KEYCORP /NEW/
Form 10-Q
August 05, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2016

Commission File Number 001-11302

Exact name of registrant as specified in its charter:

Ohio	**34-6542451**
State or other jurisdiction of	**I.R.S. Employer**

incorporation or organization	**Identification 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:

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

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

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

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

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

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

Common Shares with a par value of $1 each	**1,082,180,931 Shares**
Title of class	**Outstanding at August 1, 2016**

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KEYCORP

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PART II. OTHER INFORMATION

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets

in millions, except per share data	**June 30, 2016 (Unaudited)**	**December 31, 2015**	**June 30, 2015 (Unaudited)**
ASSETS			
Cash and due from banks	**$ 496**	$ 607	$ 693
Short-term investments	**6,599**	2,707	3,222
Trading account assets	**965**	788	674
Securities available for sale	**14,552**	14,218	14,244
Held-to-maturity securities (fair value: $4,889, $4,848, and $4,992)	**4,832**	4,897	5,022
Other investments	**577**	655	703
Loans, net of unearned income of $615, $646, and $657	**62,098**	59,876	58,264
Less: Allowance for loan and lease losses	**854**	796	796
Net loans	**61,244**	59,080	57,468
Loans held for sale	**442**	639	835
Premises and equipment	**742**	779	788
Operating lease assets	**399**	340	296
Goodwill	**1,060**	1,060	1,057
Other intangible assets	**50**	65	83
Corporate-owned life insurance	**3,568**	3,541	3,502
Derivative assets	**1,234**	619	536
Accrued income and other assets	**2,673**	3,290	3,312
Discontinued assets (including $3 and $4 million of portfolio loans at fair value and $179 million of portfolio loans held for sale at fair value, see Note 11)	**1,717**	1,846	2,169
Total assets	**$ 101,150**	$ 95,131	$ 94,604
LIABILITIES			
Deposits in domestic offices:			
NOW and money market deposit accounts	**$ 40,195**	$ 37,089	$ 36,024
Savings deposits	**2,355**	2,341	2,370
Certificates of deposit ($100,000 or more)	**3,381**	2,392	2,032
Other time deposits	**3,267**	3,127	3,105
Total interest-bearing deposits	**49,198**	44,949	43,531
Noninterest-bearing deposits	**26,127**	26,097	26,640
Deposits in foreign office interest-bearing			498

Total deposits	**75,325**	71,046	70,669
Federal funds purchased and securities sold under repurchase agreements	**360**	372	444
Bank notes and other short-term borrowings	**687**	533	528
Derivative liabilities	**746**	632	560
Accrued expense and other liabilities	**1,326**	1,605	1,537
Long-term debt	**11,388**	10,184	10,265
Total liabilities	**89,832**	84,372	84,003
EQUITY			
Preferred stock, $1 par value, authorized 25,000,000 shares:			
7.75% Noncumulative Perpetual Convertible Preferred Stock, Series A, $100 liquidation preference; authorized 2,900,234 shares; issued 2,900,234, 2,900,234, and 2,900,234 shares	**290**	290	290
Common shares, $1 par value; authorized 1,400,000,000 shares; issued 1,016,969,905, 1,016,969,905, and 1,016,969,905 shares	**1,017**	1,017	1,017
Capital surplus	**3,835**	3,922	3,898
Retained earnings	**9,166**	8,922	8,614
Treasury stock, at cost (174,267,011, 181,218,648, and 173,362,345 shares)	**(2,881)**	(3,000)	(2,884)
Accumulated other comprehensive income (loss)	**(114)**	(405)	(345)
Key shareholders equity	**11,313**	10,746	10,590
Noncontrolling interests	**5**	13	11
Total equity	**11,318**	10,759	10,601
Total liabilities and equity	**$ 101,150**	$ 95,131	$ 94,604

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Income (Unaudited)

dollars in millions, except per share amounts	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
INTEREST INCOME				
Loans	**$ 567**	$ 532	**$ 1,129**	$ 1,055
Loans held for sale	**5**	12	**13**	19
Securities available for sale	**74**	72	**149**	142
Held-to-maturity securities	**24**	24	**48**	48
Trading account assets	**6**	5	**13**	10
Short-term investments	**6**	2	**10**	4
Other investments	**2**	5	**5**	10
Total interest income	**684**	652	**1,367**	1,288
INTEREST EXPENSE				
Deposits	**34**	26	**65**	52
Bank notes and other short-term borrowings	**3**	2	**5**	4
Long-term debt	**50**	40	**96**	77
Total interest expense	**87**	68	**166**	133
NET INTEREST INCOME	**597**	584	**1,201**	1,155
Provision for credit losses	**52**	41	**141**	76
Net interest income after provision for credit losses	**545**	543	**1,060**	1,079
NONINTEREST INCOME				
Trust and investment services income	**110**	111	**219**	220
Investment banking and debt placement fees	**98**	141	**169**	209
Service charges on deposit accounts	**68**	63	**133**	124
Operating lease income and other leasing gains	**18**	24	**35**	43
Corporate services income	**53**	43	**103**	86
Cards and payments income	**52**	47	**98**	89
Corporate-owned life insurance income	**28**	30	**56**	61
Consumer mortgage income	**3**	4	**5**	7
Mortgage servicing fees	**10**	9	**22**	22
Net gains (losses) from principal investing	**11**	11	**11**	40
Other income [(a)]	**22**	5	**53**	24
Total noninterest income	**473**	488	**904**	925
NONINTEREST EXPENSE				
Personnel	**427**	408	**831**	797
Net occupancy	**59**	66	**120**	131
Computer processing	**45**	42	**88**	80
Business services and professional fees	**40**	42	**81**	75

Equipment		**21**		22		**42**		44
Operating lease expense		**14**		12		**27**		23
Marketing		**22**		15		**34**		23
FDIC assessment		**8**		8		**17**		16
Intangible asset amortization		**7**		9		**15**		18
OREO expense, net		**2**		1		**3**		3
Other expense		**106**		86		**196**		170
Total noninterest expense		**751**		711		**1,454**		1,380
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		**267**		320		**510**		624
Income taxes		**69**		84		**125**		158
INCOME (LOSS) FROM CONTINUING OPERATIONS		**198**		236		**385**		466
Income (loss) from discontinued operations, net of taxes of $2, $2, $2, and $5 (see Note 11)		**3**		3		**4**		8
NET INCOME (LOSS)		**201**		239		**389**		474
Less: Net income (loss) attributable to noncontrolling interests		**(1)**		1		**(1)**		3
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	**$**	**202**	$	238	**$**	**390**	$	471
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**193**	$	230	**$**	**375**	$	452
Net income (loss) attributable to Key common shareholders		**196**		233		**379**		460
Per common share:								
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.23**	$	.27	**$**	**.45**	$	.53
Income (loss) from discontinued operations, net of taxes								.01
Net income (loss) attributable to Key common shareholders [(b)]		**.23**		.28		**.45**		.54
Per common share assuming dilution:								
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.23**	$	.27	**$**	**.44**	$	.52
Income (loss) from discontinued operations, net of taxes								.01
Net income (loss) attributable to Key common shareholders [(b)]		**.23**		.27		**.45**		.53
Cash dividends declared per common share	**$**	**.085**	$	.075	**$**	**.16**	$	.14
Weighted-average common shares outstanding (000)		**831,899**		839,454		**829,640**		843,992
Effect of convertible preferred stock								
Effect of common share options and other stock awards		**6,597**		6,858		**7,138**		7,695
Weighted-average common shares and potential common shares outstanding (000) [(c)]		**838,496**		846,312		**836,778**		851,687

(a)

For the three months ended June 30, 2016, and June 30, 2015, net securities gains (losses) totaled less than $1 million. For the three months ended June 30, 2016, and June 30, 2015, we did not have any impairment losses related to securities.

(b) EPS may not foot due to rounding.

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

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Comprehensive Income (Unaudited)

in millions	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Net income (loss)	**$ 201**	$ 239	**$ 389**	$ 474
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) on securities available for sale, net of income taxes of $35, ($31), $111 and $2	**59**	(51)	**187**	4
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $22, ($10), $56, and $9	**36**	(17)	**94**	15
Foreign currency translation adjustments, net of income taxes of $1, $0, $4, and ($8)	**2**		**7**	(13)
Net pension and postretirement benefit costs, net of income taxes of $1, $2, $5, and $3	**2**	2	**3**	5
Total other comprehensive income (loss), net of tax	**99**	(66)	**291**	11
Comprehensive income (loss)	**300**	173	**680**	485
Less: Comprehensive income attributable to noncontrolling interests	**(1)**	1	**(1)**	3
Comprehensive income (loss) attributable to Key	**$ 301**	$ 172	**$ 681**	$ 482

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Changes in Equity (Unaudited)

	Key Shareholders Equity								
dollars in millions, except per share amounts	**Preferred Shares Outstanding (000)**	**Common Shares Outstanding (000)**	**Preferred Stock**	**Common Shares**	**Capital Surplus**	**Retained Earnings**	**Treasury Stock, at Cost**	**Accumulated Other Comprehensive Income (Loss)**	**Noncontrolling Interests**
BALANCE AT DECEMBER 31, 2014	2,905	859,403	$ 291	$ 1,017	$ 3,986	$ 8,273	$ (2,681)	$ (356)	$ 12
Net income (loss)						471			3
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of $2								4	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $9								15	
Foreign currency translation adjustments, net of income taxes of ($8)								(13)	
Net pension and postretirement benefit costs, net of income taxes of $3								5	
Deferred compensation					12				
Cash dividends declared on common shares ($.14 per share)						(119)			
Cash dividends declared on Noncumulative Series A Preferred Stock ($3.875 per share)						(11)			
Common shares repurchased		(22,881)					(325)		
Series A Preferred Stock exchanged for common shares	(5)	33	(1)				1		
Common shares reissued (returned) for stock options and other employee benefit plans		7,053			(100)		121		

Net contribution from (distribution to) noncontrolling interests									(4)
BALANCE AT JUNE 30, 2015	2,900	843,608	$ 290	$ 1,017	$ 3,898	$ 8,614	$ (2,884)	$ (345)	$ 11
BALANCE AT DECEMBER 31, 2015	2,900	835,751	$ 290	$ 1,017	$ 3,922	$ 8,922	$ (3,000)	$ (405)	$ 13
Net income (loss)						**390**			**(1)**
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of $111								**187**	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $56								**94**	
Foreign currency translation adjustments, net of income taxes of $4								**7**	
Net pension and postretirement benefit costs, net of income taxes of $5								**3**	
Deferred compensation					**(4)**				
Cash dividends declared on common shares ($.16 per share)						**(135)**			
Cash dividends declared on Noncumulative Series A Preferred Stock ($3.875 per share)						**(11)**			
Common shares reissued (returned) for stock options and other employee benefit plans		**6,952**			**(83)**		**119**		
Net contribution from (distribution to) noncontrolling interests									**(7)**
BALANCE AT JUNE 30, 2016	**2,900**	**842,703**	**$ 290**	**$ 1,017**	**$ 3,835**	**$ 9,166**	**$ (2,881)**	**$ (114)**	**$ 5**

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Cash Flows (Unaudited)

in millions	Six months ended June 30, 2016	2015
OPERATING ACTIVITIES		
Net income (loss)	**$ 389**	$ 474
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for credit losses	**141**	76
Depreciation, amortization and accretion expense, net	**124**	116
Increase in cash surrender value of corporate-owned life insurance	**(49)**	(50)
Stock-based compensation expense	**36**	33
FDIC reimbursement (payments), net of FDIC expense		(1)
Deferred income taxes (benefit)	**27**	(27)
Proceeds from sales of loans held for sale	**2,940**	3,726
Originations of loans held for sale, net of repayments	**(2,691)**	(3,756)
Net losses (gains) on sales of loans held for sale	**(31)**	(55)
Net losses (gains) from principal investing	**(11)**	(40)
Net losses (gains) and writedown on OREO	**2**	2
Net losses (gains) on leased equipment	**1**	(9)
Net securities losses (gains)		1
Net losses (gains) on sales of fixed assets	**3**	2
Net decrease (increase) in trading account assets	**(177)**	76
Other operating activities, net	**20**	(509)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**724**	59
INVESTING ACTIVITIES		
Net decrease (increase) in short-term investments, excluding acquisitions	**(3,892)**	1,047
Purchases of securities available for sale	**(1,614)**	(2,451)
Proceeds from sales of securities available for sale		11
Proceeds from prepayments and maturities of securities available for sale	**1,565**	1,547
Proceeds from prepayments and maturities of held-to-maturity securities	**586**	566
Purchases of held-to-maturity securities	**(523)**	(575)
Purchases of other investments	**(24)**	(20)
Proceeds from sales of other investments	**77**	77
Proceeds from prepayments and maturities of other investments	**1**	5
Net decrease (increase) in loans, excluding acquisitions, sales and transfers	**(2,429)**	(1,128)
Proceeds from sales of portfolio loans	**72**	67
Proceeds from corporate-owned life insurance	**22**	26
Purchases of premises, equipment, and software	**(30)**	(17)
Proceeds from sales of OREO	**7**	10
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**(6,182)**	(835)
FINANCING ACTIVITIES		
Net increase (decrease) in deposits, excluding acquisitions	**4,279**	(1,329)
Net increase (decrease) in short-term borrowings	**142**	(26)

Net proceeds from issuance of long-term debt		**1,578**		2,750
Payments on long-term debt		**(509)**		(141)
Repurchase of common shares				(325)
Net proceeds from reissuance of common shares		**3**		17
Cash dividends paid		**(146)**		(130)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		**5,347**		816
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS		**(111)**		40
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD		**607**		653
CASH AND DUE FROM BANKS AT END OF PERIOD	**$**	**496**	$	693
Additional disclosures relative to cash flows:				
Interest paid	**$**	**190**	$	149
Income taxes paid (refunded)		**59**		90
Noncash items:				
Reduction of secured borrowing and related collateral	**$**	**33**	$	103
Loans transferred to portfolio from held for sale		**6**		
Loans transferred to held for sale from portfolio		**28**		16
Loans transferred to OREO		**10**		12

See Notes to Consolidated Financial Statements (Unaudited).

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Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation and Accounting Policies

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

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

References to our 2015 Form 10-K refer to our Form 10-K for the year ended December 31, 2015, which was filed with the U.S. Securities and Exchange Commission and is available on its website (www.sec.gov) and on our website (www.key.com/ir).

AICPA: American Institute of Certified Public Accountants.
ALCO: Asset/Liability Management Committee.
ALLL: Allowance for loan and lease losses.
A/LM: Asset/liability management.
AOCI: Accumulated other comprehensive income (loss).
APBO: Accumulated postretirement benefit obligation.
Austin: Austin Capital Management, Ltd.
BHCs: Bank holding companies.
Board: KeyCorp Board of Directors.
CCAR: Comprehensive Capital Analysis and Review.
CMBS: Commercial mortgage-backed securities.
CMO: Collateralized mortgage obligation.
Common shares: KeyCorp common shares, $1 par value.
DIF: Deposit Insurance Fund of the FDIC.
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
EBITDA: Earnings before interest, taxes, depreciation, and amortization.
EPS: Earnings per share.
ERISA: Employee Retirement Income Security Act of 1974.
ERM: Enterprise risk management.
EVE: Economic value of equity.
FASB: Financial Accounting Standards Board.

FDIC: Federal Deposit Insurance Corporation.
Federal Reserve: Board of Governors of the Federal Reserve
System.

KCDC: Key Community Development Corporation.
KEF: Key Equipment Finance.
KPP: Key Principal Partners.
KREEC: Key Real Estate Equity Capital, Inc.
LCR: Liquidity coverage ratio.
LIBOR: London Interbank Offered Rate.
LIHTC: Low-income housing tax credit.
Moody s: Moody s Investor Services, Inc.
MRM: Market Risk Management group.
N/A: Not applicable.
NASDAQ: The NASDAQ Stock Market LLC.
NAV: Net asset value.
N/M: Not meaningful.
NOW: Negotiable Order of Withdrawal.
NPR: Notice of proposed rulemaking.
NYSE: New York Stock Exchange.
OCC: Office of the Comptroller of the Currency.
OCI: Other comprehensive income (loss).
OREO: Other real estate owned.

OTTI: Other-than-temporary impairment.
PBO: Projected benefit obligation.
PCI: Purchased credit impaired.
S&P: Standard and Poor s Ratings Services, a Division of The
McGraw-Hill Companies, Inc.

SEC: U.S. Securities and Exchange Commission.
Series A Preferred Stock: KeyCorp s 7.750% Noncumulative

FHLB: Federal Home Loan Bank of Cincinnati.
FHLMC: Federal Home Loan Mortgage Corporation.

First Niagara: First Niagara Financial Group, Inc.

(NASDAQ: FNFG).

FNMA: Federal National Mortgage Association, or Fannie Mae.
FSOC: Financial Stability Oversight Council.
GAAP: U.S. generally accepted accounting principles.
GNMA: Government National Mortgage Association.

ISDA: International Swaps and Derivatives Association.
KAHC: Key Affordable Housing Corporation.
KCC: Key Capital Corporation.

Perpetual Convertible Preferred Stock, Series A.
SIFIs: Systemically important financial institutions, including
BHCs with total consolidated assets of at least $50 billion
and nonbank financial companies designated by FSOC for

supervision by the Federal Reserve.
TDR: Troubled debt restructuring.
TE: Taxable-equivalent.
U.S. Treasury: United States Department of the Treasury.
VaR: Value at risk.
VEBA: Voluntary Employee Beneficiary Association.
VIE: Variable interest entity.

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

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

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

We believe that the unaudited consolidated interim financial statements reflect all adjustments of a normal recurring nature and disclosures that are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full year. The interim financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our 2015 Form 10-K.

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

Offsetting Derivative Positions

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

Accounting Guidance Adopted in 2016

Business combinations. In September 2015, the FASB issued new accounting guidance that obligates an acquirer in a business combination to recognize adjustments to provisional amounts in the reporting period that the amounts were determined, eliminating the requirement for retrospective adjustments. The acquirer should record in the current period any income effects that resulted from the change in provisional amounts, calculated as if the accounting were completed at the acquisition date. This accounting guidance was effective prospectively for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us). Early adoption was permitted. The adoption of this accounting guidance did not affect our financial condition or results of operations.

Fair value measurement. In May 2015, the FASB issued new disclosure guidance that eliminates the requirement to categorize investments measured using the net asset value practical expedient in the fair value hierarchy table. Entities are required to disclose the fair value of investments measured using the net asset value practical expedient so that financial statement users can reconcile amounts reported in the fair value hierarchy table to amounts reported on the balance sheet. This disclosure guidance was effective for interim and annual reporting periods beginning after December 15, 2015 (March 31, 2016, for us) on a retrospective basis. Early adoption was permitted. The adoption of this disclosure guidance did not affect our financial condition or results of operations. We provide the disclosure related to this new guidance in Note 5 (Fair Value Measurements).

Cloud computing fees. In April 2015, the FASB issued new accounting guidance that clarifies a customer s accounting for fees paid in a cloud computing arrangement. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a

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service contract. This accounting guidance was effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and could be implemented using either a prospective method or a retrospective method. Early adoption was permitted. We elected to implement this new accounting guidance using a prospective approach. The adoption of this accounting guidance did not affect our financial condition or results of operations.

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

Consolidation. In February 2015, the FASB issued new accounting guidance that changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The new guidance amends the current accounting guidance to address limited partnerships and similar legal entities, certain investment funds, fees paid to a decision maker or service provider, and the impact of fee arrangements and related parties on the primary beneficiary determination. This accounting guidance was effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and was implemented using a modified retrospective basis. Retrospective application to all relevant prior periods and early adoption was permitted. The adoption of this accounting guidance did not affect our financial condition or results of operations. Our Principal Investing unit and the Real Estate Capital line of business have equity and mezzanine investments, which were subjected to the new guidance. We determined these investments are VIEs. We provide disclosures related to our variable interest entities as required by the new guidance in Note 9 (Variable Interest Entities).

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

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

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

Accounting Guidance Pending Adoption at June 30, 2016

Financial instruments. In June 2016, the FASB issued new accounting guidance that changes the methodology for recognizing credit losses related to financial instruments. Under current GAAP, a credit loss is not recognized until it is probable the loss has been incurred. The new accounting guidance eliminates that threshold and expands the information required for an entity to consider when developing an estimate of expected credit losses, including the use of forecasted information. Entities will be required to present financial assets measured on an amortized cost basis at the net amount that is expected to be collected. This new guidance will impact the accounting for our loans, debt securities available for sale, and liability for credit losses on unfunded lending-related commitments as well as purchased financial assets with a more than insignificant amount of credit deterioration since origination. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2019 (effective January 1, 2020, for us). Early adoption is permitted but only for interim and annual reporting periods beginning after December 15, 2018. This guidance must be implemented using a modified retrospective basis except a prospective approach must be used for debt securities for which an other-than-

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temporary impairment had been recognized before the effective date. A prospective transition approach also should be used for purchased financial assets with credit deterioration. We are currently evaluating the impact that this accounting guidance may have on our financial condition or results of operations.

Stock-based compensation. In March 2016, the FASB issued new accounting guidance that simplifies accounting for several aspects of share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and presentation on the statement of cash flows. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us). The method of transition is dependent on the particular amendment within the new guidance. Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

Equity method investments. In March 2016, the FASB issued new accounting guidance that simplifies the transition to equity method accounting by eliminating the requirement for an investor to make retroactive adjustments to the investment, results of operations, and retained earnings on a step-by-step basis when an investment becomes qualified for equity method accounting. Instead, when an investment qualifies for the equity method due to an increase in ownership or degree of influence, an equity method investor is required to add the cost of acquiring the additional interest to the current basis of the previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for the equity method. This accounting guidance will be effective prospectively for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us). Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

Derivatives and hedging. In March 2016, the FASB issued new accounting guidance that requires an entity to use a four-step decision model when assessing contingent call (put) options that can accelerate the payment of principal on debt instruments to determine whether they are clearly and closely related to their debt hosts. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us) and must be implemented using a modified retrospective basis. Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

Derivatives and hedging. In March 2016, the FASB issued new accounting guidance that clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, by itself, require dedesignation, but all other hedge accounting criteria must be met. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us) and can be implemented using either a prospective method or a modified retrospective method. Early adoption is permitted. We have elected to implement this new accounting guidance using a prospective method. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

Extinguishment of liabilities. In March 2016, the FASB issued new accounting guidance that clarifies that liabilities related to the sale of prepaid stored-value products are financial liabilities, and breakage should be accounted for under the breakage guidance in the new revenue recognition accounting guidance. It also provides clarity on how prepaid product liabilities should be derecognized. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018, for us) and can be implemented using either a modified retrospective approach or retrospective approach. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

Leases. In February 2016, the FASB issued new accounting guidance that requires a lessee to recognize a liability to make lease payments and a right of use asset representing its right to use an underlying asset during the lease term for both finance and operating leases. The definition of a lease was modified to exemplify the concept of control over an asset identified in the lease. Lease classification criteria remains substantially similar to criteria in current lease guidance. The guidance defines which payments can be used in determining lease classification. For short-term leases with a term of 12 months or less, lessees can make a policy election not to recognize lease assets and lease liabilities. Lessor accounting is largely unchanged. Leveraged leases that commenced before the effective date of the new guidance are grandfathered. New disclosures are required, and certain practical expedients are allowed upon adoption. This accounting and disclosure guidance will be effective for interim and annual reporting periods beginning after December 15, 2018 (effective January 1, 2019, for us) and should be implemented using the modified retrospective approach. Early adoption is permitted. We are currently evaluating the impact that this accounting guidance may have on our financial condition or results of operations.

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Financial instruments. In January 2016, the FASB issued new accounting guidance that requires equity investments, except those accounted for under the equity method of accounting or consolidated, to be measured at fair value with changes recognized in net income. If there is no readily determinable fair value, the guidance allows entities the ability to measure investments at cost less impairment, whereby impairment is based on a qualitative assessment. The guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost and changes the presentation of financial assets and financial liabilities on the balance sheet or in the footnotes. If an entity has elected the fair value option to measure liabilities, the new accounting guidance requires the portion of the change in the fair value of a liability resulting from credit risk to be presented in OCI. We have not elected to measure any of our liabilities at fair value, and therefore, this aspect of the guidance is not applicable to us. This accounting and disclosure guidance will be effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018, for us). For the guidance applicable to us, the accounting will be implemented on a prospective basis, whereby early adoption is not permitted. We are currently evaluating the impact that this accounting guidance may have on our financial condition or results of operations.

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

Revenue recognition. In May 2014, the FASB issued new accounting guidance that revises the criteria for determining when to recognize revenue from contracts with customers and expands disclosure requirements. This accounting guidance can be implemented using either a retrospective method or a cumulative-effect approach. In August 2015, the FASB issued an update that defers the effective date of the revenue recognition guidance by one year. This new guidance will be effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018, for us). Early adoption is permitted but only for interim and annual reporting periods beginning after December 15, 2016. We have elected to implement this new accounting guidance using a cumulative-effect approach. Our preliminary analysis suggests that the adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations. There are many aspects of this new accounting guidance that are still being interpreted, and the FASB has recently issued updates to certain aspects of the guidance to address implementation issues. For example, the FASB issued accounting guidance in March 2016 to clarify principal versus agent considerations and additional guidance in April 2016 to clarify the identification of performance obligations and the licensing implementation guidance. In May 2016, the FASB issued narrow-scope improvements related to collectability, sales tax and noncash consideration, and practical expedients for contract modifications and completed contracts. The results of our materiality analysis may change based on the conclusions reached as to the application of the new guidance.

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2. Earnings Per Common Share

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

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

	Three months ended June 30,		**Six months ended June 30,**	
dollars in millions, except per share amounts	**2016**	**2015**	**2016**	**2015**
EARNINGS				
Income (loss) from continuing operations	**$ 198**	$ 236	**$ 385**	$ 466
Less: Net income (loss) attributable to noncontrolling interests	**(1)**	1	**(1)**	3
Income (loss) from continuing operations attributable to Key	**199**	235	**386**	463
Less: Dividends on Series A Preferred Stock	**6**	5	**11**	11
Income (loss) from continuing operations attributable to Key common shareholders	**193**	230	**375**	452
Income (loss) from discontinued operations, net of taxes (a)	**3**	3	**4**	8
Net income (loss) attributable to Key common shareholders	**$ 196**	$ 233	**$ 379**	$ 460
WEIGHTED-AVERAGE COMMON SHARES				
Weighted-average common shares outstanding (000)	**831,899**	839,454	**829,640**	843,992
Effect of convertible preferred stock				
Effect of common share options and other stock awards	**6,597**	6,858	**7,138**	7,695
Weighted-average common shares and potential common shares outstanding (000) (b)	**838,496**	846,312	**836,778**	851,687
EARNINGS PER COMMON SHARE				
Income (loss) from continuing operations attributable to Key common shareholders	**$ .23**	$ .27	**$ .45**	$ .53
				.01

Income (loss) from discontinued operations, net of taxes (a)								
Net income (loss) attributable to Key common shareholders (c)		**.23**		.28		**.45**		.54
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**$**	**.23**	$	.27	**$**	**.44**	$	.52
Income (loss) from discontinued operations, net of taxes (a)								.01
Net income (loss) attributable to Key common shareholders assuming dilution (c)		**.23**		.27		**.45**		.53

(a) In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. As a result of this decision, we have accounted for this business as a discontinued operation. For further discussion regarding the income (loss) from discontinued operations, see Note 11 (Acquisitions and Discontinued Operations).

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

(c) EPS may not foot due to rounding.

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3. Loans and Loans Held for Sale

Our loans by category are summarized as follows:

in millions	**June 30, 2016**	December 31, 2015	June 30, 2015
Commercial, financial and agricultural [(a)]	**$ 33,376**	$ 31,240	$ 29,285
Commercial real estate:			
Commercial mortgage	**8,582**	7,959	7,874
Construction	**881**	1,053	1,254
Total commercial real estate loans	**9,463**	9,012	9,128
Commercial lease financing [(b)]	**3,988**	4,020	4,010
Total commercial loans	**46,827**	44,272	42,423
Residential prime loans:			
Real estate residential mortgage	**2,285**	2,242	2,252
Home equity loans	**10,062**	10,335	10,532
Total residential prime loans	**12,347**	12,577	12,784
Consumer direct loans	**1,584**	1,600	1,595
Credit cards	**813**	806	753
Consumer indirect loans	**527**	621	709
Total consumer loans	**15,271**	15,604	15,841
Total loans [(c) (d)]	**$ 62,098**	$ 59,876	$ 58,264

(a) Loan balances include $88 million, $85 million, and $89 million of commercial credit card balances at June 30, 2016, December 31, 2015, and June 30, 2015, respectively.

(b) Commercial lease financing includes receivables held as collateral for a secured borrowing of $102 million, $134 million, and $191 million at June 30, 2016, December 31, 2015, and June 30, 2015, respectively. Principal reductions are based on the cash payments received from these related receivables. Additional information pertaining to this secured borrowing is included in Note 18 (Long-Term Debt) beginning on page 208 of our 2015 Form 10-K.

(c) At June 30, 2016, total loans include purchased loans of $104 million, of which $11 million were PCI loans. At December 31, 2015, total loans include purchased loans of $114 million, of which $11 million were PCI loans. At June 30, 2015, total loans include purchased loans of $125 million, of which $12 million were PCI loans.

(d) Total loans exclude loans of $1.7 billion at June 30, 2016, $1.8 billion at December 31, 2015, and $2 billion at June 30, 2015, related to the discontinued operations of the education lending business. Additional information pertaining to these loans is provided in Note 11 (Acquisitions and Discontinued Operations).

Our loans held for sale are summarized as follows:

in millions	**June 30, 2016**	December 31, 2015	June 30, 2015
Commercial, financial and agricultural	**$ 150**	$ 76	$ 217
Real estate commercial mortgage	**270**	532	576
Commercial lease financing	**3**	14	7
Real estate residential mortgage	**19**	17	35
Total loans held for sale	**$ 442**	$ 639	$ 835

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

in millions	**June 30, 2016**	December 31, 2015	June 30, 2015
Balance at beginning of the period	**$ 684**	$ 916	$ 1,649
New originations	**1,539**	1,655	1,650
Transfers from (to) held to maturity, net	**22**	22	6
Loan sales	**(1,802)**	(1,943)	(2,466)
Loan draws (payments), net	**(1)**	(11)	(4)
Balance at end of period	**$ 442**	$ 639	$ 835

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4. Asset Quality

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

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

Our nonperforming assets and past due loans were as follows:

in millions	**June 30, 2016**	December 31, 2015	June 30, 2015
Total nonperforming loans [(a), (b)]	**$ 619**	$ 387	$ 419
OREO [(c)]	**15**	14	20
Other nonperforming assets	**3**	2	1
Total nonperforming assets[(a)]	**$ 637**	$ 403	$ 440
Nonperforming assets from discontinued operations education lending[(d)]	**$ 5**	$ 7	$ 6
Restructured loans included in nonperforming loans[(a)]	**$ 133**	$ 159	$ 170
Restructured loans with an allocated specific allowance [(e)]	**54**	69	79
Specifically allocated allowance for restructured loans [(f)]	**34**	30	36
Accruing loans past due 90 days or more	**$ 70**	$ 72	$ 66
Accruing loans past due 30 through 89 days	**203**	208	181

(a) Nonperforming loan balances exclude $11 million, $11 million, and $12 million of PCI loans at June 30, 2016, December 31, 2015, and June 30, 2015, respectively.
(b) Includes carrying value of consumer residential mortgage loans in the process of foreclosure of approximately $111 million, $114 million, and $116 million at June 30, 2016, December 31, 2015, and June 30, 2015, respectively.
(c) Includes carrying value of foreclosed residential real estate of approximately $12 million, $11 million, and $15 million at June 30, 2016, December 31, 2015, and June 30, 2015, respectively.
(d) Restructured loans of approximately $22 million, $21 million, and $19 million are included in discontinued operations at June 30, 2016, December 31, 2015, and June 30, 2015, respectively. See Note 11 (Acquisitions and Discontinued Operations) for further discussion.
(e) Included in individually impaired loans allocated a specific allowance.
(f) Included in allowance for individually evaluated impaired loans.

We evaluate purchased loans for impairment in accordance with the applicable accounting guidance. Purchased loans that have evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that all contractually required payments will not be collected are deemed PCI and initially recorded at fair value without recording an allowance for loan losses. All PCI loans were acquired in 2012. At the 2012 acquisition date, the estimated gross contractual amount receivable of all PCI loans totaled $41 million. The estimated cash flows not expected to be collected (the nonaccretable amount) were $11 million, and the accretable amount was approximately $5 million. The difference between the fair value and the cash flows expected to be collected from the purchased loans is accreted to interest income over the remaining term of the loans.

At June 30, 2016, the outstanding unpaid principal balance and carrying value of all PCI loans was $16 million and $11 million, respectively, compared to $17 million and $11 million, respectively, at December 31, 2015, and $18 million and $12 million, respectively, at June 30, 2015. Changes in the accretable yield during the first six months of 2016 included accretion and net reclassifications of less than $1 million, resulting in an ending balance of $5 million at June 30, 2016. Changes in the accretable yield during 2015 included accretion and net reclassifications of less than $1 million, resulting in an ending balance of $5 million at December 31, 2015, which was primarily unchanged from the ending balance at December 31, 2014, given that accretion and net reclassifications were less than $1 million during 2015. Changes in the accretable yield during the first six months of 2015 included accretion and net reclassifications of less than $1 million, resulting in an ending balance of $5 million at June 30, 2015.

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At June 30, 2016, the approximate carrying amount of our commercial nonperforming loans outstanding represented 83% of their original contractual amount owed, total nonperforming loans outstanding represented 83% of their original contractual amount owed, and nonperforming assets in total were carried at 83% of their original contractual amount owed.

At June 30, 2016, our 20 largest nonperforming loans totaled $331 million, representing 54% of total loans on nonperforming status. At June 30, 2015, our 20 largest nonperforming loans totaled $120 million, representing 29% of total loans on nonperforming status.

Nonperforming loans and loans held for sale reduced expected interest income by $12 million for the six months ended June 30, 2016, and $8 million for the six months ended June 30, 2015.

The following tables set forth a further breakdown of individually impaired loans as of June 30, 2016, December 31, 2015, and June 30, 2015:

June 30, 2016 *in millions*	**Recorded Investment** [(a)]	**Unpaid Principal Balance** [(b)]	**Specific Allowance**	**Average Recorded Investment**
With no related allowance recorded:				
Commercial, financial and agricultural	$ 293	$ 328		$ 276
Commercial real estate:				
Commercial mortgage	5	7		5
Construction	21	29		15
Total commercial real estate loans	26	36		20
Total commercial loans	319	364		296
Real estate residential mortgage	22	22		23
Home equity loans	65	65		66
Consumer indirect loans	1	1		1
Total consumer loans	88	88		90
Total loans with no related allowance recorded	407	452		386
With an allowance recorded:				
Commercial, financial and agricultural	29	30	$ 16	65
Commercial real estate:				
Commercial mortgage				2
Total commercial real estate loans				2
Total commercial loans	29	30	16	67
Real estate residential mortgage	31	31	3	32

Home equity loans	66	66	20	65
Consumer direct loans	3	3		3
Credit cards	3	3		3
Consumer indirect loans	32	32	2	33
Total consumer loans	135	135	25	136
Total loans with an allowance recorded	164	165	41	203
Total	$ 571	$ 617	$ 41	$ 589

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

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

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December 31, 2015 *in millions*	**Recorded Investment** [(a)]	**Unpaid Principal Balance** [(b)]	**Specific Allowance**	**Average Recorded Investment**
With no related allowance recorded:				
Commercial, financial and agricultural	$ 40	$ 74		$ 23
Commercial real estate:				
Commercial mortgage	5	8		10
Construction	5	5		5
Total commercial real estate loans	10	13		15
Total commercial loans	50	87		38
Real estate residential mortgage	23	23		24
Home equity loans	61	61		62
Consumer indirect loans	1	1		1
Total consumer loans	85	85		87
Total loans with no related allowance recorded	135	172		125
With an allowance recorded:				
Commercial, financial and agricultural	28	43	$ 7	33
Commercial real estate:				
Commercial mortgage	5	6	1	6
Construction				1
Total commercial real estate loans	5	6	1	7
Total commercial loans	33	49	8	40
Real estate residential mortgage	33	33	4	32
Home equity loans	64	64	20	60
Consumer direct loans	3	3		4
Credit cards	3	3		4
Consumer indirect loans	37	37	3	40
Total consumer loans	140	140	27	140
Total loans with an allowance recorded	173	189	35	180
Total	$ 308	$ 361	$ 35	$ 305

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

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

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June 30, 2015 *in millions*	Recorded Investment (a)	Unpaid Principal Balance (b)	Specific Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial, financial and agricultural	$ 9	$ 56		$ 15
Commercial real estate:				
Commercial mortgage	10	14		12
Construction	7	7		7
Total commercial real estate loans	17	21		19
Total commercial loans	26	77		34
Real estate residential mortgage	22	22		22
Home equity loans	62	62		63
Consumer indirect loans	1	1		1
Total consumer loans	85	85		86
Total loans with no related allowance recorded	111	162		120
With an allowance recorded:				
Commercial, financial and agricultural	73	86	$ 24	67
Commercial real estate:				
Commercial mortgage	6	7	1	6
Total commercial real estate loans	6	7	1	6
Total commercial loans	79	93	25	73
Real estate residential mortgage	33	33	5	33
Home equity loans	63	63	19	62
Consumer direct loans	3	3		3
Credit cards	3	3		3
Consumer indirect loans	42	42	3	42
Total consumer loans	144	144	27	143
Total loans with an allowance recorded	223	237	52	216
Total	$ 334	$ 399	$ 52	$ 336

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

For the six months ended June 30, 2016, and June 30, 2015, interest income recognized on the outstanding balances of accruing impaired loans totaled $6 million and $3 million, respectively.

At June 30, 2016, aggregate restructured loans (accrual and nonaccrual loans) totaled $277 million, compared to $280 million at December 31, 2015, and $300 million at June 30, 2015. During the first six months of 2016, we added $49 million in restructured loans, which were offset by $52 million in payments and charge-offs. During 2015, we added $99 million in restructured loans, which were partially offset by $89 million in payments and charge-offs. During the first six months of 2015, we added $73 million in restructured loans, which were partially offset by $43 million in payments and charge-offs.

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A further breakdown of TDRs included in nonperforming loans by loan category as of June 30, 2016, follows:

June 30, 2016 *dollars in millions*	**Number of Loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	14	$ 50	$ 32
Commercial real estate:			
Real estate commercial mortgage	8	2	1
Total commercial real estate loans	8	2	1
Total commercial loans	22	52	33
Real estate residential mortgage	307	19	19
Home equity loans	1,332	86	76
Consumer direct loans	28	1	1
Credit cards	267	1	1
Consumer indirect loans	81	4	3
Total consumer loans	2,015	111	100
Total nonperforming TDRs	2,037	163	133
Prior-year accruing: [(a)]			
Commercial, financial and agricultural	6	30	20
Total commercial loans	6	30	20
Real estate residential mortgage	536	35	35
Home equity loans	1,116	64	54
Consumer direct loans	39	2	2
Credit cards	478	3	2
Consumer indirect loans	415	59	31
Total consumer loans	2,584	163	124
Total prior-year accruing TDRs	2,590	193	144
Total TDRs	4,627	$ 356	$ 277

(a) All TDRs that were restructured prior to January 1, 2016, and are fully accruing.

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A further breakdown of TDRs included in nonperforming loans by loan category as of December 31, 2015, follows:

December 31, 2015 *dollars in millions*	**Number of Loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	12	$ 56	$ 45
Commercial real estate:			
Real estate commercial mortgage	12	30	7
Total commercial real estate loans	12	30	7
Total commercial loans	24	86	52
Real estate residential mortgage	366	23	23
Home equity loans	1,262	85	76
Consumer direct loans	28	1	1
Credit cards	339	2	2
Consumer indirect loans	103	6	5
Total consumer loans	2,098	117	107
Total nonperforming TDRs	2,122	203	159
Prior-year accruing: [(a)]			
Commercial, financial and agricultural	7	5	2
Commercial real estate:			
Real estate commercial mortgage			
Total commercial real estate loans			
Total commercial loans	7	5	2
Real estate residential mortgage	489	34	34
Home equity loans	1,071	57	49
Consumer direct loans	42	2	2
Credit cards	461	4	2
Consumer indirect loans	430	59	32
Total consumer loans	2,493	156	119
Total prior-year accruing TDRs	2,500	161	121
Total TDRs	4,622	$ 364	$ 280

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

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

June 30, 2015 *dollars in millions*	**Number of Loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	12	$ 74	$ 58
Commercial real estate:			
Real estate commercial mortgage	12	32	8
Total commercial real estate loans	12	32	8
Total commercial loans	24	106	66
Real estate residential mortgage	352	21	21
Home equity loans	1,193	80	73
Consumer direct loans	28	1	1
Credit cards	289	2	2
Consumer indirect loans	125	9	7
Total consumer loans	1,987	113	104
Total nonperforming TDRs	2,011	219	170
Prior-year accruing: [(a)]			
Commercial, financial and agricultural	14	6	3
Commercial real estate:			
Real estate commercial mortgage	1	2	1
Total commercial real estate loans	1	2	1
Total commercial loans	15	8	4
Real estate residential mortgage	491	36	36
Home equity loans	1,138	58	50
Consumer direct loans	48	2	2
Credit cards	489	3	2
Consumer indirect loans	492	62	36
Total consumer loans	2,658	161	126
Total prior-year accruing TDRs	2,673	169	130
Total TDRs	4,684	$ 388	$ 300

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

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

Commercial loan TDRs are considered defaulted when principal and interest payments are 90 days past due. Consumer loan TDRs are considered defaulted when principal and interest payments are more than 60 days past due. During the three months ended June 30, 2016, there were no commercial loan TDRs and 41 consumer loan TDRs with a combined recorded investment of $2 million that experienced payment defaults after modifications resulting in TDR status during 2015. During the three months ended June 30, 2015, there were no significant commercial loan TDRs and 65 consumer loan TDRs with a combined recorded investment of $3 million that experienced payment defaults from modifications resulting in TDR status during 2014. As TDRs are individually evaluated for impairment under the specific reserve methodology, subsequent defaults do not generally have a significant additional impact on the ALLL.

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

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

in millions	June 30, 2016	December 31, 2015	June 30, 2015
Commercial loans:			
Interest rate reduction	**$ 52**	$ 51	$ 60
Forgiveness of principal		2	2
Other	**1**	1	8
Total	**$ 53**	$ 54	$ 70
Consumer loans:			
Interest rate reduction	**$ 128**	$ 132	$ 142
Forgiveness of principal	**3**	8	4
Other	**93**	86	84
Total	**$ 224**	$ 226	$ 230
Total commercial and consumer TDRs [(a)]	**$ 277**	$ 280	$ 300
Total loans	**62,098**	59,876	58,264

(a) Commitments outstanding to lend additional funds to borrowers whose loan terms have been modified in TDRs are $7 million, $9 million, and $8 million at June 30, 2016, December 31, 2015, and June 30, 2015, respectively.

Our policies for determining past due loans, placing loans on nonaccrual, applying payments on nonaccrual loans, and resuming accrual of interest for our commercial and consumer loan portfolios are disclosed in Note 1 (Summary of Significant Accounting Policies) under the heading Nonperforming Loans beginning on page 121 of our 2015 Form 10-K.

At June 30, 2016, approximately $61.2 billion, or 98.5%, of our total loans were current, compared to approximately $59.2 billion, or 98.9% of total loans, at December 31, 2015, and approximately $57.6 billion, or 98.8% of total loans, at June 30, 2015. At June 30, 2016, total past due loans and nonperforming loans of $892 million represented approximately 1.4% of total loans, compared to $667 million, or 1.1% of total loans, at December 31, 2015, and $666 million, or 1.2% of total loans, at June 30, 2015.

The following aging analysis of past due and current loans as of June 30, 2016, December 31, 2015, and June 30, 2015, provides further information regarding Key s credit exposure.

June 30, 2016 *in millions*	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 and Greater Days Past**	**Nonperforming Loans**	**Total Past Due and**	**Purchased Credit Impaired**	**Total Loans**

				Due		Nonperforming Loans		
LOAN TYPE								
Commercial, financial and agricultural	$ 32,975	$ 46	$ 10	$ 24	$ 321	$ 401		$ 33,376
Commercial real estate:								
Commercial mortgage	8,556	4	1	7	14	26		8,582
Construction	854			2	25	27		881
Total commercial real estate loans	9,410	4	1	9	39	53		9,463
Commercial lease financing	3,939	22	6	11	10	49		3,988
Total commercial loans	$ 46,324	$ 72	$ 17	$ 44	$ 370	$ 503		$ 46,827
Real estate residential mortgage	$ 2,208	$ 9	$ 3	$ 1	$ 54	$ 67	$ 10	$ 2,285
Home equity loans	9,799	36	25	12	189	262	1	10,062
Consumer direct loans	1,557	18	3	5	1	27		1,584
Credit cards	796	5	3	7	2	17		813
Consumer indirect loans	511	9	3	1	3	16		527
Total consumer loans	$ 14,871	$ 77	$ 37	$ 26	$ 249	$ 389	$ 11	$ 15,271
Total loans	$ 61,195	$ 149	$ 54	$ 70	$ 619	$ 892	$ 11	$ 62,098

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December 31, 2015 *in millions*	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 and Greater Days Past Due**	**Nonperforming Loans**	**Total Past Due and Nonperforming Loans**	**Purchased Credit Impaired**	**Total Loans**
LOAN TYPE								
Commercial, financial and agricultural	$ 31,116	$ 11	$ 11	$ 20	$ 82	$ 124		$ 31,240
Commercial real estate:								
Commercial mortgage	7,917	8	5	10	19	42		7,959
Construction	1,042	1	1		9	11		1,053
Total commercial real estate loans	8,959	9	6	10	28	53		9,012
Commercial lease financing	3,952	33	11	11	13	68		4,020
Total commercial loans	$ 44,027	$ 53	$ 28	$ 41	$ 123	$ 245		$ 44,272
Real estate residential mortgage	$ 2,149	$ 14	$ 3	$ 2	$ 64	$ 83	$ 10	$ 2,242
Home equity loans	10,056	50	24	14	190	278	1	10,335
Consumer direct loans	1,580	10	3	5	2	20		1,600
Credit cards	785	6	4	9	2	21		806
Consumer indirect loans	601	9	4	1	6	20		621
Total consumer loans	$ 15,171	$ 89	$ 38	$ 31	$ 264	$ 422	$ 11	$ 15,604
Total loans	$ 59,198	$ 142	$ 66	$ 72	$ 387	$ 667	$ 11	$ 59,876

June 30, 2015 *in millions*	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 and Greater Days Past Due**	**Nonperforming Loans**	**Total Past Due and Nonperforming Loans**	**Purchased Credit Impaired**	**Total Loans**
LOAN TYPE								
Commercial, financial and agricultural	$ 29,137	$ 26	$ 5	$ 17	$ 100	$ 148		$ 29,285
Commercial real estate:								
Commercial mortgage	7,823	6	2	17	26	51		7,874
Construction	1,242				12	12		1,254
Total commercial real estate loans	9,065	6	2	17	38	63		9,128
Commercial lease financing	3,967	20	3	2	18	43		4,010
Total commercial loans	$ 42,169	$ 52	$ 10	$ 36	$ 156	$ 254		$ 42,423

Real estate residential mortgage	$ 2,155	$ 13	$ 3	$ 3	$ 67	$ 86	$ 11	$ 2,252
Home equity loans	10,264	47	24	12	184	267	1	10,532
Consumer direct loans	1,577	8	3	6	1	18		1,595
Credit cards	735	5	3	8	2	18		753
Consumer indirect loans	686	10	3	1	9	23		709
Total consumer loans	$ 15,417	$ 83	$ 36	$ 30	$ 263	$ 412	$ 12	$ 15,841
Total loans	$ 57,586	$ 135	$ 46	$ 66	$ 419	$ 666	$ 12	$ 58,264

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

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

Credit quality indicators for our commercial and consumer loan portfolios, excluding $11 million, $11 million, and $12 million of PCI loans at June 30, 2016, December 31, 2015, and June 30, 2015, respectively, based on regulatory classification and payment activity as of June 30, 2016, December 31, 2015, and June 30, 2015, are as follows:

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Commercial Credit Exposure

Credit Risk Profile by Creditworthiness Category [(a)(b)]

in millions

	Commercial, financial and agricultural			RE Commercial			RE Construction		
RATING	**June 30, 2016**	**December 31, 2015**	**June 30, 2015**	**June 30, 2016**	**December 31, 2015**	**June 30, 2015**	**June 30, 2016**	**December 31, 2015**	**June 30, 2015**
Pass	**$ 31,700**	$ 29,921	$ 28,169	**$ 8,380**	$ 7,800	$ 7,603	**$ 831**	$ 1,007	$ 1,222
Criticized (Accruing)	**1,354**	1,236	1,015	**188**	139	245	**25**	37	20
Criticized (Nonaccruing)	**322**	83	101	**14**	20	26	**25**	9	12
Total	**$ 33,376**	$ 31,240	$ 29,285	**$ 8,582**	$ 7,959	$ 7,874	**$ 881**	$ 1,053	$ 1,254

	Commercial Lease			Total		
RATING	**June 30, 2016**	**December 31, 2015**	**June 30, 2015**	**June 30, 2016**	**December 31, 2015**	**June 30, 2015**
Pass	**$ 3,932**	$ 3,967	$ 3,944	**$ 44,843**	$ 42,695	$ 40,938
Criticized (Accruing)	**46**	38	48	**1,613**	1,450	1,328
Criticized (Nonaccruing)	**10**	15	18	**371**	127	157
Total	**$ 3,988**	$ 4,020	$ 4,010	**$ 46,827**	$ 44,272	$ 42,423

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

(b) The term criticized refers to those loans that are internally classified by Key as special mention or worse, which are asset quality categories defined by regulatory authorities. These assets have an elevated level of risk and may have a high probability of default or total loss. Pass rated refers to all loans not classified as criticized.

Consumer Credit Exposure

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

in millions

Residential Prime

December 31,

GRADE	June 30, 2016	2015	June 30, 2015
Pass	**$ 12,080**	$ 12,296	$ 12,506
Substandard	**256**	270	266
Total	**$ 12,336**	$ 12,566	$ 12,772

Credit Risk Profile Based on Payment Activity [a]

in millions

	Consumer direct loans			Credit cards			Consumer indirect loans		
	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30, 2015	June 30, 2016	December 31, 2015	June 30, 2015
Performing	**$ 1,583**	$ 1,598	$ 1,594	**$ 811**	$ 804	$ 751	**$ 524**	$ 615	$ 700
Nonperforming	**1**	2	1	**2**	2	2	**3**	6	9
Total	**$ 1,584**	$ 1,600	$ 1,595	**$ 813**	$ 806	$ 753	**$ 527**	$ 621	$ 709

	Total		
	June 30, 2016	December 31, 2015	June 30, 2015
Performing	**$ 2,918**	$ 3,017	$ 3,045
Nonperforming	**6**	10	12
Total	**$ 2,924**	$ 3,027	$ 3,057

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

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

We determine the appropriate level of the ALLL on at least a quarterly basis. The methodology is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses beginning on page 122 of our 2015 Form 10-K. We apply expected loss rates to existing loans with similar risk characteristics as noted in the credit quality indicator table above and exercise judgment to assess the impact of qualitative factors such as changes in economic conditions, changes in credit policies or underwriting standards, and changes in the level of credit risk associated with specific industries and markets.

For all commercial and consumer loan TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance of $2.5 million or greater, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. We estimate the extent of the individual impairment for commercial loans and TDRs by comparing the recorded investment of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan s observable market price. Secured consumer loan TDRs that are discharged through Chapter 7 bankruptcy and not formally re-affirmed are adjusted to reflect the fair value of the underlying collateral,

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less costs to sell. Non-Chapter 7 consumer loan TDRs are combined in homogenous pools and assigned a specific allocation based on the estimated present value of future cash flows using the loan s effective interest rate. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses. The ALLL at June 30, 2016, represents our best estimate of the probable credit losses inherent in the loan portfolio at that date.

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

At June 30, 2016, the ALLL was $854 million, or 1.38% of loans, compared to $796 million, or 1.37% of loans, at June 30, 2015. At June 30, 2016, the ALLL was 138% of nonperforming loans, compared to 190% at June 30, 2015.

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

	Three months ended June 30,		**Six months ended June 30,**	
in millions	**2016**	**2015**	**2016**	**2015**
Balance at beginning of period continuing operations	**$ 826**	$ 794	**$ 796**	$ 794
Charge-offs	**(64)**	(52)	**(124)**	(99)
Recoveries	**21**	16	**35**	35
Net loans and leases charged off	**(43)**	(36)	**(89)**	(64)
Provision for loan and lease losses from continuing operations	**71**	37	**147**	66
Foreign currency translation adjustment		1		
Balance at end of period continuing operations	**$ 854**	$ 796	**$ 854**	$ 796

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

in millions	**December 31, 2015**	**Provision**	**Charge-offs**	**Recoveries**	**June 30, 2016**
Commercial, financial and agricultural	$ 450	**$ 118**	**$ (61)**	**$ 6**	**$ 513**
Real estate commercial mortgage	134	**(4)**	**(3)**	**8**	**135**
Real estate construction	25	**(9)**		**1**	**17**
Commercial lease financing	47	**2**	**(6)**	**2**	**45**
Total commercial loans	656	**107**	**(70)**	**17**	**710**
Real estate residential mortgage	18	**1**	**(3)**	**2**	**18**
Home equity loans	57	**18**	**(17)**	**7**	**65**
Consumer direct loans	20	**8**	**(12)**	**3**	**19**

Credit cards	32	**12**	**(16)**	**2**	**30**
Consumer indirect loans	13	**1**	**(6)**	**4**	**12**
Total consumer loans	140	**40**	**(54)**	**18**	**144**
Total ALLL continuing operations	796	**147**[(a)]	**(124)**	**35**	**854**
Discontinued operations	28	**2**	**(15)**	**5**	**20**
Total ALLL including discontinued operations	$ 824	**$ 149**	**$ (139)**	**$ 40**	**$ 874**

(a) Excludes a credit for losses on lending-related commitments of $6 million.

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in millions	December 31, 2014	Provision	Charge-offs	Recoveries	June 30, 2015
Commercial, financial and agricultural	$ 391	$ 49	$ (33)	$ 11	$ 418
Real estate commercial mortgage	148	(4)	(2)	2	144
Real estate construction	28	3	(1)	1	31
Commercial lease financing	56	(5)	(3)	5	53
Total commercial loans	623	43	(39)	19	646
Real estate residential mortgage	23	(1)	(3)	1	20
Home equity loans	71	3	(18)	5	61
Consumer direct loans	22	7	(12)	4	21
Credit cards	33	13	(16)	1	31
Consumer indirect loans	22	1	(11)	5	17
Total consumer loans	171	23	(60)	16	150
Total ALLL continuing operations	794	66 (a)	(99)	35	796
Discontinued operations	29	1	(16)	8	22
Total ALLL including discontinued operations	$ 823	$ 67	$ (115)	$ 43	$ 818

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

Our ALLL from continuing operations increased by $58 million, or 7.3%, from the second quarter of 2015. Our allowance applies expected loss rates to our existing loans with similar risk characteristics as well as any adjustments to reflect our current assessment of qualitative factors, such as changes in economic conditions, underwriting standards, and concentrations of credit. Our commercial ALLL increased by $64 million, or 9.9%, from the second quarter of 2015 primarily because of loan growth and increased incurred loss estimates. The increase in these incurred loss estimates during 2015 and into 2016 was primarily due to the continued decline in oil and gas prices since 2014. Partially offsetting this increase was a decrease in our consumer ALLL of $6 million, or 4%, from the second quarter of 2015. Our consumer ALLL decrease was primarily due to continued improvement in credit metrics, such as delinquency, average credit bureau score, and loan to value, which have decreased expected loss rates since 2014. The continued improvement in the consumer portfolio credit quality metrics from the second quarter of 2015 was primarily due to continued improved credit quality and benefits of relatively stable economic conditions.

For continuing operations, the loans outstanding individually evaluated for impairment totaled $571 million, with a corresponding allowance of $41 million at June 30, 2016. Loans outstanding collectively evaluated for impairment totaled $61.5 billion, with a corresponding allowance of $812 million at June 30, 2016. At June 30, 2016, PCI loans evaluated for impairment totaled $11 million, with a corresponding allowance of $1 million. There was no provision for loan and lease losses on these PCI loans during the six months ended June 30, 2016. At June 30, 2015, the loans outstanding individually evaluated for impairment totaled $334 million, with a corresponding allowance of $52 million. Loans outstanding collectively evaluated for impairment totaled $57.9 billion, with a corresponding allowance of $743 million at June 30, 2015. At June 30, 2015, PCI loans evaluated for impairment totaled $12 million, with a corresponding allowance of $1 million. There was no provision for loan and lease losses on these PCI loans during the six months ended June 30, 2015.

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A breakdown of the individual and collective ALLL and the corresponding loan balances as of June 30, 2016, follows:

June 30, 2016 *in millions*	Allowance Individually Evaluated for Impairment	Allowance Collectively Evaluated for Impairment	Allowance Purchased Credit Impaired	Outstanding Loans	Outstanding Individually Evaluated for Impairment	Outstanding Collectively Evaluated for Impairment	Outstanding Purchased Credit Impaired
Commercial, financial and agricultural	$ 16	$ 497		$ 33,376	$ 322	$ 33,054	
Commercial real estate:							
Commercial mortgage		135		8,582	5	8,577	
Construction		17		881	21	860	
Total commercial real estate loans		152		9,463	26	9,437	
Commercial lease financing		45		3,988		3,988	
Total commercial loans	16	694		46,827	348	46,479	
Real estate residential mortgage	3	14	$ 1	2,285	53	2,222	$ 10
Home equity loans	20	45		10,062	131	9,930	1
Consumer direct loans		19		1,584	3	1,581	
Credit cards		30		813	3	810	
Consumer indirect loans	2	10		527	33	494	
Total consumer loans	25	118	1	15,271	223	15,037	11
Total ALLL continuing operations	41	812	1	62,098	571	61,516	11
Discontinued operations	2	18		1,692[(a)]	22	1,670[(a)]	
Total ALLL including discontinued operations	$ 43	$ 830	$ 1	$ 63,790	$ 593	$ 63,186	$ 11

(a) Amount includes $3 million of loans carried at fair value that are excluded from ALLL consideration.

A breakdown of the individual and collective ALLL and the corresponding loan balances as of December 31, 2015, follows:

December 31, 2015 *in millions*	Allowance Individually Evaluated for Impairment	Allowance Collectively Evaluated for Impairment	Allowance Purchased Credit Impaired	Outstanding Loans	Outstanding Individually Evaluated for Impairment	Outstanding Collectively Evaluated for Impairment	Outstanding Purchased Credit Impaired
Commercial, financial and agricultural	$ 7	$ 443		$ 31,240	$ 68	$ 31,172	
Commercial real estate:							
Commercial mortgage	1	133		7,959	10	7,949	
Construction		25		1,053	5	1,048	

Total commercial real estate loans	1	158		9,012	15	8,997	
Commercial lease financing		47		4,020		4,020	
Total commercial loans	8	648		44,272	83	44,189	
Real estate residential mortgage	4	13	$ 1	2,242	56	2,176	$ 10
Home equity loans	20	37		10,335	125	10,209	1
Consumer direct loans		20		1,600	3	1,597	
Credit cards		32		806	3	803	
Consumer indirect loans	3	10		621	38	583	
Total consumer loans	27	112	1	15,604	225	15,368	11
Total ALLL continuing operations	35	760	1	59,876	308	59,557	11
Discontinued operations	2	26		1,828[a]	21	1,807[a]	
Total ALLL including discontinued operations	$ 37	$ 786	$ 1	$ 61,704	$ 329	$ 61,364	$ 11

(a) Amount includes $4 million of loans carried at fair value that are excluded from ALLL consideration.

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

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

The liability for credit losses inherent in lending-related unfunded commitments, such as letters of credit and unfunded loan commitments, is included in accrued expense and other liabilities on the balance sheet. We establish the amount of this reserve by considering both historical trends and current market conditions quarterly, or more often if deemed necessary. Our liability for credit losses on lending-related commitments was $50 million at June 30, 2016. When combined with our ALLL, our total allowance for credit losses represented 1.46% of loans at June 30, 2016, compared to 1.44% at June 30, 2015.

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

	Three months ended June 30,		Six months ended June 30,	
in millions	**2016**	2015	**2016**	2015
Balance at beginning of period	**$ 69**	$ 41	**$ 56**	$ 35
Provision (credit) for losses on lending-related commitments	**(19)**	4	**(6)**	10

Balance at end of period	**$**	**50**	$	45	**$**	**50**	$	45

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5. Fair Value Measurements

Fair Value Determination

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

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

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

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

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

We recognize transfers between levels of the fair value hierarchy at the end of the reporting period. Quarterly, we review any changes to our valuation methodologies to ensure they are appropriate and justified, and refine our valuation methodologies if more market-based data becomes available. The Fair Value Committee, which is governed by ALCO, oversees the valuation process. Various Working Groups that report to the Fair Value Committee analyze and approve the underlying assumptions and valuation adjustments. Changes in valuation methodologies for Level 1 and Level 2 instruments are presented to the Accounting Policy group for approval. Changes in valuation methodologies for Level 3 instruments are presented to the Fair Value Committee for approval. The Working Groups are discussed in more detail in the qualitative disclosures within this note and in Note 11 (Acquisitions and

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

Additional information regarding our accounting policies for determining fair value is provided in Note 1 (Summary of Significant Accounting Policies) under the heading Fair Value Measurements beginning on page 124 of our 2015 Form 10-K.

Qualitative Disclosures of Valuation Techniques

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

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

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

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

Securities are classified as Level 3 when there is limited activity in the market for a particular instrument. To determine fair value in such cases, depending on the complexity of the valuations required, we use internal models based on certain assumptions or a third-party valuation service. At June 30, 2016, our Level 3 instruments consist of two convertible preferred securities. Our Strategy group is responsible for reviewing the valuation model and determining the fair value of these investments on a quarterly basis. The securities are valued using a cash flow analysis of the associated private company issuers. The valuations of the securities are negatively impacted by projected net losses of the associated private companies and positively impacted by projected net gains.

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

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

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

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

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

Direct private equity and mezzanine investments are classified as Level 3 assets since our judgment significantly influences the determination of fair value. Our Fund Management, Asset Management, and Accounting groups are responsible for reviewing the valuation models and determining the fair value of these investments on a quarterly basis. Direct investments in properties are initially valued based upon the transaction price. This amount is then adjusted to fair value based on current market conditions using the discounted cash flow method based on the expected investment exit date. The fair values of the assets are reviewed and adjusted quarterly. There were no significant direct equity and mezzanine investments at June 30, 2016, and June 30, 2015.

The fair value of our indirect investments is based on the most recent value of the capital accounts as reported by the general partners of the funds in which we invest. The calculation to determine the investment s fair value is based on our percentage ownership in the fund multiplied by the net asset value of the fund, as provided by the fund manager. Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect investments. The Federal Reserve extended the conformance period to July 21, 2017, for all banking entities with respect to covered funds. Key is permitted to file for 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 continue to evaluate our options, including applying for the extension and holding the investments. As of June 30, 2016, management has not committed to a plan to sell these investments. Therefore, these investments continue to be valued using the net asset value per share methodology. For more information about the Volcker Rule, see the discussion under the heading Other Regulatory Developments under the Dodd-Frank Act Volcker Rule in the section entitled Supervision and Regulation beginning on page 17 of our 2015 Form 10-K.

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

The following table presents the fair value of our indirect investments and related unfunded commitments at June 30, 2016. We did not provide any financial support to investees related to our direct and indirect investments for the six months ended June 30, 2016, and June 30, 2015.

June 30, 2016

in millions	**Fair Value**	**Unfunded Commitments**
INVESTMENT TYPE		
Indirect investments		
Passive funds [(a)]	$ 8	$ 1
Total	$ 8	$ 1

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

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

Our direct investments include investments in debt and equity instruments of both private and public companies. When quoted prices are available in an active market for the identical direct investment, we use the quoted prices in the valuation process, and the related investments are classified as Level 1 assets. As of December 31, 2015, the valuation of our Level 2 investment included a quoted price, which was adjusted by liquidity assumptions due to a contractual term of the investment. The contractual term expired and this investment was transferred from Level 2 to Level 1 as of March 31, 2016. In most cases, quoted market prices are not available for our direct investments, and we must perform valuations using other methods. These direct investment valuations are an in-depth analysis of the condition of each investment and are based on the unique facts and circumstances related to each individual investment. There is a certain amount of subjectivity surrounding the valuation of these investments due to the combination of quantitative and qualitative factors that are used in the valuation models. Therefore, these direct investments are classified as Level 3 assets. The specific inputs used in the valuations of each type of direct investment are described below.

Interest-bearing securities (i.e., loans) are valued on a quarterly basis. Valuation adjustments are determined by the Principal Investing Entities Deal Team and are subject to approval by the Investment Committee. Valuations of debt instruments are based on the Principal Investing Entities Deal Team s knowledge of the current financial status of the subject company, which is regularly monitored throughout the term of the investment. Significant unobservable inputs used in the valuations of these investments include the company s payment history, adequacy of cash flows from operations, and current operating

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results, including market multiples and historical and forecast EBITDA. Inputs can also include the seniority of the debt, the nature of any pledged collateral, the extent to which the security interest is perfected, and the net liquidation value of collateral.

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

Our indirect investments include primary and secondary investments in private equity funds engaged mainly in venture- and growth-oriented investing. These investments do not have readily determinable fair values. Indirect investments are valued using a methodology that is consistent with accounting guidance that allows us to estimate fair value based upon net asset value per share (or its equivalent, such as member units or an ownership interest in partners capital to which a proportionate share of net assets is attributed). Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect investments. At June 30, 2016, management has not committed to a plan to sell these investments. Therefore, these investments continue to be valued using the net asset value per share methodology.

For indirect investments, management may make adjustments it deems appropriate to the net asset value if it is determined that the net asset value does not properly reflect fair value. In determining the need for an adjustment to net asset value, management performs an analysis of the private equity funds based on the independent fund manager s valuations as well as management s own judgment. Management also considers whether the independent fund manager adequately marks down an impaired investment, maintains financial statements in accordance with GAAP, or follows a practice of holding all investments at cost.

The following table presents the fair value of our direct and indirect principal investments and related unfunded commitments at June 30, 2016, as well as financial support provided for the six months ended June 30, 2016, and June 30, 2015.

			Financial support provided							
			Three months ended June 30,				**Six months ended June 30,**			
	June 30, 2016		**2016**		**2015**		**2016**		**2015**	
in millions	**Fair Value**	**Unfunded Commitments**	**Funded Commitments**	**Funded Other**	**Funded Commitments**	**Funded Other**	**Funded Commitments**	**Funded Other**	**Funded Commitments**	**Funded Other**
INVESTMENT TYPE										
Direct investments [a]	**$ 40**							**$ 13**		**$ 2**
Indirect investments [b] (measured at NAV)	184	$ 44	**$ 2**		$ 3		**$ 3**		$ 5	
Total	**$ 224**	**$ 44**	**$ 2**		$ 3		**$ 3**	**$ 13**	$ 5	$ 2

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

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

Other. We had one indirect equity investment in the form of limited partnership units representing less than a five percent ownership interest in the entity s equity. The fair value of this investment was based upon the NAV accounting methodology. Under the requirements of the Volcker Rule, we were required to dispose of this investment. Prior to December 31, 2015, this investment was redeemed.

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

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

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

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

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

Certain assets and liabilities are measured at fair value on a recurring basis in accordance with GAAP. The following tables present these assets and liabilities at June 30, 2016, December 31, 2015, and June 30, 2015.

June 30, 2016

in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Trading account assets:				
U.S. Treasury, agencies and corporations		$ 708		$ 708
States and political subdivisions		38		38
Collateralized mortgage obligations				
Other mortgage-backed securities		162		162
Other securities		46		46
Total trading account securities		954		954
Commercial loans		11		11
Total trading account assets		965		965
Securities available for sale:				
States and political subdivisions		11		11
Collateralized mortgage obligations		12,518		12,518
Other mortgage-backed securities		2,003		2,003
Other securities	$ 3		$ 17	20
Total securities available for sale	3	14,532	17	14,552
Other investments:				
Principal investments:				
Direct	16		24	40
Indirect (measured at NAV) [(a)]				184
Total principal investments	16		24	224
Equity and mezzanine investments:				
Indirect (measured at NAV) [(a)]				8
Total equity and mezzanine investments				8
Total other investments	16		24	232
Derivative assets:				
Interest rate		1,547	15	1,562
Foreign exchange	109	6		115
Commodity		213		213
Credit		2	2	4
Derivative assets	109	1,768	17	1,894

Netting adjustments [b]				(660)
Total derivative assets	109	1,768	17	1,234
Accrued income and other assets		5		5
Total assets on a recurring basis at fair value	$ 128	$ 17,270	$ 58	$ 16,988
LIABILITIES MEASURED ON A RECURRING BASIS				
Bank notes and other short-term borrowings:				
Short positions	$ 31	$ 656		$ 687
Derivative liabilities:				
Interest rate		912		912
Foreign exchange	106	7		113
Commodity		201		201
Credit		4		4
Derivative liabilities	106	1,124		1,230
Netting adjustments [b]				(484)
Total derivative liabilities	106	1,124		746
Accrued expense and other liabilities		5		5
Total liabilities on a recurring basis at fair value	$ 137	$ 1,785		$ 1,438

(a) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheet.

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

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December 31, 2015

in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Trading account assets:				
U.S. Treasury, agencies and corporations		$ 704		$ 704
States and political subdivisions		25		25
Collateralized mortgage obligations				
Other mortgage-backed securities		26		26
Other securities	$ 3	24		27
Total trading account securities	3	779		782
Commercial loans		6		6
Total trading account assets	3	785		788
Securities available for sale:				
States and political subdivisions		14		14
Collateralized mortgage obligations		11,995		11,995
Other mortgage-backed securities		2,189		2,189
Other securities	3		$ 17	20
Total securities available for sale	3	14,198	17	14,218
Other investments:				
Principal investments:				
Direct		19	50	69
Indirect (measured at NAV) [(a)]				235
Total principal investments		19	50	304
Equity and mezzanine investments:				
Indirect (measured at NAV) [(a)]				8
Total equity and mezzanine investments				8
Total other investments		19	50	312
Derivative assets:				
Interest rate		868	16	884
Foreign exchange	143	8		151
Commodity		444		444
Credit		4	2	6
Derivative assets	143	1,324	18	1,485
Netting adjustments [(b)]				(866)
Total derivative assets	143	1,324	18	619
Accrued income and other assets		1		1
Total assets on a recurring basis at fair value	$ 149	$ 16,327	$ 85	$ 15,938

LIABILITIES MEASURED ON A RECURRING BASIS

Bank notes and other short-term borrowings:				
Short positions		$ 533		$ 533
Derivative liabilities:				
Interest rate		563		563
Foreign exchange	$ 116	8		124
Commodity		433		433
Credit		5	$ 1	6
Derivative liabilities	116	1,009	1	1,126
Netting adjustments [(b)]				(494)
Total derivative liabilities	116	1,009	1	632
Accrued expense and other liabilities		1		1
Total liabilities on a recurring basis at fair value	$ 116	$ 1,543	$ 1	$ 1,166

(a) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheet.

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

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June 30, 2015

in millions	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS MEASURED ON A RECURRING BASIS				
Trading account assets:				
U.S. Treasury, agencies and corporations		$ 580		$ 580
States and political subdivisions		23		23
Collateralized mortgage obligations				
Other mortgage-backed securities		37		37
Other securities	$ 2	24		26
Total trading account securities	2	664		666
Commercial loans		8		8
Total trading account assets	2	672		674
Securities available for sale:				
States and political subdivisions		19		19
Collateralized mortgage obligations		11,751		11,751
Other mortgage-backed securities		2,452		2,452
Other securities	12		$ 10	22
Total securities available for sale	12	14,222	10	14,244
Other investments:				
Principal investments:				
Direct			70	70
Indirect (measured at NAV) [a]				282
Total principal investments			70	352
Equity and mezzanine investments:				
Indirect (measured at NAV) [a]				9
Total equity and mezzanine investments				9
Other (measured at NAV) [a]				4
Total other investments			70	365
Derivative assets:				
Interest rate		840	16	856
Foreign exchange	121	10		131
Commodity		379		379
Credit		1	3	4
Derivative assets	121	1,230	19	1,370
Netting adjustments [b]				(834)
Total derivative assets	121	1,230	19	536
Accrued income and other assets		2		2
Total assets on a recurring basis at fair value	$ 135	$ 16,126	$ 99	$ 15,821

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

(a) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheet.

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

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Changes in Level 3 Fair Value Measurements

The following table shows the components of the change in the fair values of our Level 3 financial instruments for the three and six months ended June 30, 2016, and June 30, 2015. We mitigate the credit risk, interest rate risk, and risk of loss related to many of these Level 3 instruments by using securities and derivative positions classified as Level 1 or Level 2. Level 1 and Level 2 instruments are not included in the following table. Therefore, the gains or losses shown do not include the impact of our risk management activities.

in millions	Beginning of Period Balance	Gains (Losses) Included in Earnings	Purchases	Sales	Settlements	Transfers into Level 3 [d]	Transfers out of Level 3 [d]	End of Period Balance [f]	Unrealized Gains (Losses) Included in Earnings
Six months ended June 30, 2016									
Securities available for sale									
Other securities	$ 17							$ 17	
Other investments									
Principal investments									
Direct	50	$ 3[b]		$ (29)				24	$ (1)[b]
Other indirect	20			(20)					(1)[b]
Derivative instruments [a]									
Interest rate	16	6[c]				$ 3[e]	$ (10)[e]	15	
Credit	1	(6)[c]			$ 7			2	
Three months ended June 30, 2016									
Securities available for sale									
Other securities	$ 17							$ 17	
Other investments									
Principal investments									
Direct	47	$ 6[b]		$ (29)				24	$ 2[b]
Indirect	18	1[b]		(19)					
Derivative instruments [a]									
Interest rate	16	2[c]					$ (3)[e]	15	
Credit	2	(4)[c]			$ 4			2	

in millions	Beginning of Period Balance	Gains (Losses) Included in Earnings	Purchases	Sales	Settlements	Transfers into Level 3 [d]	Transfers out of Level 3 [d]	End of Period Balance [f]	Unrealized Gains (Losses) Included in Earnings
Six months ended June 30, 2015									
Securities available for sale									

Other securities	$ 10							$ 10	
Other investments									
Principal investments									
Direct	102	$ 16[b]	$ 2	$ (50)				70	$ (3)[b]
Equity and mezzanine investments									
Direct		2[b]		(2)					2[b]
Derivative instruments [a]									
Interest rate	13	(1)[c]	1			$ 8[e]	$ (5)[e]	16	
Credit	2	(4)[c]			$ 5			3	
Three months ended June 30, 2015									
Securities available for sale									
Other securities	$ 10							$ 10	
Other investments									
Principal investments									
Direct	73	$ 3[b]	$ 1	$ (7)				70	$ (3)[b]
Derivative instruments [a]									
Interest rate	10	(3)[c]	1			$ 8[e]		16	
Credit	2	(1)[c]			$ 2			3	

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

(b) Realized and unrealized gains and losses on principal investments are reported in net gains (losses) from principal investing on the income statement. Realized and unrealized losses on private equity and mezzanine investments are reported in other income on the income statement.

(c) Realized and unrealized gains and losses on derivative instruments are reported in corporate services income and other income on the income statement.

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(d) Our policy is to recognize transfers into and transfers out of Level 3 as of the end of the reporting period.
(e) Certain derivatives previously classified as Level 2 were transferred to Level 3 because Level 3 unobservable inputs became significant. Certain derivatives previously classified as Level 3 were transferred to Level 2 because Level 3 unobservable inputs became less significant.
(f) There were no issuances for the six-month periods ended June 30, 2016, and June 30, 2015.

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Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis in accordance with GAAP. The adjustments to fair value generally result from the application of accounting guidance that requires assets and liabilities to be recorded at the lower of cost or fair value, or assessed for impairment. There were no liabilities measured at fair value on a nonrecurring basis at June 30, 2016, December 31, 2015, and June 30, 2015. The following table presents our assets measured at fair value on a nonrecurring basis at June 30, 2016, December 31, 2015, and June 30, 2015:

	June 30, 2016			
in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A NONRECURRING BASIS				
Impaired loans			$ 8	$ 8
Loans held for sale [(a)]				
Accrued income and other assets			4	4
Total assets on a nonrecurring basis at fair value			$ 12	$ 12

	December 31, 2015			
in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A NONRECURRING BASIS				
Impaired loans				
Loans held for sale [(a)]				
Accrued income and other assets			$ 7	$ 7
Total assets on a nonrecurring basis at fair value			$ 7	$ 7

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

(a) During the first half of 2016, we transferred $22 million of commercial and consumer loans and leases at their current fair value from held-to-maturity portfolio to held-for-sale status, compared to $62 million during 2015, and $7 million during the first half of 2015.

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

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

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

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

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

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

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

Loans held for sale. Through a quarterly analysis of our loan portfolios held for sale, which include both performing and nonperforming loans, we determine any adjustments necessary to record the portfolios at the lower of cost or fair value in accordance with GAAP. Our analysis concluded that there were no loans held for sale adjusted to fair value at June 30, 2016, December 31, 2015, or June 30, 2015.

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

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

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

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

Valuations of direct financing leases and operating lease assets held for sale are performed using an internal model that relies on market data, such as swap rates and bond ratings, as well as our own assumptions about the exit market for the leases and details about the individual leases in the portfolio. The inputs based on our assumptions include changes in the value of leased items and internal credit ratings. These leases have been classified as Level 3 assets. KEF has master sale and assignment agreements with numerous institutional investors. Historically, multiple quotes are obtained, with the most reasonable formal quotes retained. These nonbinding quotes generally lead to a sale to one of the parties who provided the quote. Leases for which we receive a current nonbinding bid, and for which the sale is considered probable, may be classified as Level 2. The validity of these quotes is supported by historical and continued dealings with these institutions that have fulfilled the nonbinding quote in the past. In a distressed market where market data is not available, an estimate of the fair value of the leased asset may be used to value the lease, resulting in a Level 3 classification. In an inactive market, the market value of the assets held for sale is determined as the present value of the future cash flows discounted at the current buy rate. KEF Accounting calculates an estimated fair value buy rate based on the credit premium inherent in the relevant bond index and the appropriate swap rate on the measurement date. The amount of the adjustment is calculated as book value minus the present value of future cash flows discounted at the calculated buy rate.

Goodwill and other intangible assets. On a quarterly basis, we review impairment indicators to determine whether we need to evaluate the carrying amount of goodwill and other intangible assets assigned to Key Community Bank and Key Corporate Bank. We also perform an annual impairment test for goodwill. Accounting guidance permits an entity to first assess qualitative factors to determine whether additional goodwill impairment testing is required. However, we did not choose to utilize a qualitative assessment in our annual goodwill impairment testing performed during the fourth quarter of 2015. Fair value of our reporting units is determined using both an income approach (discounted cash flow method) and a market approach (using publicly traded company and recent transactions data), which are weighted equally.

Inputs used include market-available data, such as industry, historical, and expected growth rates, and peer valuations, as well as internally driven inputs, such as forecasted earnings and market participant insights. Since this valuation relies on a significant number of unobservable inputs, we have classified goodwill as Level 3. We use a third-party valuation services provider to perform the annual, and if necessary, any interim, Step 1 valuation process, and to perform a Step 2 analysis, if needed, on our reporting units. Annual and any interim valuations prepared by the third-party valuation services provider are reviewed by the appropriate individuals within Key to ensure that the assumptions used in preparing the analysis are appropriate and properly supported. For additional information on the results of recent goodwill impairment testing, see Note 10 (Goodwill and Other Intangible Assets) beginning on page 181 of our 2015 Form 10-K.

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

Our primary assumptions include attrition rates, alternative costs of funds, and rates paid on deposits. For additional information on the results of other intangible assets impairment testing, see Note 10 (Goodwill and Other Intangible Assets) beginning on page 181 of our 2015 Form 10-K.

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

Commercial Real Estate Valuation Process: When a loan is reclassified from loan status to OREO because we took possession of the collateral, the Asset Recovery Group Loan Officer, in consultation with our OREO group, obtains a broker price opinion or a third-party appraisal, which is used to establish the fair value of the underlying collateral. The determined fair value of the underlying collateral less estimated selling costs becomes the carrying value of the OREO asset. In addition to valuations from independent third-party sources, our OREO group also writes down the carrying balance of OREO assets once a bona fide offer is contractually accepted, where the accepted price is lower than the current balance of the particular OREO asset. The fair value of OREO property is re-evaluated every 90 days, and the OREO asset is adjusted as necessary.

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

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Quantitative Information about Level 3 Fair Value Measurements

The range and weighted-average of the significant unobservable inputs used to fair value our material Level 3 recurring and nonrecurring assets at June 30, 2016, December 31, 2015, and June 30, 2015, along with the valuation techniques used, are shown in the following table:

ne 30, 2016 *lars in millions*	**Fair Value of Level 3 Assets**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
curring				
er investments	$ 24			
cipal estments direct:		Individual analysis of the condition of each investment		
ot instruments			EBITDA multiple	5.30 - 6.30 (6.20)
ity instruments rivate npanies			EBITDA multiple (where applicable)	6.30
nrecurring				
paired loans	8	Fair value of underlying collateral	Discount	00.00 - 35.00% (6.00%
odwill	1,060	Discounted cash flow and market data	Earnings multiple of peers	10.30 - 17.80 (12.79)
			Equity multiple of peers	1.25 - 1.56 (1.43)
			Control premium	10.00 - 30.00% (19.18%)
			Weighted-average cost of capital	12.00 - 13.00% (12.54%)

cember 31, 2015 *lars in millions*	**Fair Value of Level 3 Assets**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
curring				
er investments	$ 50			
cipal estments direct:		Individual analysis of the condition of each investment		
ot instruments			EBITDA multiple	N/A (5.40)
ity instruments rivate npanies			EBITDA multiple (where applicable)	5.40 - 6.70 (6.60)
nrecurring				
paired loans[(a)]		Fair value of underlying collateral	Discount	00.00 - 34.00% (15.00%
odwill	1,060	Discounted cash flow and market data	Earnings multiple of peers	10.30 - 17.80 (12.79)
			Equity multiple of peers	1.25 - 1.56 (1.43)
			Control premium	10.00 - 30.00% (19.18%)
			Weighted-average cost of capital	12.00 - 13.00% (12.54%)

Impaired loans are less than $1 million at December 31, 2015.

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

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Fair Value Disclosures of Financial Instruments

The levels in the fair value hierarchy ascribed to our financial instruments and the related carrying amounts at June 30, 2016, December 31, 2015, and June 30, 2015, are shown in the following table.

	June 30, 2016						
in millions	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Fair Value Measured at NAV**	**Netting Adjustment**	**Total**
ASSETS							
Cash and short-term investments [(a)]	$ 7,095	$ 7,095					$ 7,095
Trading account assets [(b)]	965		$ 965				965
Securities available for sale [(b)]	14,552	3	14,532	$ 17			14,552
Held-to-maturity securities [(c)]	4,832		4,889				4,889
Other investments [(b)]	577	16		369	$ 192		577
Loans, net of allowance [(d)]	61,244			60,166			60,166
Loans held for sale [(b)]	442			442			442
Derivative assets [(b)]	1,234	109	1,768	17		$ (660)[(f)]	1,234
LIABILITIES							
Deposits with no stated maturity [(a)]	$ 68,677		$ 68,677				$ 68,677
Time deposits [(e)]	6,648		6,721				6,721
Short-term borrowings [(a)]	1,047	$ 31	1,016				1,047
Long-term debt [(e)]	11,388	11,492	376				11,868
Derivative liabilities [(b)]	746	106	1,124			$ (484)[(f)]	746

	December 31, 2015						
in millions	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Fair Value Measured at NAV**	**Netting Adjustment**	**Total**
ASSETS							
Cash and short-term investments [(a)]	$ 3,314	$ 3,314					$ 3,314
Trading account assets [(b)]	788	3	$ 785				788
Securities available for sale [(b)]	14,218	3	14,198	$ 17			14,218
Held-to-maturity securities [(c)]	4,897		4,848				4,848
Other investments [(b)]	655		19	393	$ 243		655
Loans, net of allowance [(d)]	59,080			57,508			57,508
Loans held for sale [(b)]	639			639			639
Derivative assets [(b)]	619	143	1,324	18		$ (866)[(f)]	619
LIABILITIES							
	$ 65,527		$ 65,527				$ 65,527

Deposits with no stated maturity (a)							
Time deposits (e)	5,519		5,575				5,575
Short-term borrowings (a)	905		905				905
Long-term debt (e)	10,186	$ 9,987	420				10,407
Derivative liabilities (b)	632	116	1,009	$ 1		$ (494)(f)	632

	June 30, 2015						
					Fair Value		
in millions	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Measured at NAV**	**Netting Adjustment**	**Total**
ASSETS							
Cash and short-term investments (a)	$ 3,915	$ 3,915					$ 3,915
Trading account assets (b)	674	2	$ 672				674
Securities available for sale (b)	14,244	12	14,222	$ 10			14,244
Held-to-maturity securities (c)	5,022		4,992				4,992
Other investments (b)	703			408	295		703
Loans, net of allowance (d)	57,468			56,012			56,012
Loans held for sale (b)	835			835			835
Derivative assets (b)	536	121	1,230	19		$ (834)(f)	536
LIABILITIES							
Deposits with no stated maturity (a)	$ 65,034		$ 65,034				$ 65,034
Time deposits (e)	5,635	$ 498	5,195				5,693
Short-term borrowings (a)	972	1	971				972
Long-term debt (e)	10,267	10,037	506				10,543
Derivative liabilities (b)	560	100	946			$ (486)(f)	560

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Valuation Methods and Assumptions

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

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

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

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

(e) Fair values of time deposits and long-term debt are based on discounted cash flows utilizing relevant market inputs.

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

We use valuation methods based on exit market prices in accordance with applicable accounting guidance. We determine fair value based on assumptions pertaining to the factors that a market participant would consider in valuing the asset. A substantial portion of our fair value adjustments are related to liquidity. During 2015 and the first half of 2016, the fair values of our loan portfolios generally remained stable, primarily due to increasing liquidity in the loan markets. If we were to use different assumptions, the fair values shown in the preceding table could change. Also, because the applicable accounting guidance for financial instruments excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements, the fair value amounts shown in the table above do not, by themselves, represent the underlying value of our company as a whole.

Education lending business**.** The discontinued education lending business consists of loans in portfolio (recorded at carrying value with appropriate valuation reserves) and loans in portfolio (recorded at fair value). All of these loans were excluded from the table above as follows:

- Loans at carrying value, net of allowance, of $1.7 billion ($1.4 billion at fair value) at June 30, 2016, and $1.8 billion ($1.5 billion at fair value) at December 31, 2015, and $1.9 billion ($1.6 billion at fair value) at June 30, 2015; and

- Portfolio loans at fair value of $3 million at June 30, 2016, and $4 million at December 31, 2015. There were no portfolio loans at fair value at June 30, 2015.

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

Residential real estate mortgage loans. Residential real estate mortgage loans with carrying amounts of $2.3 billion at June 30, 2016, $2.2 billion at December 31, 2015, and $2.3 billion at June 30, 2015 are included in Loans, net of allowance in the previous table.

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

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6. Securities

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

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

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

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

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

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

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in millions	June 30, 2016 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
States and political subdivisions	**$ 11**	**$ 1**		**$ 12**
Collateralized mortgage obligations	**12,344**	**187**	**$ 13**	**12,518**
Other mortgage-backed securities	**1,970**	**32**		**2,002**
Other securities	**21**		**1**	**20**
Total securities available for sale	**$ 14,346**	**$ 220**	**$ 14**	**$ 14,552**
HELD-TO-MATURITY SECURITIES				
Collateralized mortgage obligations	**$ 4,099**	**$ 45**	**$ 6**	**$ 4,138**
Other mortgage-backed securities	**711**	**18**		**729**
Other securities	**22**			**22**
Total held-to-maturity securities	**$ 4,832**	**$ 63**	**$ 6**	**$ 4,889**

in millions	December 31, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
States and political subdivisions	$ 14			$ 14
Collateralized mortgage obligations	12,082	$ 51	$ 138	11,995
Other mortgage-backed securities	2,193	11	15	2,189
Other securities	21		1	20
Total securities available for sale	$ 14,310	$ 62	$ 154	$ 14,218
HELD-TO-MATURITY SECURITIES				
Collateralized mortgage obligations	$ 4,174	$ 5	$ 50	$ 4,129
Other mortgage-backed securities	703		4	699
Other securities	20			20
Total held-to-maturity securities	$ 4,897	$ 5	$ 54	$ 4,848

in millions	June 30, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
States and political subdivisions	$ 19			$ 19
Collateralized mortgage obligations	11,765	$ 101	$ 115	11,751
Other mortgage-backed securities	2,439	21	8	2,452

Other securities		20		2				22
Total securities available for sale	$	14,243	$	124	$	123	$	14,244
HELD-TO-MATURITY SECURITIES								
Collateralized mortgage obligations	$	4,463	$	17	$	43	$	4,437
Other mortgage-backed securities		539				4		535
Other securities		20						20
Total held-to-maturity securities	$	5,022	$	17	$	47	$	4,992

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The following table summarizes our securities that were in an unrealized loss position as of June 30, 2016, December 31, 2015, and June 30, 2015.

	Duration of Unrealized Loss Position					
	Less than 12 Months		12 Months or Longer		Total	
in millions	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2016						
Securities available for sale:						
Collateralized mortgage obligations	**$ 410**	**$ 1**	**$ 1,626**	**$ 12**	**$ 2,036**	**$ 13**
Other securities			**3**	**1**	**3**	**1**
Held-to-maturity:						
Collateralized mortgage obligations	**128**	**1**	**582**	**5**	**710**	**6**
Other securities [(a)]			**4**		**4**	
Total temporarily impaired securities	**$ 538**	**$ 2**	**$ 2,215**	**$ 18**	**$ 2,753**	**$ 20**
December 31, 2015						
Securities available for sale:						
Collateralized mortgage obligations	$ 5,190	$ 43	$ 3,206	$ 95	$ 8,396	$ 138
Other mortgage-backed securities	1,670	15			1,670	15
Other securities			3	1	3	1
Held-to-maturity:						
Collateralized mortgage obligations	1,793	16	1,320	34	3,113	50
Other mortgage-backed securities	547	4			547	4
Other securities [(a)]	4				4	
Total temporarily impaired securities	$ 9,204	$ 78	$ 4,529	$ 130	$ 13,733	$ 208
June 30, 2015						
Securities available for sale:						
Collateralized mortgage obligations	$ 2,784	$ 46	$ 2,624	$ 69	$ 5,408	$ 115
Other mortgage-backed securities	1,060	8			1,060	8
Other securities [(b)]			3		3	
Held-to-maturity:						
Collateralized mortgage obligations	1,236	12	1,278	31	2,514	43
Other mortgage-backed securities	475	4			475	4
Other securities [(a)]	4				4	
Total temporarily impaired securities	$ 5,559	$ 70	$ 3,905	$ 100	$ 9,464	$ 170

(a)

Gross unrealized losses totaled less than $1 million for other securities held to maturity as of June 30, 2016, December 31, 2015, and June 30, 2015.

(b) Gross unrealized losses totaled less than $1 million for other securities available for sale as of June 30, 2015.

At June 30, 2016, we had $13 million of gross unrealized losses related to 33 fixed-rate CMOs that we invested in as part of our overall A/LM strategy. These securities had a weighted-average maturity of 3.8 years at June 30, 2016. We also had less than $1 million of gross unrealized losses related to 7 other mortgage-backed securities positions, which had a weighted-average maturity of 3.9 years at June 30, 2016. Because these securities have a fixed interest rate, their fair value is sensitive to movements in market interest rates. These unrealized losses are considered temporary since we expect to collect all contractually due amounts from these securities. Accordingly, these investments were reduced to their fair value through OCI, not earnings.

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

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The debt securities identified as other-than-temporarily impaired are written down to their current fair value. For those debt securities that we intend to sell, or more-likely-than-not will be required to sell, prior to the expected recovery of the amortized cost, the entire impairment (i.e., the difference between amortized cost and the fair value) is recognized in earnings. For those debt securities that we do not intend to sell, or more-likely-than-not will not be required to sell, prior to expected recovery, the credit portion of OTTI is recognized in earnings, while the remaining OTTI is recognized in equity as a component of AOCI on the balance sheet. As shown in the following table, we did not have any impairment losses recognized in earnings for the three months ended June 30, 2016.

Three months ended June 30, 2016	
in millions	
Balance at March 31, 2016	$ 4
Impairment recognized in earnings	
Balance at June 30, 2016	$ 4

For the six months ended June 30, 2016, net securities gains (losses) related to securities available for sale totaled less than $1 million.

At June 30, 2016, securities available for sale and held-to-maturity securities totaling $5.7 billion were pledged to secure securities sold under repurchase agreements, to secure public and trust deposits, to facilitate access to secured funding, and for other purposes required or permitted by law.

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

June 30, 2016	**Securities Available for Sale**		**Held-to-Maturity Securities**	
in millions	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 249	$ 252	$ 86	$ 87
Due after one through five years	13,456	13,649	4,035	4,073
Due after five through ten years	640	649	711	729
Due after ten years	1	2		
Total	$ 14,346	$ 14,552	$ 4,832	$ 4,889

7. Derivatives and Hedging Activities

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

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

- interest rate risk is the risk that the EVE or net interest income will be adversely affected by fluctuations in interest rates;

- credit risk is the risk of loss arising from an obligor s inability or failure to meet contractual payment or performance terms; and

- foreign exchange risk is the risk that an exchange rate will adversely affect the fair value of a financial instrument.

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

At June 30, 2016, after taking into account the effects of bilateral collateral and master netting agreements, we had $398 million of derivative assets and a positive $6 million of derivative liabilities that relate to contracts entered into for hedging purposes. Our hedging derivative liabilities are in an asset position largely because we have contracts with positive fair values as a result of master netting agreements. As of the same date, after taking into account the effects of bilateral collateral and master netting agreements and a reserve for potential future losses, we had derivative assets of $836 million and derivative liabilities of $752 million that were not designated as hedging instruments.

Additional information regarding our accounting policies for derivatives is provided in Note 1 (Summary of Significant Accounting Policies) under the heading Derivatives beginning on page 126 of our 2015 Form 10-K.

Derivatives Designated in Hedge Relationships

Net interest income and the EVE change in response to changes in the mix of assets, liabilities, and off-balance sheet instruments; associated interest rates tied to each instrument; differences in the repricing and maturity characteristics of interest-earning assets and interest-bearing liabilities; and changes in interest rates. We utilize derivatives that have been designated as part of a hedge relationship in accordance with the applicable accounting guidance to minimize the exposure and volatility of net interest income and EVE to interest rate fluctuations. The primary derivative instruments used to manage interest rate risk are interest rate swaps, which convert the contractual interest rate index of agreed-upon amounts of assets and liabilities (i.e., notional amounts) to another interest rate index.

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

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

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

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

Derivatives Not Designated in Hedge Relationships

On occasion, we enter into interest rate swap contracts to manage economic risks but do not designate the instruments in hedge relationships. Excluding contracts addressing customer exposures, the amount of derivatives hedging risks on an economic basis at June 30, 2016, was not significant.

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

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

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

These contracts are not designated as part of hedge relationships.

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

The following table summarizes the fair values of our derivative instruments on a gross and net basis as of June 30, 2016, December 31, 2015, and June 30, 2015. The change in the notional amounts of these derivatives by type from December 31, 2015, to June 30, 2016, indicates the volume of our derivative transaction activity during the first half of 2016. The notional amounts are not affected by bilateral collateral and master netting agreements. The derivative asset and liability balances are presented on a gross basis, prior to the application of bilateral collateral and master netting agreements. Total derivative assets and liabilities are adjusted to take into account the impact of legally enforceable master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related cash collateral. Where master netting agreements are not in effect or are not enforceable under bankruptcy laws, we do not adjust those derivative assets and liabilities with counterparties. Securities collateral related to legally enforceable master netting agreements is not offset on the balance sheet. Our derivative instruments are included in derivative assets or derivative liabilities on the balance sheet, as indicated in the following table:

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	June 30, 2016			December 31, 2015			June 30, 2015		
		Fair Value			Fair Value			Fair Value	
in millions	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:									
Interest rate	**$ 22,754**	**$ 572**	**$ 13**	$ 18,917	$ 257	$ 15	$ 17,324	$ 267	$ 22
Foreign exchange	**289**	**8**	**13**	312	20		333	17	4
Total	**23,043**	**580**	**26**	19,229	277	15	17,657	284	26
Derivatives not designated as hedging instruments:									
Interest rate	**44,498**	**990**	**899**	43,965	627	548	45,067	589	546
Foreign exchange	**6,148**	**107**	**100**	6,454	131	124	6,486	114	104
Commodity	**1,319**	**213**	**201**	1,144	444	433	1,537	379	365
Credit	**467**	**4**	**4**	632	6	6	505	4	5
Total	**52,432**	**1,314**	**1,204**	52,195	1,208	1,111	53,595	1,086	1,020
Netting adjustments [a]		**(660)**	**(484)**		(866)	(494)		(834)	(486)
Net derivatives in the balance sheet	**75,475**	**1,234**	**746**	71,424	619	632	71,252	536	560
Other collateral [b]		**(48)**	**(212)**		(91)	(204)		(96)	(216)
Net derivative amounts	**$ 75,475**	**$ 1,186**	**$ 534**	$ 71,424	$ 528	$ 428	$ 71,252	$ 440	$ 344

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

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

Fair value hedges. Instruments designated as fair value hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. The effective portion of a change in the fair value of an instrument designated as a fair value hedge is recorded in earnings at the same time as a change in fair value of the hedged item, resulting in no effect on net income. The ineffective portion of a change in the fair value of such a hedging instrument is recorded in other income on the income statement with no corresponding offset. During the six-month period ended June 30, 2016, we did not exclude any portion of these hedging instruments from the assessment of hedge effectiveness. While there is some immaterial ineffectiveness in our hedging relationships, all of our fair value hedges remained highly effective as of June 30, 2016.

The following table summarizes the pre-tax net gains (losses) on our fair value hedges for the six-month periods ended June 30, 2016, and June 30, 2015, and where they are recorded on the income statement.

	Six months ended June 30, 2016				
in millions	**Income Statement Location of Net Gains (Losses) on Derivative**	**Net Gains (Losses) on Derivative**	**Hedged Item**	**Income Statement Location of Net Gains (Losses) on Hedged Item**	**Net Gains (Losses) on Hedged Item**
Interest rate	Other income	**$ 164**	Long-term debt	Other income	**$ (165)** [a]
Interest rate	Interest expense Long-term debt	**50**			
Total		**$ 214**			**$ (165)**

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

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

Cash flow hedges. Instruments designated as cash flow hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. Initially, the effective portion of a gain or loss on a cash flow hedge is recorded as a component of AOCI on the balance sheet. This amount is subsequently reclassified into income when the hedged transaction affects earnings (e.g., when we pay variable-rate interest on debt, receive variable-rate interest on commercial loans, or sell commercial real estate loans). The ineffective portion of cash flow hedging transactions is included in other income on the income statement. During the six-month period ended June 30, 2016, we did not exclude any portion of these hedging instruments from the assessment of hedge effectiveness. While there is some immaterial ineffectiveness in our hedging relationships, all of our cash flow hedges remained highly effective as of June 30, 2016.

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Considering the interest rates, yield curves, and notional amounts as of June 30, 2016, we would expect to reclassify an estimated $45 million of after-tax net losses on derivative instruments from AOCI to income during the next 12 months for our cash flow hedges. In addition, we expect to reclassify approximately $2 million of net losses related to terminated cash flow hedges from AOCI to income during the next 12 months. As of June 30, 2016, the maximum length of time over which we hedge forecasted transactions is 12 years.

Net investment hedges. We enter into foreign currency forward contracts to hedge our exposure to changes in the carrying value of our investments as a result of changes in the related foreign exchange rates. Instruments designated as net investment hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. Initially, the effective portion of a gain or loss on a net investment hedge is recorded as a component of AOCI on the balance sheet when the terms of the derivative match the notional and currency risk being hedged. The effective portion is subsequently reclassified into income when the hedged transaction affects earnings (e.g., when we dispose of or liquidate a foreign subsidiary). At June 30, 2016, AOCI reflected unrecognized after-tax gains totaling $38 million related to cumulative changes in the fair value of our net investment hedges, which offset the unrecognized after-tax foreign currency losses on net investment balances. The ineffective portion of net investment hedging transactions is included in other income on the income statement, but there was no net investment hedge ineffectiveness as of June 30, 2016. We did not exclude any portion of our hedging instruments from the assessment of hedge effectiveness during the six-month period ended June 30, 2016.

The following table summarizes the pre-tax net gains (losses) on our cash flow and net investment hedges for the six-month periods ended June 30, 2016, and June 30, 2015, and where they are recorded on the income statement. The table includes the effective portion of net gains (losses) recognized in OCI during the period, the effective portion of net gains (losses) reclassified from OCI into income during the current period, and the portion of net gains (losses) recognized directly in income, representing the amount of hedge ineffectiveness.

	Six months ended June 30, 2016				
in millions	**Net Gains (Losses) Recognized in OCI (Effective Portion)**	**Income Statement Location of Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)**	**Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)**	**Income Statement Location of Net Gains (Losses) Recognized in Income (Ineffective Portion)**	**Net Gains (Losses) Recognized in Income (Ineffective Portion)**
Cash Flow Hedges					
Interest rate	**$ 204**	Interest income Loans	**$ 45**	Other income	
Interest rate	**(6)**	Interest expense Long-term debt	**(2)**	Other income	
Interest rate	**(1)**	Investment banking and debt placement fees		Other income	
Net Investment Hedges					

Foreign exchange contracts	**(5)**	Other Income		Other income	
Total	**$ 192**		**$ 43**		

in millions	Six months ended June 30, 2015 Net Gains (Losses) Recognized in OCI (Effective Portion)	Income Statement Location of Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)	Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)	Income Statement Location of Net Gains (Losses) Recognized in Income (Ineffective Portion)	Net Gains (Losses) Recognized in Income (Ineffective Portion)
Cash Flow Hedges					
Interest rate	$ 48	Interest income Loans	$ 45	Other income	
Interest rate	1	Interest expense Long-term debt	(2)	Other income	
Interest rate	1	Investment banking and debt placement fees		Other income	
Net Investment Hedges					
Foreign exchange contracts	17	Other Income		Other income	
Total	$ 67		$ 43		

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

in millions	December 31, 2015	2016 Hedging Activity	Reclassification of Gains to Net Income	June 30, 2016
AOCI resulting from cash flow and net investment hedges	$ 20	**$ 121**	$ (27)	**$ 114**

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

The following table summarizes the pre-tax net gains (losses) on our derivatives that are not designated as hedging instruments for the six-month periods ended June 30, 2016, and June 30, 2015, and where they are recorded on the income statement.

in millions	**Six months ended June 30, 2016** Corporate Services Income	Other Income	Total	**Six months ended June 30, 2015** Corporate Services Income	Other Income	Total
NET GAINS (LOSSES)						
Interest rate	**$ 13**	**$ (2)**	**$ 11**	$ 9		$ 9
Foreign exchange	**19**		**19**	18		18
Commodity	**2**		**2**	3		3
Credit	**1**	**(6)**	**(5)**		$ (7)	(7)
Total net gains (losses)	**$ 35**	**$ (8)**	**$ 27**	$ 30	$ (7)	$ 23

Counterparty Credit Risk

Like other financial instruments, derivatives contain an element of credit risk. This risk is measured as the expected positive replacement value of the contracts. We use several means to mitigate and manage exposure to credit risk on derivative contracts. We generally enter into bilateral collateral and master netting agreements that provide for the net settlement of all contracts with a single counterparty in the event of default. Additionally, we monitor counterparty credit risk exposure on each contract to determine appropriate limits on our total credit exposure across all product types. We review our collateral positions on a daily basis and exchange collateral with our counterparties in accordance with standard ISDA documentation, central clearing rules, and other related agreements. We generally hold collateral in the form of cash and highly rated securities issued by the U.S. Treasury, government-sponsored enterprises, or GNMA. The cash collateral netted against derivative assets on the balance sheet totaled $241 million at June 30, 2016, $377 million at December 31, 2015, and $364 million at June 30, 2015. The cash collateral netted against derivative liabilities totaled $64 million at June 30, 2016, $5 million at December 31, 2015, and $16 million at June 30, 2015. The relevant agreements that allow us to access the central clearing organizations to clear derivative transactions are not considered to be qualified master netting agreements. Therefore, we cannot net derivative contracts or offset those contracts with related cash collateral with these counterparties. At June 30, 2016, we posted $491 million of cash collateral with clearing organizations and held $310 million of cash collateral from clearing organizations. At December 31, 2015, we posted $143 million of cash collateral with clearing organizations and held $6 million of cash collateral from clearing organizations. At June 30, 2015, we posted $114 million of cash collateral with clearing organizations and held $3 million of cash collateral from clearing organizations. This additional cash collateral is included in accrued income and other assets and accrued expense and other liabilities on the balance sheet.

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

in millions	**June 30, 2016**	December 31, 2015	June 30, 2015
Largest gross exposure (derivative asset) to an individual counterparty	**$ 135**	$ 158	$ 105
Collateral posted by this counterparty	**58**	85	44
Derivative liability with this counterparty	**122**	74	90
Collateral pledged to this counterparty	**57**		37
Net exposure after netting adjustments and collateral	**12**	(1)	8

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

in millions	June 30, 2016	December 31, 2015	June 30, 2015
Interest rate	**$ 1,342**	$ 628	$ 606
Foreign exchange	**39**	66	50
Commodity	**91**	298	243
Credit	**3**	4	1
Derivative assets before collateral	**1,475**	996	900
Less: Related collateral	**241**	377	364
Total derivative assets	**$ 1,234**	$ 619	$ 536

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

We enter into transactions with broker-dealers and banks for various risk management purposes. These types of transactions generally are high dollar volume. We generally enter into bilateral collateral and master netting agreements with these counterparties. We began clearing certain types of derivative transactions with these counterparties in June 2013, whereby the central clearing organizations become our counterparties subsequent to novation of the original derivative contracts. In addition, we began entering into derivative contracts through swap execution facilities during the first quarter of 2014. The swap clearing and swap trade execution requirements were mandated by the Dodd-Frank Act for the purpose of reducing counterparty credit risk and increasing transparency in the derivative market. At June 30, 2016, we had gross exposure of $886 million to broker-dealers and banks. We had net exposure of $571 million after the application of master netting agreements and cash collateral, where such qualifying agreements exist. We had net exposure of $506 million after considering $65 million of additional collateral held in the form of securities.

We enter into transactions with clients to accommodate their business needs. These types of transactions generally are low dollar volume. We generally enter into master netting agreements with these counterparties. In addition, we mitigate our overall portfolio exposure and market risk by buying and selling U.S. Treasuries and Eurodollar futures and entering into offsetting positions and other derivative contracts, sometimes with entities other than broker-dealers and banks. Due to the smaller size and magnitude of the individual contracts with clients, we generally do not exchange collateral in connection with these derivative transactions. To address the risk of default associated with the uncollateralized contracts, we have established a credit valuation adjustment (included in derivative assets) in the amount of $7 million at June 30, 2016, which we estimate to be the potential future losses on amounts due from client counterparties in the event of default. At June 30, 2016, we had gross exposure of $738 million to client counterparties and other entities that are not broker-dealers or banks for derivatives that have associated master netting agreements. We had net exposure of $663 million on our derivatives with these counterparties after the application of master netting agreements, collateral, and the related reserve. In addition, the derivatives for one counterparty were guaranteed by a third party with a letter of credit totaling $10 million.

Credit Derivatives

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

The following table summarizes the fair value of our credit derivatives purchased and sold by type as of June 30, 2016, December 31, 2015, and June 30, 2015. The fair value of credit derivatives presented below does not take into account the effects of bilateral collateral or master netting agreements.

	June 30, 2016			December 31, 2015			June 30, 2015		
in millions	**Purchased**	**Sold**	**Net**	**Purchased**	**Sold**	**Net**	**Purchased**	**Sold**	**Net**
Single-name credit default swaps	**$ (2)**		**$ (2)**	$ (3)		$ (3)	$ (2)		$ (2)
Traded credit default swap indices	**2**		**2**	4		4	2		2
Other [(a)]					$ (1)	(1)		$ (1)	(1)
Total credit derivatives				$ 1	$ (1)			$ (1)	$ (1)

(a) As of June 30, 2016, the fair value of other credit derivatives sold totaled less than $1 million.

Single-name credit default swaps are bilateral contracts whereby the seller agrees, for a premium, to provide protection against the credit risk of a specific entity (the reference entity) in connection with a specific debt obligation. The protected credit risk is related to adverse credit events, such as bankruptcy, failure to make payments, and acceleration or restructuring of obligations, identified in the credit derivative contract. As the seller of a single-name credit derivative, we may settle in

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one of two ways if the underlying reference entity experiences a predefined credit event. We may be required to pay the purchaser the difference between the par value and the market price of the debt obligation (cash settlement) or receive the specified referenced asset in exchange for payment of the par value (physical settlement). If we effect a physical settlement and receive our portion of the related debt obligation, we will join other creditors in the liquidation process, which may enable us to recover a portion of the amount paid under the credit default swap contract. We also may purchase offsetting credit derivatives for the same reference entity from third parties that will permit us to recover the amount we pay should a credit event occur.

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

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

The following table provides information on the types of credit derivatives sold by us and held on the balance sheet at June 30, 2016, December 31, 2015, and June 30, 2015. The notional amount represents the maximum amount that the seller could be required to pay. The payment/performance risk assessment is based on the default probabilities for the underlying reference entities debt obligations using a Moody s credit ratings matrix known as Moody s Idealized Cumulative Default Rates. The payment/performance risk shown in the table represents a weighted-average of the default probabilities for all reference entities in the respective portfolios. These default probabilities are directly correlated to the probability that we will have to make a payment under the credit derivative contracts.

	June 30, 2016			**December 31, 2015**			**June 30, 2015**		
dollars in millions	**Notional Amount**	**Average Term (Years)**	**Payment / Performance Risk**	**Notional Amount**	**Average Term (Years)**	**Payment / Performance Risk**	**Notional Amount**	**Average Term (Years)**	**Payment / Performance Risk**
Single-name credit default swaps							$ 5	.22	.87%
Other	**$ 25**	**16.60**	**8.95%**	$ 5	2.67	14.46%	6	2.51	8.36
Total credit derivatives sold	**$ 25**			$ 5			$ 11		

Credit Risk Contingent Features

We have entered into certain derivative contracts that require us to post collateral to the counterparties when these contracts are in a net liability position. The amount of collateral to be posted is based on the amount of the net liability and thresholds generally related to our long-term senior unsecured credit ratings with Moody s and S&P. Collateral requirements also are based on minimum transfer amounts, which are specific to each Credit Support Annex (a component of the ISDA Master Agreement) that we have signed with the counterparties. In a limited number of instances, counterparties have the right to terminate their ISDA Master Agreements with us if our ratings fall below a certain level, usually investment-grade level (i.e., Baa3 for Moody s and BBB- for S&P). At June 30, 2016, KeyBank s rating was A3 with Moody s and A- with S&P, and KeyCorp s rating was Baa1 with Moody s and BBB+ with S of June 30, 2016, the aggregate fair value of all derivative contracts with credit risk contingent features (i.e., those containing collateral posting or termination provisions based on our ratings) held by KeyBank that were in a net liability position totaled $261 million, which includes $241 million in derivative assets and $502 million in derivative liabilities. We had $265 million in cash and securities collateral posted to cover those positions as of June 30, 2016. The aggregate fair value of all derivative contracts with credit risk contingent features held by KeyCorp as of June 30, 2016, that were in a net liability position totaled $12 million, which consists solely of derivative liabilities. We had $12 million in collateral posted to cover those positions as of June 30, 2016.

The following table summarizes the additional cash and securities collateral that KeyBank would have been required to deliver under the ISDA Master Agreements had the credit risk contingent features been triggered for the derivative contracts in a net liability position as of June 30, 2016, December 31, 2015, and June 30, 2015. The additional collateral amounts were calculated based on scenarios under which KeyBank s ratings are downgraded one, two, or three ratings as of June 30, 2016, December 31, 2015, and June 30, 2015, and take into account all collateral already posted. A similar calculation was

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performed for KeyCorp, and no additional collateral would have been required as of June 30, 2016, December 31, 2015, or June 30, 2015. For more information about the credit ratings for KeyBank and KeyCorp, see the discussion under the heading Factors affecting liquidity in the section entitled Liquidity risk management in Item 2 of this report.

	June 30, 2016		**December 31, 2015**		**June 30, 2015**	
in millions	**Moody s**	**S&P**	**Moody s**	**S&P**	**Moody s**	**S&P**
KeyBank s long-term senior unsecured credit ratings	**A3**	**A-**	A3	A-	A3	A-
One rating downgrade	**$ 2**	**$ 2**	$ 2	$ 2	$ 4	$ 4
Two rating downgrades	**2**	**2**	2	2	4	4
Three rating downgrades	**2**	**2**	4	4	6	6

KeyBank s long-term senior unsecured credit rating was four ratings above noninvestment grade at Moody s and S&P as of June 30, 2016, December 31, 2015, and June 30, 2015. If KeyBank s ratings had been downgraded below investment grade as of June 30, 2016, December 31, 2015, or June 30, 2015, payments of up to $3 million, $5 million, and $7 million, respectively, would have been required to either terminate the contracts or post additional collateral for those contracts in a net liability position, taking into account all collateral already posted. If KeyCorp s ratings had been downgraded below investment grade as of June 30, 2016, December 31, 2015, and June 30, 2015, payments of less than $1 million would have been required to either terminate the contracts or post additional collateral for those contracts in a net liability position, taking into account all collateral already posted.

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8. Mortgage Servicing Assets

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

	Three months ended June 30,		Six months ended June 30,	
in millions	**2016**	2015	**2016**	2015
Balance at beginning of period	**$ 318**	$ 324	**$ 321**	$ 323
Servicing retained from loan sales	**15**	18	**22**	28
Purchases		10	**12**	25
Amortization	**(10)**	(23)	**(32)**	(47)
Balance at end of period	**$ 323**	$ 329	**$ 323**	$ 329
Fair value at end of period	**$ 404**	$ 423	**$ 404**	$ 423

The fair value of mortgage servicing assets is determined by calculating the present value of future cash flows associated with servicing the loans. This calculation uses a number of assumptions that are based on current market conditions. The range and weighted-average of the significant unobservable inputs used to fair value our mortgage servicing assets at June 30, 2016, December 31, 2015, and June 30, 2015, along with the valuation techniques, are shown in the following table:

June 30, 2016		**Significant**	**Range**
dollars in millions	**Valuation Technique**	**Unobservable Input**	**(Weighted-Average)**
Mortgage servicing assets	Discounted cash flow	Prepayment speed	1.50 - 17.50% (4.20%)
		Expected defaults	1.00 - 3.00% (1.60%)
		Residual cash flows discount rate	7.00 - 15.00% (7.90%)
		Escrow earn rate	0.90 - 3.00% (2.10%)
		Servicing cost	$150 - $2,700 ($1,136)
		Loan assumption rate	0.00 - 3.00% (1.27%)
		Percentage late	0.00 - 2.10% (0.34%)

December 31, 2015		**Significant**	**Range**
dollars in millions	**Valuation Technique**	**Unobservable Input**	**(Weighted-Average)**
Mortgage servicing assets	Discounted cash flow	Prepayment speed	1.90 - 17.20% (4.60%)
		Expected defaults	1.00 - 3.00% (1.70%)
			7.00 - 15.00% (7.80%)

		Residual cash flows discount rate	
		Escrow earn rate	1.00 - 3.50% (2.30%)
		Servicing cost	$150 - $2,700 ($1,215)
		Loan assumption rate	0.00 - 3.00% (1.34%)
		Percentage late	0.00 - 2.00% (0.33%)

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

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

We have elected to account for servicing assets using the amortization method. The amortization of servicing assets is determined in proportion to, and over the period of, the estimated net servicing income. The amortization of servicing assets

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for each period, as shown in the table at the beginning of this note, is recorded as a reduction to contractual fee income. The contractual fee income from servicing commercial mortgage loans totaled $66 million for the six-month period ended June 30, 2016, and $69 million for the six-month period ended June 30, 2015. This fee income was offset by $44 million of amortization for the six-month period ended June 30, 2016, and $47 million for the six-month period ended June 30, 2015. Both the contractual fee income and the amortization are recorded, net, in mortgage servicing fees on the income statement.

Additional information pertaining to the accounting for mortgage and other servicing assets is included in Note 1 (Summary of Significant Accounting Policies) under the heading Servicing Assets on page 127 of our 2015 Form 10-K.

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9. Variable Interest Entities

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

- The entity does not have sufficient equity to conduct its activities without additional subordinated financial support from another party.
- The entity s investors lack the power to direct the activities that most significantly impact the entity s economic performance.
- The entity s equity at risk holders do not have the obligation to absorb losses or the right to receive residual returns.
- The voting rights of some investors are not proportional to their economic interests in the entity, and substantially all of the entity s activities involve, or are conducted on behalf of, investors with disproportionately few voting rights.

Our significant VIEs are summarized below. We define a significant interest in a VIE as a subordinated interest that exposes us to a significant portion, but not the majority, of the VIE s expected losses or residual returns, even though we do not have the power to direct the activities that most significantly impact the entity s economic performance. KCC and KPP principal investments are newly assessed VIEs under the amended consolidation guidance. Additional information on the amended consolidation guidance is provided in Note 1 (Basis of Presentation and Accounting Policies).

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

Our maximum exposure to loss in connection with these partnerships consists of our unamortized investment balance plus any unfunded equity commitments and tax credits claimed but subject to recapture. We had $1 billion, $1.1 billion, and $996 million of investments in LIHTC operating partnerships at June 30, 2016, December 31, 2015, and June 30, 2015, respectively. These investments are recorded in accrued income and other assets on our balance sheet. We do not have any loss reserves recorded related to these investments because we believe the likelihood of any loss is remote. For all legally binding unfunded equity commitments, we increase our recognized investment and recognize a liability. As of June 30, 2016, December 31, 2015, and June 30, 2015, we had liabilities of $383 million, $410 million, and $333 million, respectively, related to investments in qualified affordable housing projects, which are recorded in accrued expenses and other liabilities on our balance sheet. We continue to invest in these LIHTC operating partnerships.

The assets and liabilities presented in the table below convey the size of KCDC s direct and indirect investments at June 30, 2016, December 31, 2015, and June 30, 2015. As these investments represent unconsolidated VIEs, the assets and liabilities of the investments themselves are not recorded on our balance sheet. During 2015, we noted that not all of KCDC s unconsolidated VIEs were captured in the table below. As a result, the amounts in the table were revised to incorporate all of KCDC s unconsolidated VIEs for the quarter ended June 30, 2015. Because our LIHTC investments were appropriately accounted for, these revisions did not impact our financial condition or results of operations for the quarter ended June 30, 2015.

		Unconsolidated VIEs	
in millions	**Total Assets**	**Total Liabilities**	**Maximum Exposure to Loss**
June 30, 2016			
LIHTC investments	**$ 4,650**	**$ 1,909**	**$ 1,232**
December 31, 2015			
LIHTC investments	$ 4,914	$ 1,368	$ 1,332
June 30, 2015			
LIHTC investments	$ 3,338	$ 552	$ 1,175

We amortize our LIHTC investments over the period that we expect to receive the tax benefits. During the first six months of 2016, we recognized $64 million of amortization and $67 million of tax credits associated with these investments within income taxes on our income statement. During the first six months of 2015, we recognized $56 million of amortization and $64 million of tax credits associated with these investments within income taxes on our income statement.

Principal investments. Through our principal investing entity, KCC, we have made investments in private equity funds engaged in venture- and growth-oriented investing. As a limited partner to these funds, KCC records these investments at fair value and receives distributions from the funds in accordance with the funds partnership agreements. We are not the primary beneficiary of these investments as we do not hold the power to direct the activities that most significantly affect the funds economic performance. Such power rests with the funds general partners. In addition, we neither have the obligation to absorb the funds expected losses nor the right to receive their residual returns. Our voting rights are also disproportionate to our economic interests, and substantially all of the funds activities are conducted on behalf of investors with disproportionally few voting rights. Because we are not the primary beneficiary of these investments, we do not consolidate them.

Our maximum exposure to loss associated with indirect principal investments consists of the investments fair value plus any unfunded equity commitments. The fair value of our indirect principal investments totaled $184 million, $235 million, and $282 million at June 30, 2016, December 31, 2015, and June 30, 2015, respectively. These investments are recorded in other investments on our balance sheet. Additional information on indirect principal investments is provided in Note 5 (Fair Value Measurements). The table below reflects the size of the private equity funds in which KCC was invested as well as our maximum exposure to loss in connection with these investments at June 30, 2016.

	Unconsolidated VIEs		
in millions	**Total Assets**	**Total Liabilities**	**Maximum Exposure to Loss**
June 30, 2016			
KCC indirect investments	**$ 32,861**	**$ 203**	**$ 228**

Other unconsolidated VIEs. We are involved with other various entities in the normal course of business that we have determined to be VIEs. We have determined that we are not the primary beneficiary of these partnerships because the general partners have the power to direct the activities that most significantly impact their economic performance. Our assets associated with these unconsolidated VIEs totaled $142 million at June 30, 2016, $176 million at December 31, 2015, and $194 million at June 30, 2015, and primarily consisted of our investments in these entities. These assets are recorded in accrued income and other assets, other investments, and securities available for sale on our balance sheet. We had no liabilities associated with these unconsolidated VIEs at June 30, 2016, and less than $1 million December 31, 2015, and June 30, 2015. These liabilities are recorded in accrued expenses and other liabilities on our balance sheet.

Consolidated VIEs. Through our principal investing entity, KPP, we have formed and funded operating entities that provide management and other related services to our investment company funds, which directly invest in portfolio companies. In return for providing services to our direct investment funds, these entities receive a minority equity interest in the funds. This minority equity ownership is recorded at fair value on the entities financial statements. Additional information on our direct principal investments is provided in Note 5 (Fair Value Measurements). While other equity investors manage the daily operations of these entities, we retain the power, through voting rights, to direct the activities of the entities that most significantly impact their economic performance. In addition, we have the obligation to absorb losses and the right to receive residual returns that could potentially be significant to these entities. As a result, we have determined that we are the primary beneficiary of these funds and have consolidated them since formation. The assets of these KPP entities that can only be used to settle the entities obligations totaled $7 million, $7 million, and $6 million at June 30, 2016, December 31, 2015, and June 30, 2015, respectively. These assets are recorded in cash and due from banks and accrued income and other assets on our balance sheet. The entities had no liabilities at June 30, 2016, December 31, 2015, and June 30, 2015, and other equity investors have no recourse to our general credit.

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10. Income Taxes

Income Tax Provision

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

The effective tax rate, which is the provision for income taxes as a percentage of income from continuing operations before income taxes, was 25.6% for the second quarter of 2016 and 26.3% for the second quarter of 2015. The effective tax rates are below our combined federal and state statutory tax rate of 37.2% primarily due to income from investments in tax-advantaged assets such as corporate-owned life insurance and credits associated with renewable energy and low-income housing investments.

Deferred Tax Asset

At June 30, 2016, from continuing operations, we had a net federal deferred tax asset of $75 million and a net state deferred tax asset of $12 million, compared to a net federal deferred tax asset of $269 million and a net state deferred tax asset of $30 million at December 31, 2015, and a net federal deferred tax asset of $195 million and a net state deferred tax asset of $24 million at June 30, 2015, included in accrued income and other assets on the balance sheet. To determine the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded, we conduct a quarterly assessment of all available evidence. This evidence includes, but is not limited to, taxable income in prior periods, projected future taxable income, and projected future reversals of deferred tax items. These assessments involve a degree of subjectivity and may undergo change. Based on these criteria, we had a valuation allowance of less than $1 million at June 30, 2016, December 31, 2015, and June 30, 2015, associated with certain state net operating loss carryforwards and state credit carryforwards.

Unrecognized Tax Benefits

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

Deferred tax assets were reduced in the financial statements for unrecognized tax benefits by $2.7 million at June 30, 2016, $2.7 million at December 31, 2015, and less than $1 million at June 30, 2015.

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11. Acquisitions and Discontinued Operations

Acquisitions

First Niagara Financial Group, Inc. As previously disclosed, on October 30, 2015, KeyCorp entered into a definitive agreement and plan of merger (Agreement) to acquire all of the outstanding capital stock of First Niagara, headquartered in Buffalo, New York. Under the terms of the Agreement, at the effective time of the merger, each share of First Niagara common stock is converted into the right to receive (i) 0.680 of a share of KeyCorp common stock and (ii) $2.30 in cash. The exchange ratio of KeyCorp stock for First Niagara stock is fixed and does not adjust based on changes in KeyCorp s share trading price. First Niagara equity awards outstanding immediately prior to the effective time of the merger are converted into equity awards for KeyCorp common stock as provided in the Agreement. Each share of First Niagara s Fixed-to-Floating Rate Perpetual Non-Cumulative Preferred Stock, Series B, is converted into a share of a newly created series of preferred stock of KeyCorp having substantially the same terms as First Niagara s preferred stock.

On April 28, 2016, KeyCorp and First Niagara entered into an agreement with Northwest Bank, a wholly-owned subsidiary of Northwest Bancshares, Inc., to sell 18 branches in the Buffalo, New York market. The branches are being divested in connection with the merger between First Niagara and KeyCorp and pursuant to an agreement with the United States Department of Justice and commitments to the Board of Governors of the Federal Reserve System following a customary antitrust review in connection with the merger. On July 12, 2016, KeyCorp received regulatory approval from the Federal Reserve to complete the merger with First Niagara.

On August 1, 2016, First Niagara merged with and into KeyCorp, with KeyCorp as the surviving entity. The total consideration for the transaction was approximately $4.0 billion.

As of June 30, 2016, First Niagara, headquartered in Buffalo, New York, had approximately 390 branches with $40 billion of total assets and $29 billion of deposits.

Discontinued operations

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

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

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

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

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

in millions	Three months ended June 30, 2016	2015	Six months ended June 30, 2016	2015
Net interest income	**$ 7**	$ 10	**$ 14**	$ 20
Provision for credit losses			**2**	2
Net interest income after provision for credit losses	**7**	10	**12**	18
Noninterest income	**2**	(1)	**3**	3
Noninterest expense	**4**	4	**9**	8
Income (loss) before income taxes	**5**	5	**6**	13
Income taxes	**2**	2	**2**	5
Income (loss) from discontinued operations, net of taxes [a]	**$ 3**	$ 3	**$ 4**	$ 8

(a) Includes after-tax charges of $6 million and $5 million for the three-month periods ended June 30, 2016, and June 30, 2015, respectively, and $12 million and $11 million for the six-month periods ended June 30, 2016, and June 30, 2015, respectively, determined by applying a matched funds transfer pricing methodology to the liabilities assumed necessary to support the discontinued operations.

The discontinued assets of our education lending business included on the balance sheet are as follows. There were no discontinued liabilities for the periods presented below.

in millions	June 30, 2016	December 31, 2015	June 30, 2015
Held-to-maturity securities	**$ 1**	$ 1	$ 1
Portfolio loans at fair value	**3**	4	
Loans, net of unearned income [a]	**1,689**	1,824	1,962
Less: Allowance for loan and lease losses	**20**	28	22
Net loans	**1,672**	1,800	1,940
Portfolio loans held for sale at fair value			179
Accrued income and other assets	**29**	30	34
Total assets	**$ 1,702**	$ 1,831	$ 2,154

(a) At June 30, 2016, December 31, 2015, and June 30, 2015, unearned income was less than $1 million.

The discontinued education lending business consisted of loans in portfolio (recorded at fair value) and loans in portfolio (recorded at carrying value with appropriate valuation reserves). As of June 30, 2015, we decided to sell the portfolio loans that are recorded at fair value, which were subsequently sold during the fourth quarter of 2015.

At June 30, 2016, education loans included 2,077 TDRs with a recorded investment of approximately $22 million (pre-modification and post-modification). A specifically allocated allowance of $2 million was assigned to these loans as of June 30, 2016. At December 31, 2015, education loans included 1,901 TDRs with a recorded investment of approximately $21 million (pre-modification and post-modification). A specifically allocated allowance of $2 million was assigned to these loans as of December 31, 2015. At June 30, 2015, education loans included 1,767 TDRs with a recorded investment of approximately $19 million (pre-modification and post-modification). A specifically allocated allowance of $1 million was assigned to these loans at June 30, 2015. There have been no significant payment defaults. There are no significant commitments outstanding to lend additional funds to these borrowers. Additional information regarding TDR classification and ALLL methodology is provided in Note 5 (Asset Quality).

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

In June 2015, we transferred $179 million of loans that were previously purchased from three of the outstanding securitizations trusts pursuant to the legal terms of those particular trusts to held for sale and accounted for them at fair value. These portfolio loans held for sale were valued based on indicative bids to sell the loans. These portfolio loans were previously valued using an internal discounted cash flow model, which was affected by assumptions for defaults, loss severity, discount rates, and prepayments. These loans were considered Level 3 assets since we relied on unobservable inputs when determining their fair value. Our valuation process for these loans prior to June 2015 is discussed in more detail below. On October 29, 2015, government-guaranteed loans were sold for $117 million. On December 8, 2015, private loans were sold for $45 million. The gain on the sales of these loans was $1 million. The remaining portfolio loans held for sale, totaling $4 million, were reclassified to portfolio loans at fair value at December 31, 2015. Portfolio loans accounted for at fair value were $3 million at June 30, 2016.

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

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

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

The unobservable inputs set forth in the following table were reviewed and approved by the Working Group on a quarterly basis. As of December 31, 2015, the portfolio loans accounted for at fair value were valued based on the indicative bids we received when we sold $162 million of these loans in late 2015.

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

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The following table shows the significant unobservable inputs used to measure the fair value of the portfolio loans accounted for at fair value as of June 30, 2016, December 31, 2015, and June 30, 2015:

June 30, 2016

dollars in millions	Fair Value of Level 3 Assets and Liabilities	Valuation Technique	Significant Unobservable Input	Range (Weighted-Average)
Portfolio loans accounted for at fair value	$ 3	Market approach	Indicative bids	84.50-104.00%

December 31, 2015 *dollars in millions*	Fair Value of Level 3 Assets and Liabilities	Valuation Technique	Significant Unobservable Input	Range (Weighted-Average)
Portfolio loans accounted for at fair value	$ 4	Market approach	Indicative bids	84.50-104.00%

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

The following table shows the principal and fair value amounts for our portfolio loans at carrying value and portfolio loans at fair value at June 30, 2016, December 31, 2015, and June 30, 2015. Our policies for determining past due loans, placing loans on nonaccrual, applying payments on nonaccrual loans, and resuming accrual of interest are disclosed in Note 1 (Summary of Significant Accounting Policies) under the heading Nonperforming Loans beginning on page 121 of our 2015 Form 10-K.

	June 30, 2016		**December 31, 2015**		**June 30, 2015**	
in millions	**Principal**	**Fair Value**	**Principal**	**Fair Value**	**Principal**	**Fair Value**
Portfolio loans at carrying value						
Accruing loans past due 90 days or more	**$ 21**	**N/A**	$ 26	N/A	$ 26	N/A
Loans placed on nonaccrual status	**5**	**N/A**	8	N/A	6	N/A
Portfolio loans at fair value						
Accruing loans past due 90 days or more			$ 1	$ 1		
Loans placed on nonaccrual status						
Portfolio loans held for sale at fair value						
Accruing loans past due 90 days or more					$ 5	$ 5

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The following table shows the portfolio loans at fair value and their related contractual amounts as of June 30, 2016, December 31, 2015, and June 30, 2015.

	June 30, 2016		December 31, 2015		June 30, 2015	
in millions	**Contractual Amount**	**Fair Value**	**Contractual Amount**	**Fair Value**	**Contractual Amount**	**Fair Value**
ASSETS						
Portfolio loans	**$ 3**	**$ 3**	$ 4	$ 4		
Portfolio loans held for sale					$ 179	$ 179

The following tables present the assets of the portfolio loans measured at fair value on a recurring basis at June 30, 2016, December 31, 2015, and June 30, 2015.

June 30, 2016

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

December 31, 2015

in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Portfolio loans			$ 4	$ 4
Total assets on a recurring basis at fair value			$ 4	$ 4

June 30, 2015

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

The following table shows the change in the fair values of the Level 3 portfolio loans held for sale, portfolio loans, and consolidated education loan securitization trusts for the three- and six-month periods ended June 30, 2016, and June 30, 2015.

in millions	**Portfolio Student Loans Held For Sale**	**Portfolio Student Loans**
Balance at December 31, 2015		$ 4
Settlements		(1)
Balance at June 30, 2016 [(a)]		$ 3
Balance at March 31, 2016		$ 3
Settlements		
Balance at June 30, 2016		$ 3
Balance at December 31, 2014		$ 191
Gains (losses) recognized in earnings [(b)]		1
Settlements		(13)
Loans transferred to held for sale	$ 179	(179)
Balance at June 30, 2015 [(a)]	$ 179	
Balance at March 31, 2015		$ 187
Gains (losses) recognized in earnings [(b)]		(2)
Settlements		(6)
Loans transferred to held for sale	$ 179	(179)
Balance at June 30, 2015 [(a)]	$ 179	

(a) There were no purchases, sales, issuances, gains (losses) recognized in earnings, transfers into Level 3, or transfers out of Level 3 for the three- and six-month periods ended June 30, 2016. There were no purchases, sales, issuances, transfers into Level 3, or transfers out of Level 3 for the three- and six-month periods ended and June 30, 2015.

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

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

There was no income related to Austin for the three- and six-month periods ended June 30, 2016, and June 30, 2015.

The discontinued assets of Austin included on the balance sheet are as follows. There were no discontinued liabilities for the periods presented below.

in millions	**June 30, 2016**	December 31, 2015	June 30, 2015
Cash and due from banks	**$ 15**	$ 15	$ 15
Total assets	**$ 15**	$ 15	$ 15

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

	Three months ended June 30,		**Six months ended June 30,**	
in millions	**2016**	**2015**	**2016**	**2015**
Net interest income	**$ 7**	$ 10	**$ 14**	$ 20
Provision for credit losses			**2**	2
Net interest income after provision for credit losses	**7**	10	**12**	18
Noninterest income	**2**	(1)	**3**	3
Noninterest expense	**4**	4	**9**	8
Income (loss) before income taxes	**5**	5	**6**	13
Income taxes	**2**	2	**2**	5
Income (loss) from discontinued operations, net of taxes [(a)]	**$ 3**	$ 3	**$ 4**	$ 8

(a) Includes after-tax charges of $6 million and $5 million for the three-month periods ended June 30, 2016, and June 30, 2015, respectively, and $12 million and $11 million for the six-month periods ended June 30, 2016, and June 30, 2015, respectively, determined by applying a matched funds transfer pricing methodology to the liabilities assumed necessary to support the discontinued operations.

The combined assets of the discontinued operations are as follows. There were no discontinued liabilities for the periods presented below.

in millions

	June 30, 2016	December 31, 2015	June 30, 2015
Cash and due from banks	**$ 15**	$ 15	$ 15
Held-to-maturity securities	**1**	1	1
Portfolio loans at fair value	**3**	4	
Loans, net of unearned income [a]	**1,689**	1,824	1,962
Less: Allowance for loan and lease losses	**20**	28	22
Net loans	**1,672**	1,800	1,940
Portfolio loans held for sale at fair value			179
Accrued income and other assets	**29**	30	34
Total assets	**$ 1,717**	$ 1,846	$ 2,169

(a) At June 30, 2016, December 31, 2015, and June 30, 2015, unearned income was less than $1 million.

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12. Securities Financing Activities

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

The following table summarizes our securities financing agreements at June 30, 2016, December 31, 2015, and June 30, 2015:

	June 30, 2016			
in millions	**Gross Amount Presented in Balance Sheet**	**Netting Adjustments [a]**	**Collateral [b]**	**Net Amounts**
Offsetting of financial assets:				
Reverse repurchase agreements	**$ 1**	**$ (1)**		
Total	**$ 1**	**$ (1)**		
Offsetting of financial liabilities:				
Repurchase agreements [c]	**$ 1**	**$ (1)**		
Total	**$ 1**	**$ (1)**		

	December 31, 2015			
in millions	**Gross Amount Presented in Balance Sheet**	**Netting Adjustments [a]**	**Collateral [b]**	**Net Amounts**
Offsetting of financial assets:				
Reverse repurchase agreements	$ 1		$ (1)	
Total	$ 1		$ (1)	
Offsetting of financial liabilities:				
Repurchase agreements [c]				

Total

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

(a) Netting adjustments take into account the impact of master netting agreements that allow us to settle with a single counterparty on a net basis.

(b) These adjustments take into account the impact of bilateral collateral agreements that allow us to offset the net positions with the related collateral. The application of collateral cannot reduce the net position below zero. Therefore, excess collateral, if any, is not reflected above.

(c) Repurchase agreements are collateralized by U.S. Treasury securities and contracted on an overnight basis.

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

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13. Employee Benefits

Pension Plans

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

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

	Three months ended June 30,		Six months ended June 30,	
in millions	**2016**	**2015**	**2016**	**2015**
Interest cost on PBO	**$ 11**	$ 10	**$ 21**	$ 20
Expected return on plan assets	**(13)**	(14)	**(26)**	(28)
Amortization of losses	**4**	5	**8**	9
Net pension cost	**$ 2**	$ 1	**$ 3**	$ 1

Other Postretirement Benefit Plans

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

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

	Three months ended June 30,		Six months ended June 30,	
in millions	**2016**	**2015**	**2016**	**2015**
Interest cost on APBO	**$ 1**	$ 1	**$ 2**	$ 2
Expected return on plan assets	**(1)**		**(2)**	(1)
Amortization of unrecognized prior service credit		(1)		(1)
Net postretirement benefit cost				

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14. Trust Preferred Securities Issued by Unconsolidated Subsidiaries

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

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

required distributions on the trust preferred securities;

the redemption price when a capital security is redeemed; and

the amounts due if a trust is liquidated or terminated.

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

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

dollars in millions	**Trust Preferred Securities, Net of Discount** [(a)]	**Common Stock**	**Principal Amount of Debentures, Net of Discount** [(b)]	**Interest Rate of Trust Preferred Securities and Debentures** [(c)]	**Maturity of Trust Preferred Securities and Debentures**
June 30, 2016					
KeyCorp Capital I	**$ 156**	**$ 6**	**$ 162**	**1.365%**	**2028**
KeyCorp Capital II	**117**	**4**	**121**	**6.875**	**2029**
KeyCorp Capital III	**151**	**4**	**155**	**7.750**	**2029**
Total	**$ 424**	**$ 14**	**$ 438**	**5.159%**	
December 31, 2015	$ 408	$ 14	$ 422	4.961%	
June 30, 2015	$ 402	$ 14	$ 416	4.903%	

(a)

The trust preferred securities must be redeemed when the related debentures mature, or earlier if provided in the governing indenture. Each issue of trust preferred securities carries an interest rate identical to that of the related debenture. Certain trust preferred securities include basis adjustments related to fair value hedges totaling $84 million at June 30, 2016, $68 million at December 31, 2015, and $62 million at June 30, 2015. See Note 7 (Derivatives and Hedging Activities) for an explanation of fair value hedges.

(b) We have the right to redeem these debentures. If the debentures purchased by KeyCorp Capital I are redeemed before they mature, the redemption price will be the principal amount, plus any accrued but unpaid interest. If the debentures purchased by KeyCorp Capital II or KeyCorp Capital III are redeemed before they mature, the redemption price will be the greater of: (i) the principal amount, plus any accrued but unpaid interest, or (ii) the sum of the present values of principal and interest payments discounted at the Treasury Rate (as defined in the applicable indenture), plus 20 basis points for KeyCorp Capital II or 25 basis points for KeyCorp Capital III or 50 basis points in the case of redemption upon either a tax or a capital treatment event for either KeyCorp Capital II or KeyCorp Capital III, plus any accrued but unpaid interest. The principal amount of certain debentures includes basis adjustments related to fair value hedges totaling $84 million at June 30, 2016, $68 million at December 31, 2015, and $62 million at June 30, 2015. See Note 7 for an explanation of fair value hedges. The principal amount of debentures, net of discounts, is included in long-term debt on the balance sheet.

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

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15. Contingent Liabilities and Guarantees

Legal Proceedings

See Note 20 (Commitments, Contingent Liabilities and Guarantees) under the heading Legal Proceedings on page 211 of our 2015 Form 10-K for a description of a proceeding styled *In re: Checking Account Overdraft Litigation.*

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

Guarantees

We are a guarantor in various agreements with third parties. The following table shows the types of guarantees that we had outstanding at June 30, 2016. Information pertaining to the basis for determining the liabilities recorded in connection with these guarantees is included in Note 1 (Summary of Significant Accounting Policies) under the heading Guarantees beginning on page 130 of our 2015 Form 10-K.

June 30, 2016 *in millions*	**Maximum Potential Undiscounted Future Payments**	**Liability Recorded**
Financial guarantees:		
Standby letters of credit	$ 11,140	$ 67
Recourse agreement with FNMA	1,956	4
Return guarantee agreement with LIHTC investors	3	3
Written put options [(a)]	2,661	47
Total	$ 15,760	$ 121

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

We determine the payment/performance risk associated with each type of guarantee described below based on the probability that we could be required to make the maximum potential undiscounted future payments shown in the preceding table. We use a scale of low (0% to 30% probability of payment), moderate (greater than 30% to 70% probability of payment), or high (greater than 70% probability of payment) to assess the payment/performance risk, and have determined that the payment/performance risk associated with each type of guarantee outstanding at June 30, 2016, is low.

Standby letters of credit. KeyBank issues standby letters of credit to address clients financing needs. These instruments obligate us to pay a specified third party when a client fails to repay an outstanding loan or debt instrument or fails to perform some contractual nonfinancial obligation. Any amounts drawn under standby letters of credit are treated as loans to the client; they bear interest (generally at variable rates) and pose the same credit risk to us as a loan. At June 30, 2016, our standby letters of credit had a remaining weighted-average life of 2.9 years, with remaining actual lives ranging from less than one year to as many as 11 years.

Recourse agreement with FNMA. We participate as a lender in the FNMA Delegated Underwriting and Servicing program. FNMA delegates responsibility for originating, underwriting, and servicing mortgages, and we assume a limited portion of the risk of loss during the remaining term on each commercial mortgage loan that we sell to FNMA. We maintain a reserve for such potential losses in an amount that we believe approximates the fair value of our liability. At June 30, 2016, the outstanding commercial mortgage loans in this program had a weighted-average remaining term of 7.6 years, and the unpaid principal balance outstanding of loans sold by us as a participant was $6.7 billion. The maximum potential amount of undiscounted future payments that we could be required to make under this program, as shown in the preceding table, is equal to approximately 30% of the principal balance of loans outstanding at June 30, 2016. If we are required to make a payment, we would have an interest in the collateral underlying the related commercial mortgage loan; any loss we incur could be offset by the amount of any recovery from the collateral.

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

As shown in the previous table, KAHC maintained a reserve in the amount of $3 million at June 30, 2016, which is sufficient to cover estimated future obligations under the guarantees. The maximum exposure to loss reflected in the table represents undiscounted future payments due to investors for the return on and of their investments.

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

Written put options. In the ordinary course of business, we write put options for clients that wish to mitigate their exposure to changes in interest rates and commodity prices. At June 30, 2016, our written put options had an average life of 2 years. These instruments are considered to be guarantees, as we are required to make payments to the counterparty (the client) based on changes in an underlying variable that is related to an asset, a liability, or an equity security that the client holds. We are obligated to pay the client if the applicable benchmark interest rate or commodity price is above or below a specified level (known as the strike rate). These written put options are accounted for as derivatives at fair value, as further discussed in Note 7 (Derivatives and Hedging Activities). We mitigate our potential future payment obligations by entering into offsetting positions with third parties.

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

Default guarantees. Some lines of business participate in guarantees that obligate us to perform if the debtor (typically a client) fails to satisfy all of its payment obligations to third parties. We generally undertake these guarantees for one of two possible reasons: (i) either the risk profile of the debtor should provide an investment return, or (ii) we are supporting our underlying investment in the debtor. We do not hold collateral for the default guarantees. If we were required to make a payment under a guarantee, we would receive a pro rata share should the third party collect some or all of the amounts due from the debtor. At June 30, 2016, we had $1 million of default guarantees.

Other Off-Balance Sheet Risk

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

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

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

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16. Accumulated Other Comprehensive Income

Our changes in AOCI for the three and six months ended June 30, 2016, and June 30, 2015, are as follows:

in millions	Unrealized gains (losses) on securities available for sale	Unrealized gains (losses) on derivative financial instruments	Foreign currency translation adjustment	Net pension and postretirement benefit costs	Total
Balance at December 31, 2015	$ (58)	$ 20	$ (2)	$ (365)	$ (405)
Other comprehensive income before reclassification, net of income taxes	**187**	**121**	**7**	**(2)**	**313**
Amounts reclassified from accumulated other comprehensive income, net of income taxes [(a)]		**(27)**		**5**	**(22)**
Net current-period other comprehensive income, net of income taxes	**187**	**94**	**7**	**3**	**291**
Balance at June 30, 2016	**$ 129**	**$ 114**	**$ 5**	**$ (362)**	**$ (114)**
Balance at March 31, 2016	$ 70	$ 78	$ 3	$ (364)	$ (213)
Other comprehensive income before reclassification, net of income taxes	**59**	**49**	**2**		**110**
Amounts reclassified from accumulated other comprehensive income, net of income taxes [(a)]		**(13)**		**2**	**(11)**
Net current-period other comprehensive income, net of income taxes	**59**	**36**	**2**	**2**	**99**
Balance at June 30, 2016	**$ 129**	**$ 114**	**$ 5**	**$ (362)**	**$ (114)**
Balance at December 31, 2014	$ (4)	$ (8)	$ 22	$ (366)	$ (356)
Other comprehensive income before reclassification, net of income taxes	3	42	(14)		31
Amounts reclassified from accumulated other comprehensive income, net of income taxes [(a)]	1	(27)	1	5	(20)
Net current-period other comprehensive income, net of income taxes	4	15	(13)	5	11
Balance at June 30, 2015		$ 7	$ 9	$ (361)	$ (345)
Balance at March 31, 2015	$ 51	$ 24	$ 9	$ (363)	$ (279)
Other comprehensive income before reclassification, net of income taxes	(52)	(3)	(1)		(56)
Amounts reclassified from accumulated other comprehensive income, net of income taxes [(a)]	1	(14)	1	2	(10)

Net current-period other comprehensive income, net of income taxes	(51)	(17)	2	(66)
Balance at June 30, 2015	$ 7	$ 9	$ (361)	$ (345)

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

Our reclassifications out of AOCI for the three and six months ended June 30, 2016, and June 30, 2015, are as follows:

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Six months ended June 30, 2016 *in millions*		Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains (losses) on derivative financial instruments			
Interest rate	$	45	Interest income Loans
Interest rate		(2)	Interest expense Long-term debt
		43	Income (loss) from continuing operations before income taxes
		16	Income taxes
	$	27	Income (loss) from continuing operations
Net pension and postretirement benefit costs			
Amortization of losses	$	(8)	Personnel expense
Amortization of unrecognized prior service credit			Personnel expense
		(8)	Income (loss) from continuing operations before income taxes
		(3)	Income taxes
	$	(5)	Income (loss) from continuing operations

Three months ended June 30, 2016 *in millions*		Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains (losses) on derivative financial instruments			
Interest rate	$	22	Interest income Loans
Interest rate		(1)	Interest expense Long-term debt
		21	Income (loss) from continuing operations before income taxes
		8	Income taxes
	$	13	Income (loss) from continuing operations
	$	(4)	Personnel expense

Net pension and postretirement benefit costs Amortization of losses			
			Income (loss) from continuing operations
		(4)	before income taxes
		(2)	Income taxes
	$	**(2)**	Income (loss) from continuing operations

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Six months ended June 30, 2015 *in millions*	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains (losses) on available for sale securities			
Realized losses	$	(1)	Other income
		(1)	Income (loss) from continuing operations before income taxes
			Income taxes
	$	(1)	Income (loss) from continuing operations
Unrealized gains (losses) on derivative financial instruments			
Interest rate	$	45	Interest income Loans
Interest rate		(2)	Interest expense Long-term debt
		43	Income (loss) from continuing operations before income taxes
		16	Income taxes
	$	27	Income (loss) from continuing operations
Foreign currency translation adjustment			
	$	(1)	Corporate services income
		(1)	Income (loss) from continuing operations before income taxes
			Income taxes
	$	(1)	Income (loss) from continuing operations
Net pension and postretirement benefit costs			
Amortization of losses	$	(9)	Personnel expense
Amortization of prior service credit		1	Personnel expense
		(8)	Income (loss) from continuing operations before income taxes
		(3)	Income taxes
	$	(5)	Income (loss) from continuing operations

Three months ended June 30, 2015 *in millions*	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains (losses) on available for sale securities			
Realized losses	$	(1)	Other income
		(1)	Income (loss) from continuing operations before income taxes
			Income taxes
	$	(1)	Income (loss) from continuing operations
Unrealized gains (losses) on derivative financial instruments			
Interest rate	$	23	Interest income Loans
Interest rate		(1)	Interest expense Long term debt
		22	Income (loss) from continuing operations before income taxes
		8	Income taxes
	$	14	Income (loss) from continuing operations
Foreign currency translation adjustment			
	$	(1)	Corporate services income
		(1)	Income (loss) from continuing operations before income taxes
			Income taxes
	$	(1)	Income (loss) from continuing operations
Net pension and postretirement benefit costs			
Amortization of losses	$	(5)	Personnel expense
Amortization of prior service credit		1	Personnel expense
		(4)	Income (loss) from continuing operations before income taxes
		(2)	Income taxes
	$	(2)	Income (loss) from continuing operations

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17. Shareholders Equity

Comprehensive Capital Plan

As previously reported and as authorized by the Board and pursuant to our 2015 capital plan (which was effective through the second quarter of 2016) submitted to and not objected to by the Federal Reserve, we had authority to repurchase up to $725 million of our common shares, which include repurchases to offset issuances of common shares under our employee compensation plans. Common share repurchases were suspended in the fourth quarter of 2015 in connection with the announcement of our acquisition of First Niagara.

On June 29, 2016, the Federal Reserve announced that it did not object to our 2016 capital plan submitted as part of the annual CCAR process. Share repurchases of up to $350 million were included in the 2016 capital plan, which is effective through the second quarter of 2017. We anticipate repurchasing common shares in the third quarter of 2016 plan following the completion of the acquisition of First Niagara.

Our 2015 capital plan proposed an increase in our quarterly common share dividend from $.075 to $.085 per share. This dividend increase was approved in May 2016 by our Board, who subsequently declared a quarterly dividend of $.085 per common share for the second quarter of 2016. Our 2016 capital plan proposed an increase in our quarterly common share dividend, up to $.095 per share, which will be considered by the Board for the second quarter of 2017.

Preferred Stock

We made a quarterly dividend payment of $1.9375 per share, or $5.6 million, on our Series A Preferred Stock during the second quarter of 2016.

First Niagara Merger

As disclosed in Note 11 (Acquisitions and Discontinued Operations), on August 1, 2016, First Niagara merged with and into KeyCorp, with KeyCorp as the surviving entity. At the effective time of the merger, each share of First Niagara common stock is converted into the right to receive (i) 0.680 of a share of KeyCorp common stock and (ii) $2.30 in cash. First Niagara equity awards outstanding immediately prior to the effective time of the merger are converted into equity awards for KeyCorp common stock as provided in the Agreement. Each share of First Niagara s Fixed-to-Floating Rate Perpetual Non-Cumulative Preferred Stock, Series B, is converted into a share of a newly created series of preferred stock of KeyCorp having substantially the same terms as First Niagara s preferred stock.

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18. Line of Business Results

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

Key Community Bank

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

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

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

Key Corporate Bank

Key Corporate Bank is a full-service corporate and investment bank focused principally on serving the needs of middle market clients in seven industry sectors: consumer, energy, healthcare, industrial, public sector, real estate, and technology. Key Corporate Bank delivers a broad 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.

Other Segments

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

Reconciling Items

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

The table on the following pages shows selected financial data for our major business segments for the three- and six-month periods ended June 30, 2016, and June 30, 2015.

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

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

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

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

- The consolidated provision for credit losses is allocated among the lines of business primarily based on their actual net loan charge-offs, adjusted periodically for loan growth and changes in risk profile. The amount of the consolidated provision is based on the methodology that we use to estimate our consolidated ALLL. This methodology is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses beginning on page 122 of our 2015 Form 10-K.

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

Capital is assigned to each line of business based on economic equity.

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

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Three months ended June 30,	Key Community Bank		Key Corporate Bank	
dollars in millions	**2016**	2015	**2016**	2015
SUMMARY OF OPERATIONS				
Net interest income (TE)	**$ 391**	$ 362	**$ 222**	$ 228
Noninterest income	**207**	198	**230**	250
Total revenue (TE) [a]	**598**	560	**452**	478
Provision for credit losses	**25**	3	**30**	41
Depreciation and amortization expense	**12**	14	**13**	11
Other noninterest expense	**432**	433	**246**	245
Income (loss) from continuing operations before income taxes (TE)	**129**	110	**163**	181
Allocated income taxes and TE adjustments	**48**	41	**29**	50
Income (loss) from continuing operations	**81**	69	**134**	131
Income (loss) from discontinued operations, net of taxes				
Net income (loss)	**81**	69	**134**	131
Less: Net income (loss) attributable to noncontrolling interests			**(1)**	
Net income (loss) attributable to Key	**$ 81**	$ 69	**$ 135**	$ 131
AVERAGE BALANCES [b]				
Loans and leases	**$ 30,936**	$ 30,707	**$ 28,607**	$ 25,298
Total assets [a]	**32,963**	32,809	**33,909**	31,173
Deposits	**53,794**	50,765	**19,129**	19,709
OTHER FINANCIAL DATA				
Net loan charge-offs [b]	**$ 17**	$ 20	**$ 27**	$ 12
Return on average allocated equity [b]	**11.99%**	10.34%	**26.23%**	29.24%
Return on average allocated equity	**11.99**	10.34	**26.24**	29.24
Average full-time equivalent employees [c]	**7,331**	7,574	**2,138**	2,058

Six months ended June 30,	Key Community Bank		Key Corporate Bank	
dollars in millions	**2016**	2015	**2016**	2015
SUMMARY OF OPERATIONS				
Net interest income (TE)	**$ 790**	$ 720	**$ 440**	$ 442
Noninterest income	**403**	388	**437**	438
Total revenue (TE) [a]	**1,193**	1,108	**877**	880
Provision for credit losses	**66**	32	**73**	47
Depreciation and amortization expense	**25**	29	**26**	20
Other noninterest expense	**856**	855	**469**	455
Income (loss) from continuing operations before income taxes (TE)	**246**	192	**309**	358

Allocated income taxes and TE adjustments	**92**	72	**57**	99
Income (loss) from continuing operations	**154**	120	**252**	259
Income (loss) from discontinued operations, net of taxes				
Net income (loss)	**154**	120	**252**	259
Less: Net income (loss) attributable to noncontrolling interests			**(2)**	1
Net income (loss) attributable to Key	**$ 154**	$ 120	**$ 254**	$ 258
AVERAGE BALANCES [b]				
Loans and leases	**$ 30,863**	$ 30,684	**$ 28,164**	$ 25,012
Total assets [a]	**32,910**	32,789	**33,661**	30,709
Deposits	**53,299**	50,591	**18,602**	19,142
OTHER FINANCIAL DATA				
Net loan charge-offs [b]	**$ 40**	$ 49	**$ 45**	$ 8
Return on average allocated equity [b]	**11.47%**	8.94%	**24.80%**	28.45%
Return on average allocated equity	**11.47**	8.94	**24.78**	28.45
Average full-time equivalent employees [c]	**7,353**	7,608	**2,132**	2,057

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

(b) From continuing operations.

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

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Other Segments		Total Segments		Reconciling Items		Key	
2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
$ (11)	$ (1)	**$ 602**	$ 589	**$ 3**	$ 2	**$ 605**	$ 591
42	44	**479**	492	**(6)**	(4)	**473**	488
31	43	**1,081**	1,081	**(3)**	(2)	**1,078**	1,079
(3)	(2)	**52**	42		(1)	**52**	41
1	2	**26**	27	**36**	38	**62**	65
10	10	**688**	688	**1**	(42)	**689**	646
23	33	**315**	324	**(40)**	3	**275**	327
(2)	1	**75**	92	**2**	(1)	**77**	91
25	32	**240**	232	**(42)**	4	**198**	236
				3	3	**3**	3
25	32	**240**	232	**(39)**	7	**201**	239
1	1		1	**(1)**		**(1)**	1
$ 24	$ 31	**$ 240**	$ 231	**$ (38)**	$ 7	**$ 202**	$ 238
$ 1,519	$ 1,903	**$ 61,062**	$ 57,908	**$ 86**	$ 70	**$ 61,148**	$ 57,978
30,121	27,025	**96,993**	91,007	**420**	651	**97,413**	91,658
972	442	**73,895**	70,916	**9**	(78)	**73,904**	70,838
	$ 3	**$ 44**	$ 35	**(1)**	$ 1	**$ 43**	$ 36
57.46%	56.52%	**19.48%**	19.74%	**(2.66)%**	.27%	**7.18%**	8.90%
56.12	55.51	**19.47**	19.72	**(2.47)**	.48	**7.29**	9.01
4	14	**9,473**	9,646	**3,946**	3,809	**13,419**	13,455

Other Segments		Total Segments		Reconciling Items		Key	
2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
(20)	$ 3	**$ 1,210**	$ 1,165	**$ 7**	$ 3	**$ 1,217**	$ 1,168
$ 72	106	**912**	932	**(8)**	(7)	**904**	925
52	109	**2,122**	2,097	**(1)**	(4)	**2,121**	2,093
2	(4)	**141**	75		1	**141**	76
3	5	**54**	54	**72**	75	**126**	129
19	22	**1,344**	1,332	**(16)**	(81)	**1,328**	1,251
28	86	**583**	636	**(57)**	1	**526**	637
(11)	10	**138**	181	**3**	(10)	**141**	171
39	76	**445**	455	**(60)**	11	**385**	466
				4	8	**4**	8

39	76	**445**	455	**(56)**	19	**389**	474
1	2	**(1)**	3			**(1)**	3
$ 38	$ 74	**$ 446**	$ 452	**$ (56)**	$ 19	**$ 390**	$ 471
$ 1,561	$ 1,973	**$ 60,588**	$ 57,669	**$ 64**	$ 77	**$ 60,652**	$ 57,746
28,925	26,486	**95,496**	89,984	**449**	664	**95,945**	90,648
864	454	**72,765**	70,187	**(14)**	(80)	**72,751**	70,107
$ 5	$ 7	**$ 90**	$ 64	**$ (1)**		**$ 89**	$ 64
43.92%	66.03%	**18.18%**	19.14%	**(1.97)%**	.38%	**7.02%**	8.82%
42.69	64.88	**18.16**	19.12	**(1.84)**	.66	**7.09**	8.97
6	15	**9,491**	9,680	**3,920**	3,832	**13,411**	13,512

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

The Board of Directors and Shareholders of KeyCorp

We have reviewed the consolidated balance sheets of KeyCorp as of June 30, 2016 and 2015, and the related consolidated statements of income and comprehensive income for the six-month periods ended June 30, 2016 and 2015, and the consolidated statements of changes in equity and cash flows for the six-month periods ended June 30, 2016 and 2015. These financial statements are the responsibility of KeyCorp s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of KeyCorp as of December 31, 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended (not presented herein) and we expressed an unqualified opinion on those consolidated financial statements in our report dated February 24, 2016. In our opinion, the accompanying consolidated balance sheet of KeyCorp as of December 31, 2015, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Cleveland, Ohio — Ernst & Young LLP

August 5, 2016

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

Introduction

This section reviews the financial condition and results of operations of KeyCorp and its subsidiaries for the quarterly periods ended June 30, 2016, and June 30, 2015. Some tables may include additional periods to comply with disclosure requirements or to illustrate trends in greater depth. When you read this discussion, you should also refer to the consolidated financial statements and related notes in this report. The page locations of specific sections and notes that we refer to are presented in the table of contents.

References to our 2015 Form 10-K refer to our Form 10-K for the year ended December 31, 2015, which has been filed with the SEC and is available on its website (www.sec.gov) and on our website (www.key.com/ir).

Terminology

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

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

We use the phrase ***continuing operations*** in this document to mean all of our businesses other than the education lending business and Austin. The education lending business and Austin have been accounted for as ***discontinued operations*** since 2009.

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

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

For regulatory purposes, capital is divided into two classes. Federal regulations currently prescribe that at least one-half of a bank or BHC s ***total risk-based capital*** must qualify as ***Tier 1 capital***. Both total and Tier 1 capital serve as bases for several measures of capital adequacy, which is an important indicator of financial stability and condition. As described under the heading Regulatory capital and liquidity Capital planning and stress testing in the section entitled Supervision and Regulation that begins on page 9 of our 2015 Form 10-K, the regulators are required to conduct a supervisory capital assessment of all BHCs with assets of at least $50 billion, including KeyCorp. As part of this capital adequacy review, banking regulators evaluate a component of Tier 1 capital, known as ***Common Equity Tier 1***, under the ***Regulatory Capital Rules***. The Capital section of this report under the heading Capital adequacy provides more information on total capital, Tier 1 capital, and the Regulatory Capital Rules, including Common Equity Tier 1, and describes how these measures are calculated. Additionally, a comprehensive list of the acronyms and abbreviations used throughout this discussion is included in Note 1 (Basis of Presentation and Accounting Policies).

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Selected financial data

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

Figure 1. Selected Financial Data

	2016		2015			Six months ended June	
ars in millions, except per share amounts	Second	First	Fourth	Third	Second	2016	2015
R THE PERIOD							
rest income	$ 684	$ 683	$ 673	$ 661	$ 652	$ 1,367	$ 1,28
rest expense	87	79	71	70	68	166	13
interest income	597	604	602	591	584	1,201	1,15
vision for credit losses	52	89	45	45	41	141	7
interest income	473	431	485	470	488	904	92
interest expense	751	703	736	724	711	1,454	1,38
me (loss) from continuing operations re income taxes	267	243	306	292	320	510	62
me (loss) from continuing operations butable to Key	199	187	230	222	235	386	46
me (loss) from discontinued operations, of taxes [(a)]	3	1	(4)	(3)	3	4	
income (loss) attributable to Key	202	188	226	219	238	390	47
me (loss) from continuing operations butable to Key common shareholders	193	182	224	216	230	375	45
me (loss) from discontinued operations, of taxes [(a)]	3	1	(4)	(3)	3	4	
income (loss) attributable to Key common eholders	196	183	220	213	233	379	46
R COMMON SHARE							
me (loss) from continuing operations butable to Key common shareholders	$ .23	$ .22	$ .27	$ .26	$ .27	$ .45	$ .5
me (loss) from discontinued operations, of taxes [(a)]			(.01)				.0
income (loss) attributable to Key common eholders [(b)]	.23	.22	.27	.26	.28	.45	.5
me (loss) from continuing operations butable to Key common shareholders ming dilution	$ .23	$ .22	$ .27	$ .26	$ .27	$ .44	$ .5
me (loss) from discontinued operations, of taxes assuming dilution [(a)]			(.01)				.0
income (loss) attributable to Key common eholders assuming dilution [(b)]	.23	.22	.26	.25	.27	.45	.5
n dividends paid	.085	.075	.075	.075	.075	.16	.1
k value at period end	13.08	12.79	12.51	12.47	12.21	13.08	12.2
gible book value at period end	11.81	11.52	11.22	11.17	10.92	11.81	10.9

ket price:							
h	**13.08**	**13.37**	14.01	15.46	15.70	**13.37**	15.7
v	**10.21**	**9.88**	12.37	12.65	13.90	**9.88**	12.0
se	**11.05**	**11.04**	13.19	13.01	15.02	**11.05**	15.0
ghted-average common shares tanding (000)	**831,899**	**827,381**	828,206	831,430	839,454	**829,640**	843,99
ghted-average common shares and ntial common shares outstanding (000) (c)	**838,496**	**835,060**	835,939	838,880	846,312	**836,778**	851,68
PERIOD END							
ns	**$ 62,098**	**$ 60,438**	$ 59,876	$ 60,085	$ 58,264	**$ 62,098**	$ 58,26
ning assets	**90,065**	**87,273**	83,780	83,779	82,964	**90,065**	82,96
l assets	**101,150**	**98,402**	95,131	95,420	94,604	**101,150**	94,60
osits	**75,325**	**73,382**	71,046	71,073	70,669	**75,325**	70,66
g-term debt	**11,388**	**10,760**	10,184	10,308	10,265	**11,388**	10,26
common shareholders equity	**11,023**	**10,776**	10,456	10,415	10,300	**11,023**	10,30
shareholders equity	**11,313**	**11,066**	10,746	10,705	10,590	**11,313**	10,59
RFORMANCE RATIOS FROM NTINUING OPERATIONS							
urn on average total assets	**.82%**	**.80%**	.97%	.95%	1.03%	**.81%**	1.0
urn on average common equity	**7.15**	**6.86**	8.51	8.30	8.96	**7.01**	8.8
urn on average tangible common equity (d)	**7.94**	**7.64**	9.50	9.27	10.01	**7.79**	9.9
interest margin (TE)	**2.76**	**2.89**	2.87	2.87	2.88	**2.83**	2.8
h efficiency ratio (d)	**69.0**	**66.6**	66.4	66.9	65.1	**67.8**	65.
RFORMANCE RATIOS FROM NSOLIDATED OPERATIONS							
urn on average total assets	**.82%**	**.79%**	.93%	.92%	1.02%	**.80%**	1.0
urn on average common equity	**7.26**	**6.90**	8.36	8.19	9.07	**7.08**	9.0
urn on average tangible common equity (d)	**8.06**	**7.68**	9.33	9.14	10.14	**7.87**	10.0
interest margin (TE)	**2.74**	**2.83**	2.84	2.84	2.85	**2.80**	2.8
n-to-deposit (e)	**85.3**	**85.7**	87.8	89.3	87.3	**85.3**	87.
PITAL RATIOS AT PERIOD END							
shareholders equity to assets	**11.18%**	**11.25%**	11.30%	11.22%	11.19%	**11.18%**	11.1
common shareholders equity to assets	**10.90**	**10.95**	10.99	10.91	10.89	**10.90**	10.8
gible common equity to tangible assets (d)	**9.95**	**9.97**	9.98	9.90	9.86	**9.95**	9.8
nmon Equity Tier 1 (d)	**11.10**	**11.07**	10.94	10.47	10.71	**11.10**	10.7
1 risk-based capital	**11.41**	**11.38**	11.35	10.87	11.11	**11.41**	11.1
l risk-based capital	**13.63**	**13.12**	12.97	12.47	12.66	**13.63**	12.6
erage	**10.59**	**10.73**	10.72	10.68	10.74	**10.59**	10.7
UST AND BROKERAGE ASSETS							
ets under management	**$ 34,535**	**$ 34,107**	$ 33,983	$ 35,158	$ 38,399	**$ 34,535**	$ 38,39
managed and brokerage assets	**52,102**	**49,474**	47,681	46,796	48,789	**52,102**	48,78
HER DATA							
rage full-time-equivalent employees	**13,419**	**13,403**	13,359	13,555	13,455	**13,411**	13,51
nches	**949**	**961**	966	972	989	**949**	98

(a) In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. As a result of this decision, we have accounted for this business as a discontinued operation. For further discussion regarding the income (loss) from discontinued operations, see Note 11 (Acquisitions and Discontinued Operations).

(b) EPS may not foot due to rounding.

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

(d) See Figure 7 entitled GAAP to Non-GAAP Reconciliations, which presents the computations of certain financial measures related to tangible common equity, Common Equity Tier 1 and cash efficiency. The table reconciles the GAAP performance measures to the corresponding non-GAAP measures, which provides a basis for period-to-period comparisons.

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

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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, assume, anticipate, intend, project, believe, estimate, or other words of similar meaning. Forward-looking sta 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 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 our actual results to differ from those described in forward-looking statements include, but are not limited to:

- deterioration of commercial real estate market fundamentals;
- defaults by our loan counterparties or clients;
- adverse changes in credit quality trends;
- declining asset prices;
- our concentrated credit exposure in commercial, financial and agricultural loans;
- the extensive and increasing regulation of the U.S. financial services industry;
- changes in accounting policies, standards, and interpretations;
- breaches of security or failures of our technology systems due to technological or other factors and cybersecurity threats;
- operational or risk management failures by us or critical third parties;
- negative outcomes from claims or litigation;

the occurrence of natural or man-made disasters, conflicts, or terrorist attacks, or other adverse external events;

increasing capital and liquidity standards under applicable regulatory rules;

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

our ability to receive dividends from our subsidiary, KeyBank;

downgrades in our credit ratings or those of KeyBank;

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

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

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

the soundness of other financial institutions;

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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;

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

our ability to realize the anticipated benefits of the First Niagara merger; 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-Q and our subsequent reports on Forms 8-K, 10-Q, and 10-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.

Economic overview

The economy rebounded in the second quarter of 2016, with the Federal Reserve Bank of Atlanta estimating real GDP of 2.4%, up from just 1.1% in the first quarter. Second quarter GDP growth was supported by a rebound in consumption even as nonresidential and residential investment dragged on growth. Meanwhile, average job gains fell for the third straight quarter as a result of a disappointing May employment report. Housing market data improved further, with slow advances in residential construction and modest improvement year-over-year in sales of existing homes. Geopolitical tensions, slowing global growth and uncertainty around prospective Federal Reserve actions prevented the economy from accelerating further during the first half of the year.

In the second quarter of 2016, real spending advanced in April and May, rebounding from weak spending dating back to the end of last year, with improvements in both durable and nondurable goods expenditures. Retail sales have shown steady improvement with sales excluding automobiles rising 3.2% year-over-year in June, up from 2.1% in March 2016. Consumer confidence rose modestly from the first quarter, with the Conference Board measure ending the second quarter of 2016 at 98.0, up 1.9 points from March. Inflation remains well below the Federal Reserve target, with the personal consumption expenditure index up just .9% year-over-year as of May 2016.

In the labor market, average monthly job gains declined to 147,000 during the second quarter of 2016, compared to the solid first quarter 2016 average of 196,000, marking the third straight quarter of decline in the monthly average. The second quarter average was adversely impacted by a weak May report, with gains of only 11,000 for the month. Gains continue to be driven by the services sectors, while the goods-producing sectors have reported weakness since the end of last year. The unemployment rate rose to 4.9% in June of 2016, up 20 basis points from May, but down 10 basis points from the end of the first quarter, driven in part by a declining labor force and a lower participation rate.

The housing market improved modestly in the second quarter, with most metrics above year-ago levels. Existing home sales ended the quarter at 5.6 million units, compared to 5.4 million in March and slightly above year-ago levels. New Home Sales rebounded, ending the second quarter of 2016 10% higher than March and up 26% year-over-year increase. Housing starts have fallen modestly since the same period last year, totaling a seasonally adjusted annual rate of 1.19 million in June 2016, down 2% year-over-year and up 7% since the end of the first quarter. Housing permits rebounded from the start of the year, increasing 7% from March of 2016, but remain 14% below year-ago levels in June 2016. Home price appreciation is moderating, with May 2016 home prices up 5.9% year-over-year, down slightly from 6.7% from March 2016.

The Federal Reserve remained accommodative in the second quarter of 2016, continuing to reinvest principal payments to ease financial conditions. Forward guidance is somewhat unclear as to when the Federal Open Market Committee (FOMC) will again raise the federal funds target rate, as global economic conditions and inflation measures remain concerns. This, along with market uncertainty related to the United Kingdom leaving the European Union, has pushed interest rates lower. The yield on the 10-year U.S. Treasury dropped 29 basis points in the second quarter of 2016 to 1.49%.

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Long-term financial goals

Our long-term financial goals are as follows:

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

Maintain a moderate risk profile by targeting a net loan charge-offs to average loans ratio and provision for credit losses to average loans ratio in the range of .40% to .60%;

Grow high quality, diverse revenue streams by targeting a net interest margin in the range of 3.00% to 3.25% and a ratio of noninterest income to total revenue of greater than 40%;

Generate positive operating leverage and target a cash efficiency ratio excluding merger-related expense of less than 60%; and

Maintain disciplined capital management and target a return on average assets excluding merger-related expense in the range of 1.00% to 1.25%.

Figure 2 shows the evaluation of our long-term financial goals for the six months ended June 30, 2016.

Figure 2. Evaluation of Our Long-Term Financial Goals

KEY Business Model	Key Metrics [a]	2Q16	YTD 2016	Targets
Balance sheet efficiency	Loan-to-deposit ratio [b]	85%	85%	90 - 100%
Moderate risk profile	Net loan charge-offs to average loans	.28%	.30%	.40 - .60%
	Provision for credit losses to average loans	.34%	.47%	
High quality, diverse revenue streams	Net interest margin	2.76%	2.83%	3.00 - 3.25%
	Noninterest income to total revenue	44%	43%	> 40%
Positive operating leverage	Cash efficiency ratio [c]	69.0%	67.8%	< 60%
	Cash efficiency ratio excluding merger-related expense [c]	64.8%	64.6%	
Financial Returns	Return on average assets	.82%	.81%	1.00 - 1.25%
	Return on average assets excluding merger-related expense [c]	.94%	.90%	

(a) Calculated from continuing operations, unless otherwise noted.
(b) Represents period-end consolidated total loans and loans held for sale divided by period-end consolidated total deposits (excluding deposits in foreign office).
(c) Non-GAAP measure: see Figure 7 for reconciliation.

Strategic developments

Our actions and results during the first six months of 2016 supported our corporate strategy described in the Introduction section under the Corporate strategy heading on page 38 of our 2015 Form 10-K.

We continue to focus on growing our businesses and remain committed to improving productivity and efficiency. During the first six months of 2016, we generated positive operating leverage excluding merger-related expense from the prior year, with revenue up 1.3% from 2015. Net interest income benefited from higher earning asset balances and an increase in earning asset yields, largely the result of our loan portfolio repricing to the higher short-term interest rates. Although noninterest income declined slightly from the prior year, we saw a benefit from increases in several of our core fee-based businesses where we continue to make investments: service charges on deposit accounts, corporate services income, and cards and payments income. Excluding merger-related expense of $69 million, noninterest expense increased $5 million from the prior year primarily due to slight increases across various nonpersonnel areas.

Although asset quality measures were impacted during the first six months of 2016 by credit migration, primarily in our oil and gas portfolio, our net loan charge-offs were .30% of average loans, below our targeted range, and the provision for credit losses was .47% of average loans, within our targeted range.

Capital management remains a priority for 2016. As previously reported, our existing share repurchase program under the 2015 capital plan (which was effective through the second quarter of 2015) was suspended in the fourth quarter of 2015 in connection with the announcement of our acquisition of First Niagara. On June 29, 2016, the Federal Reserve announced that it did not object to our 2016 capital plan. Share repurchases of up to $350 million were included in the 2016 capital plan, which is effective through the second quarter of 2017. We anticipate repurchasing common shares in the third quarter of 2016 following the completion of the acquisition of First Niagara.

As previously reported, our 2015 capital plan proposed an increase in our quarterly common share dividend from $.075 to $.085 per share, which was approved by our Board in May 2016. An additional potential increase in our quarterly common share dividend, up to $.095 per share, will be considered by the Board for the second quarter of 2017, consistent with the 2016 capital plan.

On August 1, 2016, First Niagara merged with and into KeyCorp, with KeyCorp as the surviving entity after receiving regulatory approval on July 12, 2016. The total consideration for the transaction was approximately $4.0 billion. Systems and client conversion is expected during the fourth quarter of 2016, subject to pending regulatory approval. On April 28, 2016, KeyCorp and First Niagara entered into an agreement with Northwest Bank, a wholly-owned subsidiary of Northwest Bancshares, Inc., to sell 18 branches in the Buffalo, New York market. The branches are being divested in connection with the merger between First Niagara and KeyCorp and pursuant to an agreement with the United States Department of Justice and commitments to the Board of Governors of the Federal Reserve System following a customary antitrust review in connection with the proposed merger.

Demographics

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

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

Figure 3 shows the geographic diversity of Key Community Bank s average deposits, commercial loans, and home equity loans.

Figure 3. Key Community Bank Geographic Diversity

Geographic Region

Three months ended

June 30, 2016

dollars in millions	**Pacific**	**Rocky Mountains**	**Indiana**	**West Ohio/ Michigan**	**East Ohio**	**Western New York**	**Eastern New York**	**New England**	**NonRegion** [(a)]	**Total**
Average deposits	$ 12,754	$ 5,416	$ 2,400	$ 4,717	$ 10,083	$ 5,185	$ 8,107	$ 3,041	$ 2,091	$ 53,794
Percent of total	23.7%	10.1%	4.5%	8.8%	18.7%	9.6%	15.1%	5.6%	3.9%	100.0%
Average commercial loans	$ 3,421	$ 1,927	$ 893	$ 1,236	$ 2,369	$ 684	$ 1,916	$ 824	$ 3,178	$ 16,448
Percent of total	20.8%	11.7%	5.4%	7.5%	14.4%	4.2%	11.7%	5.0%	19.3%	100.0%
Average home equity loans	$ 3,131	$ 1,495	$ 482	$ 803	$ 1,227	$ 823	$ 1,235	$ 642	$ 70	$ 9,908
Percent of total	31.6%	15.1%	4.8%	8.1%	12.4%	8.3%	12.5%	6.5%	.7%	100.0%

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

Key Corporate Bank is a full-service corporate and investment bank focused principally on serving the needs of middle market clients in seven industry sectors: consumer, energy, healthcare, industrial, public sector, real estate, and technology.

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Key Corporate Bank delivers a broad 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 18 (Line of Business Results).

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Supervision and regulation

Regulatory reform developments

On July 21, 2010, the Dodd-Frank Act became law. It was intended to address perceived deficiencies and gaps in the regulatory framework for financial services in the U.S., reduce the risks of bank failures, better equip the nation s regulators to guard against or mitigate any future financial crises, and manage systemic risk through increased supervision of bank and nonbank SIFIs, such as KeyCorp and KeyBank. Further discussion concerning the Dodd-Frank Act, related regulatory developments, and the risks that they present to Key is available under the heading Supervision and Regulation in Item 1. Business and under the heading II. Compliance Risk in Item 1A. Risk Factors of our 2015 Form 10-K. Many proposed rules referenced in our prior reports remain pending. The following discussion provides a summary of recent regulatory developments relating to the Dodd-Frank Act or regulatory developments that relate to our results this quarter.

Regulatory capital rules

In October 2013, 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 in the U.S. the Basel III capital framework published by the Basel Committee in December 2010 and revised in June 2011 and January 2014 (the Basel III capital framework). The Basel III capital framework and the U.S. implementation of the Basel III capital framework are discussed in more detail in Item 1. Business of our 2015 Form 10-K under the heading Supervision and Regulation Basel III capital and liquidity frameworks.

While the Regulatory Capital Rules became effective on January 1, 2014, the mandatory compliance date for Key as a standardized approach banking organization was January 1, 2015, subject to transitional provisions extending to January 1, 2019.

New minimum capital and leverage ratio requirements

Under the Regulatory Capital Rules, standardized approach banking organizations, like KeyCorp, are required to meet the minimum capital and leverage ratios set forth in Figure 4 below. At June 30, 2016, Key had an estimated Common Equity Tier 1 Capital Ratio of 11.05% under the fully phased-in Regulatory Capital Rules. Also at June 30, 2016, based on the fully phased-in Regulatory Capital Rules, Key estimates that its capital and leverage ratios, after adjustment for market risk, would be as set forth in Figure 4.

Figure 4. Estimated Ratios vs. Minimum Capital Ratios Calculated Under the Fully Phased-In Regulatory Capital Rules

Ratios (including Capital conservation buffer)	**Key June 30, 2016 Estimated**	**Minimum January 1, 2016**	**Phase-in Period**	**Minimum January 1, 2019**
Common Equity Tier 1 [(a)]	11.05%	4.5%	None	4.5%
Capital conservation buffer [(b)]			1/1/16-1/1/19	2.5
Common Equity Tier 1 + Capital conservation buffer		4.5	1/1/16-1/1/19	7.0
Tier 1 Capital	11.11	6.0	None	6.0
Tier 1 Capital + Capital conservation buffer		6.0	1/1/16-1/1/19	8.5

Total Capital	13.34	8.0	None	8.0
Total Capital + Capital conservation buffer		8.0	1/1/16-1/1/19	10.5
Leverage [c]	10.36	4.0	None	4.0

(a) See Figure 7 entitled GAAP to Non-GAAP Reconciliations, which presents the computation for estimated Common Equity Tier 1. The table reconciles the GAAP performance measure to the corresponding non-GAAP measure, which provides a basis for period-to-period comparisons.

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

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

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Revised prompt corrective action capital category ratios

Under the Regulatory Capital Rules, the prompt corrective action capital category threshold ratios applicable to FDIC-insured depository institutions such as KeyBank were revised effective January 1, 2015. Figure 5 identifies the capital category threshold ratios for a well capitalized and an adequately capitalized institution under the Regulatory Capital Rules.

Figure 5. Well Capitalized and Adequately Capitalized Capital Category Ratios under Revised Prompt Corrective Action Rules

Prompt Corrective Action Ratio	Capital Category	
	Well Capitalized [a]	Adequately Capitalized
Common Equity Tier 1 Risk-Based	6.5%	4.5%
Tier 1 Risk-Based	8.0	6.0
Total Risk-Based	10.0	8.0
Tier 1 Leverage	5.0	4.0

(a) A well capitalized institution also must not be subject to any written agreement, order, or directive to meet and maintain a specific capital level for any capital measure.
(b) As a standardized approach banking organization, KeyBank is not subject to the 3% supplemental leverage ratio requirement, which becomes effective January 1, 2018.

As of June 30, 2016, KeyBank meets all well capitalized capital adequacy requirements under the Regulatory Capital Rules.

Liquidity coverage ratio

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

Because KeyCorp is a Modified LCR BHC under the Liquidity Coverage Rules, Key is required to maintain its ratio of high-quality liquid assets to its total net cash outflow amount, determined by prescribed assumptions in a standardized hypothetical stress scenario over a 30-calendar day period. Implementation for Modified LCR banking organizations, like Key, began on January 1, 2016, with a minimum requirement of 90% coverage, reaching 100% coverage by January 1, 2017. For the second quarter of 2016, our Modified LCR was above 100%. In the future, we may change the composition of our investment portfolio, increase the size of the overall investment portfolio, and/or modify product offerings to enhance or optimize our liquidity position.

KeyBank will not be subject to the LCR or the Modified LCR under the Liquidity Coverage Rules unless the OCC affirmatively determines that application to KeyBank is appropriate in light of KeyBank s asset size, level of complexity, risk profile, scope of operations, affiliation with foreign or domestic covered entities, or risk to the financial system.

Net stable funding ratio

As previously disclosed in the "Supervision and Regulation" section of Item 1. Business of our 2015 Form 10-K under the heading "Basel III capital and liquidity frameworks," the Basel Committee finalized the Basel III net stable funding ratio ("NSFR") in October 2014. The Basel Committee published final Basel III NSFR disclosure standards in June 2015. In April and May 2016, the federal banking regulators issued an NPR proposing to implement the final Basel III NSFR and the final Basel III NSFR disclosure standards. The proposal would create a minimum NSFR for certain internationally active banking organizations (excluding KeyCorp) and a modified version of the NSFR for BHCs and other depository institution holding companies with over $50 billion in consolidated assets that are not internationally active (including KeyCorp). The proposal would also require quarterly quantitative and qualitative public disclosures regarding the NSFR. The proposed NSFR requirement would apply beginning on January 1, 2018. The comment period for the NPR expires on August 5, 2016.

Common equity surcharge

In July 2015, the Federal Reserve adopted a final rule to implement the common equity surcharge on U.S. global systemically important banks ("G-SIBs"). The final rule was effective December 1, 2015, although the surcharge, which will be added to the capital conservation buffer under the Regulatory Capital Rules, will be phased in during the January 1, 2016, through January 1, 2019, period. Notably, this final rule applies to advanced approaches banking organizations, not "standardized approach" banking organizations like Key.

Deposit insurance and assessments

In March 2015, the FDIC approved a final rule to impose a surcharge, as required by the Dodd-Frank Act, on the quarterly deposit insurance assessments of insured depository institutions having total consolidated assets of at least $10 billion (like KeyBank). The surcharge is 4.5 cents per $100 of the institution s assessment base (after making certain adjustments). The final rule became effective on July 1, 2016. If the DIF reserve ratio reaches 1.15% before that date, surcharges will begin July 1, 2016. If the reserve ratio has not reached 1.15% by that date, surcharges will begin the first quarter after the reserve ratio reaches 1.15%. The DIF reserve ratio was 1.13% at the end of the first quarter of 2016. It is expected that the FDIC will announce the DIF reserve ratio for the end of the second quarter of 2016 in late August or early September of 2016. Surcharges will continue through the quarter that the DIF reserve ratio reaches or exceeds 1.35%, but not later than December 31, 2018. If the reserve ratio does not reach 1.35% by December 31, 2018 (provided it is at least 1.15%), the FDIC will impose a shortfall assessment on March 31, 2019, on insured depository institutions with total consolidated assets of $10 billion or more (like KeyBank).

In February 2016, the FDIC issued an NPR proposing to impose recordkeeping requirements on insured depository institutions with two million or more deposit accounts (including KeyBank) in order to facilitate rapid payment of insured deposits to customers if the institutions were to fail. The proposal would require such insured depository institutions (i) to maintain complete and accurate data on each depositor s ownership interest by right and capacity for all of the institution s deposit accounts and (ii) to develop the capability to calculate the insured and uninsured amounts for each deposit owner within 24 hours of failure. The FDIC would conduct periodic testing of covered institutions compliance with these requirements and such institutions would be required to file a deposit insurance coverage summary report with the FDIC annually. Compliance would be required two years after the effective date of a final rule. After being extended, the comment period for the NPR expired on June 25, 2016.

Single counterparty credit limits

In March 2016, the Federal Reserve issued an NPR proposing to establish single counterparty credit limits for BHCs with total consolidated assets of $50 billion or more. This proposal would implement a provision in the Dodd-Frank Act and replaces proposals on this subject issued by the Federal Reserve in 2011 and 2012. Under the proposal, a covered BHC (including KeyCorp) would not be allowed to have an aggregate net credit exposure to any unaffiliated counterparty that exceeds 25% of the consolidated capital stock and surplus of the covered BHC. G-SIBs and certain other large BHCs (excluding KeyCorp) would be subject to stricter limits under the proposal. A covered BHC such as KeyCorp would be required to comply with the proposed limits and quarterly reporting to show such compliance starting two years after the effective date of a final rule. The comment period for the NPR expired on June 3, 2016.

ERISA fiduciary standard

On April 8, 2016, the Department of Labor published final rules and amendments to certain prohibited transaction exemptions regarding which service providers would be regarded as fiduciaries under ERISA for making investment advice recommendations to: 1) certain retirement plan fiduciaries, participants or beneficiaries and 2) owners or beneficiaries of individual retirement accounts and health savings accounts, among other retirement plans. In sum, the rules intend to place fiduciary obligations, rather than the lesser legal obligations that currently apply, on these service providers. The rules require any financial institution making recommendations for either the purchase or sale of investments in or rollover of the respective retirement plan be subject to certain fiduciary obligations under ERISA such as an impartial conduct standard and not selling certain investment products whose compensation may raise a conflict of interest for the advisor without entering into a contract providing certain disclosures and legal remedies to the customer. The requirement of impartial conduct is effective April 10, 2017, and the contract provisions must be in place by January 1, 2018. At present, we expect that this rule will affect our brokerage, trust and consumer deposit taking lines of business but are not able to determine how significant the new rules financial impact will be on our financial position.

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Highlights of Our Performance

Financial performance

For the second quarter of 2016, we announced net income from continuing operations attributable to Key common shareholders of $193 million, or $.23 per common share. Our second quarter of 2016 results compare to net income from continuing operations attributable to Key common shareholders of $230 million, or $.27 per common share, for the second quarter of 2015.

Our taxable-equivalent net interest income was $605 million for the second quarter of 2016, and the net interest margin was 2.76%. These results compare to taxable-equivalent net interest income of $591 million and a net interest margin of 2.88% for the second quarter of 2015. The $14 million increase in net interest income reflects higher earning asset balances and an increase in earning asset yields, largely the result of our loan portfolio re-pricing to higher short-term interest rates. The benefit to net interest income from these items was partly offset by lower reinvestment yields in our securities and derivatives portfolios. The 12 basis point decline in the net interest margin reflects higher levels of liquidity, lower reinvestment yields in the securities and derivatives portfolios, and lower loan fees. Our Federal Reserve account averaged $5.6 billion during the second quarter of 2016, which increased $2.3 billion compared to the second quarter of 2015 and reduced the net interest margin by 7 basis points. For the full year of 2016, we expect low to mid-single-digit growth in net interest income compared to the prior year without the benefit of higher rates or mid-single digit growth with the benefit of higher interest rates.

Our noninterest income was $473 million for the second quarter of 2016, compared to $488 million for the year-ago quarter. The decrease from the prior year was largely attributable to lower investment banking and debt placement fees of $43 million, reflecting challenging market conditions, as well as $6 million of lower operating lease income and other leasing gains. These declines were offset by an increase of $17 million in other income primarily related to gains from certain real estate investments, along with continued growth in some of our core fee-based businesses, including corporate services and cards and payments. For the full year of 2016, we expect stable to up low single-digit growth in our noninterest income compared to the prior year.

Our noninterest expense was $751 million for the second quarter of 2016. Noninterest expense included $45 million of merger-related expense, primarily made up of $35 million in personnel expense related to technology development for systems conversions and fully-dedicated personnel for merger and integration efforts. The remaining $10 million of merger-related expense was nonpersonnel expense, largely recognized in business services and professional fees and marketing. There was no merger-related expense incurred in the second quarter of 2015. Excluding merger-related expense, noninterest expense was $5 million lower than the second quarter of last year. The decrease is primarily attributable to $16 million in lower personnel expense related to lower performance-based compensation, along with lower net occupancy expenses and business services and professional fees. These decreases were partially offset by an increase in other expense, reflecting the impact of certain real estate investments and other miscellaneous items, along with increased non-merger related marketing expense. For the full year of 2016, we expect noninterest expense excluding merger-related expense to be relatively stable with 2015.

Average loans were $61.1 billion for the second quarter of 2016, an increase of $3.2 billion compared to the second quarter of 2015. The loan growth primarily occurred in the commercial, financial and agricultural portfolio, which increased $3.6 billion and was spread across our commercial lines of business. Consumer loans declined by $504 million mostly due to paydowns on our home equity loan portfolio and continued run-off in our consumer exit portfolios. For the full year of 2016, we anticipate average loan growth in the mid-single digit range.

Average deposits, excluding deposits in foreign office, totaled $73.9 billion for the second quarter of 2016, an increase of $3.6 billion compared to the year-ago quarter. Interest-bearing deposits increased $4.9 billion driven by a $3.6 billion increase in NOW and money market deposit accounts and a $1.3 billion increase in certificates of deposit and other time deposits. The increase in average deposits from the year-ago quarter reflects core deposit growth in our retail banking franchise, growth in escrow deposits from the commercial mortgage servicing business, and commercial deposit inflows. These increases were partially offset by a $1.2 billion decline in noninterest-bearing deposits.

Our provision for credit losses was $52 million for the second quarter of 2016, compared to $41 million for the year-ago quarter. Our ALLL was $854 million, or 1.38% of total period-end loans at June 30, 2016, compared to 1.37% at June 30, 2015. For the remainder of 2016, we expect our ALLL as a percentage of period-end loans to remain relatively stable with the second quarter of 2016.

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Net loan charge-offs for the second quarter of 2016 totaled $43 million, or .28% of average total loans, compared to .25% for the same period last year. We expect net loan charge-offs to average total loans to continue to be below our targeted range of .40% to .60% for the remainder of 2016.

At June 30, 2016, our nonperforming loans totaled $619 million and represented 1.00% of period-end portfolio loans, compared to $419 million, or .72% of period-end portfolio loans, at June 30, 2015. Nonperforming assets at June 30, 2016, totaled $637 million and represented 1.03% of period-end portfolio loans and OREO and other nonperforming assets, compared to $440 million, or .75% of period-end portfolio loans, at June 30, 2015. The increase in our nonperforming assets was primarily due to credit migration in the oil and gas portfolio.

Our capital ratios remain strong. Our tangible common equity and Tier 1 risk-based capital ratios at June 30, 2016, are 9.95% and 11.41%, respectively, compared to 9.86% and 11.11%, respectively, at June 30, 2015. In addition, our Common Equity Tier 1 ratio is 11.10% at June 30, 2016, compared to 10.71% at June 30, 2015. We continue to return capital to our shareholders through our quarterly common share dividend. In the second quarter of 2016, we paid a cash dividend of $.085 per common share, an increase from $.075 per common share, under our 2015 capital plan authorization.

Figure 6 shows our continuing and discontinued operating results for the current, past, and year-ago quarters. Our financial performance for each of the past five quarters is summarized in Figure 1.

Figure 6. Results of Operations

	Three months ended			**Six months ended**	
in millions, except per share amounts	**6-30-16**	**3-31-16**	**6-30-15**	**6-30-16**	**6-30-15**
Summary of operations					
Income (loss) from continuing operations attributable to Key	**$ 199**	$ 187	$ 235	**$ 386**	$ 463
Income (loss) from discontinued operations, net of taxes [(a)]	**3**	1	3	**4**	8
Net income (loss) attributable to Key	**$ 202**	$ 188	$ 238	**$ 390**	$ 471
Income (loss) from continuing operations attributable to Key	**$ 199**	$ 187	$ 235	**$ 386**	$ 463
Less: Dividends on Series A Preferred Stock	**6**	5	5	**11**	11
Income (loss) from continuing operations attributable to Key common shareholders	**193**	182	230	**375**	452
Income (loss) from discontinued operations, net of taxes [(a)]	**3**	1	3	**4**	8
Net income (loss) attributable to Key common shareholders	**$ 196**	$ 183	$ 233	**$ 379**	$ 460
Per common share assuming dilution					
Income (loss) from continuing operations attributable to Key common shareholders	**$ .23**	$ .22	$ .27	**$ .44**	$ .52
Income (loss) from discontinued operations, net of taxes [(a)]					.01
Net income (loss) attributable to Key common shareholders [(b)]	**$ .23**	$ .22	$ .27	**$ .45**	$ .53

(a) In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. As a result of this decision, we have accounted for this business as a discontinued operation. For further discussion regarding the income (loss) from discontinued operations, see Note 11 (Acquisitions and Discontinued Operations).
(b) EPS may not foot due to rounding.

Figure 7 presents certain non-GAAP financial measures related to tangible common equity, return on tangible common equity, Common Equity Tier 1, pre-provision net revenue, certain financial measures excluding merger-related expense, and 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. Traditionally, the banking regulators have assessed bank and BHC capital adequacy based on both the amount and the composition of capital, the calculation of which is prescribed in federal banking regulations. The Federal Reserve focuses its assessment of capital adequacy on a component of Tier 1 capital known as Common Equity Tier 1. Because the Federal Reserve has long indicated that voting common shareholders equity (essentially Tier 1 risk-based capital less preferred stock and noncontrolling interests in subsidiaries) generally should be the dominant element in Tier 1 risk-based capital, this focus on Common Equity Tier 1 is consistent with existing capital adequacy categories. The Regulatory Capital Rules, described in more detail under the section Supervision and regulation in Item 2 of this report, also make Common Equity Tier 1 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. Starting in 2016, our trust preferred securities are only included in Tier 2 capital. Since analysts and banking regulators may assess our capital adequacy using tangible common equity and Common Equity Tier 1, we believe it is useful to enable investors to assess our capital adequacy on these same bases. Figure 7 also reconciles the GAAP performance measures to the corresponding non-GAAP measures.

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Figure 7 also shows the computation for and reconciliation of pre-provision net revenue, which is not formally defined by GAAP. We believe that eliminating the effects of the provision for credit losses makes it easier to analyze our results by presenting them on a more comparable basis.

As disclosed in Note 11 (Acquisitions and Discontinued Operations), KeyCorp completed its purchase of First Niagara on August 1, 2016. The definitive agreement and plan of merger to acquire First Niagara was originally announced on October 30, 2015. As a result of this transaction, we ve recognized merger-related expense. Figure 7 shows the computation of noninterest expense excluding merger-related expense and return on average assets from continuing operations excluding merger-related expense. We believe that eliminating the effects of the merger-related expense makes it easier to analyze our results by presenting them on a more comparable basis.

The cash efficiency ratio is a ratio of two non-GAAP performance measures. Accordingly, there is no directly comparable GAAP performance measure. The cash efficiency ratio excludes the impact of our intangible asset amortization from the calculation. We also disclosed the cash efficiency ratio excluding merger-related expense. 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 7. GAAP to Non-GAAP Reconciliations

	Three months ended				
dollars in millions	**6-30-16**	**3-31-16**	**12-31-15**	**9-30-15**	**6-30-15**
Tangible common equity to tangible assets at period end					
Key shareholders equity (GAAP)	**$ 11,313**	$ 11,066	$ 10,746	$ 10,705	$ 10,590
Less: Intangible assets [(a)]	**1,074**	1,077	1,080	1,084	1,085
Series A Preferred Stock [(b)]	**281**	281	281	281	281
Tangible common equity (non-GAAP)	**$ 9,958**	$ 9,708	$ 9,385	$ 9,340	$ 9,224
Total assets (GAAP)	**$ 101,150**	$ 98,402	$ 95,131	$ 95,420	$ 94,604
Less: Intangible assets [(a)]	**1,074**	1,077	1,080	1,084	1,085
Tangible assets (non-GAAP)	**$ 100,076**	$ 97,325	$ 94,051	$ 94,336	$ 93,519
Tangible common equity to tangible assets ratio (non-GAAP)	**9.95%**	9.97%	9.98%	9.90%	9.86%
Common Equity Tier 1 at period end					
Key shareholders equity (GAAP)	**$ 11,313**	$ 11,066	$ 10,746	$ 10,705	10,590
Less: Series A Preferred Stock [(b)]	**281**	281	281	281	281
Common Equity Tier 1 capital before adjustments and deductions	**11,032**	10,785	10,465	10,424	10,309
Less: Goodwill, net of deferred taxes	**1,031**	1,033	1,034	1,036	1,034
Intangible assets, net of deferred taxes	**30**	35	26	29	33
Deferred tax assets	**1**	1	1	1	1
Net unrealized gains (losses) on available-for-sale securities, net of deferred taxes	**129**	70	(58)	54	
Accumulated gains (losses) on cash flow hedges, net of deferred taxes	**77**	46	(20)	21	(20)
Amounts in AOCI attributed to pension and postretirement benefit costs, net of deferred taxes	**(362)**	(365)	(365)	(385)	(361)
Total Common Equity Tier 1 capital	**$ 10,126**	$ 9,965	$ 9,847	$ 9,668	9,622
Net risk-weighted assets (regulatory)	**$ 91,195**	$ 90,014	$ 89,980	$ 92,307	89,851
Common Equity Tier 1 ratio (non-GAAP)	**11.10%**	11.07%	10.94%	10.47%	10.71%
Average tangible common equity					
Average Key shareholders equity (GAAP)	**$ 11,147**	$ 10,953	$ 10,731	$ 10,614	$ 10,590
Less: Intangible assets (average) [(c)]	**1,076**	1,079	1,082	1,083	1,086
Series A Preferred Stock (average)	**290**	290	290	290	290

Average tangible common equity (non-GAAP)	**$ 9,781**	$ 9,584	$ 9,359	$ 9,241	$ 9,214
Return on average tangible common equity from continuing operations					
Net income (loss) from continuing operations attributable to Key common shareholders (GAAP)	**$ 193**	$ 182	$ 224	$ 216	$ 230
Average tangible common equity (non-GAAP)	**9,781**	9,584	9,359	9,241	9,214
Return on average tangible common equity from continuing operations (non-GAAP)	**7.94%**	7.64%	9.50%	9.27%	10.01%
Return on average tangible common equity consolidated					
Net income (loss) attributable to Key common shareholders (GAAP)	**$ 196**	$ 183	$ 220	$ 213	$ 233
Average tangible common equity (non-GAAP)	**9,781**	9,584	9,359	9,241	9,214
Return on average tangible common equity consolidated (non-GAAP)	**8.06%**	7.68%	9.33%	9.14%	10.14%
Pre-provision net revenue					
Net interest income (GAAP)	**$ 597**	$ 604	$ 602	$ 591	$ 584
Plus: Taxable-equivalent adjustment	**8**	8	8	7	7
Noninterest income	**473**	431	485	470	488
Less: Noninterest expense	**751**	703	736	724	711
Pre-provision net revenue from continuing operations (non-GAAP)	**$ 327**	$ 340	$ 359	$ 344	$ 368
Noninterest expense excluding merger-related expense					
Noninterest expense (GAAP)	**$ 751**	$ 703	$ 736	$ 724	$ 711
Less: Merger-related expense	**45**	24	6		
Noninterest expense excluding merger-related expense (non-GAAP)	**$ 706**	$ 679	$ 730	$ 724	$ 711
Cash efficiency ratio					
Noninterest expense (GAAP)	**$ 751**	$ 703	$ 736	$ 724	$ 711
Less: Intangible asset amortization	**7**	8	9	9	9
Adjusted noninterest expense (non-GAAP)	**$ 744**	$ 695	$ 727	$ 715	$ 702
Less: Merger-related expense	**45**	24	6		
Adjusted noninterest expense excluding merger-related expense (non-GAAP)	**$ 699**	$ 671	$ 721	$ 715	$ 702
Net interest income (GAAP)	**$ 597**	$ 604	$ 602	$ 591	$ 584
Plus: Taxable-equivalent adjustment	**8**	8	8	7	7
Noninterest income (GAAP)	**473**	431	485	470	488
Total taxable-equivalent revenue (non-GAAP)	**$ 1,078**	$ 1,043	$ 1,095	$ 1,068	$ 1,079
Cash efficiency ratio (non-GAAP)	**69.0%**	66.6%	66.4%	66.9%	65.1%

Cash efficiency ratio excluding merger-related expense (non-GAAP)	**64.8%**	64.3%	65.8%	66.9%	65.1%
Return on average total assets from continuing operations excluding merger-related expense					
Income from continuing operations attributable to Key (GAAP)	**$ 199**	$ 187	$ 230	$ 222	$ 235
Add: Merger-related expense, after tax	**28**	15	4		
Income from continuing operations attributable to Key excluding merger-related expense, after tax (non-GAAP)	**$ 227**	$ 202	$ 234	$ 222	$ 235
Average total assets from continuing operations (GAAP)	**$ 97,413**	$ 94,477	$ 94,117	$ 92,649	$ 91,658
Return on average total assets from continuing operations excluding merger-related expense (non-GAAP)	**.94%**	.86%	.99%	.95%	1.03%

(a) For the three months ended June 30, 2016, March 31, 2016, December 31, 2015, September 30, 2015, and June 30, 2015, intangible assets exclude $36 million, $40 million, $45 million, $50 million, and $55 million, respectively, of period-end purchased credit card receivables.

(b) Net of capital surplus.

(c) For the three months ended June 30, 2016, March 31, 2016, December 31, 2015, September 30, 2015, and June 30, 2015, average intangible assets exclude $38 million, $42 million, $47 million, $52 million, and $58 million, respectively, of average purchased credit card receivables.

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Figure 7. GAAP to Non-GAAP Reconciliations, continued

dollars in millions		Three months ended 6-30-16
Common Equity Tier 1 under the Regulatory Capital Rules (estimates)		
Common Equity Tier 1 under current Regulatory Capital Rules	$	**10,126**
Adjustments from current Regulatory Capital Rules to the fully phased-in Regulatory Capital Rules:		
Deferred tax assets and other intangible assets [d]		**(21)**
Common Equity Tier 1 anticipated under the fully phased-in Regulatory Capital Rules [e]	$	**10,105**
Net risk-weighted assets under current Regulatory Capital Rules	$	**91,195**
Adjustments from current Regulatory Capital Rules to the fully phased-in Regulatory Capital Rules:		
Mortgage servicing assets [f]		**485**
Volcker Funds		**(224)**
All other assets		**17**
Total risk-weighted assets anticipated under the fully phased-in Regulatory Capital Rules [e]	$	**91,473**
Common Equity Tier 1 ratio under the fully phased-in Regulatory Capital Rules [e]		**11.05%**

dollars in millions	Six months ended 6-30-16	6-30-15
Pre-provision net revenue		
Net interest income (GAAP)	**$ 1,201**	$ 1,155
Plus: Taxable-equivalent adjustment	**16**	13
Noninterest income (GAAP)	**904**	925
Less: Noninterest expense (GAAP)	**1,454**	1,380
Pre-provision net revenue from continuing operations (non-GAAP)	**$ 667**	$ 713
Average tangible common equity		
Average Key shareholders equity (GAAP)	**$ 11,050**	$ 10,580
Less: Intangible assets (average) [c]	**1,077**	1,088
Preferred Stock, Series A (average)	**290**	290
Average tangible common equity (non-GAAP)	**$ 9,683**	$ 9,202
Return on average tangible common equity from continuing operations		
Net income (loss) from continuing operations attributable to Key common shareholders (GAAP)	**$ 375**	$ 452
Average tangible common equity (non-GAAP)	**9,683**	9,202
Return on average tangible common equity from continuing operations (non-GAAP)	**7.79%**	9.91%

Return on average tangible common equity consolidated		
Net income (loss) attributable to Key common shareholders (GAAP)	**$ 379**	$ 460
Average tangible common equity (non-GAAP)	**9,683**	9,202
Return on average tangible common equity consolidated (non-GAAP)	**7.87%**	10.08%
Cash efficiency ratio		
Noninterest expense (GAAP)	**$ 1,454**	$ 1,380
Less: Intangible asset amortization (GAAP)	**15**	18
Adjusted noninterest expense (non-GAAP)	**1,439**	1,362
Less: Merger-related expense	**69**	
	$ 1,370	$ 1,362
Net interest income (GAAP)	**$ 1,201**	$ 1,155
Plus: Taxable-equivalent adjustment	**16**	13
Noninterest income (GAAP)	**904**	925
Total taxable-equivalent revenue (non-GAAP)	**$ 2,121**	$ 2,093
Cash efficiency ratio (non-GAAP)	**67.8%**	65.1%
Cash efficiency ratio excluding merger-related expense (non-GAAP)	**64.6%**	65.1%
Return on average total assets from continuing operations excluding merger-related expense		
Income from continuing operations attributable to Key (GAAP)	**$ 386**	$ 463
Add: Merger-related expense, after tax	**43**	
Income from continuing operations attributable to Key excluding merger-related expense, after tax (non-GAAP)	**$ 429**	$ 463
Average total assets from continuing operations (GAAP)	**$ 95,945**	$ 90,648
Return on average total assets from continuing operations excluding merger-related expense (non-GAAP)	**.90%**	1.03%

(d) Includes the deferred tax assets subject to future taxable income for realization, primarily tax credit carryforwards, as well as intangible assets (other than goodwill and mortgage servicing assets) subject to the transition provisions of the final rule.

(e) 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); we are subject to the Regulatory Capital Rules under the standardized approach.

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

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Results of Operations

Net interest income

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

- the volume, pricing, mix, and maturity of earning assets and interest-bearing liabilities;
- the volume and value of net free funds, such as noninterest-bearing deposits and equity capital;
- the use of derivative instruments to manage interest rate risk;
- interest rate fluctuations and competitive conditions within the marketplace; and
- asset quality.

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

Figure 8 shows the various components of our balance sheet that affect interest income and expense, and their respective yields or rates over the past five quarters. 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 quarters. The net interest margin, which is an indicator of the profitability of the earning assets portfolio less cost of funding, is calculated by dividing annualized taxable-equivalent net interest income by average earning assets.

Taxable-equivalent net interest income was $605 million for the second quarter of 2016, and the net interest margin was 2.76%. These results compare to taxable-equivalent net interest income of $591 million and a net interest margin of 2.88% for the second quarter of 2015. The $14 million increase in net interest income compared to the year-ago quarter reflects higher earning asset balances and an increase in earning asset yields, largely the result of our loan portfolio re-pricing to higher short-term interest rates. The benefit to net interest income from these items was partly offset by lower reinvestment yields in our securities and derivatives portfolios. The 12 basis point decline in the net interest margin reflects higher levels of liquidity, lower reinvestment yields in the securities and derivatives portfolios, and lower loan fees. Our Federal Reserve account averaged $5.6 billion during the second quarter of 2016, which increased $2.3 billion compared to the second quarter of 2015 and reduced the net interest margin by 7 basis points.

For the six months ended June 30, 2016, taxable-equivalent net interest income increased by $49 million, and the net interest margin decreased by 6 basis points. The increase in net interest income reflects higher earning asset balances and an increase in earning asset yields. Higher levels of liquidity and lower reinvestment yields in the securities and derivatives portfolios drove the decline in the net interest margin and more than offset the benefit from higher earning asset yields.

Average loans were $61.1 billion for the second quarter of 2016, an increase of $3.2 billion compared to the second quarter of 2015. The loan growth occurred primarily in the commercial, financial and agricultural portfolio, which increased $3.6 billion and was spread across our commercial lines of business. Consumer loans declined $504 million mostly due to paydowns in our home equity loan portfolio and continued run-off in our consumer exit portfolios.

Average deposits, excluding deposits in foreign office, totaled $73.9 billion for the second quarter of 2016, an increase of $3.6 billion compared to the year-ago quarter. Interest-bearing deposits increased $4.9 billion driven by a $3.6 billion increase in NOW and money market deposit accounts and a $1.3 billion increase in certificates of deposit and other time deposits. The increase in average deposits from the year-ago quarter reflects core deposit growth in our retail banking franchise, growth in escrow deposits from the commercial mortgage servicing business, and commercial deposit inflows. These increases were partially offset by a $1.2 billion decline in noninterest-bearing deposits.

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Figure 8. Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates From Continuing Operations

	Second Quarter 2016			First Quarter 2016		
dollars in millions	Average Balance	Interest [a]	Yield/ Rate [a]	Average Balance	Interest [a]	Yield/ Rate [a]
ASSETS						
Loans [b], [c]						
Commercial, financial and agricultural [d]	$ 32,630	$ 270	3.32%	$ 31,590	$ 263	3.35%
Real estate commercial mortgage	8,404	80	3.85	8,138	77	3.78
Real estate construction	869	8	3.78	1,016	10	4.11
Commercial lease financing	3,949	37	3.77	3,957	36	3.65
Total commercial loans	45,852	395	3.47	44,701	386	3.47
Real estate residential mortgage	2,253	22	4.11	2,236	24	4.18
Home equity loans	10,098	102	4.04	10,240	103	4.06
Consumer direct loans	1,599	26	6.53	1,593	26	6.53
Credit cards	792	21	10.58	784	21	10.72
Consumer indirect loans	554	9	6.56	602	10	6.44
Total consumer loans	15,296	180	4.74	15,455	184	4.76
Total loans	61,148	575	3.78	60,156	570	3.80
Loans held for sale	611	5	3.18	826	8	4.02
Securities available for sale [b], [e]	14,268	74	2.08	14,207	75	2.12
Held-to-maturity securities [b]	4,883	24	1.98	4,817	24	2.01
Trading account assets	967	6	2.28	817	7	3.50
Short-term investments	5,559	6	.45	3,432	4	.46
Other investments [e]	610	2	1.54	647	3	1.73
Total earning assets	88,046	692	3.16	84,902	691	3.27
Allowance for loan and lease losses	(833)			(803)		
Accrued income and other assets	10,200			10,378		
Discontinued assets	1,738			1,804		
Total assets	$ 99,151			$ 96,281		
LIABILITIES						
NOW and money market deposit accounts	$ 39,687	16	.17	$ 37,708	15	.16
Savings deposits	2,375		.02	2,349		.02
Certificates of deposit ($100,000 or more) [f]	3,233	11	1.39	2,761	10	1.37
Other time deposits	3,252	7	.85	3,200	6	.79
Total interest-bearing deposits	48,547	34	.29	46,018	31	.27
Federal funds purchased and securities sold under repurchase agreements	337		.01	437		.07

Bank notes and other short-term borrowings	**694**	**3**	**1.39**	**591**	**2**	**1.63**
Long-term debt [(f), (g)]	**9,294**	**50**	**2.25**	**8,566**	**46**	**2.19**
Total interest-bearing liabilities	**58,872**	**87**	**.60**	**55,612**	**79**	**.57**
Noninterest-bearing deposits	**25,357**			**25,580**		
Accrued expense and other liabilities	**2,032**			**2,322**		
Discontinued liabilities [(g)]	**1,738**			**1,804**		
Total liabilities	**87,999**			**85,318**		
EQUITY						
Key shareholders equity	**11,147**			**10,953**		
Noncontrolling interests	**5**			**10**		
Total equity	**11,152**			**10,963**		
Total liabilities and equity	**$ 99,151**			**$ 96,281**		
Interest rate spread (TE)			**2.56%**			**2.70%**
Net interest income (TE) and net interest margin (TE)		**605**	**2.76%**		**612**	**2.89%**
TE adjustment [(b)]		**8**			**8**	
Net interest income, GAAP basis		**$ 597**			**$ 604**	

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

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

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

(d) Commercial, financial and agricultural average balances include $87 million, $85 million, $87 million, $88 million, and $88 million of assets from commercial credit cards for the three months ended June 30, 2016, March 31, 2016, December 31, 2015, September 30, 2015, and June 30, 2015, respectively.

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Figure 8. Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates From Continuing Operations

Fourth Quarter 2015			Third Quarter 2015			Second Quarter 2015		
Average Balance	Interest [(a)]	Yield/ Rate [(a)]	Average Balance	Interest [(a)]	Yield/ Rate [(a)]	Average Balance	Interest [(a)]	Yield/ Rate [(a)]
$ 30,884	$ 253	3.25%	$ 30,374	$ 244	3.19%	$ 29,017	$ 233	3.23%
8,019	75	3.70	7,988	73	3.65	7,981	74	3.70
1,067	10	3.65	1,164	11	3.78	1,199	11	3.60
3,910	36	3.68	3,946	35	3.57	3,981	36	3.58
43,880	374	3.38	43,472	363	3.32	42,178	354	3.36
2,252	24	4.18	2,258	24	4.19	2,237	23	4.22
10,418	105	3.97	10,510	105	3.96	10,510	104	3.98
1,605	26	6.50	1,597	26	6.53	1,571	26	6.52
780	21	10.66	759	21	10.74	737	19	10.57
641	10	6.45	685	11	6.47	745	12	6.38
15,696	186	4.69	15,809	187	4.69	15,800	184	4.69
59,576	560	3.72	59,281	550	3.69	57,978	538	3.72
841	8	4.13	939	10	3.96	1,263	12	3.91
14,168	76	2.13	14,247	74	2.11	13,360	73	2.17
4,908	24	1.99	4,923	24	1.95	4,965	24	1.91
822	6	3.31	699	5	2.50	805	5	2.55
3,483	3	.28	2,257	1	.26	3,228	2	.26
674	4	2.71	696	4	2.52	713	5	2.48
84,472	681	3.21	83,042	668	3.21	82,312	659	3.21
(790)			(790)			(793)		
10,435			10,397			10,139		
1,947			2,118			2,194		
$ 96,064			$ 94,767			$ 93,852		
$ 37,640	14	.15	$ 36,289	15	.16	$ 36,122	14	.16
2,338		.02	2,371		.02	2,393		.02
2,150	7	1.31	1,985	6	1.27	2,010	6	1.25
3,047	5	.72	3,064	6	.70	3,136	5	.70
354		.24	492		.23	583	1	.23
45,529	26	.24	44,201	27	.24	44,244	26	.24
392		.02	859		.08	557		.02

556	3	1.65	567	2	1.51	657	2	1.39
8,316	42	2.05	7,893	41	2.20	6,967	40	2.30
54,793	71	.52	53,520	70	.53	52,425	68	.52
26,292			26,268			26,594		
2,289			2,236			2,039		
1,947			2,118			2,194		
85,321			84,142			83,252		
10,731			10,614			10,590		
12			11			10		
10,743			10,625			10,600		
$ 96,064			$ 94,767			$ 93,852		
		2.69%			2.68%			2.69%
	610	2.87%		598	2.87%		591	2.88%
	8			7			7	
	$ 602			$ 591			$ 584	

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

Figure 9. Components of Net Interest Income Changes from Continuing Operations

	From three months ended June 30, 2015 to three months ended June 30, 2016			From six months ended June 30, 2015 to six months ended June 30, 2016		
in millions	Average Volume	Yield/ Rate	Net Change [(a)]	Average Volume	Yield/ Rate	Net Change [(a)]
INTEREST INCOME						
Loans	$ 30	$ 7	$ 37	$ 55	$ 23	$ 78
Loans held for sale	(6)	(1)	(7)	(6)		(6)
Securities available for sale	5	(4)	1	11	(5)	6
Held-to-maturity securities				(1)	1	
Trading account assets	1		1	2	1	3
Short-term investments	2	2	4	3	3	6
Other investments	(1)	(2)	(3)	(1)	(4)	(5)
Total interest income (TE)	31	2	33	63	19	82
INTEREST EXPENSE						
NOW and money market deposit accounts	1	1	2	2	2	4
Certificates of deposit ($100,000 or more)	4	1	5	7	1	8
Other time deposits		2	2		2	2
Deposits in foreign office	(1)		(1)	(1)		(1)
Total interest-bearing deposits	4	4	8	8	5	13
Bank notes and other short-term borrowings		1	1		1	1
Long-term debt	13	(3)	10	26	(7)	19
Total interest expense	17	2	19	34	(1)	33
Net interest income (TE)	$ 14		$ 14	$ 29	$ 20	$ 49

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

Noninterest income

As shown in Figure 10, noninterest income was $473 million for the second quarter of 2016, compared to $488 million for the year-ago quarter, a decrease of $15 million, or 3.1%. The decrease from the prior year was largely attributable to lower investment banking and debt placement fees of $43 million, reflecting challenging market conditions, as well as $6 million of lower operating lease income and other leasing gains. These declines were offset by an increase in other income of $17 million primarily related to gains from certain real estate investments, along with continued growth in some of our core fee-based business, including corporate services and cards and payments.

For the six months ended June 30, 2016, noninterest income decreased $21 million, or 2.3%, from the same period one year ago. Investment banking and debt placement fees declined $40 million and net gains from principal investing decreased $29 million reflecting market weakness. These decreases were partially offset by increases of $17 million in corporate services income due to higher loan commitment fees, other non-yield loans fees, and dealer trading and derivatives income, and $29 million in other income.

Figure 10. Noninterest Income

	Three months ended June 30,		Change		Six months ended June 30,		Change	
dollars in millions	**2016**	**2015**	**Amount**	**Percent**	**2016**	**2015**	**Amount**	**Percent**
Trust and investment services income	**$ 110**	$ 111	$ (1)	(.9)%	**$ 219**	$ 220	$ (1)	(.5)%
Investment banking and debt placement fees	**98**	141	(43)	(30.5)	**169**	209	(40)	(19.1)
Service charges on deposit accounts	**68**	63	5	7.9	**133**	124	9	7.3
Operating lease income and other leasing gains	**18**	24	(6)	(25.0)	**35**	43	(8)	(18.6)
Corporate services income	**53**	43	10	23.3	**103**	86	17	19.8
Cards and payments income	**52**	47	5	10.6	**98**	89	9	10.1
Corporate-owned life insurance income	**28**	30	(2)	(6.7)	**56**	61	(5)	(8.2)
Consumer mortgage income	**3**	4	(1)	(25.0)	**5**	7	(2)	(28.6)
Mortgage servicing fees	**10**	9	1	11.1	**22**	22		
Net gains (losses) from principal investing	**11**	11			**11**	40	(29)	(72.5)
Other income [(a)]	**22**	5	17	340.0	**53**	24	29	120.8
Total noninterest income	**$ 473**	$ 488	$ (15)	(3.1)%	**$ 904**	$ 925	$ (21)	(2.3)%

(a) Included in this line item is our Dealer trading and derivatives income (loss). Additional detail is provided in Figure 11.

Figure 11. Dealer Trading and Derivatives Income (Loss)

	Three months ended June 30,		Change		Six months ended June 30,		Change	
dollars in millions	**2016**	**2015**	**Amount**	**Percent**	**2016**	**2015**	**Amount**	**Percent**
Dealer trading and derivatives income (loss), proprietary [(a), (b)]	**$ 1**	$ (4)	$ 5	N/M		$ (5)	$ 5	N/M
Dealer trading and derivatives income (loss), nonproprietary [(b)]	**1**	2	(1)	(50.0)%	**$ 10**	5	5	100.0%