KEYCORP /NEW/
Form 10-Q
May 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 March 31, 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 **Address of principal executive offices:**	**44114-1306** **Zip Code:**

(216) 689-3000

Registrant s telephone number, including area code:

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

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

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

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

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

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

Common Shares with a par value of $1 each	842,372,999 Shares
Title of class	**Outstanding at May 2, 2016**

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KEYCORP

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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	March 31, 2016 (Unaudited)	December 31, 2015	March 31, 2015 (Unaudited)
ASSETS			
Cash and due from banks	$ 474	$ 607	$ 506
Short-term investments	5,436	2,707	3,378
Trading account assets	765	788	789
Securities available for sale	14,304	14,218	13,120
Held-to-maturity securities (fair value: $5,031, $4,848, and $5,003)	5,003	4,897	5,005
Other investments	643	655	730
Loans, net of unearned income of $623, $646, and $665	60,438	59,876	57,953
Less: Allowance for loan and lease losses	826	796	794
Net loans	59,612	59,080	57,159
Loans held for sale	684	639	1,649
Premises and equipment	750	779	806
Operating lease assets	362	340	306
Goodwill	1,060	1,060	1,057
Other intangible assets	57	65	92
Corporate-owned life insurance	3,557	3,541	3,488
Derivative assets	1,065	619	731
Accrued income and other assets	2,849	3,292	3,142
Discontinued assets (including $3, $4, and $187 million of portfolio loans at fair value, see Note 11)	1,781	1,846	2,246
Total assets	$ 98,402	$ 95,133	$ 94,204
LIABILITIES			
Deposits in domestic offices:			
NOW and money market deposit accounts	$ 38,946	$ 37,089	$ 35,623
Savings deposits	2,385	2,341	2,413
Certificates of deposit ($100,000 or more)	3,095	2,392	1,982
Other time deposits	3,259	3,127	3,182
Total interest-bearing deposits	47,685	44,949	43,200
Noninterest-bearing deposits	25,697	26,097	27,948
Deposits in foreign office interest-bearing			474
Total deposits	73,382	71,046	71,622

Federal funds purchased and securities sold under repurchase agreements	374	372	517
Bank notes and other short-term borrowings	615	533	608
Derivative liabilities	790	632	825
Accrued expense and other liabilities	1,410	1,605	1,308
Long-term debt	10,760	10,186	8,711
Total liabilities	87,331	84,374	83,591
EQUITY			
Preferred stock, $1 par value, authorized 25,000,000 shares:			
7.75% Noncumulative Perpetual Convertible Preferred Stock, Series A, $100 liquidation preference; authorized 7,475,000 shares; issued 2,900,234, 2,900,234, 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	3,818	3,922	3,910
Retained earnings	9,042	8,922	8,445
Treasury stock, at cost (174,680,274, 181,218,648, and 166,049,974 shares)	(2,888)	(3,000)	(2,780)
Accumulated other comprehensive income (loss)	(213)	(405)	(279)
Key shareholders equity	11,066	10,746	10,603
Noncontrolling interests	5	13	10
Total equity	11,071	10,759	10,613
Total liabilities and equity	$ 98,402	$ 95,133	$ 94,204

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 March 31, 2016	2015
INTEREST INCOME		
Loans	**$ 562**	$ 523
Loans held for sale	**8**	7
Securities available for sale	**75**	70
Held-to-maturity securities	**24**	24
Trading account assets	**7**	5
Short-term investments	**4**	2
Other investments	**3**	5
Total interest income	**683**	636
INTEREST EXPENSE		
Deposits	**31**	26
Bank notes and other short-term borrowings	**2**	2
Long-term debt	**46**	37
Total interest expense	**79**	65
NET INTEREST INCOME	**604**	571
Provision for credit losses	**89**	35
Net interest income after provision for credit losses	**515**	536
NONINTEREST INCOME		
Trust and investment services income	**109**	109
Investment banking and debt placement fees	**71**	68
Service charges on deposit accounts	**65**	61
Operating lease income and other leasing gains	**17**	19
Corporate services income	**50**	43
Cards and payments income	**46**	42
Corporate-owned life insurance income	**28**	31
Consumer mortgage income	**2**	3
Mortgage servicing fees	**12**	13
Net gains (losses) from principal investing		29
Other income [(a)]	**31**	19
Total noninterest income	**431**	437
NONINTEREST EXPENSE		
Personnel	**404**	389
Net occupancy	**61**	65
Computer processing	**43**	38
Business services and professional fees	**41**	33

Equipment		**21**		22
Operating lease expense		**13**		11
Marketing		**12**		8
FDIC assessment		**9**		8
Intangible asset amortization		**8**		9
OREO expense, net		**1**		2
Other expense		**90**		84
Total noninterest expense		**703**		669
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		**243**		304
Income taxes		**56**		74
INCOME (LOSS) FROM CONTINUING OPERATIONS		**187**		230
Income (loss) from discontinued operations, net of taxes of $0 and $3 (see Note 11)		**1**		5
NET INCOME (LOSS)		**188**		235
Less: Net income (loss) attributable to noncontrolling interests				2
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	**$**	**188**	$	233
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**182**	$	222
Net income (loss) attributable to Key common shareholders		**183**		227
Per common share:				
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.22**	$	.26
Income (loss) from discontinued operations, net of taxes				.01
Net income (loss) attributable to Key common shareholders [(b)]		**.22**		.27
Per common share assuming dilution:				
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.22**	$	.26
Income (loss) from discontinued operations, net of taxes				.01
Net income (loss) attributable to Key common shareholders [(b)]		**.22**		.26
Cash dividends declared per common share	**$**	**.075**	$	.065
Weighted-average common shares outstanding (000) [(c)]		**827,381**		848,580
Effect of convertible preferred stock				
Effect of common share options and other stock awards [(c)]		**7,679**		8,542
Weighted-average common shares and potential common shares outstanding (000) [(c), (d)]		**835,060**		857,122

(a) For the three months ended March 31, 2016, and March 31, 2015, net securities gains (losses) totaled less than $1 million. For the three months ended March 31, 2016, we did not have any impairment losses related to securities. For the three months ended March 31, 2015, impaired losses related to securities

totaled less than $1 million.

(b) EPS may not foot due to rounding.

(c) For the three months ended March 31, 2016, weighted-average common shares outstanding, effect of common share options and other stock awards, and weighted-average common shares and potential common shares outstanding have been revised from our financial results reported on Form 8-K on April 21, 2016.

(d) 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)

	Three months ended March 31,	
in millions	**2016**	**2015**
Net income (loss)	**$ 188**	$ 235
Other comprehensive income (loss), net of tax:		
Net unrealized gains (losses) on securities available for sale, net of income taxes of $76 and $33	**128**	55
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $34 and $19	**58**	32
Foreign currency translation adjustments, net of income taxes of $3 and ($8)	**5**	(13)
Net pension and postretirement benefit costs, net of income taxes of $4 and $1	**1**	3
Total other comprehensive income (loss), net of tax	**192**	77
Comprehensive income (loss)	**380**	312
Less: Comprehensive income attributable to noncontrolling interests		2
Comprehensive income (loss) attributable to Key	**$ 380**	$ 310

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)						233			2
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of $33								55	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $19								32	
Foreign currency translation adjustments, net of income taxes of ($8)								(13)	
Net pension and postretirement benefit costs, net of income taxes of $1								3	
Deferred compensation					5				
Cash dividends declared on common shares ($.065 per share)						(55)			
Cash dividends declared on Noncumulative Series A Preferred Stock ($1.9375 per share)						(6)			
Common shares repurchased		(14,087)					(197)		
Series A Preferred Stock exchanged for common shares	(5)	33	(1)				1		
Common shares reissued (returned) for stock options and other employee benefit plans		5,571			(81)		97		
Net contribution from (distribution to) noncontrolling interests									(4)
BALANCE AT MARCH 31, 2015	2,900	850,920	$ 290	$ 1,017	$ 3,910	$ 8,445	$ (2,780)	$ (279)	$ 10
BALANCE AT DECEMBER 31, 2015	2,900	835,751	$ 290	$ 1,017	$ 3,922	$ 8,922	$ (3,000)	$ (405)	$ 13
Net income (loss)						**188**			
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of $76								**128**	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $34								**58**	
Foreign currency translation adjustments, net of income taxes of $3								**5**	
								1	

Net pension and postretirement benefit costs, net of income taxes of $3									
Deferred compensation					**(6)**				
Cash dividends declared on common shares ($.075 per share)						**(63)**			
Cash dividends declared on Noncumulative Series A Preferred Stock ($1.9375 per share)						**(5)**			
Common shares reissued (returned) for stock options and other employee benefit plans		**6,539**			**(98)**		**112**		
Net contribution from (distribution to) noncontrolling interests									**(8)**
BALANCE AT MARCH 31, 2016	**2,900**	**842,290**	**$ 290**	**$ 1,017**	**$ 3,818**	**$ 9,042**	**$ (2,888)**	**$ (213)**	**$ 5**

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Cash Flows (Unaudited)

in millions	Three months ended March 31, 2016	2015
OPERATING ACTIVITIES		
Net income (loss)	**$ 188**	$ 235
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for credit losses	**89**	35
Depreciation, amortization and accretion expense, net	**62**	50
Increase in cash surrender value of corporate-owned life insurance	**(25)**	(25)
Stock-based compensation expense	**19**	13
FDIC reimbursement (payments), net of FDIC expense	**1**	
Deferred income taxes (benefit)	**50**	50
Proceeds from sales of loans held for sale	**1,110**	1,225
Originations of loans held for sale, net of repayments	**(1,153)**	(2,109)
Net losses (gains) on sales of loans held for sale	**(2)**	(20)
Net losses (gains) from principal investing		(29)
Net losses (gains) and writedown on OREO	**1**	
Net losses (gains) on leased equipment		(3)
Net losses (gains) on sales of fixed assets	**1**	
Net decrease (increase) in trading account assets	**23**	(39)
Other operating activities, net	**9**	(485)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**373**	(1,102)
INVESTING ACTIVITIES		
Net decrease (increase) in short-term investments, excluding acquisitions	**(2,729)**	891
Purchases of securities available for sale	**(610)**	(403)
Proceeds from prepayments and maturities of securities available for sale	**722**	724
Proceeds from prepayments and maturities of held-to-maturity securities	**251**	266
Purchases of held-to-maturity securities	**(358)**	(257)
Purchases of other investments	**(18)**	(13)
Proceeds from sales of other investments	**24**	32
Proceeds from prepayments and maturities of other investments		4
Net decrease (increase) in loans, excluding acquisitions, sales and transfers	**(663)**	(727)
Proceeds from sales of portfolio loans	**40**	47
Proceeds from corporate-owned life insurance	**9**	15
Purchases of premises, equipment, and software	**(8)**	(3)
Proceeds from sales of OREO	**3**	6
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**(3,337)**	582
FINANCING ACTIVITIES		
Net increase (decrease) in deposits, excluding acquisitions	**2,336**	(376)
Net increase (decrease) in short-term borrowings	**84**	127
Net proceeds from issuance of long-term debt	**976**	1,000
Payments on long-term debt	**(498)**	(129)

Repurchase of common shares				(197)
Net proceeds from reissuance of common shares		**1**		9
Cash dividends paid		**(68)**		(61)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		**2,831**		373
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS		**(133)**		(147)
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD		**607**		653
CASH AND DUE FROM BANKS AT END OF PERIOD	**$**	**474**	$	506
Additional disclosures relative to cash flows:				
Interest paid	**$**	**108**	$	98
Income taxes paid (refunded)		**13**		19
Noncash items:				
Reduction of secured borrowing and related collateral	**$**	**21**	$	72
Loans transferred to held for sale from portfolio				10
Loans transferred to OREO		**4**		7

See Notes to Consolidated Financial Statements (Unaudited).

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.
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.
FHLB: Federal Home Loan Bank of Cincinnati.
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

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.
KBCM: KeyBanc Capital Markets, Inc.
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

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 March 31, 2016

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. We are currently evaluating the impact that this accounting guidance may have 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. We are currently determining a transition method and evaluating the impact that this accounting guidance may have 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.

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. 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 March 31,	
dollars in millions, except per share amounts	**2016**	**2015**
EARNINGS		
Income (loss) from continuing operations	**$ 187**	$ 230
Less: Net income (loss) attributable to noncontrolling interests		2
Income (loss) from continuing operations attributable to Key	**187**	228
Less: Dividends on Series A Preferred Stock	**5**	6
Income (loss) from continuing operations attributable to Key common shareholders	**182**	222
Income (loss) from discontinued operations, net of taxes [(a)]	**1**	5
Net income (loss) attributable to Key common shareholders	**$ 183**	$ 227
WEIGHTED-AVERAGE COMMON SHARES		
Weighted-average common shares outstanding (000) [(b)]	**827,381**	848,580
Effect of convertible preferred stock		
Effect of common share options and other stock awards [(b)]	**7,679**	8,542
Weighted-average common shares and potential common shares outstanding (000) [(b), (c)]	**835,060**	857,122
EARNINGS PER COMMON SHARE		
	$ .22	$ .26

Income (loss) from continuing operations attributable to Key common shareholders				
Income (loss) from discontinued operations, net of taxes (a)				.01
Net income (loss) attributable to Key common shareholders (d)		**.22**		.27
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**$**	**.22**	$	.26
Income (loss) from discontinued operations, net of taxes (a)				.01
Net income (loss) attributable to Key common shareholders assuming dilution (d)		**.22**		.26

(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) For the three months ended March 31, 2016, weighted-average common shares outstanding, effect of common share options and other stock awards, and weighted-average common shares and potential common shares outstanding have been revised from our financial results reported on Form 8-K on April 21, 2016.

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

(d) 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	March 31, 2016	December 31, 2015	March 31, 2015
Commercial, financial and agricultural [(a)]	**$ 31,976**	$ 31,240	$ 28,783
Commercial real estate:			
Commercial mortgage	**8,364**	7,959	8,162
Construction	**841**	1,053	1,142
Total commercial real estate loans	**9,205**	9,012	9,304
Commercial lease financing [(b)]	**3,934**	4,020	4,064
Total commercial loans	**45,115**	44,272	42,151
Residential prime loans:			
Real estate residential mortgage	**2,234**	2,242	2,231
Home equity loans	**10,149**	10,335	10,523
Total residential prime loans	**12,383**	12,577	12,754
Consumer direct loans	**1,579**	1,600	1,547
Credit cards	**782**	806	727
Consumer indirect loans	**579**	621	774
Total consumer loans	**15,323**	15,604	15,802
Total loans [(c)] [(d)]	**$ 60,438**	$ 59,876	$ 57,953

(a) Loan balances include $85 million, $85 million, and $87 million of commercial credit card balances at March 31, 2016, December 31, 2015, and March 31, 2015, respectively.

(b) Commercial lease financing includes receivables held as collateral for a secured borrowing of $115 million, $134 million, and $230 million at March 31, 2016, December 31, 2015, and March 31, 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 March 31, 2016, total loans include purchased loans of $109 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 March 31, 2015, total loans include purchased loans of $130 million, of which $12 million were PCI loans.

(d) Total loans exclude loans of $1.8 billion at March 31, 2016, $1.8 billion at December 31, 2015, and $2.2 billion at March 31, 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	**March 31, 2016**	December 31, 2015	March 31, 2015
Commercial, financial and agricultural	**$ 103**	$ 76	$ 183
Real estate commercial mortgage	**562**	532	1,408
Commercial lease financing		14	14
Real estate residential mortgage	**19**	17	44
Total loans held for sale	**$ 684**	$ 639	$ 1,649

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

in millions	**March 31, 2016**	December 31, 2015	March 31, 2015
Balance at beginning of the period	**$ 639**	$ 916	$ 734
New originations	**1,114**	1,655	2,130
Transfers from (to) held to maturity, net		22	10
Loan sales	**(1,108)**	(1,943)	(1,204)
Loan draws (payments), net	**39**	(11)	(21)
Balance at end of period	**$ 684**	$ 639	$ 1,649

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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	**March 31, 2016**	**December 31, 2015**	**March 31, 2015**
Total nonperforming loans [(a), (b)]	**$ 676**	$ 387	$ 437
OREO [(c)]	**14**	14	20
Other nonperforming assets	**2**	2	
Total nonperforming assets	**$ 692**	$ 403	$ 457
Nonperforming assets from discontinued operations - education lending [(d)]	**$ 6**	$ 7	$ 8
Restructured loans included in nonperforming loans	**$ 151**	$ 159	$ 141
Restructured loans with an allocated specific allowance [(e)]	**59**	69	70
Specifically allocated allowance for restructured loans [(f)]	**29**	30	39
Accruing loans past due 90 days or more	**$ 70**	$ 72	$ 111
Accruing loans past due 30 through 89 days	**237**	208	216

(a) Loan balances exclude $11 million, $11 million, and $12 million of PCI loans at March 31, 2016, December 31, 2015, and March 31, 2015, respectively.

(b) Includes carrying value of consumer residential mortgage loans in the process of foreclosure of approximately $131 million, $114 million, and $119 million at March 31, 2016, December 31, 2015, and March 31, 2015, respectively.

(c) Includes carrying value of foreclosed residential real estate of approximately $11 million, $11 million, and $17 million at March 31, 2016, December 31, 2015, and March 31, 2015, respectively.

(d) Restructured loans of approximately $21 million, $21 million, and $18 million are included in discontinued operations at March 31, 2016, December 31, 2015, and March 31, 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 March 31, 2016, the outstanding unpaid principal balance and carrying value of all PCI loans was $17 million and $11 million, respectively, compared to $17 million and $11 million, respectively, at December 31, 2015, and $19 million and $12 million, respectively, at March 31, 2015. Changes in the accretable yield during the first quarter of 2016 included accretion and net reclassifications of less than $1 million, resulting in an ending balance of $5 million at March 31, 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 unchanged from the ending balance at December 31, 2014. Changes in the accretable yield during the first quarter of 2015 included accretion and net reclassifications of less than $1 million, resulting in an ending balance of $5 million at March 31, 2015.

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At March 31, 2016, the approximate carrying amount of our commercial nonperforming loans outstanding represented 89% of their original contractual amount owed, total nonperforming loans outstanding represented 88% of their original contractual amount owed, and nonperforming assets in total were carried at 88% of their original contractual amount owed.

At March 31, 2016, our 20 largest nonperforming loans totaled $359 million, representing 54% of total loans on nonperforming status. At March 31, 2015, our 20 largest nonperforming loans totaled $123 million, representing 28% of total loans on nonperforming status.

Nonperforming loans and loans held for sale reduced expected interest income by $5 million for the three months ended March 31, 2016, and $4 million for the three months ended March 31, 2015.

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

March 31, 2016 *in millions*	**Recorded Investment** (a)	**Unpaid Principal Balance** (b)	**Specific Allowance**	**Average Recorded Investment**
With no related allowance recorded:				
Commercial, financial and agricultural	$ 260	$ 270		$ 150
Commercial real estate:				
Commercial mortgage	4	7		4
Construction	8	8		7
Total commercial real estate loans	12	15		11
Total commercial loans	272	285		161
Real estate residential mortgage	23	23		23
Home equity loans	68	68		65
Consumer indirect loans	1	1		1
Total consumer loans	92	92		89
Total loans with no related allowance recorded	364	377		250
With an allowance recorded:				
Commercial, financial and agricultural	101	113	$ 28	64
Commercial real estate:				
Commercial mortgage	4	4	1	5
Total commercial real estate loans	4	4	1	5
Total commercial loans	105	117	29	69

Real estate residential mortgage	32	32	3	33
Home equity loans	65	65	19	64
Consumer direct loans	3	3		3
Credit cards	3	3		3
Consumer indirect loans	35	35	3	36
Total consumer loans	138	138	25	139
Total loans with an allowance recorded	243	255	54	208
Total	$ 607	$ 632	$ 54	$ 458

(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 direct loans				
Credit cards				
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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March 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	$ 20	$ 51		$ 13
Commercial real estate:				
Commercial mortgage	14	19		14
Construction	7	7		6
Total commercial real estate loans	21	26		20
Total commercial loans	41	77		33
Real estate residential mortgage	23	23		23
Home equity loans	63	64		63
Consumer indirect loans	1	1		2
Total consumer loans	87	88		88
Total loans with no related allowance recorded	128	165		121
With an allowance recorded:				
Commercial, financial and agricultural	62	62	$ 20	50
Commercial real estate:				
Commercial mortgage	6	7	2	6
Construction				1
Total commercial real estate loans	6	7	2	7
Total commercial loans	68	69	22	57
Real estate residential mortgage	32	32	5	32
Home equity loans	60	60	18	59
Consumer direct loans	3	3		3
Credit cards	4	4		4
Consumer indirect loans	43	43	4	44
Total consumer loans	142	142	27	142
Total loans with an allowance recorded	210	211	49	199
Total	$ 338	$ 376	$ 49	$ 320

(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 three months ended March 31, 2016, and March 31, 2015, interest income recognized on the outstanding balances of accruing impaired loans totaled $4 million and $1 million, respectively.

At March 31, 2016, aggregate restructured loans (accrual and nonaccrual loans) totaled $283 million, compared to $280 million at December 31, 2015, and $268 million at March 31, 2015. During the first three months of 2016, we added $23 million in restructured loans, which were partially offset by $20 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 three months of 2015, we added $11 million in restructured loans, which were offset by $13 million in payments and charge-offs.

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A further breakdown of TDRs included in nonperforming loans by loan category as of March 31, 2016, follows:

March 31, 2016 *dollars in millions*	**Number of Loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	13	$ 58	$ 46
Commercial real estate:			
Real estate commercial mortgage	10	13	4
Total commercial loans	23	71	50
Real estate residential mortgage	323	21	21
Home equity loans	1,350	85	76
Consumer direct loans	29	1	
Credit cards	253	1	1
Consumer indirect loans	94	4	3
Total consumer loans	2,049	112	101
Total nonperforming TDRs	2,072	183	151
Prior-year accruing: [(a)]			
Commercial, financial and agricultural	7	5	2
Total commercial loans	7	5	2
Real estate residential mortgage	532	36	36
Home equity loans	1,149	68	57
Consumer direct loans	41	2	2
Credit cards	488	3	2
Consumer indirect loans	445	59	33
Total consumer loans	2,655	168	130
Total prior-year accruing TDRs	2,662	173	132
Total TDRs	4,734	$ 356	$ 283

(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 March 31, 2015, follows:

March 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	11	$ 25	$ 22
Commercial real estate:			
Real estate commercial mortgage	12	37	13
Total commercial real estate loans	12	37	13
Total commercial loans	23	62	35
Real estate residential mortgage	383	22	22
Home equity loans	1,199	80	73
Consumer direct loans	28	1	1
Credit cards	275	2	1
Consumer indirect loans	143	9	9
Total consumer loans	2,028	114	106
Total nonperforming TDRs	2,051	176	141
Prior-year accruing: (a)			
Commercial, financial and agricultural	17	6	3
Commercial real estate:			
Real estate commercial mortgage	1	2	1
Total commercial real estate loans	1	2	1
Total commercial loans	18	8	4
Real estate residential mortgage	454	34	34
Home equity loans	1,142	57	49
Consumer direct loans	51	2	2
Credit cards	519	4	2
Consumer indirect loans	505	62	36
Total consumer loans	2,671	159	123
Total prior-year accruing TDRs	2,689	167	127
Total TDRs	4,740	$ 343	$ 268

(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 first three months of 2016, there were no commercial loan TDRs and 51 consumer loan TDRs with a combined recorded investment of $3 million that experienced payment defaults after modifications resulting in TDR status during 2015. During the first three months of 2015, there were no significant commercial loan TDRs and 89 consumer loan TDRs with a combined recorded investment of $4 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	March 31, 2016	December 31, 2015	March 31, 2015
Commercial loans:			
Interest rate reduction	**$ 48**	$ 51	$ 12
Forgiveness of principal		2	2
Other	**4**	1	25
Total	**$ 52**	$ 54	$ 39
Consumer loans:			
Interest rate reduction	**$ 128**	$ 132	$ 140
Forgiveness of principal	**20**	8	4
Other	**83**	86	85
Total	**$ 231**	$ 226	$ 229
Total commercial and consumer TDRs [a]	**$ 283**	$ 280	$ 268
Total loans	**60,438**	59,876	57,953

(a) Commitments outstanding to lend additional funds to borrowers whose loan terms have been modified in TDRs are $6 million, $9 million, and $5 million at March 31, 2016, December 31, 2015, and March 31, 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 March 31, 2016, approximately $59.4 billion, or 98.4%, of our total loans were current, compared to approximately $59.2 billion, or 98.9% of total loans, at December 31, 2015, and approximately $57.2 billion, or 98.7% of total loans, at March 31, 2015. At March 31, 2016, total past due loans and nonperforming loans of $983 million represented approximately 1.6% of total loans, compared to $667 million, or 1.1% of total loans, at December 31, 2015, and $764 million, or 1.3% of total loans, at March 31, 2015.

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

30-59	60-89	90 and Greater	Total Past Due and	Purchased

March 31, 2016 *in millions*	**Current**	**Days Past Due**	**Days Past Due**	**Days Past Due**	**Nonperforming Loans**	**Nonperforming Loans**	**Credit Impaired**	**Total Loans**
LOAN TYPE								
Commercial, financial and agricultural	$ 31,522	$ 30	$ 31	$ 13	$ 380	$ 454		$ 31,976
Commercial real estate:								
Commercial mortgage	8,327	3	3	15	16	37		8,364
Construction	807	20	1	1	12	34		841
Total commercial real estate loans	9,134	23	4	16	28	71		9,205
Commercial lease financing	3,868	18	25	12	11	66		3,934
Total commercial loans	$ 44,524	$ 71	$ 60	$ 41	$ 419	$ 591		$ 45,115
Real estate residential mortgage	$ 2,151	$ 10	$ 2	$ 2	$ 59	$ 73	$ 10	$ 2,234
Home equity loans	9,879	45	20	13	191	269	1	10,149
Consumer direct loans	1,564	6	3	5	1	15		1,579
Credit cards	764	5	4	7	2	18		782
Consumer indirect loans	562	9	2	2	4	17		579
Total consumer loans	$ 14,920	$ 75	$ 31	$ 29	$ 257	$ 392	$ 11	$ 15,323
Total loans	$ 59,444	$ 146	$ 91	$ 70	$ 676	$ 983	$ 11	$ 60,438

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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

March 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	$ 28,603	$ 36	$ 11	$ 35	$ 98	$ 180		$ 28,783
Commercial real estate:								
Commercial mortgage	8,080	5	18	29	30	82		8,162
Construction	1,114	10	4	2	12	28		1,142
Total commercial real estate loans	9,194	15	22	31	42	110		9,304
Commercial lease financing	4,017	9	6	12	20	47		4,064
Total commercial loans	$ 41,814	$ 60	$ 39	$ 78	$ 160	$ 337		$ 42,151

Real estate residential mortgage	$ 2,129	$ 12	$ 5	$ 2	$ 72	$ 91	$ 11	$ 2,231
Home equity loans	10,250	43	24	14	191	272	1	10,523
Consumer direct loans	1,527	8	4	6	2	20		1,547
Credit cards	708	5	3	9	2	19		727
Consumer indirect loans	749	9	4	2	10	25		774
Total consumer loans	$ 15,363	$ 77	$ 40	$ 33	$ 277	$ 427	$ 12	$ 15,802
Total loans	$ 57,177	$ 137	$ 79	$ 111	$ 437	$ 764	$ 12	$ 57,953

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.

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

Commercial Credit Exposure

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

	Commercial, financial and agricultural			RE Commercial			RE Construction		
in millions RATING	**March 31, 2016**	**December 31, 2015**	**March 31, 2015**	**March 31, 2016**	**December 31, 2015**	**March 31, 2015**	**March 31, 2016**	**December 31, 2015**	**March 31, 2015**
Pass	**$ 30,335**	$ 29,921	$ 27,886	**$ 8,176**	$ 7,800	$ 7,937	**$ 796**	$ 1,007	$ 1,120
Criticized (Accruing)	**1,260**	1,236	798	**172**	139	195	**33**	37	10
Criticized (Nonaccruing)	**381**	83	99	**16**	20	30	**12**	9	12
Total	**$ 31,976**	$ 31,240	$ 28,783	**$ 8,364**	$ 7,959	$ 8,162	**$ 841**	$ 1,053	$ 1,142

	Commercial Lease			Total		
RATING	**March 31, 2016**	**December 31, 2015**	**March 31, 2015**	**March 31, 2016**	**December 31, 2015**	**March 31, 2015**
Pass	**$ 3,878**	$ 3,967	$ 3,996	**$ 43,185**	$ 42,695	$ 40,939
Criticized (Accruing)	**45**	38	48	**1,510**	1,450	1,051
Criticized (Nonaccruing)	**11**	15	20	**420**	127	161
Total	**$ 3,934**	$ 4,020	$ 4,064	**$ 45,115**	$ 44,272	$ 42,151

(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)]

Residential Prime

in millions

GRADE	March 31, 2016	December 31, 2015	March 31, 2015
Pass	**$ 12,107**	$ 12,296	$ 12,463
Substandard	**265**	270	279
Total	**$ 12,372**	$ 12,566	$ 12,742

Credit Risk Profile Based on Payment Activity (a)

	Consumer direct loans			Credit cards			Consumer indirect loans		
in millions	March 31, 2016	December 31, 2015	March 31, 2015	March 31, 2016	December 31, 2015	March 31, 2015	March 31, 2016	December 31, 2015	March 31, 2015
Performing	**$ 1,578**	$ 1,598	$ 1,545	**$ 780**	$ 804	$ 725	**$ 575**	$ 615	$ 764
Nonperforming	**1**	2	2	**2**	2	2	**4**	6	10
Total	**$ 1,579**	$ 1,600	$ 1,547	**$ 782**	$ 806	$ 727	**$ 579**	$ 621	$ 774

	Total		
	March 31, 2016	December 31, 2015	March 31, 2015
Performing	**$ 2,933**	$ 3,017	$ 3,034
Nonperforming	**7**	10	14
Total	**$ 2,940**	$ 3,027	$ 3,048

(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

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allowance to the loan if deemed appropriate. We estimate the extent of the individual impairment for commercial loans and TDRs by comparing the recorded investment of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan s observable market price. Secured consumer loan TDRs that are discharged through Chapter 7 bankruptcy and not formally re-affirmed are adjusted to reflect the fair value of the underlying collateral, less costs to sell. Non-Chapter 7 consumer loan TDRs are combined in homogenous pools and assigned a specific allocation based on the estimated present value of future cash flows using the loan s effective interest rate. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses. The ALLL at March 31, 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 March 31, 2016, the ALLL was $826 million, or 1.37% of loans, compared to $794 million, or 1.37% of loans, at March 31, 2015. At March 31, 2016, the ALLL was 122.2% of nonperforming loans, compared to 181.7% at March 31, 2015.

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

	Three months ended March 31,	
in millions	**2016**	**2015**
Balance at beginning of period continuing operations	**$ 796**	$ 794
Charge-offs	**(60)**	(47)
Recoveries	**14**	19
Net loans and leases charged off	**(46)**	(28)
Provision for loan and lease losses from continuing operations	**76**	29
Foreign currency translation adjustment		(1)
Balance at end of period continuing operations	**$ 826**	$ 794

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

in millions	**December 31, 2015**	**Provision**	**Charge-offs**	**Recoveries**	**March 31, 2016**
Commercial, financial and agricultural	$ 450	**$ 50**	**$ (26)**	**$ 3**	**$ 477**
Real estate commercial mortgage	134		**(1)**	**2**	**135**

Real estate construction	25	**(3)**		**1**	**23**
Commercial lease financing	47	**(1)**	**(3)**		**43**
Total commercial loans	656	**46**	**(30)**	**6**	**678**
Real estate residential mortgage	18	**2**	**(2)**	**2**	**20**
Home equity loans	57	**14**	**(10)**	**3**	**64**
Consumer direct loans	20	**5**	**(6)**	**1**	**20**
Credit cards	32	**6**	**(8)**	**1**	**31**
Consumer indirect loans	13	**3**	**(4)**	**1**	**13**
Total consumer loans	140	**30**	**(30)**	**8**	**148**
Total ALLL continuing operations	796	**76**[a]	**(60)**	**14**	**826**
Discontinued operations	28	**2**	**(9)**	**3**	**24**
Total ALLL including discontinued operations	$ 824	**$ 78**	**$ (69)**	**$ 17**	**$ 850**

(a) Excludes a provision for losses on lending-related commitments of $13 million.

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in millions	December 31, 2014	Provision	Charge-offs	Recoveries	March 31, 2015
Commercial, financial and agricultural	$ 391	$ 21	$ (12)	$ 5	$ 405
Real estate commercial mortgage	148		(2)	2	148
Real estate construction	28	1	(1)		28
Commercial lease financing	56	(3)	(2)	4	55
Total commercial loans	623	19	(17)	11	636
Real estate residential mortgage	23		(2)		21
Home equity loans	71	(3)	(8)	3	63
Consumer direct loans	22	3	(6)	2	21
Credit cards	33	7	(8)		32
Consumer indirect loans	22	2	(6)	3	21
Total consumer loans	171	9	(30)	8	158
Total ALLL continuing operations	794	28 [(a)]	(47)	19	794
Discontinued operations	29	2	(10)	4	25
Total ALLL including discontinued operations	$ 823	$ 30	$ (57)	$ 23	$ 819

(a) Includes a $1 million foreign currency translation adjustment. Excludes provision for losses on lending-related commitments of $6 million.

Our ALLL from continuing operations increased by $32 million, or 4%, from the first 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 $42 million, or 6.6%, from the first quarter of 2015 primarily because of loan growth and increased incurred loss estimates. The increase in these incurred loss estimates during 2015 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 $10 million, or 6.3%, from the first 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 first 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 $607 million, with a corresponding allowance of $54 million at March 31, 2016. Loans outstanding collectively evaluated for impairment totaled $59.8 billion, with a corresponding allowance of $771 million at March 31, 2016. At March 31, 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 quarter ended March 31, 2016. At March 31, 2015, the loans outstanding individually evaluated for impairment totaled $338 million, with a corresponding allowance of $49 million. Loans outstanding collectively evaluated for impairment totaled $57.6 billion, with a corresponding allowance of $744 million at March 31, 2015. At March 31, 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 quarter ended March 31, 2015.

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A breakdown of the individual and collective ALLL and the corresponding loan balances as of March 31, 2016, follows:

March 31, 2016 *in millions*	**Allowance** **Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Purchased Credit Impaired**	**Outstanding** **Loans**	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Purchased Credit Impaired**
Commercial, financial and agricultural	$ 28	$ 449		$ 31,976	$ 361	$ 31,615	
Commercial real estate:							
Commercial mortgage	1	134		8,364	8	8,356	
Construction		23		841	8	833	
Total commercial real estate loans	1	157		9,205	16	9,189	
Commercial lease financing		43		3,934		3,934	
Total commercial loans	29	649		45,115	377	44,738	
Real estate residential mortgage	3	16	$ 1	2,234	55	2,169	$ 10
Home equity loans	19	45		10,149	133	10,015	1
Consumer direct loans		20		1,579	3	1,576	
Credit cards		31		782	3	779	
Consumer indirect loans	3	10		579	36	543	
Total consumer loans	25	122	1	15,323	230	15,082	11
Total ALLL continuing operations	54	771	1	60,438	607	59,820	11
Discontinued operations	2	22		1,760(a)	21	1,739(a)	
Total ALLL including discontinued operations	$ 56	$ 793	$ 1	$ 62,198	$ 628	$ 61,559	$ 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**	**Collectively Evaluated for Impairment**	**Purchased Credit Impaired**	**Outstanding** **Loans**	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**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 March 31, 2015, follows:

March 31, 2015 *in millions*	**Allowance** Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit Impaired	**Loans**	**Outstanding** Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit Impaired
Commercial, financial and agricultural	$ 20	$ 385		$ 28,783	$ 82	$ 28,701	
Commercial real estate:							
Commercial mortgage	2	146		8,162	20	8,142	
Construction		28		1,142	7	1,135	
Total commercial real estate loans	2	174		9,304	27	9,277	
Commercial lease financing		55		4,064		4,064	
Total commercial loans	22	614		42,151	109	42,042	
Real estate residential mortgage	5	15	$ 1	2,231	55	2,165	$ 11
Home equity loans	18	45		10,523	123	10,399	1
Consumer direct loans		21		1,547	3	1,544	
Credit cards		32		727	4	723	
Consumer indirect loans	4	17		774	44	730	
Total consumer loans	27	130	1	15,802	229	15,561	12
Total ALLL continuing operations	49	744	1	57,953	338	57,603	12
Discontinued operations	1	24		2,219 (a)	18	2,201 (a)	
Total ALLL including discontinued operations	$ 50	$ 768	$ 1	$ 60,172	$ 356	$ 59,804	$ 12

(a) Amount includes $187 million of loans carried at fair value that are excluded from ALLL consideration.

The liability for credit losses inherent in lending-related unfunded commitments, such as letters of credit and unfunded loan commitments, is included in accrued expense and other liabilities on the balance sheet. We establish the amount of this reserve by considering both historical trends and current market conditions quarterly, or more often if deemed necessary. Our liability for credit losses on lending-related commitments was $69 million at March 31, 2016. When combined with our ALLL, our total allowance for credit losses represented 1.48% of loans at March 31, 2016, compared to 1.44% at March 31, 2015.

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

in millions	Three months ended March 31, 2016	2015
Balance at beginning of period	$ 56	$ 35
Provision (credit) for losses on lending-related commitments	13	6
Balance at end of period	$ 69	$ 41

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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 March 31, 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 March 31, 2016, and March 31, 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. As of March 31, 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 March 31, 2016. We did not provide any financial support to investees related to our direct and indirect investments for the three months ended March 31, 2016, and March 31, 2015.

March 31, 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 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.

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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 March 31, 2016, one of our indirect investments was identified for sale, and management has committed to a plan to sell this identified investment. It is probable that we will sell this investment for an amount different from its net asset value. The investment is valued at its probable sale price as of March 31, 2016. The remaining 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 March 31, 2016, as well as financial support provided for the three months ended March 31, 2016, and March 31, 2015.

			Financial support provided Three months ended March 31,			
	March 31, 2016		**2016**		**2015**	
in millions	**Fair Value**	**Unfunded Commitments**	**Funded Commitments**	**Funded Other**	**Funded Commitments**	**Funded Other**
INVESTMENT TYPE						
Direct investments [(a)]	**$ 61**			**$ 13**		$ 3
Indirect investments (measured at NAV) [(b)]	**211**	**$ 47**	**$ 1**		$ 2	
Other indirect investment [(b)]	**18**	**3**				
Total	**$ 290**	**$ 50**	**$ 1**	**$ 13**	$ 2	$ 3

(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.

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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.

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 March 31, 2016, December 31, 2015, and March 31, 2015.

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March 31, 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		$ 636		$ 636
States and political subdivisions		26		26
Collateralized mortgage obligations				
Other mortgage-backed securities		64		64
Other securities		37		37
Total trading account securities		763		763
Commercial loans		2		2
Total trading account assets		765		765
Securities available for sale:				
States and political subdivisions		13		13
Collateralized mortgage obligations		12,161		12,161
Other mortgage-backed securities		2,110		2,110
Other securities	$ 3		$ 17	20
Total securities available for sale	3	14,284	17	14,304
Other investments:				
Principal investments:				
Direct	14		47	61
Indirect (measured at NAV) [(a)]				211
Other indirect			18	18
Total principal investments	14		65	290
Equity and mezzanine investments:				
Indirect (measured at NAV) [(a)]				8
Total equity and mezzanine investments				8
Total other investments	14		65	298
Derivative assets:				
Interest rate		1,328	16	1,344
Foreign exchange	103	13		116
Commodity		347		347
Credit		1	2	3
Derivative assets	103	1,689	18	1,810
Netting adjustments [(b)]				(745)
Total derivative assets	103	1,689	18	1,065
Accrued income and other assets		1		1
Total assets on a recurring basis at fair value	$ 120	$ 16,739	$ 100	$ 16,433

LIABILITIES MEASURED ON A RECURRING BASIS				
Bank notes and other short-term borrowings:				
Short positions	$ 9	$ 605		$ 614
Derivative liabilities:				
Interest rate		797		797
Foreign exchange	108	11		119
Commodity		334		334
Credit		5		5
Derivative liabilities	108	1,147		1,255
Netting adjustments [b]				(465)
Total derivative liabilities	108	1,147		790
Accrued expense and other liabilities		2		2
Total liabilities on a recurring basis at fair value	$ 117	$ 1,754		$ 1,406

(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.

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
				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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March 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		$ 668		$ 668
States and political subdivisions		35		35
Collateralized mortgage obligations				
Other mortgage-backed securities		51		51
Other securities	$ 5	25		30
Total trading account securities	5	779		784
Commercial loans		5		5
Total trading account assets	5	784		789
Securities available for sale:				
States and political subdivisions		22		22
Collateralized mortgage obligations		11,163		11,163
Other mortgage-backed securities		1,902		1,902
Other securities	23		$ 10	33
Total securities available for sale	23	13,087	10	13,120
Other investments:				
Principal investments:				
Direct	1		73	74
Indirect (measured at NAV) [(a)]				301
Total principal investments	1		73	375
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	1		73	388
Derivative assets:				
Interest rate		1,034	10	1,044
Foreign exchange	164	8		172
Commodity		581		581
Credit		2	3	5
Derivative assets	164	1,625	13	1,802
Netting adjustments [(b)]				(1,071)
Total derivative assets	164	1,625	13	731
Accrued income and other assets		2		2
Total assets on a recurring basis at fair value	$ 193	$ 15,498	$ 96	$ 15,030

LIABILITIES MEASURED ON A RECURRING BASIS				
Bank notes and other short-term borrowings:				
Short positions		$ 607		$ 607
Derivative liabilities:				
Interest rate		692		692
Foreign exchange	$ 138	9		147
Commodity		567		567
Credit		6	$ 1	7
Derivative liabilities	138	1,274	1	1,413
Netting adjustments [b]				(588)
Total derivative liabilities	138	1,274	1	825
Accrued expense and other liabilities		2		2
Total liabilities on a recurring basis at fair value	$ 138	$ 1,883	$ 1	$ 1,434

(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 months ended March 31, 2016, and March 31, 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
March 31, 2016									
Securities available for sale									
Other securities	$ 17							$ 17	
Other investments									
Principal investments									
Direct	50	$ (3)[b]						47	$ (3)[b]
Other indirect	20	(1)[b]		$ (1)				18	(1)[b]
Derivative instruments [a]									
Interest rate	16	4[c]				$ 3[e]	$ (7)[e]	16	
Commodity									
Credit	1	(2)[c]			$ 3			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
March 31, 2015									
Securities available for sale									
Other securities	$ 10							$ 10	
Other investments									
Principal investments									
Direct	102	$ 13[b]	$ 1	$ (43)				73	
Equity and mezzanine investments									
Direct		2[b]		(2)					2[b]
Derivative instruments [a]									
Interest rate	13	2[c]					$ (5)[e]	10	
Commodity									

Credit	2	(3)[c]	$ 3	2

(a) Amounts represent Level 3 derivative assets less Level 3 derivative liabilities.
(b) Realized and unrealized gains and losses on principal investments are reported in net gains (losses) from principal investing on the income statement. Realized and unrealized losses on private equity and mezzanine investments are reported in other income on the income statement.
(c) Realized and unrealized gains and losses on derivative instruments are reported in corporate services income and other income on the income statement.
(d) Our policy is to recognize transfers into and transfers out of Level 3 as of the end of the reporting period.
(e) Certain derivatives previously classified as Level 2 were transferred to Level 3 because Level 3 unobservable inputs became significant. Certain derivatives previously classified as Level 3 were transferred to Level 2 because Level 3 unobsevable inputs became less significant.
(f) There were no issuances for the three-month periods ended March 31, 2016, and March 31, 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 March 31, 2016, December 31, 2015, and March 31, 2015. The following table presents our assets measured at fair value on a nonrecurring basis at March 31, 2016, December 31, 2015, and March 31, 2015:

	March 31, 2016			
in millions	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS MEASURED ON A NONRECURRING BASIS				
Impaired loans			**$ 25**	**$ 25**
Loans held for sale [(a)]				
Accrued income and other assets			**5**	**5**
Total assets on a nonrecurring basis at fair value			**$ 30**	**$ 30**

	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

	March 31, 2015			
in millions	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS MEASURED ON A NONRECURRING BASIS				
Impaired loans			$ 15	$ 15
Loans held for sale [(a)]				
Accrued income and other assets			12	12
Total assets on a nonrecurring basis at fair value			$ 27	$ 27

(a) During the first quarter of 2016, we transferred less than $1 million of commercial and consumer loans and leases at their current fair value from held-for-sale status to the held-to-maturity portfolio, compared to $62 million during 2015, and $10 million during the first quarter 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 March 31, 2016, December 31, 2015, or March 31, 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.

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 March 31, 2016, December 31, 2015, and March 31, 2015, along with the valuation techniques used, are shown in the following table:

March 31, 2016 *dollars in millions*	**Fair Value of Level 3 Assets**		**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Recurring					
Other investments principal investments direct:	$	47	Individual analysis of the condition of each investment		
Debt instruments				EBITDA multiple	4.00-6.30 (6.10)
				Revenue multiple (where applicable)	N/A (0.40)
Equity instruments of private companies				EBITDA multiple (where applicable)	6.10-6.30 (6.10)
				Revenue multiple (where applicable)	N/A (0.40)
Nonrecurring					
Impaired loans		25	Fair value of underlying collateral	Discount	00.00-40.00% (11.00%)
Goodwill		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%)

December 31, 2015 *dollars in millions*	**Fair Value of Level 3 Assets**		**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Recurring					
Other investments principal investments direct:	$	50	Individual analysis of the condition of each investment		
Debt instruments				EBITDA multiple	N/A (5.40)
Equity instruments of private companies				EBITDA multiple (where applicable)	5.40-6.70 (6.60)
Nonrecurring					
Impaired loans[(a)]			Fair value of underlying collateral	Discount	00.00-34.00% (15.00%)
Goodwill		1,060			10.30-17.80 (12.79)

		Discounted cash flow and market data	Earnings multiple of peers	
			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%)

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

March 31, 2015 *dollars in millions*	**Fair Value of Level 3 Assets**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Recurring				
Other investments principal investments direct:	$ 73	Individual analysis of the condition of each investment		
Debt instruments			EBITDA multiple	5.40-6.00 (5.50)
Equity instruments of private companies			EBITDA multiple (where applicable)	N/A (6.00)
			Revenue multiple (where applicable)	N/A (4.30)
Nonrecurring				
Impaired loans	15	Fair value of underlying collateral	Discount	00.00-100.00% (36.00%)
Goodwill	1,057	Discounted cash flow and market data	Earnings multiple of peers	11.40-15.90 (12.92)
			Equity multiple of peers	1.20-1.22 (1.21)
			Control premium	10.00-30.00% (19.70%)
			Weighted-average cost of capital	13.00-14.00% (13.52%)

Fair Value Disclosures of Financial Instruments

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

	March 31, 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]	**$ 5,910**	**$ 5,910**					**$ 5,910**
Trading account assets [b]	**765**		**$ 765**				**765**
Securities available for sale [b]	**14,304**	**3**	**14,284**	**$ 17**			**14,304**
Held-to-maturity securities [c]	**5,003**		**5,031**				**5,031**
Other investments [b]	**643**	**14**		**410**	**$ 219**		**643**
Loans, net of allowance [d]	**59,612**			**58,535**			**58,535**
Loans held for sale [b]	**684**			**684**			**684**
Derivative assets [b]	**1,065**	**103**	**1,689**	**18**		**$ (745)[f]**	**1,065**
LIABILITIES							
Deposits with no stated maturity [a]	**$ 67,028**		**$ 67,028**				**$ 67,028**
Time deposits [e]	**6,354**		**6,426**				**6,426**
Short-term borrowings [a]	**988**	**$ 9**	**979**				**988**
Long-term debt [e]	**10,760**	**10,667**	**379**				**11,046**
Derivative liabilities [b]	**790**	**108**	**1,147**			**$ (465)[f]**	**790**

	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

	March 31, 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)	$ 3,884	$ 3,884					$ 3,884
Trading account assets (b)	789	5	$ 784				789
Securities available for sale (b)	13,120	23	13,087	$ 10			13,120
Held-to-maturity securities (c)	5,005		5,003				5,003
Other investments (b)	730	1		415	$ 314		730
Loans, net of allowance (d)	57,159			55,702			55,702
Loans held for sale (b)	1,649			1,649			1,649
Derivative assets (b)	731	164	1,625	13		$ (1,071)(f)	731
LIABILITIES							
Deposits with no stated maturity (a)	$ 65,984		$ 65,984				$ 65,984
Time deposits (e)	5,638	$ 488	5,210				5,698
Short-term borrowings (a)	1,125		1,125				1,125
Long-term debt (e)	8,713	8,559	549				9,108
Derivative liabilities (b)	825	138	1,274	$ 1		$ (588)(f)	825

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 quarter 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 ($1.5 billion at fair value) at March 31, 2016, and $1.8 billion ($1.5 billion at fair value) at December 31, 2015, and $2.0 billion ($1.7 billion at fair value) at March 31, 2015; and

Portfolio loans at fair value of $3 million at March 31, 2016, $4 million at December 31, 2015, and $187 million at March 31, 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 $2.2 billion at March 31, 2016, December 31, 2015, and March 31, 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	March 31, 2016 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
States and political subdivisions	**$ 12**	**$ 1**		**$ 13**
Collateralized mortgage obligations	**12,071**	**132**	**$ 41**	**12,162**
Other mortgage-backed securities	**2,087**	**22**		**2,109**
Other securities	**21**		**1**	**20**
Total securities available for sale	**$ 14,191**	**$ 155**	**$ 42**	**$ 14,304**
HELD-TO-MATURITY SECURITIES				
Collateralized mortgage obligations	**$ 4,238**	**$ 28**	**$ 12**	**$ 4,254**
Other mortgage-backed securities	**743**	**12**		**755**
Other securities	**22**			**22**
Total held-to-maturity securities	**$ 5,003**	**$ 40**	**$ 12**	**$ 5,031**

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	March 31, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
States and political subdivisions	$ 21	$ 1		$ 22
Collateralized mortgage obligations	11,116	124	$ 77	11,163
Other mortgage-backed securities	1,870	32		1,902

Other securities	30	3		33
Total securities available for sale	$ 13,037	$ 160	$ 77	$ 13,120
HELD-TO-MATURITY SECURITIES				
Collateralized mortgage obligations	$ 4,749	$ 26	$ 30	$ 4,745
Other mortgage-backed securities	234	2		236
Other securities	22			22
Total held-to-maturity securities	$ 5,005	$ 28	$ 30	$ 5,003

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The following table summarizes our securities that were in an unrealized loss position as of March 31, 2016, December 31, 2015, and March 31, 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
March 31, 2016						
Securities available for sale:						
Collateralized mortgage obligations	**$ 941**	**$ 6**	**$ 2,805**	**$ 35**	**$ 3,746**	**$ 41**
Other mortgage-backed securities [(a)]	**61**				**61**	
Other securities			**3**	**1**	**3**	**1**
Held-to-maturity:						
Collateralized mortgage obligations	**250**	**1**	**809**	**11**	**1,059**	**12**
Other securities [(b)]			**4**		**4**	
Total temporarily impaired securities	**$ 1,252**	**$ 7**	**$ 3,621**	**$ 47**	**$ 4,873**	**$ 54**
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 [(b)]	4				4	
Total temporarily impaired securities	$ 9,204	$ 78	$ 4,529	$ 130	$ 13,733	$ 208
March 31, 2015						
Securities available for sale:						
Collateralized mortgage obligations	$ 1,722	$ 25	$ 2,722	$ 52	$ 4,444	$ 77
Other mortgage-backed securities [(a)]	39				39	
Other securities [(c)]	3		2		5	
Held-to-maturity:						
Collateralized mortgage obligations	637	8	1,348	22	1,985	30
Other securities [(b)]	4				4	
Total temporarily impaired securities	$ 2,405	$ 33	$ 4,072	$ 74	$ 6,477	$ 107

(a)

Gross unrealized losses totaled less than $1 million for other mortgage-backed securities available for sale as of March 31, 2016, and March 31, 2015.

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

(c) Gross unrealized losses totaled less than $1 million for other securities available for sale as of March 31, 2015.

At March 31, 2016, we had $41 million of gross unrealized losses related to 55 fixed-rate CMOs that we invested in as part of our overall A/LM strategy. These securities had a weighted-average maturity of 4.0 years at March 31, 2016. We also had less than $1 million of gross unrealized losses related to 11 other mortgage-backed securities positions, which had a weighted-average maturity of 4.3 years at March 31, 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 March 31, 2016.

Three months ended March 31, 2016 *in millions*	
Balance at December 31, 2015	$ 4
Impairment recognized in earnings	
Balance at March 31, 2016	$ 4

For the three months ended March 31, 2016, net securities gains (losses) related to securities available for sale totaled less than $1 million.

At March 31, 2016, securities available for sale and held-to-maturity securities totaling $5.9 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.

March 31, 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	$ 281	$ 285	$ 38	$ 39
Due after one through five years	13,245	13,350	4,222	4,238
Due after five through ten years	663	667	591	599
Due after ten years	2	2	152	155
Total	$ 14,191	$ 14,304	$ 5,003	$ 5,031

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 March 31, 2016, after taking into account the effects of bilateral collateral and master netting agreements, we had $276 million of derivative assets and a positive $23 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 $789 million and derivative liabilities of $813 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 March 31, 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 March 31, 2016, December 31, 2015, and March 31, 2015. The change in the notional amounts of these derivatives by type from December 31, 2015, to March 31, 2016, indicates the volume of our derivative transaction activity during the first quarter 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

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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:

	March 31, 2016			December 31, 2015			March 31, 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	**$ 21,126**	**$ 464**	**$ 12**	$ 18,917	$ 257	$ 15	$ 16,802	$ 315	$ 14
Foreign exchange	**289**	**5**	**15**	312	20		339	20	
Total	**21,415**	**469**	**27**	19,229	277	15	17,141	335	14
Derivatives not designated as hedging instruments:									
Interest rate	**43,048**	**880**	**785**	43,965	627	548	41,913	728	678
Foreign exchange	**6,191**	**111**	**104**	6,454	131	124	5,544	152	147
Commodity	**1,189**	**347**	**334**	1,144	444	433	1,553	582	567
Credit	**432**	**3**	**5**	632	6	6	586	5	7
Total	**50,860**	**1,341**	**1,228**	52,195	1,208	1,111	49,596	1,467	1,399
Netting adjustments [a]		**(745)**	**(465)**		(866)	(494)		(1,071)	(588)
Net derivatives in the balance sheet	**72,275**	**1,065**	**790**	71,424	619	632	66,737	731	825
Other collateral[b]		**(65)**	**(197)**		(91)	(204)		(146)	(244)
Net derivative amounts	**$ 72,275**	**$ 1,000**	**$ 593**	$ 71,424	$ 528	$ 428	$ 66,737	$ 585	$ 581

(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 three-month period ended March 31, 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 March 31, 2016.

The following table summarizes the pre-tax net gains (losses) on our fair value hedges for the three-month periods ended March 31, 2016, and March 31, 2015, and where they are recorded on the income statement.

	Three months ended March 31, 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	**$ 115**	Long-term debt	Other income	**$ (115)[(a)]**
Interest rate	Interest expense Long-term debt	**27**			
Total		**$ 142**			**$ (115)**

	Three months ended March 31, 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	$ 41	Long-term debt	Other income	$ (41)[(a)]
Interest rate	Interest expense Long-term debt	29			
Total		$ 70			$ (41)

(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 three-month period ended March 31, 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 March 31, 2016.

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Considering the interest rates, yield curves, and notional amounts as of March 31, 2016, we would expect to reclassify an estimated $34 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 March 31, 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 March 31, 2016, AOCI reflected unrecognized after-tax gains totaling $32 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 March 31, 2016. We did not exclude any portion of our hedging instruments from the assessment of hedge effectiveness during the three-month period ended March 31, 2016.

The following table summarizes the pre-tax net gains (losses) on our cash flow and net investment hedges for the three-month periods ended March 31, 2016, and March 31, 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.

	Three months ended March 31, 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	**$ 133**	Interest income Loans	**$ 23**	Other income	
Interest rate	**(4)**	Interest expense Long-term debt	**(1)**	Other income	
Interest rate	**(1)**	Investment banking and debt placement fees		Other income	
Net Investment Hedges					
Foreign exchange contracts	**(14)**	Other Income		Other income	
Total	**$ 114**		**$ 22**		

	Three months ended March 31, 2015				
in millions	**Net Gains (Losses) Recognized in OCI (Effective Portion)**	**Income Statement Location of Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)**	**Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)**	**Income Statement Location of Net Gains (Losses) Recognized in Income (Ineffective Portion)**	**Net Gains (Losses) Recognized in Income (Ineffective Portion**
Cash Flow Hedges					
Interest rate	$ 54	Interest income Loans	$ 22	Other income	
Interest rate	(2)	Interest expense Long-term debt	(1)	Other income	
Interest rate	(4)	Investment banking and debt placement fees		Other income	
Net Investment Hedges					
Foreign exchange contracts	24	Other Income		Other income	
Total	$ 72		$ 21		

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	March 31, 2016
AOCI resulting from cash flow and net investment hedges	$ 20	**$ 72**	**$ (14)**	**$ 78**

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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 three-month periods ended March 31, 2016, and March 31, 2015, and where they are recorded on the income statement.

	Three months ended March 31, 2016			**Three months ended March 31, 2015**		
in millions	**Corporate Services Income**	**Other Income**	**Total**	**Corporate Services Income**	**Other Income**	**Total**
NET GAINS (LOSSES)						
Interest rate	**$ 6**	**$ (1)**	**$ 5**	$ 4		$ 4
Foreign exchange	**10**		**10**	8		8
Commodity	**1**		**1**	2		2
Credit	**1**	**(2)**	**(1)**		$ (4)	(4)
Total net gains (losses)	**$ 18**	**$ (3)**	**$ 15**	$ 14	$ (4)	$ 10

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 $310 million at March 31, 2016, $377 million at December 31, 2015, and $514 million at March 31, 2015. The cash collateral netted against derivative liabilities totaled $29 million at March 31, 2016, $5 million at December 31, 2015, and $31 million at March 31, 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 March 31, 2016, we posted $286 million of cash collateral with clearing organizations and held $98 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 March 31, 2015, we posted $68 million of cash collateral with clearing organizations and held $7 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	**March 31, 2016**	December 31, 2015	March 31, 2015
Largest gross exposure (derivative asset) to an individual counterparty	**$ 150**	$ 158	$ 122
Collateral posted by this counterparty	**66**	85	91
Derivative liability with this counterparty	**82**	74	28
Net exposure after netting adjustments and collateral	**2**	(1)	3

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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	**March 31, 2016**	December 31, 2015	March 31, 2015
Interest rate	**$ 1,132**	$ 628	$ 755
Foreign exchange	**37**	66	58
Commodity	**204**	298	431
Credit	**2**	4	1
Derivative assets before collateral	**1,375**	996	1,245
Less: Related collateral	**310**	377	514
Total derivative assets	**$ 1,065**	$ 619	$ 731

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 March 31, 2016, we had gross exposure of $937 million to broker-dealers and banks. We had net exposure of $484 million after the application of master netting agreements and cash collateral, where such qualifying agreements exist. We had net exposure of $399 million after considering $85 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 March 31, 2016, which we estimate to be the potential future losses on amounts due from client counterparties in the event of default. At March 31, 2016, we had gross exposure of $626 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 $581 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 $20 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 March 31, 2016, December 31, 2015, and March 31, 2015. The fair value of credit derivatives presented below does not take into account the effects of bilateral collateral or master netting agreements.

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