 1.7% (down from 1.9% in 2012).

The housing market provided another boost in 2013, with improvement in nearly all metrics. With the economy continuing its modest expansion, and home prices appearing to stabilize, demand for for-sale housing posted steady gains throughout the year. As mortgage rates rose, sales of existing homes began to diminish, finishing 2013 at a seasonally adjusted annual rate of 4.87 million (down slightly from December 2012). New home sales improved, reaching a seasonally adjusted annual rate of 414,000 in December 2013 (up 4.5% from 2012). As the share of distressed transactions fell, the pace of price appreciation increased, with the median price for existing homes up 9.9% year-over-year in December 2013. Housing starts accelerated further, with starts up 18% over 2012 s totals, driven primarily by substantial gains in both single and multi-family construction.

The Federal Reserve remained active and accommodative in 2013, keeping the federal funds target rate near zero, expanding its balance sheet further, and making significant changes to its communications. The latest round of quantitative easing was held constant until December, driven by mixed economic results, troubling inflation data and the government shutdown. In December, the Federal Reserve announced it would begin tapering the pace of asset purchases by $10 billion (from $85 billion per month to $75 billion per month) in January 2014, with the expectation that the pace of purchases will continue to drop throughout 2014. In addition, the Federal Reserve updated its forward guidance in December, explicitly stating that the federal funds rate will be kept near zero well past a 6.5% unemployment rate; low inflation remains a concern and will be monitored closely. Long-time Chairman Ben Bernanke also made his exit, with Vice-Chair Janet Yellen replacing Bernanke starting in February 2014. The 10-year U.S. Treasury yield began the year at 1.9%, and was range bound from 1.5-2.0% for the first half of the year, driven by disappointing economic data. Around the year s halfway point, with more positive data, rates began to increase, approaching 3.0% in September on expectations that the Federal Reserve would soon begin to

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taper quantitative easing asset purchases. The taper did not begin as expected, and the October government shutdown helped to keep rates down in the 2.5-2.6% range for the majority of the fourth quarter, until surprisingly positive economic data prompted the Federal Reserve to reduce asset purchases by $10 billion at the December meeting. Rates subsequently rose, and closed the year at 3.0%.

Long-term financial goals

Our long-term financial goals are as follows:

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

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

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

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

¿ Achieve a return on average assets in the range of 1.00% to 1.25%.

Figure 2 shows the evaluation of our long-term financial goals for the fourth quarter of 2013 and the year ended 2013.

Figure 2. Evaluation of Our Long-Term Financial Goals

KEY Business Model	Key Metrics (a)	4Q13	2013	Targets	Action Plans
Core funded	Loan to deposit ratio (b)	84 %	84 %	90 - 100 %	Use integrated model to grow relationships and loans Improve deposit mix
Maintain a moderate risk profile	NCOs to average loans	.27 %	.32 %	.40 - .60 %	Focus on relationship clients Exit noncore portfolios
	Provision to average loans	.14 %	.25 %		Limit concentrations Focus on risk-adjusted returns
Growing high quality, diverse revenue streams	Net interest margin	3.01 %	3.12 %	> 3.50 %	Improve funding mix Focus on risk-adjusted returns
	Noninterest income to total revenue	43 %	43 %	> 40 %	Grow client relationships Capitalize on Key s total client solutions and cross-selling capabilities
Creating positive operating leverage	Cash efficiency ratio (c)	67 %	68 %	60 - 65 %	Improve efficiency and effectiveness Better utilize technology
	Adj. cash efficiency ratio (ex. efficiency initiative charges) (c), (d)	65 %	65 %		Change cost base to more variable from fixed
Executing our strategies	Return on average assets	1.08 %	1.03 %	1.00 - 1.25 %	Execute our client insight-driven relationship model Focus on operating leverage Improved funding mix with lower cost core deposits

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

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

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

(d) Efficiency initiative charges include pension settlement.

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Corporate strategy

We remain committed to enhancing long-term shareholder value by continuing to execute our relationship business model, growing our franchise, and being disciplined in our management of capital. Our 2013/2014 strategic focus is to add new clients and to expand our relationship with existing clients. We intend to pursue this strategy by continuing to control and reduce expenses; being more productive from the front office to the back office; effectively balancing risk and rewards within our moderate risk profile; and engaging, retaining and inspiring our diverse and high performing workforce. Our strategic priorities for enhancing long-term shareholder value are described below.

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

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

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

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

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

Strategic developments

We initiated the following actions during 2013 to support our corporate strategy:

¿ We completed our acquisition of a commercial real estate servicing portfolio and special servicing business. This acquisition brought in over $1 billion in low-cost escrow deposits and further leverages our existing servicing platforms. We are now the third largest servicer of commercial and multi-family loans and the fifth largest special servicer of CMBS in the U.S.

¿ Our revenue benefited from solid loan growth, driven by a 7.4% increase from the prior year in commercial, financial and agricultural loans, as well as improved trends in several of our fee-based businesses. These results reflect the success of our distinctive business model and our progress implementing our growth initiatives.

¿ We achieved annualized run rate savings of $241 million, exceeding our announced expense target set in June 2012 to achieve annualized savings of $200 million. We consolidated 62 branches during 2013, reaching 81 total consolidated branches since the launch of the efficiency initiative, and realigned our Community Bank organization to strengthen our relationship-based business model, while responding to economic factors and evolving client expectations.

¿ On July 31, 2013, we completed the divestiture of Victory. This sale resulted in an after-tax gain of $92 million; the cash portion of this gain was $72 million.

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¿ In the first quarter of 2013, we completed $65 million of common share repurchases on the open market under our 2012 capital plan, and in the second through fourth quarters of 2013 we completed $409 million of common share repurchases on the open market under our 2013 capital plan. The amount repurchased under our 2013 capital plan included repurchases related to the cash portion of the net after-tax gain from the sale of Victory. Common share repurchases under the 2013 capital plan authorization are expected to be executed through the first quarter of 2014.

¿ In May 2013, our Board of Directors approved an increase in our quarterly cash dividend to $.055 per common share, or $.22 on an annualized basis, in accordance with our 2013 capital plan.

¿ At December 31, 2013, our capital ratios remained strong with a Tier 1 common equity ratio of 11.22%, our loan loss reserves were adequate at 1.56% to period-end loans, and we were core funded with a loan-to-deposit ratio of 84%. We believe our strong capital position provides us with the flexibility to support our clients and our business needs, and to evaluate other appropriate capital deployment opportunities.

Highlights of Our 2013 Performance

Financial performance

For 2013, we announced net income from continuing operations attributable to Key common shareholders of $847 million, or $.93 per common share. These results compare to net income from continuing operations attributable to Key common shareholders of $813 million, or $.86 per common share, for 2012.

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

Figure 3. Results of Operations

Year ended December 31, *in millions, except per share amounts*	**2013**	2012	2011
SUMMARY OF OPERATIONS			
Income (loss) from continuing operations attributable to Key	**$ 870**	$ 835	$ 955
Income (loss) from discontinued operations, net of taxes [(a)]	**40**	23	(35)
Net income (loss) attributable to Key	**$ 910**	$ 858	$ 920
Income (loss) from continuing operations attributable to Key	**$ 870**	$ 835	$ 955
Less: Dividends on Series A Preferred Stock	**23**	22	23
Cash dividends on Series B Preferred Stock			31
Amortization of discount on Series B Preferred Stock [(b)]			53
Income (loss) from continuing operations attributable to Key common shareholders	**847**	813	848
Income (loss) from discontinued operations, net of taxes [(a)]	**40**	23	(35)
Net income (loss) attributable to Key common shareholders	**$ 887**	$ 836	$ 813
PER COMMON SHARE ASSUMING DILUTION			
Income (loss) from continuing operations attributable to Key common shareholders	**$ .93**	$ .86	$ .91
Income (loss) from discontinued operations, net of taxes [(a)]	**.04**	.02	(.04)
Net income (loss) attributable to Key common shareholders [(c)]	**$ .97**	$ .89	$ .87

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

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

(c) EPS may not foot due to rounding.

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Our full-year results for 2013 reflect success in executing our strategies by growing loans, acquiring a commercial real estate servicing portfolio and special servicing business, and achieving annualized run rate savings in excess of our goal.

We ended 2013 with annual run rate savings of approximately $241 million as a result of our efficiency initiative. We continue to invest in future revenue growth by upgrading our technology to meet the needs of our clients and looking for opportunities to rationalize and optimize our existing branch network. In 2013, we shifted our focus related to our branch network more toward relocations and consolidations to reposition our branch footprint into more attractive markets. During 2013, we consolidated 62 branches as part of our efficiency initiative. We also realigned our Community Bank organization to strengthen our relationship-based business model, while responding to economic factors and evolving client expectations. We remain committed to delivering on our goal of achieving a cash efficiency ratio in the range of 60% to 65% as we enter 2014.

The net interest margin from continuing operations was 3.12% for 2013, a decrease of nine basis points from 2012. This decrease was primarily attributable to the impact of lower asset yields combined with a significant increase in liquidity levels from strong deposit inflows. In 2014, we expect the net interest margin will continue to be under pressure from elevated levels of liquidity and the impact of low interest rates.

Average total loans increased $2.7 billion, or 5.3%, during 2013 compared to 2012. The average balances of commercial, financial and agricultural loans increased from $21.1 billion to $23.7 billion, or approximately 12.2%. We continued to have success in growing our commercial loan portfolio by acquiring new clients in our focus industries as well as expanding existing relationships. For 2014, we anticipate average total loans to grow in the mid-single digit range, continuing to be led by growth in our commercial, financial and agricultural loans.

We continued to improve the mix of deposits during 2013, as we experienced a $6.3 billion, or 12.1%, increase in non-time deposits. Approximately $4.4 billion of our certificates of deposit outstanding at December 31, 2013, with an average cost of .93%, are scheduled to mature over the next twelve months. The maturation of these certificates of deposit and other liability repricing opportunities will continue to help offset repricing pressure on our assets. This improved funding mix reduced the cost of interest-bearing deposits during 2013 compared to 2012. Our consolidated loan to deposit ratio was 83.8% at December 31, 2013, compared to 85.8% at December 31, 2012.

Our asset quality statistics continued to improve during 2013. Net loan charge-offs declined to $168 million, or .32%, of average loan balances for 2013, compared to $345 million, or .69%, for 2012. In addition, our nonperforming loans declined to $508 million, or .93%, of period-end loans at December 31, 2013, compared to $674 million, or 1.28%, at December 31, 2012. Our ALLL was $848 million, or 1.56%, of period-end loans, compared to $888 million, or 1.68%, at December 31, 2012, and represented 166.9% and 131.8% coverage of nonperforming loans at December 31, 2013, and December 31, 2012, respectively. We expect net loan charge-offs to average loans during 2014 to remain at the lower end or below our long-term targeted range of 40 to 60 basis points.

Our tangible common equity ratio and Tier 1 common ratio both remain strong at December 31, 2013, at 9.80% and 11.22% respectively, compared to 10.15% and 11.36%, respectively, at December 31, 2012. These ratios have placed us in the top quartile of our peer group for these measures. We have identified four primary uses of capital:

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

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Our capital management remains focused on creating value. To that end, we returned approximately 76% of our net income to shareholders through both common share repurchases and dividends in 2013. We also used our capital to acquire a commercial real estate servicing portfolio and special servicing business.

The Federal Reserve is currently reviewing of our 2014 capital plan under the CCAR process. Until such time as it has completed its review and has no objection to our plan, we are not permitted to implement our capital plan for periods after the first quarter of 2014. Should we receive an objection to our plan, it would likely delay any actions on capital management until later in the calendar year. For more information about the CCAR process, see Capital planning and stress testing under Supervision and Regulation in Item 1 of this report.

Figure 4 presents certain non-GAAP financial measures related to tangible common equity, return on tangible common equity, Tier 1 common equity, pre-provision net revenue, cash efficiency ratio, and adjusted cash efficiency ratio.

The tangible common equity ratio and the return on tangible common equity ratio have been a focus for some investors, and management believes these ratios may assist investors in analyzing Key s capital position without regard to the effects of intangible assets and preferred stock. Tier 1 common equity, a non-GAAP financial measure, is a component of Tier 1 risk-based capital. Tier 1 common equity is not formally defined by GAAP or prescribed in amount by federal banking regulations applicable to us before January 1, 2015. However, since analysts and banking regulators may assess our capital adequacy using tangible common equity and Tier 1 common equity, we believe it is useful to enable investors to assess our capital adequacy on these same bases. Figure 4 also reconciles the GAAP performance measures to the corresponding non-GAAP measures.

Traditionally, the banking regulators have assessed bank and BHC capital adequacy based on both the amount and the composition of capital, the calculation of which is prescribed in federal banking regulations. Since early 2009, the Federal Reserve has focused its assessment of capital adequacy on a component of Tier 1 capital known as Tier 1 common equity. Because the Federal Reserve has long indicated that voting common shareholders equity (essentially Tier 1 risk-based capital less preferred stock, qualifying capital securities and noncontrolling interests in subsidiaries) generally should be the dominant element in Tier 1 risk-based capital, this focus on Tier 1 common equity is consistent with existing capital adequacy categories. The Regulatory Capital Rules, described in more detail under the section Supervision and Regulation in Item 1 of this report, also make Tier 1 common equity a priority. The Regulatory Capital Rules change the regulatory capital standards that apply to BHCs by, among other changes, phasing out the treatment of trust preferred securities and cumulative preferred securities as Tier 1 eligible capital. By 2016, our trust preferred securities will only be included in Tier 2 capital.

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

The cash efficiency ratio and adjusted cash efficiency ratio are ratios of two non-GAAP performance measures. Accordingly, there are no directly comparable GAAP performance measures. The cash efficiency ratio performance measure removes the impact of our intangible asset amortization from the calculation. The adjusted cash efficiency ratio further removes the impact of the efficiency initiative and pension settlement charges. We believe these ratios provide greater consistency and comparability between our results and those of our peer banks. Additionally, these ratios are used by analysts and investors as they develop earnings forecasts and peer bank analysis.

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

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Figure 4. GAAP to Non-GAAP Reconciliations

Year ended December 31,

dollars in millions		2013		2012		2011		2010 (a)		2009 (a)	
Tangible common equity to tangible assets at period end											
Key shareholders equity (GAAP)		**$ 10,303**		$ 10,271		$ 9,905		$ 11,117		$ 10,663	
Less:	Intangible assets (b)	**1,014**		1,027		934		938		967	
	Series B Preferred Stock							2,446		2,430	
	Series A Preferred Stock (c)	**282**		291		291		291		291	
	Tangible common equity (non-GAAP)	**$ 9,007**		$ 8,953		$ 8,680		$ 7,442		$ 6,975	
Total assets (GAAP)		**$ 92,934**		$ 89,236		$ 88,785		$ 91,843		$ 93,287	
Less:	Intangible assets (b)	**1,014**		1,027		934		938		967	
	Tangible assets (non-GAAP)	**$ 91,920**		$ 88,209		$ 87,851		$ 90,905		$ 92,320	
Tangible common equity to tangible assets ratio (non-GAAP)		**9.80**	**%**	10.15	%	9.88	%	8.19	%	7.56	%
Tier 1 common equity at period end											
Key shareholders equity (GAAP)		**$ 10,303**		$ 10,271		$ 9,905		$ 11,117		$ 10,663	
Qualifying capital securities		**339**		339		1,046		1,791		1,791	
Less:	Goodwill	**979**		979		917		917		917	
	Accumulated other comprehensive income (loss) (d)	**(394)**		(172)		(72)		(66)		(48)	
	Other assets (e)	**89**		114		72		248		632	
	Total Tier 1 capital (regulatory)	**9,968**		9,689		10,034		11,809		10,953	
Less:	Qualifying capital securities	**339**		339		1,046		1,791		1,791	
	Series B Preferred Stock							2,446		2,430	
	Series A Preferred Stock (c)	**282**		291		291		291		291	
	Total Tier 1 common equity (non-GAAP)	**$ 9,347**		$ 9,059		$ 8,697		$ 7,281		$ 6,441	
Net risk-weighted assets (regulatory)		**$ 83,328**		$ 79,734		$ 77,214		$ 77,921		$ 85,881	
Tier 1 common equity ratio (non-GAAP)		**11.22**	**%**	11.36	%	11.26	%	9.34	%	7.50	%
Pre-provision net revenue											
Net interest income (GAAP)		**$ 2,325**		$ 2,264		$ 2,267		$ 2,511		$ 2,380	
Plus:	Taxable-equivalent adjustment	**23**		24		25		26		26	
	Noninterest income (GAAP)	**1,766**		1,856		1,688		1,954		2,035	
Less:	Noninterest expense (GAAP)	**2,820**		2,818		2,684		3,034		3,554	
Pre-provision net revenue from continuing operations (non-GAAP)		**$ 1,294**		$ 1,326		$ 1,296		$ 1,457		$ 887	
Average tangible common equity											
Average Key shareholders equity (GAAP)		**$ 10,276**		$ 10,144		$ 10,133		$ 10,895		$ 10,592	
Less:	Intangible assets (average) (f)	**1,021**		978		935		959		1,068	
	Series B Preferred Stock (average)					590		2,438		2,578	
	Series A Preferred Stock (average)	**291**		291		291		291		291	

Average tangible common equity (non-GAAP)	**$ 8,964**	$ 8,875	$ 8,317	$ 7,207	$ 6,655
Return on average tangible common equity from continuing operations					
Net income (loss) from continuing operations attributable to Key common shareholders (GAAP)	**$ 847**	$ 813	$ 848	$ 413	$ (1,581)
Average tangible common equity (non-GAAP)	**8,964**	8,875	8,317	7,207	6,655
Return on average tangible common equity from continuing operations (non-GAAP)	**9.45 %**	9.16 %	10.20 %	5.73 %	(23.8) %
Return on average tangible common equity consolidated					
Net income (loss) attributable to Key common shareholders (GAAP)	**$ 887**	$ 836	$ 813	$ 390	$ (1,629)
Average tangible common equity (non-GAAP)	**8,964**	8,875	8,317	7,207	6,655
Return on average tangible common equity consolidated (non-GAAP)	**9.90 %**	9.42 %	9.78 %	5.41 %	(24.5) %
Cash efficiency ratio					
Noninterest expense (GAAP)	**$ 2,820**	$ 2,818	$ 2,684	$ 3,034	$ 3,554
Less: Intangible asset amortization on credit cards (GAAP)	**30**	14			
Other intangible asset amortization (GAAP)	**14**	9	4	14	77
Intangible asset impairment (GAAP)					214
Adjusted noninterest expense (non-GAAP)	**$ 2,776**	$ 2,795	$ 2,680	$ 3,020	$ 3,263
Net interest income (GAAP)	**$ 2,325**	$ 2,264	$ 2,267	$ 2,511	$ 2,380
Plus: Taxable-equivalent adjustment	**23**	24	25	26	26
Noninterest income (GAAP)	**1,766**	1,856	1,688	1,954	2,035
Total taxable-equivalent revenue (non-GAAP)	**$ 4,114**	$ 4,144	$ 3,980	$ 4,491	$ 4,441
Cash efficiency ratio (non-GAAP)	**67.5 %**	67.4 %	67.3 %	67.3 %	73.5 %
Adjusted cash efficiency ratio net of efficiency initiative charges					
Adjusted noninterest expense (non-GAAP)	**$ 2,776**	$ 2,795	$ 2,680	$ 3,020	$ 3,263
Less: Efficiency initiative and pension settlement charges (non-GAAP)	**117**	25			
Net adjusted noninterest expense (non-GAAP)	**$ 2,659**	$ 2,770	$ 2,680	$ 3,020	$ 3,263
Total taxable-equivalent revenue (non-GAAP)	**$ 4,114**	$ 4,144	$ 3,980	$ 4,491	$ 4,441
Adjusted cash efficiency ratio net of efficiency initiative charges (non-GAAP)	**64.6 %**	66.8 %	67.3 %	67.3 %	73.5 %

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Figure 4. GAAP to Non-GAAP Reconciliations, continued

dollars in millions	Three months ended 12-31-13	9-30-13
Common Equity Tier 1 under the Regulatory Capital Rules (estimates)		
Tier 1 common equity under current regulatory rules	$ 9,347	$ 9,258
Adjustments from current regulatory rules to the Regulatory Capital Rules:		
Deferred tax assets and other [g]	(129)	(140)
Common Equity Tier 1 anticipated under the Regulatory Capital Rules [h]	$ 9,218	$ 9,118
Net risk-weighted assets under current regulatory rules	$ 83,328	$ 82,913
Adjustments from current regulatory rules to the Regulatory Capital Rules:		
Loan commitments less than one year	784	496
Past due loans	164	244
Mortgage servicing assets [i]	497	576
Deferred tax assets [i]	182	240
Other	1,413	1,451
Total risk-weighted assets anticipated under the Regulatory Capital Rules	$ 86,368	$ 85,920
Common Equity Tier 1 ratio under the Regulatory Capital Rules [h]	10.67 %	10.61 %

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

(b) Years ended December 31, 2013, and December 31, 2012, exclude $92 million and $123 million, respectively, of period-end purchased credit card receivable intangible assets.

(c) Net of capital surplus for the year ended December 31, 2013.

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

(e) Other assets deducted from Tier 1 capital and net risk-weighted assets consist of disallowed intangible assets (excluding goodwill) and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at December 31, 2013, December 31, 2012, and December 31, 2011. There were disallowed deferred tax assets of $158 million at December 31, 2010, and $514 million at December 31, 2009.

(f) Years ended December 31, 2013, and December 31, 2012, exclude $107 million and $55 million, respectively, of average ending purchased credit card receivable intangible assets.

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

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

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

Results of Operations

Net interest income

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

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

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

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

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

¿ asset quality.

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

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

Taxable-equivalent net interest income for 2013 was $2.3 billion, and the net interest margin was 3.12%. These results compare to taxable-equivalent net interest income of $2.3 billion and a net interest margin of 3.21% for the prior year. Total 2013 net interest income increased compared to the prior year because the interest expense associated with lower deposit costs declined by more than interest income. The decrease in interest income is primarily attributable to a change in the mix of average earning assets: higher-yielding loans were paid down and replaced by new originations with lower yields. Yields on the investment portfolio also declined. The decrease in interest expense is primarily attributable to continued improvements in the mix of deposits: the volume of low cost non-time and noninterest bearing deposit balances increased and higher costing certificates of deposit and long-term debt matured.

Average earning assets for 2013 totaled $75.4 billion, which was $3.5 billion, or 4.9%, higher than the 2012 level. The increase reflects $2.7 billion of loan growth primarily in commercial, financial and agricultural loans, as well as the 2012 acquisitions of credit cards and other loans. Our investment portfolio increased $900 million as a result of our strategy to increase our liquidity position.

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

Year ended December 31,	**2013**			**2012**		
dollars in millions	**Average Balance**	**Interest** (a)	**Yield/ Rate** (a)	**Average Balance**	**Interest** (a)	**Yield/ Rate** (a)
ASSETS						
Loans: (c),(d)						
Commercial, financial and agricultural	**$ 23,723** (h)	**$ 855**	**3.60 %**	$ 21,141 (h)	$ 810	3.83 %
Real estate commercial mortgage	**7,591**	**312**	**4.11**	7,656	339	4.43
Real estate construction	**1,058**	**45**	**4.25**	1,171	56	4.74
Commercial lease financing	**4,683**	**172**	**3.67**	5,142	187	3.64
Total commercial loans	**37,055**	**1,384**	**3.73**	35,110	1,392	3.96
Real estate residential mortgage	**2,185**	**98**	**4.49**	2,049	100	4.86
Home equity:						
Key Community Bank	**10,086**	**397**	**3.93**	9,520	384	4.03
Other	**377**	**29**	**7.70**	473	37	7.81
Total home equity loans	**10,463**	**426**	**4.07**	9,993	421	4.21
Consumer other Key Community Bank	**1,404**	**103**	**7.33**	1,269	121	9.53
Credit Card	**701**	**83**	**11.86**	288	40	13.99
Consumer other:						
Marine	**1,172**	**74**	**6.26**	1,551	97	6.26
Other	**74**	**6**	**8.32**	102	8	8.14
Total consumer other	**1,246**	**80**	**6.38**	1,653	105	6.38
Total consumer loans	**15,999**	**790**	**4.94**	15,252	787	5.16
Total loans	**53,054**	**2,174**	**4.10**	50,362	2,179	4.33
Loans held for sale	**532**	**20**	**3.72**	579	20	3.45
Securities available for sale (c),(e)	**12,689**	**311**	**2.49**	13,422	399	3.08
Held-to-maturity securities (c)	**4,387**	**82**	**1.87**	3,511	69	1.97
Trading account assets	**756**	**21**	**2.78**	718	18	2.48
Short-term investments	**2,948**	**6**	**.20**	2,116	6	.27
Other investments (e)	**1,028**	**29**	**2.84**	1,141	38	3.27
Total earning assets	**75,394**	**2,643**	**3.51**	71,849	2,729	3.82
Allowance for loan and lease losses	**(879)**			(919)		
Accrued income and other assets	**9,662**			9,912		
Discontinued assets	**5,036**			5,573		
Total assets	**$ 89,213**			$ 86,415		
LIABILITIES						
NOW and money market deposit accounts	**$ 32,846**	**53**	**.16**	$ 29,673	56	.19
Savings deposits	**2,505**	**1**	**.04**	2,218	1	.05
Certificates of deposit ($100,000 or more) (f)	**2,829**	**50**	**1.76**	3,574	94	2.64
Other time deposits	**4,084**	**53**	**1.30**	5,386	104	1.92
Deposits in foreign office	**567**	**1**	**.23**	767	2	.23
Total interest-bearing deposits	**42,831**	**158**	**.37**	41,618	257	.62
Federal funds purchased and securities sold under repurchase agreements	**1,802**	**2**	**.13**	1,814	4	.19
Bank notes and other short-term borrowings	**394**	**8**	**1.89**	413	7	1.69
Long-term debt (f), (g)	**4,184**	**127**	**3.28**	4,673	173	4.10

Total interest-bearing liabilities	**49,211**	**295**	**.60**	48,518	441	.92
Noninterest-bearing deposits	**23,046**			20,217		
Accrued expense and other liabilities	**1,656**			1,958		
Discontinued liabilities [(g)]	**4,995**			5,555		
Total liabilities	**78,908**			76,248		
EQUITY						
Key shareholders equity	**10,276**			10,144		
Noncontrolling interests	**29**			23		
Total equity	**10,305**			10,167		
Total liabilities and equity	**$ 89,213**			$ 86,415		
Interest rate spread (TE)			**2.91 %**			2.90 %
Net interest income (TE) and net interest margin (TE)		**2,348**	**3.12 %**		2,288	3.21 %
TE adjustment [(c)]		**23**			24	
Net interest income, GAAP basis		**$ 2,325**			$ 2,264	

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

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

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

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

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

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

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

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

2011			2010			2009			Compound Annual Rate of Change (2009-2013)	
Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance (b)	Interest (a), (b)	Yield/ Rate (a), (b)	Average Balance (b), (j)	Interest (a), (b)	Yield/ Rate (a), (b)	Average Balance	Interest
$ 17,507	$ 705	4.03 %	$ 17,500	$ 813	4.64 %	$ 23,181	$ 1,038	4.48 %	.5 %	(3.8) %
8,437	380	4.50	10,027	491	4.90	11,310 (i)	557	4.93	(7.7)	(10.9)
1,677	73	4.36	3,495	149	4.26	6,206 (i)	294	4.74	(29.8)	(31.3)
5,846	293	5.01	6,754	352	5.21	8,220	369	4.48	(10.6)	(14.2)
33,467	1,451	4.34	37,776	1,805	4.78	48,917	2,258	4.61	(5.4)	(9.3)
1,850	97	5.25	1,828	102	5.57	1,764	104	5.91	4.4	(1.2)
9,390	387	4.12	9,773	411	4.20	10,214	445	4.36	(.3)	(2.3)
598	46	7.66	751	57	7.59	945	71	7.52	(16.8)	(16.4)
9,988	433	4.34	10,524	468	4.45	11,159	516	4.63	(1.3)	(3.8)
1,167	113	9.62	1,158	132	11.44	1,202	127	10.62	3.2	(4.1)
									N/M	N/M
1,992	125	6.28	2,497	155	6.23	3,097	193	6.22	(17.7)	(17.4)
142	11	7.87	188	15	7.87	247	20	7.93	(21.4)	(21.4)
2,134	136	6.38	2,685	170	6.34	3,344	213	6.35	(17.9)	(17.8)
15,139	779	5.14	16,195	872	5.39	17,469	960	5.50	(1.7)	(3.8)
48,606	2,230	4.59	53,971	2,677	4.96	66,386	3,218	4.85	(4.4)	(7.5)
387	14	3.58	453	17	3.62	650	29	4.37	(3.9)	(7.2)
18,766	584	3.20	18,800	646	3.50	11,169	462	4.19	2.6	(7.6)
514	12	2.35	20	2	10.56	25	2	8.17	N/M	110.2
878	26	2.97	1,068	37	3.47	1,238	47	3.83	(9.4)	(14.9)
2,543	6	.25	2,684	6	.24	4,149	12	.28	(6.6)	(12.9)
1,264	42	3.14	1,442	49	3.08	1,478	51	3.11	(7.0)	(10.7)
72,958	2,914	4.02	78,438	3,434	4.39	85,095	3,821	4.49	(2.4)	(7.1)
(1,250)			(2,207)			(2,273)			(17.3)	
10,341			11,243			12,349			(4.8)	
6,247			6,677			4,269			3.4	
$ 88,296			$ 94,151			$ 99,440			(2.1) %	
$ 27,001	71	.26	$ 25,712	91	.35	$ 24,345	124	.51	6.2 %	(15.6)
1,958	1	.06	1,867	1	.06	1,787	2	.07	7.0	(12.9)
4,931	149	3.02	8,486	275	3.24	12,612	462	3.66	(25.8)	(35.9)
7,185	166	2.31	10,545	301	2.86	14,535	529	3.64	(22.4)	(36.9)
807	3	.30	926	3	.34	802	2	.27	(6.7)	(12.9)
41,882	390	0.93	47,536	671	1.41	54,081	1,119	2.07	(4.6)	(32.4)
1,981	5	.27	2,044	6	.31	1,618	5	.31	2.2	(16.7)
619	11	1.84	545	14	2.63	1,907	16	.84	(27.0)	(12.9)
7,293	216	3.18	7,211	206	3.09	9,455	275	3.16	(15.0)	(14.3)

51,775	622	1.21		57,336	897	1.58		67,061	1,415	2.13		(6.0)		(26.9)	
17,381				15,856				12,964				12.2			
2,658				3,131				4,340				(17.5)			
6,232				6,677				4,269				3.2			
78,046				83,000				88,634				(2.3)			
10,133				10,895				10,592				(.6)			
117				256				214				(33.0)			
10,250				11,151				10,806				(.9)			
$ 88,296				$ 94,151				$ 99,440				(2.1)	%		
		2.81	%			2.81	%			2.36	%				
	2,292	3.16	%		2,537	3.26	%		2,406	2.83	%			(.5)	
	25				26				26					(2.4)	
	$ 2,267				$ 2,511				$ 2,380					(.5)	%

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

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

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

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

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

in millions	2013 vs. 2012 Average Volume	2013 vs. 2012 Yield/ Rate	2013 vs. 2012 Net Change (a)	2012 vs. 2011 Average Volume	2012 vs. 2011 Yield/ Rate	2012 vs. 2011 Net Change (a)
INTEREST INCOME						
Loans	**$ 113**	**$ (118)**	**$ (5)**	$ 79	$ (130)	$ (51)
Loans held for sale	**(2)**	**2**		7	(1)	6
Securities available for sale	**(21)**	**(67)**	**(88)**	(160)	(25)	(185)
Held-to-maturity securities	**17**	**(4)**	**13**	59	(2)	57
Trading account assets	**1**	**2**	**3**	(4)	(4)	(8)
Short-term investments	**2**	**(2)**		(1)	1	
Other investments	**(4)**	**(5)**	**(9)**	(4)		(4)
Total interest income (TE)	**106**	**(192)**	**(86)**	(24)	(161)	(185)
INTEREST EXPENSE						
NOW and money market deposit accounts	**6**	**(9)**	**(3)**	7	(22)	(15)
Certificates of deposit ($100,000 or more)	**(17)**	**(27)**	**(44)**	(37)	(18)	(55)
Other time deposits	**(22)**	**(29)**	**(51)**	(37)	(25)	(62)
Deposits in foreign office		**(1)**	**(1)**		(1)	(1)
Total interest-bearing deposits	**(33)**	**(66)**	**(99)**	(67)	(66)	(133)
Federal funds purchased and securities sold under repurchase agreements		**(2)**	**(2)**		(1)	(1)
Bank notes and other short-term borrowings		**1**	**1**	(4)		(4)
Long-term debt	**(17)**	**(29)**	**(46)**	(89)	46	(43)
Total interest expense	**(50)**	**(96)**	**(146)**	(160)	(21)	(181)
Net interest income (TE)	**$ 156**	**$ (96)**	**$ 60**	$ 136	$ (140)	$ (4)

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

Noninterest income

Noninterest income for 2013 was $1.8 billion, down $90 million, or 4.8%, from 2012. In 2012, noninterest income increased by $168 million, or 10%, compared to 2011.

Operating lease income and other leasing gains decreased $87 million from 2012, primarily due to fewer early terminations in the leveraged lease portfolio. Consumer mortgage income declined $21 million, and net gains (losses) from principal investing decreased $20 million. Other income also declined $43 million, primarily due to gains on the redemption of trust preferred securities in the prior year. These decreases were partially offset by increases of $34 million in mortgage servicing fees, $27 million in cards and payments income, and $18 million in trust and investment services income.

Noninterest income for 2012 increased $168 million from 2011. Investment banking and debt placement fees increased $103 million. Operating lease income and other leasing gains increased $38 million, primarily due to the early terminations of leveraged leases. Trust and investment services income increased $22 million. Other income also increased $55 million, primarily due to gains on the redemption of trust preferred securities. These increases were partially offset by decreases in corporate services income of $29 million and cards and payments income of $28 million.

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Figure 7. Noninterest Income

Year ended December 31, *dollars in millions*	2013	2012	2011	Change 2013 vs. 2012 Amount	Percent
Trust and investment services income	**$ 393**	$ 375	$ 353	$ 18	4.8 %
Investment banking and debt placement fees	**333**	327	224	6	1.8
Service charges on deposit accounts	**281**	287	281	(6)	(2.1)
Operating lease income and other leasing gains	**108**	195	157	(87)	(44.6)
Corporate services income	**172**	168	197	4	2.4
Cards and payments income	**162**	135	163	27	20.0
Corporate-owned life insurance income	**120**	122	121	(2)	(1.6)
Consumer mortgage income	**19**	40	32	(21)	(52.5)
Mortgage servicing fees	**58**	24	26	34	141.7
Net gains (losses) from principal investing	**52**	72	78	(20)	(27.8)
Other income [(a)]	**68**	111	56	(43)	(38.7)
Total noninterest income	**$ 1,766**	$ 1,856	$ 1,688	$ (90)	(4.8) %

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

Figure 8. Dealer Trading and Derivatives Income (Loss)

Year ended December 31, *dollars in millions*	2013	2012	2011	Change 2013 vs. 2012 Amount	Percent
Dealer trading and derivatives income (loss), proprietary [(a), (b)]	**$ (14)**	$ (2)	$ (24)	$ (12)	N/M
Dealer trading and derivatives income (loss), nonproprietary [(b)]	**27**	6	2	21	350.0 %
Total dealer trading and derivatives income (loss)	**$ 13**	$ 4	$ (22)	$ 9	225.0 %

(a) For the year ended December 31, 2013, income of $3 million related to foreign exchange and interest rate derivative trading was offset by losses related to fixed income, equity securities trading, commodity derivative trading, and credit portfolio management activities. For the year ended December 31, 2012, equity securities trading and credit portfolio management securities trading constitute the majority of this amount. These losses were partially offset by income of $6 million related to fixed income, foreign exchange, interest rate, and commodity derivative trading activities. For the year ended December 31, 2011, fixed income, equity securities trading, and credit portfolio management activities constitute the majority of this amount. These losses were partially offset by income of $3 million related to foreign exchange and interest rate derivative trading activities.

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

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

Trust and investment services income

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

For 2013, trust and investment services income increased $18 million, or 4.8%, from the prior year. For 2012, trust and investment services income increased $22 million, or 6.2%, from the prior year.

A significant portion of our trust and investment services income depends on the value and mix of assets under management. At December 31, 2013, our bank, trust and registered investment advisory subsidiaries had assets under management of $36.9 billion, compared to $34.7 billion at December 31, 2012, and $34.3 billion at December 31, 2011. As shown in Figure 9, increases in the equity and securities lending portfolios from 2012 to 2013 were primarily attributable to market appreciation. These increases were partially offset by a decrease in the fixed income portfolio as the market value of this portfolio declined. Increases in the equity, fixed income and

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money market portfolios from 2011 to 2012 were mostly offset by a decrease in the securities lending portfolio. Our securities lending business declined from 2011 to 2012; we reduced emphasis on this business, which resulted in lower transaction volumes, client departures, and fewer assets under management.

Figure 9. Assets Under Management

December 31, *dollars in millions*	**2013**	2012	2011	Change 2013 vs. 2012 Amount	Change 2013 vs. 2012 Percent
Assets under management by investment type:					
Equity	**$ 20,971**	$ 18,013	$ 17,464	$ 2,958	16.4 %
Securities lending	**3,422**	3,147	4,950	275	8.7
Fixed income	**9,767**	10,872	10,556	(1,105)	(10.2)
Money market	**2,745**	2,712	1,285	33	1.2
Total	**$ 36,905**	$ 34,744	$ 34,255	$ 2,161	6.2 %

Investment banking and debt placement fees

Investment banking and debt placement fees consist of syndication fees, debt and equity financing fees, financial advisor fees, gains on sales of commercial mortgages, and agency origination fees. In 2013, investment banking and debt placement fees increased $6 million, or 1.8%, from one year ago. In 2012, investment banking and debt placement fees increased $103 million, or 46%, from 2011, primarily due to increased levels of debt and equity financings and advisor fees.

Operating lease income and other leasing gains

Operating lease income and other leasing gains decreased $87 million during 2013 and increased $38 million in 2012 compared to 2011 due to gains on the early terminations of leveraged leases. Product run-off also contributed to the decrease from 2012 to 2013. Accordingly, as shown in Figure 10, operating lease expense also declined from 2012 to 2013.

Cards and payments income

Cards and payments income, which consists of debit card, consumer and commercial credit card, and merchant services income, increased $27 million, or 20%, from 2012 to 2013, and decreased $28 million, or 17.2%, from 2011 to 2012. The increase from 2012 to 2013 was primarily due to the third quarter 2012 credit card portfolio acquisition. The decrease from 2011 to 2012 was primarily due to government pricing controls on debit transactions that went into effect October 1, 2011.

Consumer mortgage income

Consumer mortgage income decreased $21 million, or 52.5%, from 2012 to 2013, and increased $8 million, or 25%, from 2011 to 2012. The decrease from 2012 to 2013 was primarily due to lower mortgage originations.

Mortgage servicing fees

Mortgage servicing fees increased $34 million, or 141.7%, from 2012 to 2013, and decreased $2 million, or 7.7%, from 2011 to 2012. The increase in mortgage servicing fees from 2012 to 2013 was due to higher levels of core servicing fees and special servicing fees as a result of the 2013 acquisition of a commercial mortgage servicing portfolio.

Other income

Other income, which consists primarily of gain on sale of certain loans, other service charges, and certain dealer trading income, decreased $43 million, or 38.7%, from 2012 to 2013, and increased $55 million, or 98.2%, from 2011 to 2012. Other income was higher in 2012 than it was in 2011 or 2013 due to a $54 million gain on the redemption of trust preferred securities.

Noninterest expense

As shown in Figure 10, noninterest expense for 2013 was $2.8 billion, up $2 million, or .1%, from 2012. In 2013, expenses attributable to the 2012 acquisitions of the credit card portfolios and Western New York branches increased $40 million, and we recognized $117 million of expenses related to our efficiency initiative and a pension settlement charge. Noninterest expense increased by $134 million, or 5%, from 2011 to 2012, of which $61 million was attributable to the 2012 acquisitions of the credit card portfolios and Western New York branches and $25 million was attributable to our efficiency initiative.

As shown in Figure 11, personnel expense increased by $39 million in 2013, driven by higher levels of incentive compensation, employee benefits, and severance expense, partially offset by declines in stock-based compensation. Nonpersonnel expense decreased $37 million, primarily due to declines in several expense categories: $39 million in business services and professional fees, $17 million in marketing, $11 million in other expense, and $10 million in operating lease expense. These declines in nonpersonnel expense were partially offset by increases of $24 million in provision (credit) for losses on lending-related commitments, $21 in intangible asset amortization, and $15 million in net occupancy costs.

Personnel expense increased by $110 million in 2012, driven by higher levels of expense in each category shown in Figure 11. Nonpersonnel expense increased $24 million, primarily due to increases in several expense categories: $19 million in intangible asset amortization, $12 million in the provision (credit) for losses on lending-related commitments, $30 million in other expense, $8 million in marketing, and $7 million in business services and professional fees. These increases in nonpersonnel expense were partially offset by a $37 million decrease in operating lease expense due to product run-off and a $21 million decrease in the FDIC assessment.

Figure 10. Noninterest Expense

Year ended December 31,				**Change 2013 vs. 2012**	
dollars in millions	**2013**	**2012**	**2011**	**Amount**	**Percent**
Personnel	**$ 1,609**	$ 1,570	$ 1,460	$ 39	2.5 %
Net occupancy	**275**	260	258	15	5.8
Computer processing	**156**	164	166	(8)	(4.9)
Business services and professional fees	**151**	190	183	(39)	(20.5)
Equipment	**104**	107	103	(3)	(2.8)
Operating lease expense	**47**	57	94	(10)	(17.5)
Marketing	**51**	68	60	(17)	(25.0)
FDIC assessment	**30**	31	52	(1)	(3.2)
Intangible asset amortization on credit cards	**30**	14		16	114.3
Other intangible asset amortization	**14**	9	4	5	55.6
Provision (credit) for losses on lending-related commitments	**8**	(16)	(28)	24	N/M
OREO expense, net	**7**	15	13	(8)	(53.3)
Other expense	**338**	349	319	(11)	(3.2)
Total noninterest expense	**$ 2,820**	$ 2,818	$ 2,684	$ 2	.1 %
Average full-time equivalent employees [(a)]	**14,783**	15,589	15,381	(806)	(5.2) %

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

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

Personnel

As shown in Figure 11, personnel expense, the largest category of our noninterest expense, increased by $39 million, or 2.5%, from 2012 to 2013. Incentive compensation increased $28 million. Severance expense and employee benefits increased $15 million and $12 million, respectively, as a result of staff reductions related to our efficiency initiative. Employee benefits included a $27 million pension settlement charge. These increases in personnel expense were partially offset by a decrease of $14 million in stock-based compensation.

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Personnel expense increased $110 million from 2011 to 2012 due to several factors. Salaries increased $40 million due to increased hiring of client-facing personnel, including our acquisition of 37 branches in Western New York, and increases in base salaries. Technology contract labor, net increased $34 million due to higher levels of contract labor for technology investments attributable to the credit card portfolio acquisitions and the related implementation of new payment systems and merchant services processing. Employee benefits increased $14 million, primarily due to pension expense and higher medical claims. Incentive compensation increased $12 million as a result of higher commission expenses driven by increased activity in debt and equity placements. Stock-based compensation also increased $8 million while severance expense increased $2 million.

Figure 11. Personnel Expense

Year ended December 31,				**Change 2013 vs. 2012**	
dollars in millions	**2013**	**2012**	**2011**	**Amount**	**Percent**
Salaries	**$ 897**	$ 902	$ 862	$ (5)	(.6) %
Technology contract labor, net	**72**	69	35	3	4.3
Incentive compensation	**318**	290	278	28	9.7
Employee benefits	**249**	237	223	12	5.1
Stock-based compensation [(a)]	**35**	49	41	(14)	(28.6)
Severance	**38**	23	21	15	65.2
Total personnel expense	**$ 1,609**	$ 1,570	$ 1,460	$ 39	2.5 %

(a) Excludes directors stock-based compensation of $3 million in 2013, $4 million in 2012, and less than $1 million in 2011, reported as other expense in Figure 10.

Operating lease expense

The decrease in operating lease expense in both 2013 and 2012 compared to the prior year is primarily attributable to product run-off. Income related to the rental of leased equipment is presented in Figure 7 as operating lease income and other leasing gains.

FDIC assessment

FDIC assessment expense declined $1 million, or 3.2%, from 2012 to 2013, and decreased $21 million, or 40.4%, from 2011 to 2012. The decline from 2011 to 2012 was a result of the change in the calculation method for deposit insurance assessments.

Intangible asset amortization

Intangible asset amortization increased $21 million in 2013 compared to 2012, and $19 million in 2012 compared to 2011. The increases are a result of the third quarter 2012 acquisitions of the credit card portfolio and Western New York branches.

Other expense

Other expense comprises various miscellaneous expense items. Other expense declined $11 million from 2012 to 2013 due to fluctuations in several of those line items. Other expense increased $30 million from 2011 to 2012, which included $14 million in recurring expenses associated with the acquisitions of the credit card portfolios and Western New York branches.

Income taxes

We recorded a tax provision from continuing operations of $271 million for 2013, compared to a tax provision of $231 million for 2012 and $364 million for 2011. The effective tax rate, which is the provision for income taxes as a percentage of income from continuing operations before income taxes, was 23.7% for 2013, compared to 21.4% for 2012, and 27.4% for 2011.

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Our federal tax (benefit) expense differs from the amount that would be calculated using the federal statutory tax rate, primarily because we generate income from investments in tax-advantaged assets, such as corporate-owned life insurance, earn credits associated with investments in low-income housing projects, and make periodic adjustments to our tax reserves. In addition, in 2013 and 2012, our effective tax rate was lower due to the early termination of certain leveraged leases that resulted in nontaxable gains pursuant to a prior settlement with the IRS.

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

Line of Business Results

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

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

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

Year ended December 31,				**Change 2013 vs. 2012**	
dollars in millions	**2013**	**2012**	**2011**	**Amount**	**Percent**
REVENUE FROM CONTINUING OPERATIONS (TE)					
Key Community Bank	**$ 2,191**	$ 2,225	$ 2,206	$ (34)	(1.5)%
Key Corporate Bank	**1,538**	1,521	1,499	17	1.1
Other Segments	**387**	414	299	(27)	(6.5)
Total Segments	**4,116**	4,160	4,004	(44)	(1.1)
Reconciling Items	**(2)**	(16)	(24)	14	N/M
Total	**$ 4,114**	$ 4,144	$ 3,980	$ (30)	(.7)%
INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO KEY					
Key Community Bank	**$ 151**	$ 129	$ 191	$ 22	17.1 %
Key Corporate Bank	**444**	409	554	35	8.6
Other Segments	**314**	256	209	58	22.7
Total Segments	**909**	794	954	115	14.5
Reconciling Items	**(39)**	41	1	(80)	N/M
Total	**$ 870**	$ 835	$ 955	$ 35	4.2 %

Key Community Bank summary of operations

As shown in Figure 13, Key Community Bank recorded net income attributable to Key of $151 million for 2013, compared to $129 million for 2012, and $191 million for 2011. The increase in 2013 was primarily due to Key s efficiency initiative.

Taxable-equivalent net interest income declined by $47 million, or 3.2%, from 2012. Average loans and leases grew $2.1 billion, or 7.8%, while average deposits increased by $1.1 billion, or 2.2%, compared to 2012. The positive contribution to net interest income from loan and deposit growth was offset by a reduction in the value of deposits in 2013 compared to one year ago.

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Noninterest income increased by $13 million, or 1.7%, from 2012. Trust and investment services income increased $17 million due to an increase in assets under management resulting from market appreciation and increased production. Cards and payments income increased $26 million due to the full year impact of the credit card portfolio acquisition in 2012. These increases in noninterest income were partially offset by a $21 million decrease in consumer mortgage income primarily due to lower originations and a $5 million decline in other income.

The provision for loan and lease losses increased by $6 million, or 4%, from 2012. Net loan charge-offs declined $48 million, or 24.6%, from 2012, as a result of continued progress in the economic environment and further improvement in the credit quality of the portfolio.

Noninterest expense declined by $76 million, or 4.1%, from 2012 due to Key s efficiency initiative. Personnel expense decreased $21 million, primarily due to declines in salaries and employee benefits. Nonpersonnel expense declined $55 million, primarily due to decreases in business services and professional fees, computer processing, and other support costs.

Key Community Bank recorded net income attributable to Key of $129 million for 2012, compared to net income of $191 million for 2011. Taxable-equivalent net interest income increased by $16 million, or 1.1%, from 2011. Average loans and leases grew $1.6 billion, or 6.3%, while average deposits increased by $1 billion, or 2.1%, compared to 2011. The Western New York branch and credit card portfolio acquisitions contributed $61 million to net interest income, $454 million to average loans and leases, and $932 million to deposits. The positive contribution to net interest income from the acquisitions was offset by the impact of lower value on deposits driven by the prolonged low rate environment. Noninterest income increased by $3 million, or .4%, from 2011. The Western New York branch and credit card portfolio acquisitions contributed $25 million mainly in credit card fees, brokerage commissions, and service charges on deposit accounts. Trust and investment services income increased $12 million primarily due to an increase in assets under management resulting from market appreciation and increased production. These increases in noninterest income were partially offset by a $26 million decline in cards and payment income resulting from government pricing controls on debit transactions that went into effect October 1, 2011. The provision for loan and lease losses increased by $2 million, or 1.4%, from 2011. Net loan charge-offs declined $79 million, or 28.8%, from 2011 as a result of continued progress in the economic environment and further improvement in credit quality of the portfolio. Noninterest expense increased by $116 million, or 6.6%, from 2011. The Western New York branch and credit card portfolio acquisitions contributed $62 million to the increase in noninterest expense spread across several expense categories including personnel, loan servicing and intangible amortization.

Figure 13. Key Community Bank

Year ended December 31,				**Change 2013 vs. 2012**	
dollars in millions	**2013**	**2012**	**2011**	**Amount**	**Percent**
SUMMARY OF OPERATIONS					
Net interest income (TE)	**$ 1,425**	$ 1,472	$ 1,456	$ (47)	(3.2) %
Noninterest income	**766**	753	750	13	1.7
Total revenue (TE)	**2,191**	2,225	2,206	(34)	(1.5)
Provision (credit) for loan and lease losses	**156**	150	148	6	4.0
Noninterest expense	**1,794**	1,870	1,754	(76)	(4.1)
Income (loss) before income taxes (TE)	**241**	205	304	36	17.6
Allocated income taxes (benefit) and TE adjustments	**90**	76	113	14	18.4
Net income (loss) attributable to Key	**$ 151**	$ 129	$ 191	$ 22	17.1 %
AVERAGE BALANCES					
Loans and leases	**$ 29,309**	$ 27,200	$ 25,599	$ 2,109	7.8 %
Total assets	**31,628**	29,616	27,781	2,012	6.8
Deposits	**49,723**	48,644	47,643	1,079	2.2
Assets under management at year end	**$ 26,664**	$ 23,638	$ 21,206	$ 3,026	12.8 %

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ADDITIONAL KEY COMMUNITY BANK DATA

Year ended December 31,				Change 2013 vs. 2012	
dollars in millions	**2013**	**2012**	**2011**	**Amount**	**Percent**
NONINTEREST INCOME					
Trust and investment services income	**$ 268**	$ 251	$ 239	$ 17	6.8 %
Services charges on deposit accounts	**237**	238	234	(1)	(.4)
Cards and payments income	**144**	118	144	26	22.0
Other noninterest income	**117**	146	133	(29)	(19.9)
Total noninterest income	**$ 766**	$ 753	$ 750	$ 13	1.7 %
AVERAGE DEPOSITS OUTSTANDING					
NOW and money market deposit accounts	**$ 26,616**	$ 24,400	$ 21,889	$ 2,216	9.1 %
Savings deposits	**2,495**	2,208	1,949	287	13.0
Certificates of deposits ($100,000 or more)	**2,331**	3,064	4,016	(733)	(23.9)
Other time deposits	**4,078**	5,370	7,168	(1,292)	(24.1)
Deposits in foreign office	**279**	291	306	(12)	(4.1)
Noninterest-bearing deposits	**13,924**	13,311	12,315	613	4.6
Total deposits	**$ 49,723**	$ 48,644	$ 47,643	$ 1,079	2.2 %
HOME EQUITY LOANS					
Average balance	**$ 10,086**	$ 9,520	$ 9,390		
Weighted-average loan-to-value ratio (at date of origination)	**71 %**	70 %	70 %		
Percent first lien positions	**58**	55	53		
OTHER DATA					
Branches	**1,028**	1,088	1,058		
Automated teller machines	**1,335**	1,611	1,579		

Key Corporate Bank summary of operations

As shown in Figure 14, Key Corporate Bank recorded net income attributable to Key of $444 million for 2013, compared to $409 million for 2012, and $554 million for 2011. The 2013 increase was driven by an increase in noninterest income and a decrease in the provision for loan and lease losses, partially offset by a decrease in taxable-equivalent net interest income and an increase in noninterest expense.

Taxable-equivalent net interest income decreased by $14 million, or 1.8%, in 2013 compared to 2012. The decline was driven by a $15 million, or 6.5%, decrease in the deposit spread, as the decline in rates due to the continued low-rate environment offset a $3.1 billion increase in deposit balances. The earning asset spread increased $16 million, or 3.3%, from 2012, as increased earning asset balances of $1.6 billion, or 7.6%, were partially offset by a decrease in the spread rate year over year.

Noninterest income increased by $31 million, or 4.1%, from 2012. This increase was driven by a $33 million increase in mortgage servicing fees, related to increases in core mortgage servicing fees, special servicing fees, and investments in commercial mortgage servicing. In addition, there was an $11 million increase in gains realized on the disposition of certain investments held by the Real Estate Capital line of business and a $9 million increase in investment banking and debt placement fees. These increases were partially offset by a $20 million decrease in operating lease income and other leasing gains.

The provision for loan and lease losses was a credit of $6 million in 2013, compared to a charge of $24 million in 2012. The 2013 credit was driven by improved credit quality within the portfolio, as the quality of new business volume exceeded that of the legacy portfolio. Net loan charge-offs decreased from $64 million in 2012 to $1 million in 2013.

Noninterest expense increased by $8 million, or .9%, from 2012. This increase was driven by a $7 million charge in the provision (credit) for losses on lending-related commitments for 2013, compared to a credit of $17 million for 2012, and an increase in personnel expense. These increases were partially offset by decreases in operating lease expense due to product run-off, net OREO expense, and other expense categories.

The 2012 decline in net income from continuing operations attributable to Key compared to 2011 resulted from increases in the provision for loan and lease losses and noninterest expense, partially offset by increases in net interest income and noninterest income. Taxable-equivalent net interest income increased by $13 million, or 1.7%, in 2012 compared to 2011, as a reduction in the value of deposits due to historically low interest rates was offset by increases in both deposit balances and earning assets. Noninterest income increased $9 million, or 1.2%, as increases in investment banking and debt placement fees were partially offset by decreases in operating lease income and other leasing gains due to product runoff, loan fees and gains on the disposition of certain investments held by the Real Estate Capital line of business, and changes in the derivative reserve. The provision for loan and lease losses increased $222 million due to a charge of $24 million taken in 2012 compared to a credit of $198 million in 2011. Noninterest expense increased $21 million, or 2.5%, driven by higher corporate overhead, net OREO expenses recorded in 2012 versus net OREO gains in 2011, and increases in personnel expense. These expenses were partially offset by decreases in operating lease expense due to product run-off and declines in other expense categories.

Figure 14. Key Corporate Bank

Year ended December 31,				**Change 2013 vs. 2012**	
dollars in millions	**2013**	**2012**	**2011**	**Amount**	**Percent**
SUMMARY OF OPERATIONS					
Net interest income (TE)	**$ 756**	$ 770	$ 757	$ (14)	(1.8) %
Noninterest income	**782**	751	742	31	4.1
Total revenue (TE)	**1,538**	1,521	1,499	17	1.1
Provision (credit) for loan and lease losses	**(6)**	24	(198)	(30)	N/M
Noninterest expense	**854**	846	825	8	.9
Income (loss) before income taxes (TE)	**690**	651	872	39	6.0
Allocated income taxes and TE adjustments	**246**	239	318	7	2.9
Net income (loss)	**444**	412	554	32	7.8
Less: Net income (loss) attributable to noncontrolling interests		3		(3)	N/M
Net income (loss) attributable to Key	**$ 444**	$ 409	$ 554	$ 35	8.6 %
AVERAGE BALANCES					
Loans and leases	**$ 20,447**	$ 18,879	$ 17,410	$ 1,568	8.3 %
Loans held for sale	**492**	500	302	(8)	(1.6)
Total assets	**24,361**	22,983	21,542	1,378	6.0
Deposits	**15,778**	12,637	10,798	3,141	24.9
Assets under management at year end	**$ 10,241**	$ 11,106	$ 13,049	$ (865)	(7.8) %

ADDITIONAL KEY CORPORATE BANK DATA

Year ended December 31,				**Change 2013 vs. 2012**	
dollars in millions	**2013**	**2012**	**2011**	**Amount**	**Percent**
NONINTEREST INCOME					
Trust and investment services income	**$ 128**	$ 127	$ 136	$ 1	.8 %
Investment banking and debt placement fees	**329**	320	224	9	2.8
Operating lease income and other leasing gains	**64**	84	116	(20)	(23.8)
Corporate services income	**126**	126	150		
Service charges on deposit accounts	**44**	49	46	(5)	(10.2)
Cards and payments income	**18**	20	23	(2)	(10.0)
Payments and services income	**188**	195	219	(7)	(3.6)
Mortgage servicing fees	**58**	25	27	33	132.0
Other noninterest income	**15**		20	15	N/M
Total noninterest income	**$ 782**	$ 751	$ 742	$ 31	4.1 %

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Other Segments

Other Segments consists of Corporate Treasury, our Principal Investing unit, and various exit portfolios. Other Segments generated net income attributable to Key of $314 million for 2013, compared to $256 million for 2012. The 2013 results reflect an increase in taxable-equivalent net interest income of $127 million compared to 2012. The provision for loan and lease losses for 2013 was a credit of $21 million compared to a charge of $55 million for 2012. These improvements were partially offset by a decrease in noninterest income of $154 million.

In 2012, Other Segments generated net income attributable to Key of $256 million, compared to $209 million for 2011. The 2012 results reflected a $137 million increase in noninterest income, partially offset by a decrease in taxable-equivalent net interest income of $22 million and an increase in the provision for loan and lease losses of $60 million.

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Financial Condition

Loans and loans held for sale

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

Figure 15. Composition of Loans

December 31,	2013		2012		2011	
dollars in millions	**Amount**	**Percent of Total**	**Amount**	**Percent of Total**	**Amount**	**Percent of Total**
COMMERCIAL						
Commercial, financial and agricultural [a], [b]	**$ 24,963**	**45.8 %**	$ 23,242	44.0 %	$ 19,759	39.9 %
Commercial real estate: [c]						
Commercial mortgage	**7,720**	**14.2**	7,720	14.6	8,037	16.2
Construction	**1,093**	**2.0**	1,003	1.9	1,312	2.6
Total commercial real estate loans	**8,813**	**16.2**	8,723	16.5	9,349	18.8
Commercial lease financing	**4,551** **[d]**	**8.4**	4,915	9.3	5,674	11.4
Total commercial loans	**38,327**	**70.4**	36,880	69.8	34,782	70.1
CONSUMER						
Real estate residential mortgage	**2,187**	**4.0**	2,174	4.1	1,946	3.9
Home equity:						
Key Community Bank	**10,340**	**19.0**	9,816	18.6	9,229	18.6
Other	**334**	**.6**	423	.8	535	1.1
Total home equity loans	**10,674**	**19.6**	10,239	19.4	9,764	19.7
Consumer other Key Community Bank	**1,449**	**2.7**	1,349	2.5	1,192	2.4
Credit cards	**722**	**1.3**	729	1.4		
Consumer other:						
Marine	**1,028**	**1.9**	1,358	2.6	1,766	3.6
Other	**70**	**.1**	93	.2	125	.3
Total consumer other	**1,098**	**2.0**	1,451	2.8	1,891	3.9
Total consumer loans	**16,130**	**29.6**	15,942	30.2	14,793	29.9
Total loans [e], [f]	**$ 54,457**	**100.0 %**	$ 52,822	100.0 %	$ 49,575	100.0 %

	2010		2009	
	Amount	**Percent of Total**	**Amount**	**Percent of Total**
COMMERCIAL				
Commercial, financial and agricultural	$ 16,441	32.8 %	$ 19,248	32.7 %
Commercial real estate:				
Commercial mortgage	9,502	19.0	10,457 [g]	17.8
Construction	2,106	4.2	4,739 [g]	8.1
Total commercial real estate loans	11,608	23.2	15,196	25.9
Commercial lease financing	6,471	12.9	7,460	12.7
Total commercial loans	34,520	68.9	41,904	71.3
CONSUMER				
Real estate residential mortgage	1,844	3.7	1,796	3.1
Home equity:				
Key Community Bank	9,514	19.0	10,048	17.1
Other	666	1.3	838	1.4
Total home equity loans	10,180	20.3	10,886	18.5
Consumer other Key Community Bank	1,167	2.3	1,181	2.0
Credit cards				
Consumer other:				
Marine	2,234	4.5	2,787	4.7

Other		162	.3		216	.4
Total consumer other		2,396	4.8		3,003	5.1
Total consumer loans		15,587	31.1		16,866	28.7
Total loans [e]	$	50,107	100.0 %	$	58,770	100.0 %

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

(b) See Figure 16 for a more detailed breakdown of our commercial, financial and agricultural loan portfolio at December 31, 2013, and December 31, 2012.

(c) See Figure 17 for a more detailed breakdown of our commercial real estate loan portfolio at December 31, 2013.

(d) December 31, 2013, includes commercial lease financing receivables of $58 million held as collateral for a secured borrowing. Additional information pertaining to this secured borrowing is included in Note 18 (Long-Term Debt).

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(e) Excludes loans in the amount of $4.5 billion at December 31, 2013, $5.2 billion at December 31, 2012, $5.8 billion at December 31, 2011, $6.5 billion at December 30, 2010, and $3.5 billion at December 30, 2009, related to the discontinued operations of the education lending business.

(f) December 31, 2013, includes purchased loans of $166 million, of which $16 million were PCI loans. December 31, 2012, includes purchased loans of $217 million, of which $23 million were PCI loans.

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

At December 31, 2013, total loans outstanding from continuing operations were $54.5 billion, compared to $52.8 billion at the end of 2012, and $49.6 billion at the end of 2011. Loans related to the discontinued operations of the education lending business and excluded from total loans were $4.5 billion at December 31, 2013, $5.2 billion at December 31, 2012, and $5.8 billion at December 31, 2011. Further information regarding our discontinued operations is provided in the section titled Consumer loan portfolio within this discussion. The increase in our outstanding loans from continuing operations over the past year results primarily from increased lending activity in our commercial, financial and agricultural portfolio, along with the credit card portfolio and Western New York branch acquisitions. For more information on balance sheet carrying value, see Note 1 (Summary of Significant Accounting Policies) under the headings Loans and Loans Held for Sale.

Commercial loan portfolio

Commercial loans outstanding were $38.3 billion at December 31, 2013, an increase of $1.4 billion, or 3.9%, compared to December 31, 2012.

Commercial, financial and agricultural. As shown in Figure 15, our commercial, financial and agricultural loans, also referred to as commercial and industrial, represent 45.8% and 44.0% of our total loan portfolio at December 31, 2013, and 2012, respectively, and are the largest component of our total loans. The loans consist of fixed and variable rate loans to our large, middle market and small business clients. These loans increased $1.7 billion, or 7.4%, from one year ago. Growth in our commercial and industrial portfolio is primarily attributable to increased loans to clients in the manufacturing, technology, and healthcare industries. Additionally, we are increasing loans to real estate investment trust (REIT) clients and institutionally-backed commercial real estate (CRE) funds. REITs and institutional CRE funds effectively enable us to lend to entities that generally have more diverse cash flows, lower debt levels and better access to the capital markets than private owners or developers.

Figure 16. Commercial, Financial and Agricultural Loans

	December 31, 2013			December 31, 2012		
dollars in millions	**Amount**	**Percent of Total**		**Amount**	**Percent of Total**	
Industry classification:						
Services	**$ 6,036**	**24.2**	**%**	$ 5,610	24.1	%
Manufacturing	**4,238**	**17.0**		4,196	18.1	
Public utilities	**1,838**	**7.4**		1,424	6.1	
Financial services	**2,155**	**8.6**		2,236	9.6	
Wholesale trade	**1,838**	**7.4**		1,604	6.9	
Retail trade	**993**	**4.0**		889	3.8	
Mining	**634**	**2.5**		761	3.3	
Dealer floor plan	**1,345**	**5.4**		1,216	5.2	
Property management	**877**	**3.5**		798	3.4	
Transportation	**953**	**3.8**		851	3.7	
Building contractors	**526**	**2.1**		459	2.0	
Agriculture/forestry/fishing	**542**	**2.2**		584	2.5	
Insurance	**169**	**.7**		112	.5	
Public administration	**432**	**1.7**		446	1.9	
Communications	**204**	**.8**		183	.8	
Other	**2,183**	**8.7**		1,873	8.1	
Total	**$ 24,963**	**100.0**	**%**	$ 23,242	100.0	%

Commercial, financial and agricultural loans increased $1.7 billion, or 7.4%, from the same period last year, with Key Corporate Bank increasing $1.6 billion and Key Community Bank up $98 million. We have experienced growth in new high credit quality loan commitments, and utilization with clients in our middle market segment, and as well as in our Institutional and Capital Markets business. Our two largest industry classifications services and manufacturing increased by 7.6% and 1.0%, respectively, when compared to one year ago. The services and manufacturing industries represented 24.2% and 17.0%, respectively, of the total commercial, financial and agricultural loan portfolio at December 31, 2013, compared to 24.1% and 18.1%, respectively, at December 31, 2012. At the end of each period provided in Figure 16 above, loans in the services and manufacturing industry classifications accounted for over 40% of our total commercial, financial and agricultural loan portfolio.

Services, manufacturing, and public utilities are focus areas where we maintain dedicated industry verticals that are staffed by relationship managers who possess deep industry experience and knowledge. Our loans in the services classification grew by $426 million, or 7.6%, compared to last year. The growth in the services loan portfolio was largely related to increases in lending to large corporate, middle market, and business banking clients and was partially offset by decreases in loans to clients in private bank and real estate. Loans in the manufacturing classification grew by $42 million, or 1.0%, compared to the same period one year ago. Increases in lending to large corporate, middle market, and business banking clients accounted for the majority of the growth in this classification. Loans in the public utilities classification grew by $414 million, or 29.1%, compared to last year.

Commercial real estate loans. CRE loans represent 16.2% of our total loan portfolio at December 31, 2013, compared to 16.5% one year ago. These CRE loans, including both owner- and nonowner-occupied properties, represented 23.0% of our commercial loan portfolio at December 31, 2013, compared to 23.7% one year ago. These loans have increased $90 million, or 1.0%, to $8.8 billion at December 31, 2013, from $8.7 billion at December 31, 2012. Our CRE lending business is conducted through two primary sources: our 12-state banking franchise, and KeyBank Real Estate Capital, a national line of business that cultivates relationships with owners of CRE located both within and beyond the branch system. This line of business deals primarily with nonowner-occupied properties (generally properties for which at least 50% of the debt service is provided by rental income from nonaffiliated third parties) and accounted for approximately 55.8% of our average year-to-date CRE loans, compared to 54.3% one year ago. KeyBank Real Estate Capital generally focuses on larger owners and operators of CRE.

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

As presented in Figure 17, at December 31, 2013, our CRE portfolio included mortgage loans of $7.7 billion and construction loans of $1.1 billion, representing 14.2% and 2.0%, respectively, of our total loans. Nonowner-occupied loans represented 10.8% of our total loans and owner-occupied loans represented 5.4% of our total loans. The average size of mortgage loans originated during 2013 was $3.7 million, and our largest mortgage loan at December 31, 2013, had a balance of $101.3 million. At December 31, 2013, our average construction loan commitment was $6.0 million. Our largest construction loan commitment was $58.0 million, and our largest construction loan amount outstanding was $55.7 million.

Also shown in Figure 17, at December 31, 2013, 66.6% of our CRE loans were for nonowner-occupied properties, compared to 64.0% at December 31, 2012. Approximately 15.9% and 14.9% of these loans were construction loans at December 31, 2013, and 2012, respectively. Typically, these properties are not fully leased at the origination of the loan. The borrower relies upon additional leasing through the life of the construction loan to provide the cash flow necessary to support debt service payments. A significant decline in economic growth, and in turn, in rental rates and occupancy, would adversely affect our portfolio of construction loans.

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Figure 17. Commercial Real Estate Loans

December 31, 2013			**Geographic Region**					**Percent of**		**Commercial**
dollars in millions	**West**	**Southwest**	**Central**	**Midwest**	**Southeast**	**Northeast**	**Total**	**Total**	**Construction**	**Mortgage**
Nonowner-occupied:										
Retail properties	$ 154	$ 133	$ 109	$ 128	$ 311	$ 118	$ 953	10.8 %	$ 143	$ 810
Multifamily properties	415	140	348	409	603	147	2,062	23.4	571	1,491
Health facilities	238		107	239	184	216	984	11.2	15	969
Office buildings	159	10	91	142	60	94	556	6.3	43	513
Warehouses	209		19	73	119	98	518	5.9	50	468
Manufacturing facilities	1		2	5	66	7	81	.9	2	79
Hotels/Motels	10	5		25	62	6	108	1.2		108
Residential properties	9		25	14	21	21	90	1.0	47	43
Land and development	14		10	9	16	17	66	.7	42	24
Other	95		38	88	79	155	455	5.2	22	433
Total nonowner-occupied	1,304	288	749	1,132	1,521	879	5,873	66.6	935	4,938
Owner-occupied	1,179	17	348	725	39	632	2,940	33.4	158	2,782
Total	$ 2,483	$ 305	$ 1,097	$ 1,857	$ 1,560	$ 1,511	$ 8,813	100.0 %	$ 1,093	$ 7,720
Nonowner-occupied:										
Nonperforming loans	$ 2			$ 8	$ 1	$ 12	$ 23	N/M	$ 11	$ 12
Accruing loans past due 90 days or more	7		$ 2	3			12	N/M	1	11
Accruing loans past due 30 through 89 days	1				10	7	18	N/M	10	8

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

During 2013, nonperforming loans related to our nonowner-occupied properties decreased by $104 million from $127 million at December 31, 2012, to $23 million at December 31, 2013, as a result of continued improvement in asset quality and market conditions. This category of loans declined by $47 million during 2012.

Since December 31, 2012, our nonowner-occupied CRE portfolio has increased by approximately $287 million, or 5.1%, as many of our clients have taken advantage of opportunities to permanently refinance their loans at historically low interest rates.

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

Commercial lease financing. We conduct commercial lease financing arrangements through our Key Equipment Finance line of business and have both the scale and array of products to compete in the equipment lease financing business. Commercial lease financing receivables represented 11.9% of commercial loans at December 31, 2013, and 13.3% at December 31, 2012.

Commercial loan modification and restructuring

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

Modifications are negotiated to achieve mutually agreeable terms that maximize loan credit quality while at the same time meeting our clients financing needs. Modifications made to loans of creditworthy borrowers not experiencing financial difficulties and under circumstances where ultimate collection of all principal and interest is not in doubt are not classified as TDRs. In accordance with applicable accounting guidance, a loan is classified as a TDR only when the borrower is experiencing financial difficulties and a creditor concession has been granted.

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

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

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

Figure 18. Commercial TDRs by Note Type and Accrual Status

December 31, *in millions*		**2013**		**2012**
Commercial TDRs by Note Type				
Tranche A	**$**	**107**	$	117
Total Commercial TDRs	**$**	**107**	$	117
Commercial TDRs by Accrual Status				
Nonaccruing	**$**	**52**	$	96
Accruing		**55**		21
Total Commercial TDRs	**$**	**107**	$	117

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

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

Restructured nonaccrual loans may be returned to accrual status based on a current, well-documented evaluation of the credit, which would include analysis of the borrower s financial condition, prospects for repayment under the modified terms, and alternate sources of repayment such as the value of loan collateral. We wait a reasonable period (generally a minimum of six months) to establish the borrower s ability to sustain historical repayment performance before returning the loan to accrual status. Sustained historical repayment performance prior to the restructuring also may be taken into account. The primary consideration for returning a restructured loan to accrual status is the reasonable assurance that the full contractual principal balance of the loan and the ongoing contractually-required interest payments will be fully repaid. Although our policy is a guideline, considerable judgment is required to review each borrower s circumstances.

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

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

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

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

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

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

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

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

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

As of December 31, 2013, we had $3.4 million of mortgage and construction loans that had a loan-to-value ratio greater than 1.0, and were accounted for as performing loans. These loans were not considered impaired due to

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one or more of the following factors: (i) underlying cash flow adequate to service the debt at a market rate of return with adequate amortization; (ii) a satisfactory borrower payment history; and (iii) acceptable guarantor support.

Consumer loan portfolio

Consumer loans outstanding increased by $188 million, or 1.2%, from one year ago. The home equity portfolio is the largest segment of our consumer loan portfolio. Approximately 96.9% of this portfolio at December 31, 2013, is originated from Key Community Bank within our 12-state footprint. The remainder of the portfolio, which has been in an exit mode since the fourth quarter of 2007, was originated from the Consumer Finance line of business and is now included in Other Segments. Home equity loans in Key Community Bank increased by $524 million, or 5.3%, over the past twelve months as a result of stabilized home values, improved employment, and favorable borrowing conditions.

As shown in Figure 13, we hold the first lien position for approximately 58% of the Key Community Bank home equity portfolio at December 31, 2013, and 55% at December 31, 2012. For consumer loans with real estate collateral, we track borrower performance monthly. Regardless of the lien position, credit metrics are refreshed quarterly, including recent Fair Isaac Corporation scores as well as original and updated loan-to-value ratio. This information is used in establishing the ALLL. Our methodology is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses.

Regulatory guidance issued in January 2012 addressed specific risks and required actions within home equity portfolios associated with second lien loans. This regulatory guidance related to the classification of second lien home equity loans was implemented prospectively, and therefore prior periods were not adjusted. At December 31, 2013, 42% of our home equity portfolio is secured by second lien mortgages. On at least a quarterly basis, we continue to monitor the risk characteristics of these loans when determining whether our loss estimation methods are appropriate.

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

Figure 19. Home Equity Loans

December 31, *dollars in millions*	**2013**	2012		2011	2010	2009
SOURCES OF YEAR END LOANS						
Key Community Bank	**$ 10,340**	$ 9,816		$ 9,229	$ 9,514	$ 10,048
Other	**334**	423		535	666	838
Total	**$ 10,674**	$ 10,239		$ 9,764	$ 10,180	$ 10,886
Nonperforming loans at year end	**$ 220**	$ 231	(a), (b)	$ 120	$ 120	$ 128
Net loan charge-offs for the year	**66**	118		130	175	165
Yield for the year	**4.07 %**	4.21 %		4.34 %	4.45 %	4.63 %

(a) Includes $48 million of performing home equity second liens that are subordinate to first liens and 120 days or more past due or in foreclosure, or for which the first mortgage delinquency timeframe is unknown. Such second liens are now being reported as nonperforming loans based upon regulatory guidance issued in January 2012.

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

Loans held for sale

As shown in Note 4 (Loans and Loans Held for Sale), our loans held for sale were $611 million at December 31, 2013, compared to $599 million at December 31, 2012. During 2013, we recorded net gains

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(losses) from loan sales of $125 million on the income statement. There were no loans held for sale related to the discontinued operations of the education lending business at December 31, 2013, and 2012.

At December 31, 2013, loans held for sale included $307 million of commercial mortgages, which decreased by $170 million from December 31, 2012, $278 million of commercial, financial and agricultural loans, which increased $249 million from December 31, 2012, $17 million of residential mortgage loans, which decreased by $68 million from December 31, 2012, and $9 million of commercial lease financing, which increased $1 million from December 31, 2012. Valuations are conducted using internal models that rely on market data from sales or nonbinding bids on similar assets, including credit spreads, treasury rates, interest rate curves and risk profiles, as well as our own assumptions about the exit market for the loans and details about individual loans within the respective portfolios. We review our assumptions quarterly. For additional information related to the valuation of loans held for sale, see Note 6 (Fair Value Measurements).

Loan sales

As shown in Figure 20, during 2013, we sold $4.1 billion of CRE loans, $840 million of residential real estate loans, and $275 million of commercial loans. Most of these sales came from the held-for-sale portfolio. Additionally, there were $147 million of education loans sold (included in discontinued assets on the balance sheet).

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

¿ our business strategy for particular lending areas;

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

¿ our A/LM needs;

¿ the cost of alternative funding sources;

¿ the level of credit risk;

¿ capital requirements; and

¿ market conditions and pricing.

Figure 20 summarizes our loan sales for 2013 and 2012.

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

in millions	**Commercial**	**Commercial Real Estate**	**Commercial Lease Financing**	**Residential Real Estate**	**Total**
2013					
Fourth quarter	**$ 39**	**$ 1,504**	**$ 141**	**$ 102**	**$ 1,786**
Third quarter	**17**	**923**	**129**	**184**	**1,253**
Second quarter	**181**	**815**	**90**	**226**	**1,312**
First quarter	**38**	**880**	**69**	**328**	**1,315**

Total	**$**	**275**	**$**	**4,122**	**$**	**429**	**$**	**840**	**$**	**5,666** (a)
2012										
Fourth quarter	$	38	$	1,233	$	53	$	493	$	1,817
Third quarter		46		787		47		503		1,383
Second quarter		24		808		26		379		1,237
First quarter		36		715		22		400		1,173
Total	$	144	$	3,543	$	148	$	1,775	$	5,610

(a) Excludes education loans of $147 million sold during 2013 that relate to the discontinued operations of the education lending business. There were no education loans sold during 2012.

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

Figure 21. Loans Administered or Serviced

December 31, *in millions*	**2013**	2012	2011	2010	2009
Commercial real estate loans [a]	**$ 177,731**	$ 107,630	$ 99,608	$ 117,071	$ 123,599
Education loans [b]					3,810
Commercial lease financing	**717**	520	521	706	649
Commercial loans	**327**	343	306	269	247
Total	**$ 178,775**	$ 108,493	$ 100,435	$ 118,046	$ 128,305

(a) We acquired the servicing for commercial mortgage loan portfolios with an aggregate principal balance of $105.9 billion during 2013, $11.8 billion during 2012, $3.5 billion during 2011, $1.6 billion during 2010, and $7.2 billion during 2009.

(b) We adopted new accounting guidance on January 1, 2010, which required us to consolidate our education loan securitization trusts and resulted in the addition of approximately $2.8 billion of assets, and the same amount of liabilities and equity, to our balance sheet.

In the event of default by a borrower, we are subject to recourse with respect to approximately $1.4 billion of the $179 billion of loans administered or serviced at December 31, 2013. Additional information about this recourse arrangement is included in Note 20 (Commitments, Contingent Liabilities and Guarantees) under the heading Recourse agreement with FNMA.

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

Maturities and sensitivity of certain loans to changes in interest rates

Figure 22 shows the remaining maturities of certain commercial and real estate loans, and the sensitivity of those loans to changes in interest rates. At December 31, 2013, approximately 27.4% of these outstanding loans were scheduled to mature within one year.

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

December 31, 2013 *in millions*	**Within One Year**	**One - Five Years**	**Over Five Years**	**Total**
Commercial, financial and agricultural	$ 7,551	$ 13,957	$ 3,455	$ 24,963
Real estate construction	444	534	115	1,093
Real estate residential and commercial mortgage	1,858	4,365	3,684	9,907
	$ 9,853	$ 18,856	$ 7,254	$ 35,963
Loans with floating or adjustable interest rates [a]		$ 15,533	$ 3,605	$ 19,138
Loans with predetermined interest rates [b]		3,323	3,649	6,972

	$ 18,856	$ 7,254	$ 26,110

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

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

Securities

Our securities portfolio totaled $17.1 billion at December 31, 2013, compared to $16 billion at December 31, 2012. Available-for-sale securities were $12.3 billion at December 31, 2013, compared to $12.1 billion at

December 31, 2012. Held-to-maturity securities were $4.8 billion at December 31, 2013, compared to $3.9 billion at December 31, 2012. Essentially all of our held-to-maturity securities portfolio was invested in CMOs at December 31, 2013.

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

Figure 23. Mortgage-Backed Securities by Issuer

December 31,			
in millions	**2013**	**2012**	**2011**
FHLMC	**$ 7,047**	$ 7,923	$ 8,984
FNMA	**5,978**	5,246	5,583
GNMA	**3,997**	2,746	3,464
Total [(a)]	**$ 17,022**	$ 15,915	$ 18,031

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

Securities available for sale

The majority of our securities available-for-sale portfolio consists of CMOs, which are debt securities secured by a pool of mortgages or mortgage-backed securities. CMOs generate interest income and serve as collateral to support certain pledging agreements. At December 31, 2013, we had $12.3 billion invested in CMOs and other mortgage-backed securities in the available-for-sale portfolio, compared to $12 billion at December 31, 2012.

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

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

Throughout 2012 and 2013, our investing activities continued to complement other balance sheet developments and provide for our ongoing liquidity management needs. Our actions to not reinvest the monthly security cash flows at various times during this time period served to provide the liquidity necessary to address our funding requirements. These funding requirements included ongoing loan growth and occasional debt maturities, as well as the Western New York branch acquisition in July 2012 (including credit card assets obtained in September 2012) and the acquisition of Key-branded credit card assets in August 2012.

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

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Figure 24. Securities Available for Sale

dollars in millions	States and Political Subdivisions	Collateralized Mortgage Obligations (a)	Other Mortgage-Backed Securities (a)	Other Securities (b)	Total	Weighted-Average Yield (c)
December 31, 2013						
Remaining maturity:						
One year or less	**$ 2**	**$ 463**	**$ 1**		**$ 466**	**3.30%**
After one through five years	**16**	**10,152**	**1,274**	**$ 20**	**11,462**	**2.31**
After five through ten years	**22**	**385**	**7**		**414**	**1.79**
After ten years			**4**		**4**	**5.75**
Fair value	**$ 40**	**$ 11,000**	**$ 1,286**	**$ 20**	**$ 12,346**	
Amortized cost	**39**	**11,120**	**1,270**	**17**	**12,446**	**2.33%**
Weighted-average yield (c)	**6.06 %**	**2.30 %**	**2.70 %**		**2.33 % (d)**	
Weighted-average maturity	**4.8 years**	**3.6 years**	**3.3 years**	**4.0 years**	**3.5 years**	
December 31, 2012						
Fair value	$ 49	$ 11,464	$ 538	$ 43	$ 12,094	
Amortized cost	47	11,148	491	42	11,728	2.91%
December 31, 2011						
Fair value	$ 63	$ 15,162	$ 778	$ 9	$ 16,012	
Amortized cost	60	14,707	715	8	15,490	3.19%

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

(b) Includes primarily marketable equity securities.

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

(d) Excludes $20 million of securities at December 31, 2013, that have no stated yield.

Held-to-maturity securities

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

Figure 25. Held-to-Maturity Securities

dollars in millions	Collateralized Mortgage Obligations	Other Securities	Total	Weighted-Average Yield (a)
December 31, 2013				
Remaining maturity:				
One year or less		**$ 7**	**$ 7**	**4.14 %**
After one through five years	**$ 144**		**144**	**1.84**
After five through ten years	**4,592**	**13**	**4,605**	**1.83**
Amortized cost	**$ 4,736**	**$ 20**	**$ 4,756**	**1.83 %**
Fair value	**4,597**	**20**	**4,617**	
Weighted-average yield	**1.83 %**	**2.57 % (b)**	**1.83 % (b)**	
Weighted-average maturity	**3.7 years**	**1.8 years**	**3.7 years**	
December 31, 2012				

Amortized cost	$	3,913	$	18	$	3,931	1.92	%
Fair value		3,974		18		3,992		
December 31, 2011								
Amortized cost	$	2,091	$	18	$	2,109	2.06	%
Fair value		2,115		18		2,133		

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

(b) Excludes $5 million of securities at December 31, 2013, that have no stated yield.

Other investments

Principal investments investments in equity and mezzanine instruments made by our Principal Investing unit represented 57.1% of other investments at December 31, 2013. They include direct investments

(investments made in a particular company) as well as indirect investments (investments made through funds that include other investors). Principal investments are predominantly made in privately-held companies and are carried at fair value. The fair value of the direct investments was $141 million at December 31, 2013, and $191 million at December 31, 2012, while the fair value of the indirect investments was $413 million at December 31, 2013, and $436 million at December 31, 2012. Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect principal investments. The implementation date of the Volcker Rule is July 21, 2015. Key is permitted to file for two one-year extensions, and an additional extension of up to five years for illiquid funds, to retain the indirect investments for a longer period of time. We plan to apply for the extensions and hold the investments. As of December 31, 2013, we have not committed to a plan to sell these investments.

In addition to principal investments, other investments include other equity and mezzanine instruments, such as certain real estate-related investments that are carried at fair value, as well as other types of investments that generally are carried at cost. There are indirect real-estate-related investments valued at $23 million at December 31, 2013, and $41 million at December 31, 2012, that may be subject to the disposal requirements under the Volcker Rule, as described in the previous paragraph.

Most of our other investments are not traded on an active market. We determine the fair value at which these investments should be recorded based on the nature of the specific investment and all available relevant information. This review may encompass such factors as the issuer s past financial performance and future potential, the values of public companies in comparable businesses, the risks associated with the particular business or investment type, current market conditions, the nature and duration of resale restrictions, the issuer s payment history, our knowledge of the industry, third-party data, and other relevant factors. During 2013, net gains from our principal investing activities (including results attributable to noncontrolling interests) totaled $52 million, which includes $8 million of net unrealized gains. These net gains are recorded as net gains (losses) from principal investing on the income statement. Additional information regarding these investments is provided in Note 6 (Fair Value Measurements).

Deposits and other sources of funds

Domestic deposits are our primary source of funding. During 2013, average domestic deposits were $65.3 billion and represented 86.6% of the funds we used to support loans and other earning assets, compared to $61.1 billion and 85.0% during 2012. The composition of our average deposits is shown in Figure 5 in the section entitled Net interest income.

The increase in average domestic deposits from 2012 to 2013 was driven by corporate clients and the addition of escrow deposits from our commercial mortgaging servicing business acquisition, resulting in increases in demand deposits of $2.8 billion and interest-bearing non-time deposits of $3.5 billion. Improved funding mix and maturities of our certificates of deposit have reduced the cost of total domestic deposits, which is down from 2012.

Wholesale funds, consisting of deposits in our foreign office and short-term borrowings, averaged $2.8 billion during 2013, compared to $3.0 billion during 2012. The change from 2012 was caused by a $200 million decrease in foreign office deposits, a $19 million decrease in bank notes and other short-term borrowings, and a $12 million decrease in federal funds purchased and securities sold under agreements to repurchase.

At December 31, 2013, Key had $3.2 billion in time deposits of $100,000 or more. Figure 26 shows the maturity distribution of these deposits.

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

December 31, 2013

in millions		**Domestic Offices**		**Foreign Offices**		**Total**
Remaining maturity:						
Three months or less	$	781	$	558	$	1,339
After three through six months		416				416
After six through twelve months		593				593
After twelve months		841				841
Total	$	2,631	$	558	$	3,189

Capital

At December 31, 2013, our shareholders equity was $10.3 billion, up $32 million from December 31, 2012. The following sections discuss certain factors that contributed to this change. For other factors that contributed to the change, see the Consolidated Statements of Changes in Equity.

CCAR and capital actions

As part of its ongoing supervisory process, the Federal Reserve requires BHCs like KeyCorp to submit an annual comprehensive capital plan and to update that plan to reflect material changes in the BHC s risk profile, business strategies, or corporate structure, including but not limited to changes in planned capital actions. As previously reported, on January 7, 2013, we submitted to the Federal Reserve and provided to the OCC our 2013 capital plan under the annual CCAR process. On March 14, 2013, the Federal Reserve announced that it did not object to our 2013 capital plan. At its March 2013 meeting, our Board authorized up to $426 million of common share repurchases in the open market or through privately negotiated transactions. Subsequently, we received no objection from the Federal Reserve to use, and our Board approved the use of, the cash portion of the net after-tax gain from the sale of Victory (approximately $72 million) for additional common share repurchases.

Through the fourth quarter of 2013, we completed $409 million of common share repurchases on the open market under our 2013 capital plan. In the first quarter of 2013, we completed $65 million of common share repurchases on the open market under our 2012 capital plan. Common share repurchases under the 2013 capital plan are expected to be executed through the first quarter of 2014.

Dividends

Consistent with the 2013 capital plan, we made a dividend payment of $.055 per share, or $49 million, on our common shares during each of the second, third, and fourth quarters of 2013, and a dividend payment of $.05 per common share, or $47 million, during the first quarter of 2013. Changes to future dividends may be evaluated by the Board of Directors based upon our earnings, financial condition, and other factors, including regulatory review. Further information regarding the capital planning process and CCAR is included in the Supervision and Regulation section of Item 1 of this report under the heading Regulatory capital and liquidity.

During 2013, we also made four quarterly dividend payments of $1.9375 per share, or $5.75 million, on our Series A Preferred Stock.

Common shares outstanding

Our common shares are traded on the New York Stock Exchange under the symbol KEY with 30,418 holders of record at December 31, 2013. Our book value per common share was $11.25 based on 890.7 million shares outstanding at December 31, 2013, compared to $10.78 based on 925.8 million shares outstanding at December 31, 2012. At December 31, 2013, our tangible book value per common share was $10.11, compared to $9.67 at December 31, 2012.

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

Figure 27 compares the price performance of our common shares (based on an initial investment of $100 on December 31, 2008, and assuming reinvestment of dividends) with that of the Standard & Poor s 500 Index and a group of other banks that constitute our peer group. The peer group consists of the banks that make up the Standard & Poor s 500 Regional Bank Index and the banks that make up the Standard & Poor s 500 Diversified Bank Index. We are included in the Standard & Poor s 500 Index and the peer group.

Figure 27. Common Share Price Performance (2009 2013)(a)

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

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

Figure 28. Changes in Common Shares Outstanding

		2013 Quarters				
in thousands	**2013**	**Fourth**	**Third**	**Second**	**First**	**2012**
Shares outstanding at beginning of period	**925,769**	**897,821**	**912,883**	**922,581**	**925,769**	953,008
Common shares issued (repurchased)	**(41,599)**	**(7,659)**	**(16,364)**	**(10,786)**	**(6,790)**	(30,637)
Shares reissued (returned) under employee benefit plans	**6,554**	**562**	**1,302**	**1,088**	**3,602**	3,398
Shares outstanding at end of period	**890,724**	**890,724**	**897,821**	**912,883**	**922,581**	925,769

At December 31, 2013, we had 126.2 million treasury shares, compared to 91.2 million treasury shares at December 31, 2012. During 2013, common shares outstanding decreased by 35 million shares from share repurchases under our 2012 and 2013 capital plans and the net activity in our employee benefit plans. Going forward, we expect to reissue treasury shares as needed in connection with stock-based compensation awards and for other corporate purposes.

As discussed in further detail in the Supervision and Regulation section in Item 1 of this report, we are required to annually submit a capital plan to the Federal Reserve setting forth planned capital actions, including any share repurchases our Board of Directors and management intend to make during the year (subject to the Federal Reserve s notice of non-objection). Pursuant to that requirement, we have submitted to the Federal Reserve for review our 2014 capital plan.

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Capital adequacy

Capital adequacy is an important indicator of financial stability and performance. All of our capital ratios remain in excess of regulatory requirements at December 31, 2013. Our capital and liquidity levels are intended to position us to weather an adverse credit cycle while continuing to serve our clients needs, as well as to meet the Regulatory Capital Rules described under the heading Regulatory capital and liquidity in the Supervision and Regulation section of Item 1 of this report. Our shareholders equity to assets ratio was 11.09% at December 31, 2013, compared to 11.51% at December 31, 2012. Our tangible common equity to tangible assets ratio was 9.80% at December 31, 2013, compared to 10.15% at December 31, 2012.

Banking industry regulators prescribe minimum capital ratios for BHCs like KeyCorp and their banking subsidiaries. Risk-based capital guidelines require a minimum level of capital as a percent of risk-weighted assets. Risk-weighted assets consist of total assets plus certain off-balance sheet and market risk items, subject to adjustment for predefined credit risk factors. Currently, banks and BHCs must maintain, at a minimum, Tier 1 capital as a percent of risk-weighted assets of 4.00% and total capital as a percent of risk-weighted assets of 8.00%. As of December 31, 2013, our Tier 1 risk-based capital ratio and our total risk-based capital ratios were 11.96% and 14.33%, respectively, compared to 12.15% and 15.13%, respectively, at December 31, 2012.

Another indicator of capital adequacy, the leverage ratio, is defined as Tier 1 capital as a percentage of average quarterly tangible assets. BHCs that either have the highest supervisory rating or have implemented the Federal Reserve s risk-adjusted measure for market risk as we have must maintain a minimum leverage ratio of 3.00%. All other BHCs must maintain a minimum ratio of 4.00%. As of December 31, 2013, our leverage ratio was 11.11%, compared to 11.41% at December 31, 2012.

The adoption of the Regulatory Capital Rules changes the regulatory capital standards that apply to BHCs by phasing out the treatment of capital securities and cumulative preferred securities as eligible Tier 1 capital. The phase-out period, beginning January 1, 2015, for standardized approaches banking organizations such as Key, will result in our trust preferred securities issued by the KeyCorp capital trusts being treated only as Tier 2 capital by 2016. These changes apply the same leverage and risk-based capital requirements that apply to depository institutions to BHCs, savings and loan holding companies, and nonbank financial companies identified as systemically important. Given our strong capital position, we expect to be able to satisfy the capital framework established under the Regulatory Capital Rules by our compliance date of January 1, 2015. The section titled Supervision and Regulation in Item 1 of this report contains more detailed information regarding the Regulatory Capital Rules.

As of December 31, 2013, our Tier 1 risk-based capital ratio, leverage ratio, and total risk-based capital ratio were 11.96%, 11.11%, and 14.33%, respectively. The trust preferred securities issued by the KeyCorp capital trusts contribute $339 million, or 41, 38, and 41 basis points, to our Tier 1 risk-based capital ratio, Tier 1 leverage ratio, and total risk-based capital ratio, respectively, as of December 31, 2013. The new minimum capital ratios under the Regulatory Capital Rules together with the estimated capital ratios of Key at December 31, 2013, calculated on a fully phased-in basis are set forth under the heading New minimum capital requirements in the Supervision and Regulation section in Item 1 of this report.

Federal banking regulations group FDIC-insured depository institutions into one of five prompt corrective action capital categories, ranging from well capitalized to critically undercapitalized. A well capitalized institution must meet or exceed the prescribed threshold ratios of 6.00% for Tier 1 risk-based capital, 5.00% for Tier 1 leverage capital, and 10.00% for total risk-based capital and must not be subject to any written agreement, order or directive to meet and maintain a specific capital level for any capital measure. If these provisions applied to BHCs, we believe we would qualify as well capitalized at December 31, 2013, and we believe there has not been any change in condition or event since that date that would cause a change in capital category. Analysis on an estimated basis, accounting for the phase-out of our trust preferred securities as Tier 1 eligible (and therefore as Tier 2 instead) as of December 31, 2013, also determines that we would qualify as well capitalized under

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current regulatory guidelines (Basel I), with the estimated Tier 1 risk-based capital ratio, estimated leverage ratio, and estimated total risk-based capital ratio being 11.56%, 10.73%, and 14.33%, respectively. The Revised prompt corrective action standards section in the Supervision and Regulation section of Item 1 of this report describes the new threshold capital ratios for a well capitalized and an adequately capitalized institution under the Regulatory Capital Rules. The regulatory defined capital categories serve a limited supervisory function. Investors should not use our estimated ratios as a representation of our overall financial condition or prospects of KeyCorp. A discussion of the regulatory capital standards and other related capital adequacy regulatory standards is included in the section Regulatory capital and liquidity in Supervision and Regulation under Item 1 of this report.

Traditionally, the banking regulators have assessed bank and BHC capital adequacy based on both the amount and composition of capital, the calculation of which is prescribed in federal banking regulations. As a result of the financial crisis, the Federal Reserve has intensified its assessment of capital adequacy on a component of Tier 1 risk-based capital, known as Tier 1 common equity, and its review of the consolidated capitalization of systemically important financial companies, including KeyCorp. The capital modifications mandated by the Regulatory Capital Rules are consistent with the renewed focus on Tier 1 common equity and the consolidated capitalization of banks, BHCs, and covered nonbank financial companies, which resulted from the financial crisis. Tier 1 common equity is neither formally defined by GAAP nor prescribed in amount by federal banking regulations; this measure is considered to be a non-GAAP financial measure. Figure 4 in the Highlights of Our 2013Performance section reconciles Key shareholders equity, the GAAP performance measure, to Tier 1 common equity, the corresponding non-GAAP measure. Our Tier 1 common equity ratio was 11.22% at December 31, 2013, compared to 11.36% at December 31, 2012.

Generally, for risk-based capital purposes, deferred tax assets that are dependent upon future taxable income are limited to the lesser of: (i) the amount of deferred tax assets that a financial institution expects to realize within one year of the calendar quarter-end date, based on its projected future taxable income for the year, or (ii) 10% of the amount of an institution s Tier 1 capital. At December 31, 2013, and December 31, 2012, we had no net deferred tax assets deducted from Tier 1 capital and risk-weighted assets. At December 31, 2013, for Key s consolidated operations, we had a federal net deferred tax asset of $184 million and a state deferred tax asset of $7 million, compared to a federal deferred tax asset of $83 million and a state deferred tax liability of $13 million at December 31, 2012. We have recorded a valuation allowance of $1 million against the gross deferred tax assets associated with certain state net operating loss carryforwards and state credit carryforwards.

Figure 29 represents the details of our regulatory capital position at December 31, 2013, and December 31, 2012, under the existing regulatory capital standards.

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Figure 29. Capital Components and Risk-Weighted Assets

December 31,

dollars in millions			**2013**		2012
TIER 1 CAPITAL					
Key shareholders equity		**$**	**10,303**	$	10,271
Qualifying capital securities			**339**		339
Less:	Goodwill		**979**		979
	Accumulated other comprehensive income [(a)]		**(394)**		(172)
	Other assets [(b)]		**89**		114
	Total Tier 1 capital		**9,968**		9,689
TIER 2 CAPITAL					
Allowance for losses on loans and liability for losses on lending-related commitments [(c)]			**924**		972
Net unrealized gains on equity securities available for sale			**1**		
Qualifying long-term debt			**1,048**		1,405
	Total Tier 2 capital		**1,973**		2,377
	Total risk-based capital	**$**	**11,941**	$	12,066
TIER 1 COMMON EQUITY					
Tier 1 capital		**$**	**9,968**	$	9,689
Less:	Qualifying capital securities		**339**		339
	Series A Preferred Stock [(d)]		**282**		291
	Total Tier 1 common equity	**$**	**9,347**	$	9,059
RISK-WEIGHTED ASSETS					
Risk-weighted assets on balance sheet		**$**	**65,505**	$	63,995
Risk-weighted off-balance sheet exposure			**17,778**		16,575
Less:	Goodwill		**979**		979
	Other assets [(b)]		**458**		368
Plus:	Market risk-equivalent assets		**1,482**		511
	Gross risk-weighted assets		**83,328**		79,734
Less:	Excess allowance for loan and lease losses				
	Net risk-weighted assets	**$**	**83,328**	$	79,734
AVERAGE QUARTERLY TOTAL ASSETS		**$**	**91,141**	$	86,239
CAPITAL RATIOS					
Tier 1 risk-based capital			**11.96 %**		12.15 %
Total risk-based capital			**14.33**		15.13
Leverage [(e)]			**11.11**		11.41
Tier 1 common equity			**11.22**		11.36

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

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

(c) The ALLL included in Tier 2 capital is limited by regulation to 1.25% of the sum of gross risk-weighted assets plus low level exposures and residual interests calculated under the direct reduction method, as defined by the Federal Reserve. The ALLL includes $39 million and $55 million at December 31, 2013, and December 31, 2012, respectively, of allowance classified as discontinued assets on the balance sheet.

(d) Net of capital surplus for the year ended December 31, 2013.

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

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Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Off-balance sheet arrangements

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

Variable interest entities

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

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

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

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

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

In accordance with the applicable accounting guidance for consolidations, we consolidate a VIE if we have: (i) a variable interest in the entity; (ii) the power to direct activities of the VIE that most significantly impact the entity s economic performance; and (iii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE (i.e., we are considered to be the primary beneficiary). Additional information regarding the nature of VIEs and our involvement with them is included in Note 1 (Summary of Significant Accounting Policies) under the heading Basis of Presentation, and in Note 11 (Variable Interest Entities).

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

Commitments to extend credit or funding

Loan commitments provide for financing on predetermined terms as long as the client continues to meet specified criteria. These commitments generally carry variable rates of interest and have fixed expiration dates or other termination clauses. We typically charge a fee for our loan commitments. Since a commitment may expire without resulting in a loan or being fully utilized, the total amount of an outstanding commitment may significantly exceed any related cash outlay. Further information about our loan commitments at December 31, 2013, is presented in Note 20 (Commitments, Contingent Liabilities and Guarantees) under the heading Commitments to Extend Credit or Funding. Figure 30 shows the remaining contractual amount of each class of commitment to extend credit or funding. For loan commitments and commercial letters of credit, this amount represents our maximum possible accounting loss if the borrower were to draw upon the full amount of the commitment and then default on payment for the total amount of the then outstanding loan.

Other off-balance sheet arrangements

Other off-balance sheet arrangements include financial instruments that do not meet the definition of a guarantee in accordance with the applicable accounting guidance, and other relationships, such as liquidity support

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provided to asset-backed commercial paper conduits, indemnification agreements and intercompany guarantees. Information about such arrangements is provided in Note 20 under the heading Other Off-Balance Sheet Risk.

Contractual obligations

Figure 30 summarizes our significant contractual obligations, and lending-related and other off-balance sheet commitments at December 31, 2013, by the specific time periods in which related payments are due or commitments expire.

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

December 31, 2013 *in millions*	**Within 1 year**	**After 1 through 3 years**	**After 3 through 5 years**	**After 5 years**	**Total**
Contractual obligations: [a]					
Deposits with no stated maturity	$ 62,425				$ 62,425
Time deposits of $100,000 or more	2,348	$ 615	$ 165	$ 61	3,189
Other time deposits	2,619	745	183	101	3,648
Federal funds purchased and securities sold under repurchase agreements	1,534				1,534
Bank notes and other short-term borrowings	343				343
Long-term debt	816	2,513	2,095	2,226	7,650
Noncancelable operating leases	120	209	158	411	898
Liability for unrecognized tax benefits	6				6
Purchase obligations:					
Banking and financial data services	58	107	57	5	227
Telecommunications	22	22	3		47
Professional services	22	24	10		56
Technology equipment and software	68	57	49	2	176
Other	7	3			10
Total purchase obligations	177	213	119	7	516
Total	$ 70,388	$ 4,295	$ 2,720	$ 2,806	$ 80,209
Lending-related and other off-balance sheet commitments:					
Commercial, including real estate	$ 8,259	$ 7,840	$ 8,980	$ 636	$ 25,715
Home equity	248	653	1,283	5,009	7,193
Credit cards	3,457				3,457
When-issued and to-be-announced securities commitments	140				140
Commercial letters of credit	106	9	4		119
Principal investing commitments	26	13	25	11	75
Liabilities of certain limited partnerships and other commitments	2				2
Total	$ 12,238	$ 8,515	$ 10,292	$ 5,656	$ 36,701

(a) Deposits and borrowings exclude interest.

Guarantees

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

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Risk Management

Overview

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

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

The Board s Audit Committee assists the Board in oversight of financial statement integrity, regulatory and legal compliance, independent auditors qualifications and independence and all risk review functions, including internal audit. The Audit Committee discusses policies related to risk assessment and risk management and the processes related to risk review and compliance. The Audit Committee has responsibility over financial reporting, compliance risk and legal matters, the implementation, management and evaluation of operational risk controls and information, security and fraud risk, and associated reputation and strategic risks.

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

The Audit and Risk Committees meet jointly, as appropriate, to discuss matters that relate to each committee s responsibilities. In addition to regularly scheduled bi-monthly meetings, the Audit Committee convenes to discuss the content of our financial disclosures and quarterly earnings releases. Committee chairpersons routinely meet with management during interim months to plan agendas for upcoming meetings and to discuss emerging trends and events that have transpired since the preceding meeting. All members of the Board receive formal reports designed to keep them abreast of significant developments during the interim months.

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

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

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

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

Market risk management

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

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

Trading market risk

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

Management of trading market risks. Market risk management is an integral part of Key s risk culture. Oversight of trading market risks is governed by the Risk Committee of our Board, the ERM Committee, and the Market Risk Committee (collectively, the Committees). Market risk policies and procedures have been defined and approved by the Market Risk Committee, a Tier 2 Risk Governance Committee, and take into account our tolerance for risk and consideration for the business environment. The Committees regularly review and discuss market risk reports prepared by our Market Risk Management group (MRM) that contain our market risk exposures and results of monitoring activities.

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

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

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

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

¿ Foreign exchange includes foreign currency spots, forwards and options. We enter into contracts for these types of instruments primarily to accommodate the needs of clients. These activities result in exposures to foreign currency risk.

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

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

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

We use a historical VaR simulation model to measure the potential adverse effect of changes in interest rates, foreign exchange rates, equity prices, and credit spreads on the fair value of our covered positions. Historical scenarios are customized for specific covered positions, and numerous risk factors are incorporated in the calculation. VaR is calculated using daily observations over a one-year time horizon, and approximates a 95% confidence level. Statistically, this means that we would expect to incur losses greater than VaR, on average, five out of 100 trading days, or three to four times each quarter. We also calculate VaR and stressed VaR at a 99% confidence level. Two years of historical data were used in the simulation during 2012. Beginning in February 2013, the simulation uses historical data from the previous year, as we believe it more appropriately reflects the current market conditions and the risks associated with our portfolios. This change resulted in a decrease in VaR exposure of approximately 2% at the 95% confidence level and 15% at the 99% confidence level. We also utilize factors to estimate the exposures that contain optionality features, such as options and cancellable provisions.

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

MRM backtests our VaR model on a daily basis to evaluate its predictive power. The test compares VaR model results at the 99% confidence level to observed daily profit and loss. Results of backtesting are provided to the Market Risk Committee. Backtesting exceptions occur when trading losses exceed VaR. Actual losses did not exceed daily trading VaR on any day during the quarters ended December 31, 2013, and December 31, 2012.

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

The aggregate VaR at the 99% confidence level for all covered positions was $1.0 million at December 31, 2013, and $1.2 million at December 31, 2012. The decrease in aggregate VaR was primarily due to reduced exposures in credit derivatives as well as the change from using two years of historical data to one year for the VaR simulation, which was partially offset by an increase in fixed income VaR. Figure 31 summarizes our VaR at the 99% confidence level for significant portfolios of covered positions for the three months ended December 31, 2013, and 2012.

Figure 31. VaR for Significant Portfolios of Covered Positions

	2013 Three months ended December 31,				**2012 Three months ended December 31,**			
in millions	**High**	**Low**	**Mean**	**December 31,**	**High**	**Low**	**Mean**	**December 31,**
Trading account assets:								
Fixed income	**$ 1.2**	**$ .5**	**$ .8**	**$ .6**	$ 1.0	$ .1	$ .6	$ .5
Derivatives:								
Interest rate	**$ .5**	**$ .2**	**$ .3**	**$ .2**	$ .3	$ .1	$ .1	$ .2
Foreign exchange	**.1**				.1			
Credit	**.4**	**.1**	**.3**	**.1**	1.6	.2	.9	.3

Stressed VaR is calculated using our general VaR results at the 99% confidence level and applying certain assumptions. The aggregate stressed VaR for all covered positions was $2.9 million at December 31, 2013. Figure 32 summarizes our stressed VaR for significant portfolios of covered positions for the three months ended December 31, 2013, as used for market risk capital charge calculation purposes. Stressed VaR was not calculated for market risk regulatory capital purposes during 2012.

Figure 32. Stressed VaR for Significant Portfolios of Covered Positions

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

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

Nontrading market risk

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

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

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

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

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

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

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

Net interest income simulation analysis. The primary tool we use to measure our interest rate risk is simulation analysis. For purposes of this analysis, we estimate our net interest income based on the current and projected

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composition of our on- and off-balance sheet positions, accounting for recent and anticipated trends in customer activity. The analysis also incorporates assumptions for the current and projected interest rate environments, including a most likely macro-economic scenario. Simulation modeling assumes that residual risk exposures will be managed to within the risk appetite.

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

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

Figure 33 presents the results of the simulation analysis at December 31, 2013, and 2012. At December 31, 2013, our simulated exposure to changes in interest rates was moderately asset sensitive, and net interest income would benefit over time from either an increase in short-term or intermediate-term interest rates. Tolerance levels for risk management require the development of remediation plans to maintain residual risk within tolerance if simulation modeling demonstrates that a gradual increase or decrease in short-term interest rates over the next twelve months would adversely affect net interest income over the same period by more than 4%. As shown in Figure 33, we are operating within these levels.

Figure 33. Simulated Change in Net Interest Income

December 31, 2013		
Basis point change assumption (short-term rates)	**-25**	**+200**
Tolerance level	**-4.00 %**	**-4.00 %**
Interest rate risk assessment	**-1.33 %**	**3.00 %**
December 31, 2012		
Basis point change assumption (short-term rates)	-25	+200
Tolerance level	-4.00 %	-4.00 %
Interest rate risk assessment	-.76 %	1.25 %

The results of additional sensitivity analysis of alternate interest rate paths and loan and deposit behavior assumptions indicates that net interest income could increase or decrease from the base simulation results

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presented in Figure 33. Net interest income is highly dependent on the timing, magnitude, frequency, and path of interest rate increases and the associated assumptions for deposit repricing relationships, lending spreads, and the balance behavior of transaction accounts. The unprecedented low level of interest rates increases the uncertainty of assumptions for deposit balance behavior and deposit repricing relationships to market interest rates. The sensitivity testing of these assumptions supports our confidence that actual results are likely to be within a 75 basis point range of modeled results.

To support continued progress toward maximum employment and price stability, the FOMC expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens, and in particular expects to keep the federal funds rate at exceptionally low levels. Key will continue to monitor balance sheet flows and expects the benefit from rising rates to increase prior to any increase in the federal funds rate. Our current interest rate risk position could fluctuate to higher or lower levels of risk depending on the competitive environment and client behavior that may affect the actual volume, mix, maturity, and repricing characteristics of loan and deposit flows. As changes occur to both the configuration of the balance sheet and the outlook for the economy, management proactively evaluates hedging opportunities that may change our interest rate risk profile.

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

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

Management of interest rate exposure. We use the results of our various interest rate risk analyses to formulate A/LM strategies to achieve the desired risk profile while managing to our objectives for capital adequacy and liquidity risk exposures. Specifically, we manage interest rate risk positions by purchasing securities, issuing term debt with floating or fixed interest rates, and using derivatives predominantly in the form of interest rate swaps, which modify the interest rate characteristics of certain assets and liabilities.

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

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Figure 34. Portfolio Swaps by Interest Rate Risk Management Strategy

	December 31, 2013					December 31, 2012	
			Weighted-Average				
	Notional	Fair	Maturity	Receive	Pay	Notional	Fair
dollars in millions	Amount	Value	(Years)	Rate	Rate	Amount	Value
Receive fixed/pay variable conventional A/LM [(a)]	$ 9,300	$ 6	2.2	.7 %	.2 %	$ 15,290	$ 83
Receive fixed/pay variable conventional debt	5,074	201	4.1	2.8	.2	3,519	426
Pay fixed/receive variable conventional debt	105		7.3	.3	2.4	259	(26)
Total portfolio swaps	$ 14,479	$ 207 [(b)]	2.9	1.4 %	.2 %	$ 19,068	$ 483 [(b)]

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

(b) Excludes accrued interest of $61 million and $66 million for December 31, 2013, and 2012, respectively.

Liquidity risk management

We define liquidity as the ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, and fund asset growth and new business transactions at a reasonable cost, in a timely manner and without adverse consequences. Liquidity management involves maintaining sufficient and diverse sources of funding to accommodate planned, as well as unanticipated, changes in assets and liabilities under both normal and adverse conditions.

Governance structure

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

The management of consolidated liquidity risk is centralized within Corporate Treasury. Oversight and governance is provided by the Risk Committee of our Board, the ERM Committee, and the ALCO (collectively, the Committees). The Asset Liability Management Policy provides the framework for the oversight and management of liquidity risk and is administered by the ALCO. The Market Risk Management group, as the second line of defense, provides additional oversight.

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

Factors affecting liquidity

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

Our credit ratings at December 31, 2013, are shown in Figure 35. We believe these credit ratings, under normal conditions in the capital markets, will enable the parent company or KeyBank to issue fixed income securities to investors.

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Figure 35. Credit Ratings

December 31, 2013	Short-Term Borrowings	Senior Long-Term Debt	Subordinated Long-Term Debt	Capital Securities	Series A Preferred Stock
KEYCORP (THE PARENT COMPANY)					
Standard & Poor s	A-2	BBB+	BBB	BBB-	BBB-
Moody s	P-2	Baa1	Baa2	Baa3	Ba1
Fitch	F1	A-	BBB+	BB+	BB
DBRS	R-2(high)	BBB(high)	BBB	BBB	N/A
KEYBANK					
Standard & Poor s	A-2	A-	BBB+	N/A	N/A
Moody s	P-2	A3	Baa1	N/A	N/A
Fitch	F1	A-	BBB+	N/A	N/A
DBRS	R-1(low)	A(low)	BBB(high)	N/A	N/A

Managing liquidity risk

Most of our liquidity risk is derived from our lending activities, which inherently places funds into illiquid assets. Liquidity risk is also derived from our deposit gathering activities and the ability of our customers to withdraw funds that do not have a stated maturity or to withdraw funds before their contractual maturity. Liquidity risk, which is inherent in the banking industry, is measured by our ability to accommodate liability maturities, deposit withdrawals, meet contractual obligations, and fund new business opportunities at a reasonable cost, in a timely manner, and without adverse consequences. These assessments are measured under the assumption of normal operating conditions as well as under a stressed environment. We manage these exposures in accordance with our risk appetite, and within Board approved policy limits.

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

We maintain a Contingency Funding Plan that outlines the process for addressing a liquidity crisis. The plan provides for an evaluation of funding sources under various market conditions. It also assigns specific roles and responsibilities for managing liquidity through a problem period. As part of the plan, we maintain a liquidity reserve through balances in our liquid asset portfolio. During a problem period, that reserve could be used as a source of funding to provide time to develop and execute a longer-term strategy. The liquid asset portfolio at December 31, 2013, totaled $11.6 billion, consisting of $6.0 billion of unpledged securities, $1.0 billion of securities available for secured funding at the Federal Home Loan Bank of Cincinnati, and $4.6 billion of net balances of federal funds sold and balances in our Federal Reserve account. The liquid asset portfolio can fluctuate due to excess liquidity, heightened risk, or prefunding of expected outflows, such as debt maturities. Additionally, as of December 31, 2013, our unused borrowing capacity secured by loan collateral was $15.5 billion at the Federal Reserve Bank of Cleveland and $2.5 billion at the Federal Home Loan Bank of Cincinnati. In 2013, Key s outstanding FHLB advances decreased by $750 million, due to repayment of advances.

Long-term liquidity strategy

Our long-term liquidity strategy is to be predominantly funded by core deposits. However, we may use wholesale funds to sustain an adequate liquid asset portfolio, meet daily cash demands, and allow management flexibility to

execute business initiatives. Key s client-based relationship strategy provides for a strong core deposit base which, in conjunction with intermediate and long-term wholesale funds managed to a diversified maturity structure and investor base, supports our liquidity risk management strategy. We use the loan to deposit ratio as a metric to monitor these strategies. Our target loan to deposit ratio is 90-100% (at December 31, 2013, our loan to deposit ratio was 84%), which we calculate as total loans, loans held for sale, and nonsecuritized discontinued loans divided by domestic deposits.

Sources of liquidity

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

Liquidity programs

We have several liquidity programs, which are described in Note 18 (Long-Term Debt), that enable the parent company and KeyBank to raise funds in the public and private markets when the capital markets are functioning normally. The proceeds from most of these programs can be used for general corporate purposes, including acquisitions. During 2013, both KeyCorp and KeyBank issued debt under these programs. These liquidity programs are reviewed from time to time by the Board of Directors and are renewed and replaced as necessary. There are no restrictive financial covenants in any of these programs.

In 2013, Key s aggregate outstanding note balance, net of unamortized discounts and adjustments related to hedging with derivative financial instruments, increased by $1.5 billion. On February 1, 2013, KeyBank issued $1 billion of 1.65% Senior Bank Notes due February 1, 2018, under its Global Bank Note Program. On November 26, 2013, KeyBank issued $350 million of 1.10% Senior Bank Notes and $400 million of Floating Rate Senior Notes, each due November 25, 2016. On November 13, 2013, KeyCorp issued $750 million of 2.30% Medium-Term Notes due December 13, 2018. In 2013, $750 million of KeyCorp s medium-term notes matured.

Liquidity for KeyCorp

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

We use a cash coverage metric as the primary measure to assess parent company liquidity. The cash coverage metric measures the months into the future where projected obligations can be met with the current amount of liquidity to meet all projected obligations. We generally issue term debt to supplement dividends from KeyBank to manage our liquidity position at or above our targeted levels. The parent company generally maintains cash and short-term investments in an amount sufficient to meet projected debt maturities over at least the next 24 months. At December 31, 2013, KeyCorp held $2.5 billion in short-term investments, which we projected to be sufficient to meet our projected obligations, including the repayment of our maturing debt obligations for the periods prescribed by our risk tolerance.

Typically, KeyCorp meets its liquidity requirements through regular dividends from KeyBank, supplemented with term debt. Federal banking law limits the amount of capital distributions that a bank can make to its holding company without prior regulatory approval. A national bank s dividend-paying capacity is affected by several factors, including net profits (as defined by statute) for the two previous calendar years and for the current year, up to the date of dividend declaration. During 2013, KeyBank paid KeyCorp $600 million in dividends, while the nonbank subsidiaries did not make any dividend payments to the parent. KeyCorp did not make any cash capital infusions to KeyBank during 2013. As of December 31, 2013, KeyBank had fully utilized its regulatory capacity to pay dividends to KeyCorp.

Our liquidity position and recent activity

Over the past twelve months our liquid asset portfolio, which includes overnight and short-term investments, as well as unencumbered, high quality liquid securities held as protection against a range of potential liquidity stress scenarios, has increased as a result of an increase in unpledged securities, growth in deposits related to the acquisition of the commercial mortgage servicing portfolio and special servicing business, and net customer loan and deposit flows. The liquid asset portfolio continues to exceed the amount that we estimate would be necessary to manage through an adverse liquidity event by providing sufficient time to develop and execute a longer-term solution. The issuance of $1 billion of Senior Bank Notes in February 2013, $750 million of Senior Bank Notes in November 2013, and $750 million of parent Medium-Term Notes in November 2013 provided additional liquidity to support normal business flows and maintain our liquid asset portfolio within target levels.

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

We generate cash flows from operations and from investing and financing activities. We have approximately $236 million of cash and cash equivalents and short-term investments in international tax jurisdictions as of December 31, 2013. As we consider alternative long-term strategic and liquidity plans, opportunities to repatriate these amounts would result in approximately $16 million in taxes to be paid. If we were to cease operations in all international tax jurisdictions, the total amount of taxes to be paid would increase to approximately $31 million. Accordingly, we have included the total amount as a deferred tax liability at December 31, 2013.

The consolidated statements of cash flows summarize our sources and uses of cash by type of activity for the years ended December 31, 2013, and 2012.

Credit risk management

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

Credit policy, approval and evaluation

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

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

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

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

We maintain an active concentration management program to encourage diversification in our credit portfolios. For individual obligors, we employ a sliding scale of exposure, known as hold limits, which is dictated by the strength of the borrower. Our legal lending limit is approximately $1.6 billion for any individual borrower. However, internal hold limits generally restrict the largest exposures to less than 20% of that amount. As of December 31, 2013, we had four client relationships with loan commitments net of credit default swaps of more than $200 million. The average amount outstanding on these four individual net obligor commitments was $56 million at December 31, 2013. In general, our philosophy is to maintain a diverse portfolio with regard to credit exposures.

We actively manage the overall loan portfolio in a manner consistent with asset quality objectives and concentration risk tolerances to mitigate credit risk. We utilize credit default swaps to transfer a portion of the credit risk associated with a particular extension of credit to a third party. At December 31, 2013, we used credit default swaps with a notional amount of $689 million to manage the credit risk associated with specific commercial lending obligations. We may also sell credit derivatives primarily single name credit default swaps to offset our purchased credit default swap position prior to maturity. At December 31, 2013, we had sold credit default swaps outstanding with a total notional amount of $55 million.

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

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

Allowance for loan and lease losses

At December 31, 2013, the ALLL was $848 million, or 1.56% of loans, compared to $888 million, or 1.68%, at December 31, 2012. The allowance includes $42 million that was specifically allocated for impaired loans of $358 million at December 31, 2013, compared to $35 million that was allocated for impaired loans of $411 million one year ago. For more information about impaired loans, see Note 5 (Asset Quality). At December 31, 2013, the ALLL was 166.9% of nonperforming loans, compared to 131.8% at December 31, 2012.

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

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Figure 36. Selected Asset Quality Statistics from Continuing Operations

Year ended December 31, *dollars in millions*	**2013**	2012	2011	2010	2009
Net loan charge-offs	**$ 168**	$ 345	$ 541	$ 1,570	$ 2,257
Net loan charge-offs to average loans	**.32 %**	.69 %	1.11 %	2.91 %	3.40 %
Allowance for loan and lease losses	**$ 848**	$ 888	$ 1,004	$ 1,604	$ 2,534
Allowance for credit losses [(a)]	**885**	917	1,049	1,677	2,655
Allowance for loan and lease losses to period-end loans	**1.56 %**	1.68 %	2.03 %	3.20 %	4.31 %
Allowance for credit losses to period-end loans	**1.63**	1.74	2.12	3.35	4.52
Allowance for loan and lease losses to nonperforming loans	**166.9**	131.8	138.1	150.2	115.9
Allowance for credit losses to nonperforming loans	**174.2**	136.1	144.3	157.0	121.4
Nonperforming loans at period end [(b)]	**$ 508**	$ 674	$ 727	$ 1,068	$ 2,187
Nonperforming assets at period end	**531**	735	859	1,338	2,510
Nonperforming loans to period-end portfolio loans	**.93 %**	1.28 %	1.47 %	2.13 %	3.72 %
Nonperforming assets to period-end portfolio loans plus OREO and other nonperforming assets	**.97**	1.39	1.73	2.66	4.25

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

(b) December 31, 2013, and December 31, 2012, amounts exclude $16 million and $23 million, respectively, of PCI loans acquired in July 2012.

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

For all commercial and consumer loan TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance of $2.5 million and greater, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. We estimate the extent of the individual impairment for commercial loans and TDRs by comparing the recorded investment of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan s observable market price. Secured consumer loan balances of TDRs that are discharged through Chapter 7 bankruptcy and not formally re-affirmed are adjusted to reflect the fair value of the underlying collateral, less costs to sell. Other consumer loan TDRs are combined in homogenous pools and assigned a specific allocation based on the estimated present value of future cash flows using the effective interest rate. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses. The ALLL at December 31, 2013, represents our best estimate of the probable credit losses inherent in the loan portfolio at that date.

As shown in Figure 37, our ALLL decreased by $40 million, or 5%, during the past twelve months. This contraction was associated with the improvement in credit quality of the loan portfolio. The quality of new loan originations and decreasing NPLs and net loan charge-offs has resulted in a reduction in our general allowance. Our delinquency trends have declined during 2013 due to a modest level of loan growth, relatively stable economic conditions, and continued run off in our exit loan portfolio reflecting our effort to maintain a moderate enterprise risk tolerance. Our liability for credit losses on lending-related commitments increased by $8 million to $37 million at December 31, 2013, compared to the same period one year ago. When combined with our ALLL, our total allowance for credit losses represented 1.63% of loans at December 31, 2013, compared to 1.74% at December 31, 2012.

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

December 31, dollars in millions	2013 Total Allowance	2013 Percent of Allowance to Total Allowance	2013 Percent of Loan Type to Total Loans	2012 Total Allowance	2012 Percent of Allowance to Total Allowance	2012 Percent of Loan Type to Total Loans	2011 Total Allowance	2011 Percent of Allowance to Total Allowance	2011 Percent of Loan Type to Total Loans
Commercial, financial and agricultural	**$ 362**	**42.7 %**	**45.8 %**	$ 327	36.8 %	44.0 %	$ 334	33.2 %	39.1 %
Commercial real estate:									
Commercial mortgage	**165**	**19.4**	**14.2**	198	22.3	14.6	272	27.1	16.2
Construction	**32**	**3.8**	**2.0**	41	4.6	1.9	63	6.3	2.7
Total commercial real estate loans	**197**	**23.2**	**16.2**	239	26.9	16.5	335	33.4	18.9
Commercial lease financing	**62**	**7.3**	**8.4**	55	6.2	9.3	78	7.8	12.2
Total commercial loans	**621**	**73.2**	**70.4**	621	69.9	69.8	747	74.4	70.2
Real estate residential mortgage	**37**	**4.4**	**4.0**	30	3.4	4.1	37	3.7	3.9
Home equity:									
Key Community Bank	**84**	**9.9**	**19.0**	105	11.8	18.6	103	10.2	18.6
Other	**11**	**1.3**	**.6**	25	2.8	.8	29	2.9	1.1
Total home equity loans	**95**	**11.2**	**19.6**	130	14.6	19.4	132	13.1	19.7
Consumer other Key Community Bank	**29**	**3.4**	**2.7**	38	4.3	2.5	41	4.1	2.4
Credit cards	**34**	**4.0**	**1.3**	26	2.9	1.4			
Consumer other:									
Marine	**29**	**3.4**	**1.9**	39	4.4	2.6	46	4.6	3.5
Other	**3**	**.4**	**.1**	4	.5	.2	1	.1	.3
Total consumer other	**32**	**3.8**	**2.0**	43	4.9	2.8	47	4.7	3.8
Total consumer loans	**227**	**26.8**	**29.6**	267	30.1	30.2	257	25.6	29.8
Total [(a)]	**$ 848**	**100.0 %**	**100.0 %**	$ 888	100.0 %	100.0 %	$ 1,004	100.0 %	100.0 %

	2010 Total Allowance	2010 Percent of Allowance to Total Allowance	2010 Percent of Loan Type to Total Loans	2009 Total Allowance	2009 Percent of Allowance to Total Allowance	2009 Percent of Loan Type to Total Loans
Commercial, financial and agricultural	$ 485	30.2 %	32.8 %	$ 796	31.4 %	32.7 %
Commercial real estate:						

Commercial mortgage	416	25.9	19.0	578	22.8	17.8
Construction	145	9.1	4.2	418	16.5	8.1
Total commercial real estate loans	561	35.0	23.2	996	39.3	25.9
Commercial lease financing	175	10.9	12.9	280	11.1	12.7
Total commercial loans	1,221	76.1	68.9	2,072	81.8	71.3
Real estate residential mortgage	49	3.1	3.7	30	1.2	3.1
Home equity:						
Key Community Bank	120	7.5	19.0	130	5.1	17.1
Other	57	3.5	1.3	78	3.1	1.4
Total home equity loans	177	11.0	20.3	208	8.2	18.5
Consumer other Key Community Bank	57	3.6	2.3	73	2.9	2.0
Credit cards						
Consumer other:						
Marine	89	5.5	4.5	140	5.5	4.7
Other	11	.7	.3	11	.4	.4
Total consumer other	100	6.2	4.8	151	5.9	5.1
Total consumer loans	383	23.9	31.1	462	18.2	28.7
Total [(a)]	$ 1,604	100.0 %	100.0 %	$ 2,534	100.0 %	100.0 %

(a) Excludes allocations of the ALLL in the amount of $39 million at December 31, 2013, $55 million at December 31, 2012, $104 million at December 31, 2011, $114 million at December 31, 2010, and $157 million at December 31, 2009, related to the discontinued operations of the education lending business.

Our provision (credit) for loan and lease losses was $130 million for 2013, compared to $229 million for 2012. Our net loan charge-offs were $168 million for 2013, compared to $345 million for 2012. Our net loan charge-offs for 2012 included $33 million of charge-offs reported in accordance with updated regulatory guidance requiring loans and leases discharged through Chapter 7 bankruptcy and not reaffirmed by the borrower to be charged-off to the collateral s fair market value less selling costs and classified as nonaccrual regardless of their delinquency. Additionally, we continue to reduce our exit loans and leases, as well as our exposure in our higher-risk businesses, including the residential properties portion of our construction loan portfolio, Marine/RV financing, and other selected leasing portfolios through the sale of certain loans, payments from borrowers, or net loan charge-offs. We anticipate that net loan charge-offs will remain at, or below, the lower end of our targeted range of 40 to 60 basis points of average loans for the balance of the current year.

Net loan charge-offs

Net loan charge-offs for 2013 totaled $168 million, or .32% of average loans, compared to net loan charge-offs of $345 million, or .69%, for the same period last year. Our 2012 net loan charge-offs included $33 million of incremental net loan charge-offs reported in accordance with updated regulatory guidance requiring loans discharged through Chapter 7 bankruptcy and not reaffirmed by the borrower to be charged off to the collateral s fair market value less selling costs and classified as nonaccrual regardless of their delinquency status. In addition, we incurred $13 million of net loan charge-offs related to our two acquisitions completed in 2012. Figure 38 shows the trend in our net loan charge-offs by loan type, while the composition of loan charge-offs and recoveries by type of loan is presented in Figure 39.

Over the past twelve months, net loan charge-offs decreased $177 million. This decrease is attributable to continued improvement in asset quality statistics as shown in Figure 36 as well as the classification of certain loans from updated regulatory guidance that went into effect for us during the second half of 2012. As shown in Figure 41, our exit loan portfolio contributed a total of $17 million in net loan charge-offs for 2013. Net loan charge-offs for 2012 in our exit loan portfolio were $78 million. The decrease in net loan charge-offs in our exit loan portfolio were primarily driven by lower levels of nonperforming loans and continued run off in the consumer exit loan portfolios.

Figure 38. Net Loan Charge-offs from Continuing Operations

Year ended December 31, *dollars in millions*	**2013**	2012	2011	2010	2009
Commercial, financial and agricultural	**$ 23**	$ 17	$ 119	$ 478	$ 786
Real estate commercial mortgage	**(7)**	79	103	330	354
Real estate construction	**(11)**	19	56	336	634
Commercial lease financing	**12**	5	17	63	106
Total commercial loans	**17**	120	295	1,207	1,880
Home equity Key Community Bank	**52**	88	89	116	93
Home equity Other	**14**	30	41	59	72
Credit cards	**27**	11			
Marine	**14**	37	48	86	119
Other	**44**	59	68	102	93
Total consumer loans	**151**	225	246	363	377
Total net loan charge-offs	**$ 168**	$ 345	$ 541	$ 1,570	$ 2,257
Net loan charge-offs to average loans	**.32 %**	.69 %	1.11 %	2.91 %	3.40 %
Net loan charge-offs from discontinued operations education lending business	**$ 37**	$ 58	$ 123	$ 121	$ 143

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

Year ended December 31,					
dollars in millions	**2013**	**2012**	**2011**	**2010**	**2009**
Average loans outstanding	**$ 53,054**	$ 50,362	$ 48,606	$ 53,971	$ 66,386
Allowance for loan and lease losses at beginning of period	**$ 888**	$ 1,004	$ 1,604	$ 2,534	$ 1,629
Loans charged off:					
Commercial, financial and agricultural[(a)]	**62**	80	169	565	838
Real estate commercial mortgage	**20**	102	113	360	356
Real estate construction	**3**	24	83	380	643
Total commercial real estate loans[(b)]	**23**	126	196	740	999
Commercial lease financing	**27**	27	42	88	128
Total commercial loans	**112**	233	407	1,393	1,965
Real estate residential mortgage	**20**	27	29	36	20
Home equity:					
Key Community Bank	**62**	99	100	123	97
Other	**20**	35	45	62	74
Total home equity loans	**82**	134	145	185	171
Consumer other Key Community Bank	**31**	38	45	64	67
Credit cards	**30**	11			
Consumer other:					
Marine	**29**	59	80	129	154
Other	**4**	6	9	15	19
Total consumer other	**33**	65	89	144	173
Total consumer loans	**196**	275	308	429	431
Total loans charged off	**308**	508	715	1,822	2,396
Recoveries:					
Commercial, financial and agricultural[(a)]	**39**	63	50	87	52
Real estate commercial mortgage	**27**	23	10	30	2
Real estate construction	**14**	5	27	44	9
Total commercial real estate loans[(b)]	**41**	28	37	74	11
Commercial lease financing	**15**	22	25	25	22
Total commercial loans	**95**	113	112	186	85
Real estate residential mortgage	**2**	3	3	2	1
Home equity:					
Key Community Bank	**10**	11	11	7	4
Other	**6**	5	4	3	2
Total home equity loans	**16**	16	15	10	6
Consumer other Key Community Bank	**7**	6	8	7	7
Credit cards	**3**				
Consumer other:					
Marine	**15**	22	32	43	35
Other	**2**	3	4	4	5

Total consumer other	**17**	25	36	47	40
Total consumer loans	**45**	50	62	66	54
Total recoveries	**140**	163	174	252	139
Net loans charged off	**(168)**	(345)	(541)	(1,570)	(2,257)
Provision (credit) for loan and lease losses	**130**	229	(60)	638	3,159
Foreign currency translation adjustment	**(2)**		1	2	3
Allowance for loan and lease losses at end of year	**$ 848**	$ 888	$ 1,004	$ 1,604	$ 2,534
Liability for credit losses on lending-related commitments at beginning of the year	**$ 29**	$ 45	$ 73	$ 121	$ 54
Provision (credit) for losses on lending-related commitments	**8**	(16)	(28)	(48)	67
Liability for credit losses on lending-related commitments at end of the year [c]	**$ 37**	$ 29	$ 45	$ 73	$ 121
Total allowance for credit losses at end of the year	**$ 885**	$ 917	$ 1,049	$ 1,677	$ 2,655
Net loan charge-offs to average loans	**.32 %**	.69 %	1.11 %	2.91 %	3.40 %
Allowance for loan and lease losses to period-end loans	**1.56**	1.68	2.03	3.20	4.31
Allowance for credit losses to period-end loans	**1.63**	1.74	2.12	3.35	4.52
Allowance for loan and lease losses to nonperforming loans	**166.9**	131.8	138.1	150.2	115.9
Allowance for credit losses to nonperforming loans	**174.2**	136.1	144.3	157.0	121.4
Discontinued operations education lending business:					
Loans charged off	**$ 55**	$ 75	$ 138	$ 129	$ 147
Recoveries	**18**	17	15	8	4
Net loan charge-offs	**$ (37)**	$ (58)	$ (123)	$ (121)	$ (143)

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

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

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

Nonperforming assets

Figure 40 shows the composition of our nonperforming assets. These assets totaled $531 million at December 31, 2013, and represented .97% of portfolio loans, OREO and other nonperforming assets, compared to $735 million, or 1.39%, at December 31, 2012. See Note 1 under the headings Nonperforming Loans, Impaired Loans, and Allowance for Loan and Lease Losses for a summary of our nonaccrual and charge-off policies.

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

December 31, *dollars in millions*	**2013**	2012	2011	2010	2009
Commercial, financial and agricultural [a]	**$ 77**	$ 99	$ 188	$ 242	$ 586
Real estate commercial mortgage	**37**	120	218	255	614
Real estate construction	**14**	56	54	241	641
Total commercial real estate loans [b]	**51**	176	272	496	1,255
Commercial lease financing	**19**	16	27	64	113
Total commercial loans	**147**	291	487	802	1,954
Real estate residential mortgage	**107**	103	87	98	73
Home equity:					
Key Community Bank	**205**	210	108	102	107
Other	**15**	21	12	18	21
Total home equity loans	**220**	231	120	120	128
Consumer other Key Community Bank	**3**	2	1	4	4
Credit cards	**4**	11			
Consumer other:					
Marine	**26**	34	31	42	26
Other	**1**	2	1	2	2
Total consumer other	**27**	36	32	44	28
Total consumer loans	**361**	383	240	266	233
Total nonperforming loans [c]	**508**	674	727	1,068	2,187
Nonperforming loans held for sale	**1**	25	46	106	116
OREO	**15**	22	65	129	168
Other nonperforming assets	**7**	14	21	35	39
Total nonperforming assets	**$ 531**	$ 735	$ 859	$ 1,338	$ 2,510
Accruing loans past due 90 days or more	**$ 71**	$ 78	$ 164	$ 239	$ 331
Accruing loans past due 30 through 89 days	**318**	424	441	476	933
Restructured loans accruing and nonaccruing [d]	**338**	320	276	297	364

Restructured loans included in nonperforming loans [(d)]	**214**	249	191	202	364
Nonperforming assets from discontinued operations education lending business	**25**	20	23	40	14
Nonperforming loans to year-end portfolio loans	**.93 %**	1.28 %	1.47 %	2.13 %	3.72 %
Nonperforming assets to year-end portfolio loans plus OREO and other nonperforming assets	**.97**	1.39	1.73	2.66	4.25

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

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

(c) December 31, 2013, and December 31, 2012, amounts exclude $16 million and $23 million, respectively, of purchased credit impaired loans acquired in July 2012.

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

As shown in Figure 40, nonperforming assets decreased during 2013, having declined for the past four years. Most of the reduction came from nonperforming loans in our commercial loan portfolio and nonperforming loans held for sale. As shown in Figure 41, our exit loan portfolio accounted for $56 million, or 11%, of total nonperforming assets at December 31, 2013, compared to $83 million, or 11%, at December 31, 2012.

At December 31, 2013, the carrying amount of our commercial nonperforming loans outstanding represented 57% of their original contractual amount owed, total nonperforming loans outstanding represented 72% of their contractual amount owed, and total nonperforming assets represented 70% of their original contractual amount owed. At the same date, OREO represented 46% of its original contractual amount owed, while loans held for sale and other nonperforming assets in the aggregate represented 38% of their contractual amount owed.

At December 31, 2013, our 20 largest nonperforming loans totaled $86 million, representing 17% of total loans on nonperforming status from continuing operations, compared to $179 million representing 27% in the prior year.

Figure 41 shows the composition of our exit loan portfolio at December 31, 2013, and 2012, the net loan charge-offs recorded on this portfolio, and the nonperforming status of those loans at these dates. The exit loan portfolio represented 4% of total loans and loans held for sale at December 31, 2013, compared to 5% at December 31, 2012. Additional information about loan sales is included in the Loans and loans held for sale section under Loan sales.

Figure 41. Exit Loan Portfolio from Continuing Operations

	Balance Outstanding			Net Loan Charge-offs		Balance on Nonperforming Status	
			Change 12-31-13 vs.				
in millions	12-31-13	12-31-12	12-31-12	12-31-13 [c]	12-31-12 [c]	12-31-13	12-31-12
Residential properties homebuilder	**$ 20**	$ 24	$ (4)	**$ 1**	$ 3	**$ 7**	$ 10
Marine and RV floor plan	**24**	33	(9)	**(3)**	8	**6**	10
Commercial lease financing [a]	**782**	997	(215)	**(11)**	(3)		6
Total commercial loans	**826**	1,054	(228)	**(13)**	8	**13**	26
Home equity Other	**334**	423	(89)	**14**	30	**16**	21
Marine	**1,028**	1,358	(330)	**14**	37	**26**	34
RV and other consumer	**70**	93	(23)	**2**	3	**1**	2
Total consumer loans	**1,432**	1,874	(442)	**30**	70	**43**	57
Total exit loans in loan portfolio	**$ 2,258**	$ 2,928	$ (670)	**$ 17**	$ 78	**$ 56**	$ 83
Discontinued operations education lending business (not included in exit loans above) [b]	**$ 4,497**	$ 5,201	$ (704)	**$ 37**	$ 58	**$ 25**	$ 20

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

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

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

Figure 42 shows the types of activity that caused the change in our nonperforming loans during each of the last four quarters and for the years ended December 31, 2013, and 2012. Loans placed on nonaccrual status decreased $400 million during 2013 compared to 2012 due to the 2012 classification of loans discharged through Chapter 7 bankruptcy previously discussed, as well as continued improvement in market liquidity.

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

in millions	2013	2013 Quarters Fourth	Third	Second	First	2012
Balance at beginning of period	**$ 674**	**$ 541**	**$ 652**	**$ 650**	**$ 674**	$ 727
Loans placed on nonaccrual status	**728**	**129**	**161**	**160**	**278**	1,128
Charge-offs	**(309)**	**(66)**	**(78)**	**(74)**	**(91)**	(508)
Loans sold	**(127)**	**(19)**	**(61)**	**(5)**	**(42)**	(163)
Payments	**(208)**	**(46)**	**(43)**	**(36)**	**(83)**	(327)
Transfers to OREO	**(21)**	**(5)**	**(2)**	**(7)**	**(7)**	(38)
Transfers to nonperforming loans held for sale						(24)
Transfers to other nonperforming assets						(15)
Loans returned to accrual status	**(229)**	**(26)**	**(88)**	**(36)**	**(79)**	(106)
Balance at end of period [(a)]	**$ 508**	**$ 508**	**$ 541**	**$ 652**	**$ 650**	$ 674

(a) December 31, 2013, and December 31, 2012, amounts exclude $16 million and $23 million, respectively, of PCI loans acquired in July 2012.

Figure 43 shows the types of activity that caused the change in our nonperforming loans held for sale during each of the last four quarters and years ended December 31, 2013, and 2012.

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

in millions	2013	2013 Quarters Fourth	Third	Second	First	2012
Balance at beginning of period	**$ 25**	**$ 13**	**$ 14**	**$ 23**	**$ 25**	$ 46
Transfers in						24
Net advances / (payments)	**(3)**	**(1)**	**(1)**	**(1)**		(3)
Loans sold	**(19)**	**(11)**		**(8)**		(20)
Transfers to OREO						(1)
Valuation adjustments	**(2)**				**(2)**	(2)
Loans returned to accrual status / other						(19)
Balance at end of period	**$ 1**	**$ 1**	**$ 13**	**$ 14**	**$ 23**	$ 25

Figure 44 shows the factors that contributed to the change in our OREO during 2013 and 2012. As shown in this figure, the decrease in 2013 was primarily attributable to properties sold during 2013.

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

in millions	2013	2013 Quarters Fourth	Third	Second	First	2012
Balance at beginning of period	**$ 22**	**$ 15**	**$ 18**	**$ 21**	**$ 22**	$ 65
Properties acquired nonperforming loans	**21**	**5**	**2**	**7**	**7**	39
Valuation adjustments	**(6)**		**(1)**	**(2)**	**(3)**	(18)
Properties sold	**(22)**	**(5)**	**(4)**	**(8)**	**(5)**	(64)
Balance at end of period	**$ 15**	**$ 15**	**$ 15**	**$ 18**	**$ 21**	$ 22

Operational risk management

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

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

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

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

Cybersecurity

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

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

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Fourth Quarter Results

Figure 45 shows our financial performance for each of the past eight quarters. Highlights of our results for the fourth quarter of 2013 are summarized below.

Earnings

Our fourth quarter net income from continuing operations attributable to Key common shareholders was $229 million, or $.26 per common share, compared to $190 million, or $.20 per common share, for the fourth quarter of 2012. During the fourth quarter of 2013, we incurred $24 million, or $.02 per common share, of costs related to our previously announced efficiency initiative and a pension settlement charge. Fourth quarter 2013 net income attributable to Key common shareholders was $224 million, compared to $197 million for the same quarter one year ago.

On an annualized basis, our return on average total assets from continuing operations for the fourth quarter of 2013 was 1.08%, compared to .96% for the fourth quarter of 2012. The annualized return on average common equity from continuing operations was 9.10% for the fourth quarter of 2013, compared to 7.58% for the year-ago quarter.

Net interest income

Our taxable-equivalent net interest income was $589 million for the fourth quarter of 2013, and the net interest margin was 3.01%. These results compare to taxable-equivalent net interest income of $607 million and a net interest margin of 3.37% for the fourth quarter of 2012. The decrease in net interest income and net interest margin is attributable to the impact of lower interest rates on asset yields combined with a significant increase in liquidity levels resulting from strong deposit inflows. The decreases were partially offset by the maturity of higher-rate certificates of deposit and a more favorable mix of lower-cost deposits.

Noninterest income

Our noninterest income was $453 million for the fourth quarter of 2013, compared to $439 million for the year-ago quarter. The fourth quarter reflects the benefits from Key s recent investments in payments and commercial mortgage servicing, with cards and payments income up $2 million and mortgage servicing fees up $15 million. In addition, net gains from principal investing increased $18 million. These increases were partially offset by decreases in investment banking and debt placement fees of $26 million and consumer mortgage income of $8 million.

Noninterest expense

Our noninterest expense was $712 million for the fourth quarter of 2013, compared to $734 million for the same period last year. Excluding the $22 million in expenses related to our efficiency initiative and the pension settlement charge of $2 million in the fourth quarter of 2013 and the $16 million in efficiency initiative expenses one year ago, noninterest expense was down $30 million from the prior year. Personnel expense decreased $24 million, due to the realization of expense efficiencies. Nonpersonnel expense increased $2 million. The provision (credit) for losses on lending-related commitments increased $11 million, offset by a $12 million decrease in business services and professional fees.

Provision for loan and lease losses

Our provision for loan and lease losses was $19 million for the fourth quarter of 2013, compared to $57 million for the year-ago quarter. Our ALLL was $848 million, or 1.56%, of total period-end loans at December 31, 2013, compared to $888 million, or 1.68%, at December 31, 2012.

Net loan charge-offs for the fourth quarter of 2013 totaled $37 million, or .27% of average loans, compared to $58 million, or .44%, for the same period last year.

Income taxes

For the fourth quarter of 2013, we recorded a tax provision from continuing operations of $70 million, compared to a tax provision of $53 million for the fourth quarter of 2012. The effective tax rate for the fourth quarter of 2013 was 23%, compared with 21.3% for the same quarter one year ago. For the fourth quarter of 2013, the tax rate was higher due to higher pre-tax income and slightly lower tax credits earned during the period.

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Figure 45. Selected Quarterly Financial Data

	2013 Quarters				2012 Quarters			
dollars in millions, except per share amounts	**Fourth**	**Third**	**Second**	**First**	Fourth	Third	Second	First
FOR THE PERIOD								
Interest income	**$ 649**	**$ 647**	**$ 657**	**$ 667**	$ 688	$ 671	$ 662	$ 684
Interest expense	**66**	**69**	**76**	**84**	87	99	124	131
Net interest income	**583**	**578**	**581**	**583**	601	572	538	553
Provision (credit) for loan and lease losses	**19**	**28**	**28**	**55**	57	109	21	42
Noninterest income	**453**	**459**	**429**	**425**	439	518	457	442
Noninterest expense	**712**	**716**	**711**	**681**	734	712	693	679
Income (loss) from continuing operations before income taxes	**305**	**293**	**271**	**272**	249	269	281	274
Income (loss) from continuing operations attributable to Key	**235**	**235**	**199**	**201**	196	216	222	201
Income (loss) from discontinued operations, net of taxes [a]	**(5)**	**37**	**5**	**3**	7	3	14	(1)
Net income (loss) attributable to Key	**230**	**272**	**204**	**204**	203	219	236	200
Income (loss) from continuing operations attributable to Key common shareholders	**229**	**229**	**193**	**196**	190	211	217	195
Income (loss) from discontinued operations, net of taxes [a]	**(5)**	**37**	**5**	**3**	7	3	14	(1)
Net income (loss) attributable to Key common shareholders	**224**	**266**	**198**	**199**	197	214	231	194
PER COMMON SHARE								
Income (loss) from continuing operations attributable to Key common shareholders	**$ .26**	**$ .25**	**$ .21**	**$ .21**	$ .21	$ .23	$ .23	$ .21
Income (loss) from discontinued operations, net of taxes [a]	**(.01)**	**.04**	**.01**		.01		.01	
Net income (loss) attributable to Key common shareholders [b]	**.25**	**.29**	**.22**	**.22**	.21	.23	.24	.20
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**.26**	**.25**	**.21**	**.21**	.20	.22	.23	.20
Income (loss) from discontinued operations, net of taxes assuming dilution [a]	**(.01)**	**.04**	**.01**		.01		.01	
Net income (loss) attributable to Key common shareholders assuming dilution [b]	**.25**	**.29**	**.22**	**.21**	.21	.23	.24	.20
Cash dividends paid	**.055**	**.055**	**.055**	**.05**	.05	.05	.05	.03
Book value at period end	**11.25**	**11.05**	**10.89**	**10.89**	10.78	10.64	10.43	10.26
Tangible book value at period end	**10.11**	**9.92**	**9.77**	**9.78**	9.67	9.54	9.45	9.28
Market price:								
High	**13.55**	**12.63**	**11.09**	**10.19**	9.01	9.12	8.54	8.82
Low	**11.24**	**11.05**	**9.29**	**8.29**	7.96	7.46	6.80	7.26
Close	**13.42**	**11.40**	**11.04**	**9.96**	8.42	8.74	7.74	8.50
Weighted-average common shares outstanding (000)	**890,516**	**901,904**	**913,736**	**920,316**	925,725	936,223	944,648	949,342
Weighted-average common shares and potential common shares outstanding (000)	**897,712**	**928,854**	**918,628**	**926,051**	930,382	940,764	948,087	953,971
AT PERIOD END								
Loans	**$ 54,457**	**$ 53,597**	**$ 53,101**	**$ 52,574**	$ 52,822	$ 51,419	$ 49,605	$ 49,226
Earning assets	**79,467**	**77,085**	**76,717**	**75,066**	75,055	72,139	71,899	72,796
Total assets	**92,934**	**90,708**	**90,639**	**89,198**	89,236	86,950	86,523	87,431

Deposits	**69,262**	**68,535**	**67,721**	**64,654**	65,993	64,188	62,167	61,494	
Long-term debt	**7,650**	**6,154**	**6,666**	**7,785**	6,847	6,119	7,521	8,898	
Key common shareholders equity	**10,012**	**9,915**	**9,938**	**10,049**	9,980	9,960	9,864	9,808	
Key shareholders equity	**10,303**	**10,206**	**10,229**	**10,340**	10,271	10,251	10,155	10,099	
PERFORMANCE RATIOS FROM CONTINUING OPERATIONS									
Return on average total assets	**1.08%**	**1.12%**	**.95%**	**.99%**	.96%	1.06%	1.10%	1.01	%
Return on average common equity	**9.10**	**9.13**	**7.72**	**7.96**	7.58	8.45	8.90	8.08	
Return on average tangible common equity (c)	**10.13**	**10.18**	**8.60**	**8.87**	8.45	9.43	9.83	8.94	
Net interest margin (TE)	**3.01**	**3.11**	**3.13**	**3.24**	3.37	3.23	3.06	3.16	
Cash efficiency ratio (c)	**67.4**	**67.5**	**69.1**	**66.0**	69.0	64.1	69.1	67.7	
PERFORMANCE RATIOS FROM CONSOLIDATED OPERATIONS									
Return on average total assets	**1.00%**	**1.22%**	**.92%**	**.94%**	.93%	1.01%	1.10%	.93	%
Return on average common equity	**8.90**	**10.61**	**7.92**	**8.08**	7.86	8.57	9.47	8.04	
Return on average tangible common equity (c)	**9.91**	**11.82**	**8.82**	**9.01**	8.77	9.56	10.46	8.90	
Net interest margin (TE)	**2.91**	**3.06**	**3.07**	**3.16**	3.29	3.14	2.99	3.08	
Loan to deposit (d)	**83.8**	**83.8**	**83.6**	**86.9**	85.8	86.2	86.4	87.0	
CAPITAL RATIOS AT PERIOD END									
Key shareholders equity to assets	**11.09%**	**11.25%**	**11.29%**	**11.59%**	11.51%	11.79%	11.74%	11.55	%
Key common shareholders equity to assets	**10.78**	**10.94**	**10.96**	**11.27**	11.18	11.45	11.40	11.22	
Tangible common equity to tangible assets (c)	**9.80**	**9.93**	**9.96**	**10.24**	10.15	10.39	10.44	10.26	
Tier 1 common equity (c)	**11.22**	**11.17**	**11.18**	**11.40**	11.36	11.30	11.63	11.55	
Tier 1 risk-based capital	**11.96**	**11.92**	**11.93**	**12.19**	12.15	12.10	12.45	13.29	
Total risk-based capital	**14.33**	**14.37**	**14.65**	**15.02**	15.13	15.17	15.83	16.68	
Leverage	**11.11**	**11.33**	**11.25**	**11.36**	11.41	11.37	11.35	12.12	
TRUST AND BROKERAGE ASSETS									
Assets under management	**$ 36,905**	**$ 36,110**	**$ 35,544**	**$ 35,714**	$ 34,744	$ 35,587	$ 35,148	$ 35,862	
Nonmanaged and brokerage assets	**47,418**	**38,525**	**37,759**	**37,115**	35,550	34,322	33,803	33,021	
OTHER DATA									
Average full-time-equivalent employees	**14,197**	**14,555**	**14,999**	**15,396**	15,589	15,833	15,455	15,404	
Branches	**1,028**	**1,044**	**1,052**	**1,084**	1,088	1,087	1,062	1,059	

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

(b) EPS may not foot due to rounding.

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

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

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Figure 46. Selected Quarterly GAAP to Non-GAAP Reconciliations

	Three months ended							
llars in millions	**12-31-13**	**9-30-13**	**6-30-13**	**3-31-13**	**12-31-12**	**9-30-12**	**6-30-12**	**3-31-12**
ngible common uity to tangible assets period end								
y shareholders equity AAP)	**$ 10,303**	**$ 10,206**	**$ 10,229**	**$ 10,340**	$ 10,271	$ 10,251	$ 10,155	$ 10,099
ss: Intangible assets [(a)]	**1,014**	**1,017**	**1,021**	**1,024**	1,027	1,031	932	932
Series A Preferred Stock [(b)]	**282**	**282**	**282**	**291**	291	291	291	291
Tangible common equity (non-GAAP)	**$ 9,007**	**$ 8,907**	**$ 8,926**	**$ 9,025**	$ 8,953	$ 8,929	$ 8,932	$ 8,876
tal assets (GAAP)	**$ 92,934**	**$ 90,708**	**$ 90,639**	**$ 89,198**	$ 89,236	$ 86,950	$ 86,523	$ 87,431
ss: Intangible assets [(a)]	**1,014**	**1,017**	**1,021**	**1,024**	1,027	1,031	932	932
Tangible assets (non-GAAP)	**$ 91,920**	**$ 89,691**	**$ 89,618**	**$ 88,174**	$ 88,209	$ 85,919	$ 85,591	$ 86,499
ngible common equity tangible assets ratio on-GAAP)	**9.80 %**	**9.93 %**	**9.96 %**	**10.24 %**	10.15 %	10.39 %	10.44 %	10.26 %
er 1 common equity period end								
y shareholders equity AAP)	**$ 10,303**	**$ 10,206**	**$ 10,229**	**$ 10,340**	$ 10,271	$ 10,251	$ 10,155	$ 10,099
alifying capital urities	**339**	**340**	**339**	**339**	339	339	339	1,046
ss: Goodwill	**979**	**979**	**979**	**979**	979	979	917	917
Accumulated other comprehensive income (loss) [(c)]	**(394)**	**(409)**	**(359)**	**(204)**	(172)	(109)	(109)	(70)
Other assets [(d)]	**89**	**96**	**101**	**106**	114	121	71	69
Total Tier 1 capital (regulatory)	**9,968**	**9,880**	**9,847**	**9,798**	9,689	9,599	9,615	10,229
ss: Qualifying capital securities	**339**	**340**	**339**	**339**	339	339	339	1,046
Series A Preferred Stock [(b)]	**282**	**282**	**282**	**291**	291	291	291	291
Total Tier 1 common equity (non-GAAP)	**$ 9,347**	**$ 9,258**	**$ 9,226**	**$ 9,168**	$ 9,059	$ 8,969	$ 8,985	$ 8,892
t risk-weighted assets gulatory)	**$ 83,328**	**$ 82,913**	**$ 82,528**	**$ 80,400**	$ 79,734	$ 79,363	$ 77,236	$ 76,956
er 1 common equity io (non-GAAP)	**11.22 %**	**11.17 %**	**11.18 %**	**11.40 %**	11.36 %	11.30 %	11.63 %	11.55 %

verage tangible mmon equity								
erage Key areholders equity AAP)	**$ 10,272**	**$ 10,237**	**$ 10,314**	**$ 10,279**	$ 10,261	$ 10,222	$ 10,100	$ 9,992
ss: Intangible assets (average) [e]	**1,016**	**1,019**	**1,023**	**1,027**	1,030	1,026	931	932
Series A Preferred Stock (average)	**291**	**291**	**291**	**291**	291	291	291	291
Average tangible common equity (non-GAAP)	**$ 8,965**	**$ 8,927**	**$ 9,000**	**$ 8,961**	$ 8,940	$ 8,905	$ 8,878	$ 8,769
turn on average ngible common equity om continuing erations								
t income (loss) from ntinuing operations ributable to y common areholders (GAAP)	**$ 229**	**$ 229**	**$ 193**	**$ 196**	$ 190	$ 211	$ 217	$ 195
erage tangible mmon equity on-GAAP)	**8,965**	**8,927**	**9,000**	**8,961**	8,940	8,905	8,878	8,769
turn on average gible common equity m continuing erations (non-GAAP)	**10.13 %**	**10.18 %**	**8.60 %**	**8.87 %**	8.45 %	9.43 %	9.83 %	8.94 %
turn on average ngible common equity nsolidated								
t income (loss) ributable to Key mmon shareholders AAP)	**$ 224**	**$ 266**	**$ 198**	**$ 199**	$ 197	$ 214	$ 231	$ 194
erage tangible mmon equity on-GAAP)	**8,965**	**8,927**	**9,000**	**8,961**	8,940	8,905	8,878	8,769
turn on average gible common equity nsolidated on-GAAP)	**9.91 %**	**11.82 %**	**8.82 %**	**9.01 %**	8.77 %	9.56 %	10.46 %	8.90 %
sh efficiency ratio								
oninterest expense AAP)	**$ 712**	**$ 716**	**$ 711**	**$ 681**	$ 734	$ 712	$ 693	$ 679
ss: Intangible asset amortization on credit cards (GAAP)	**7**	**8**	**7**	**8**	8	6		
Other intangible asset amortization (GAAP)	**3**	**4**	**3**	**4**	4	3	1	1
Adjusted noninterest expense (non-GAAP)	**$ 702**	**$ 704**	**$ 701**	**$ 669**	$ 722	$ 703	$ 692	$ 678
t interest income AAP)	**$ 583**	**$ 578**	**$ 581**	**$ 583**	$ 601	$ 572	$ 538	$ 553
us: Taxable-equivalent adjustment	**6**	**6**	**5**	**6**	6	6	6	6

Noninterest income (GAAP)		**453**			**459**			**429**			**425**			439			518			457			442
Total taxable-equivalent revenue (non-GAAP)	**$**	**1,042**		**$**	**1,043**		**$**	**1,015**		**$**	**1,014**		$	1,046		$	1,096		$	1,001		$	1,001
sh efficiency ratio on-GAAP)		**67.4**	**%**		**67.5**	**%**		**69.1**	**%**		**66.0**	**%**		69.0	%		64.1	%		69.1	%		67.7
ljusted cash efficiency tio net of efficiency tiative charges																							
ljusted noninterest pense (non-GAAP)	**$**	**702**		**$**	**704**		**$**	**701**		**$**	**669**		$	722		$	703		$	692		$	678
ss: Efficiency initiative and pension settlement charges (non-GAAP)		**24**			**41**			**37**			**15**			16			9						
Net adjusted noninterest expense (non-GAAP)	**$**	**678**		**$**	**663**		**$**	**664**		**$**	**654**		$	706		$	694		$	692		$	678
tal taxable-equivalent venue (non-GAAP)	**$**	**1,042**		**$**	**1,043**		**$**	**1,015**		**$**	**1,014**		$	1,046		$	1,096		$	1,001		$	1,001
ljusted cash efficiency io net of efficiency tiative charges on-GAAP)		**65.1**	**%**		**63.6**	**%**		**65.4**	**%**		**64.5**	**%**		67.5	%		63.3	%		69.1	%		67.7

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(a) Three months ended December 31, 2013, September 30, 2013, June 30, 2013, and March 31, 2013, exclude $92 million, $99 million, $107 million, and $114 million, respectively, of period-end purchased credit card receivable intangible assets. Three months ended December 31, 2012, and September 30, 2012, exclude $123 million and $130 million, respectively, of period-end purchased credit card receivable intangible assets.

(b) Net of capital surplus for the three months ended December 31, 2013, September 30, 2013, and June 30, 2013.

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

(d) Other assets deducted from Tier 1 capital and net risk-weighted assets consist of disallowed intangible assets (excluding goodwill) and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at any quarter-end during 2013 and 2012.

(e) Three months ended December 31, 2013, September 30, 2013, June 30, 2013, and March 31, 2013, exclude $96 million, $103 million, $110 million, and $118 million, respectively, of average purchased credit card receivable intangible assets. Three months ended December 31, 2012, and September 30, 2012, exclude $126 million and $86 million, respectively, of average purchased credit card receivable intangible assets.

Critical Accounting Policies and Estimates

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

In our opinion, some accounting policies are more likely than others to have a critical effect on our financial results and to expose those results to potentially greater volatility. These policies apply to areas of