KEYCORP /NEW/
Form 10-Q
November 06, 2009

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549
Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2009

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period From __________ To __________

Commission File Number 1-11302

(Exact name of registrant as specified in its charter)

Ohio	**34-6542451**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
127 Public Square, Cleveland, Ohio	**44114-1306**
(Address of principal executive offices)	(Zip Code)

(216) 689-6300

(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 þ No o

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 þ No o

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

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

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	878,594,925 Shares

(Title of class)	(Outstanding at October 30, 2009)

KEYCORP

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Throughout the Notes to Consolidated Financial Statements and Management s Discussion & Analysis of Financial Condition & Results of Operations, we use certain acronyms and abbreviations which are defined in Note 1 (Basis of Presentation), which begins on page 7.

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

Consolidated Balance Sheets

in millions, except share data	**September 30, 2009 (Unaudited)**	December 31, 2008	September 30, 2008 (Unaudited)
ASSETS			
Cash and due from banks	**$ 725**	$ 1,245	$ 1,927
Short-term investments	**2,986**	5,221	653
Trading account assets	**1,406**	1,280	1,449
Securities available for sale	**15,413**	8,246	8,196
Held-to-maturity securities (fair value: $24, $25 and $28)	**24**	25	28
Other investments	**1,448**	1,526	1,556
Loans, net of unearned income of $1,843, $2,350 and $2,501	**62,193**	72,835	72,994
Less: Allowance for loan losses	**2,485**	1,629	1,390
Net loans	**59,708**	71,206	71,604
Loans held for sale	**703**	626	1,252
Premises and equipment	**863**	840	801
Operating lease assets	**775**	990	1,030
Goodwill	**917**	1,113	1,577
Other intangible assets	**54**	116	123
Corporate-owned life insurance	**3,041**	2,970	2,940
Derivative assets	**1,285**	1,896	951
Accrued income and other assets	**3,463**	2,818	2,890
Discontinued assets (see Note 3)	**4,178**	4,413	4,313
Total assets	**$ 96,989**	$ 104,531	$ 101,290
LIABILITIES			
Deposits in domestic offices:			
NOW and money market deposit accounts	**$ 24,635**	$ 24,191	$ 25,789
Savings deposits	**1,783**	1,712	1,731
Certificates of deposit ($100,000 or more)	**12,216**	11,991	10,316
Other time deposits	**14,211**	14,763	13,929
Total interest-bearing	**52,845**	52,657	51,765
Noninterest-bearing	**13,631**	11,352	11,011
Deposits in foreign office interest-bearing	**783**	1,118	1,791
Total deposits	**67,259**	65,127	64,567
Federal funds purchased and securities sold under repurchase agreements	**1,664**	1,557	1,799
Bank notes and other short-term borrowings	**471**	8,477	5,352
Derivative liabilities	**1,185**	1,032	581
Accrued expense and other liabilities	**2,236**	2,481	4,381

Long-term debt	**12,865**	14,995	15,597
Discontinued liabilities (see Note 3)	**121**	181	155
Total liabilities	**85,801**	93,850	92,432
EQUITY			
Preferred stock, $1 par value, authorized 25,000,000 shares:			
7.750% Noncumulative Perpetual Convertible Preferred Stock, Series A, $100 liquidation preference; authorized 7,475,000 shares; issued 2,904,839, 6,575,000 and 6,575,000 shares	**291**	658	658
Fixed-Rate Cumulative Perpetual Preferred Stock, Series B, $100,000 liquidation preference; authorized and issued 25,000 shares	**2,426**	2,414	
Common shares, $1 par value; authorized 1,400,000,000 shares; issued 946,348,435, 584,061,120 and 584,061,120 shares	**946**	584	584
Common stock warrant	**87**	87	
Capital surplus	**3,726**	2,553	2,552
Retained earnings	**5,431**	6,727	7,320
Treasury stock, at cost (67,789,166, 89,058,634 and 89,295,628 shares)	**(1,983)**	(2,608)	(2,616)
Accumulated other comprehensive income	**46**	65	153
Key shareholders equity	**10,970**	10,480	8,651
Noncontrolling interests	**218**	201	207
Total equity	**11,188**	10,681	8,858
Total liabilities and equity	**$ 96,989**	$ 104,531	$ 101,290

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents

Consolidated Statements of Income (Unaudited)

dollars in millions, except per share amounts	Three months ended September 30, 2009	2008	Nine months ended September 30, 2009	2008
INTEREST INCOME				
Loans	**$ 786**	$ 1,012	**$ 2,445**	$ 2,792
Loans held for sale	**7**	19	**23**	62
Securities available for sale	**121**	101	**310**	303
Held-to-maturity securities	**1**	1	**2**	2
Trading account assets	**9**	16	**35**	39
Short-term investments	**3**	6	**9**	23
Other investments	**13**	12	**38**	38
Total interest income	**940**	1,167	**2,862**	3,259
INTEREST EXPENSE				
Deposits	**277**	347	**873**	1,122
Federal funds purchased and securities sold under repurchase agreements	**2**	10	**4**	53
Bank notes and other short-term borrowings	**3**	34	**13**	100
Long-term debt	**66**	98	**222**	285
Total interest expense	**348**	489	**1,112**	1,560
NET INTEREST INCOME	**592**	678	**1,750**	1,699
Provision for loan losses	**733**	336	**2,403**	986
Net interest income (expense) after provision for loan losses	**(141)**	342	**(653)**	713
NONINTEREST INCOME				
Trust and investment services income	**113**	125	**342**	378
Service charges on deposit accounts	**83**	94	**248**	275
Operating lease income	**55**	69	**175**	206
Letter of credit and loan fees	**46**	53	**128**	141
Corporate-owned life insurance income	**26**	28	**78**	84
Electronic banking fees	**27**	27	**78**	78
Insurance income	**18**	15	**52**	50
Investment banking and capital markets income (loss)	**(26)**	(26)	**5**	63
Net securities gains [(a)]	**1**	1	**112**	3
Net losses from principal investing	**(6)**	(14)	**(84)**	(17)
Net gains (losses) from loan securitizations and sales		(29)	**4**	(86)
Gain (loss) related to exchange of common shares for capital securities	**(17)**		**78**	
Gain from sale/redemption of Visa Inc. shares			**105**	165
Other income	**62**	47	**245**	124
Total noninterest income	**382**	390	**1,566**	1,464

NONINTEREST EXPENSE				
Personnel	**380**	374	**1,114**	1,176
Net occupancy	**63**	65	**192**	193
Operating lease expense	**46**	56	**145**	169
Computer processing	**48**	46	**143**	136
Professional fees	**41**	34	**121**	88
FDIC assessment	**40**	3	**140**	7
Equipment	**24**	23	**71**	70
Marketing	**19**	27	**50**	62
Intangible assets impairment	**45**	4	**241**	4
Other expense	**195**	108	**466**	307
Total noninterest expense	**901**	740	**2,683**	2,212
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**(660)**	(8)	**(1,770)**	(35)
Income taxes	**(274)**	(22)	**(688)**	755
INCOME (LOSS) FROM CONTINUING OPERATIONS	**(386)**	14	**(1,082)**	(790)
Loss from discontinued operations, net of taxes of ($10), ($24), ($24) and ($86), respectively (see Note 3)	**(16)**	(39)	**(41)**	(143)
NET LOSS	**(402)**	(25)	**(1,123)**	(933)
Less: Net income (loss) attributable to noncontrolling interests	**(5)**	11	**(12)**	11
NET LOSS ATTRIBUTABLE TO KEY	**$ (397)**	$ (36)	**$ (1,111)**	$ (944)
Loss from continuing operations attributable to Key common shareholders	**$ (422)**	$ (9)	**$ (1,323)**	$ (813)
Net loss attributable to Key common shareholders	**(438)**	(48)	**(1,364)**	(956)
Per common share:				
Loss from continuing operations attributable to Key common shareholders	**$ (.50)**	$ (.02)	**$ (2.07)**	$ (1.87)
Loss from discontinued operations, net of taxes	**(.02)**	(.08)	**(.06)**	(.33)
Net loss attributable to Key common shareholders	**(.52)**	(.10)	**(2.14)**	(2.19)
Per common share assuming dilution:				
Loss from continuing operations attributable to Key common shareholders	**$ (.50)**	$ (.02)	**$ (2.07)**	$ (1.87)
Loss from discontinued operations, net of taxes	**(.02)**	(.08)	**(.06)**	(.33)
Net loss attributable to Key common shareholders	**(.52)**	(.10)	**(2.14)**	(2.19)
Cash dividends declared per common share	**$ .01**	$ .1875	**$ .0825**	$ .9375
Weighted-average common shares outstanding (000)	**839,906**	491,179	**637,805**	435,846
Weighted-average common shares and potential common shares outstanding (000)	**839,906**	491,179	**637,805**	435,846

(a) For the three months ended September 30, 2009, impairment losses totaled $4 million, of which $2 million was recognized in equity as a component of accumulated other comprehensive income on the balance sheet. For the three months ended June 30, 2009, impairment losses totaled $7 million, of which $1 million was recognized in equity as a component of accumulated other comprehensive income. (See Note 5)

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents

Consolidated Statements of Changes in Equity (Unaudited)

ars in millions, except per share amounts	Preferred Stock Outstanding (000)	Common Shares Outstanding (000)	Preferred Stock	Common Shares	Common Stock Warrant	Capital Surplus	Retained Earnings	Treasury Stock at Cost	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Comprehens Inco (Lo
			Key Shareholders Equity								
LANCE AT DECEMBER 31, 2007		388,793		$ 492		$ 1,623	$ 8,522	$ (3,021)	$ 130	$ 233	
loss							(944)			11	$ (9
er comprehensive income (loss):											
unrealized gains on securities available sale, net of income taxes of $40 (a)									64		
unrealized losses on derivative financial ruments, net of income taxes of $(3)									(24)		(
unrealized losses on common investments in employee welfare benefits trust, net of me taxes									(1)		
distribution to noncontrolling interests										(37)	(
eign currency translation adjustments									(22)		(
pension and postretirement benefit costs, of income taxes									6		
l comprehensive loss											$ (9
erred compensation						6	(3)				
n dividends declared on common shares 625 per share)							(243)				
n dividends declared on Noncumulative es A erred Stock ($1.873 per share)							(12)				
erred stock issued	6,575		$ 658			(20)					
nmon shares issued		92,172		92		967					
nmon shares reissued:											
uisition of U.S.B. Holding Co., Inc.		9,895				58		290			
k options and other employee benefit s		3,905				(82)		115			
LANCE AT SEPTEMBER 30, 2008	6,575	494,765	$ 658	$ 584		$ 2,552	$ 7,320	$ (2,616)	$ 153	$ 207	
LANCE AT DECEMBER 31, 2008	6,600	495,002	$ 3,072	$ 584	$ 87	$ 2,553	$ 6,727	$ (2,608)	$ 65	$ 201	
loss							**(1,111)**			**(12)**	**$ (1,1**
er comprehensive income (loss):											
unrealized gains on securities available sale, net of income taxes of $10 (a)									**17**		
									(90)		(

unrealized losses on derivative financial ruments, net of income taxes of ($54)											
unrealized gains on common investments in employee welfare benefits trust, net of me taxes									1		
contribution from noncontrolling interests										29	
eign currency translation adjustments									34		
pension and postretirement benefit costs, of income taxes									19		
l comprehensive loss											$ (1,1
erred compensation						12					
n dividends declared on common shares 825 per share)							(46)				
n dividends declared on Noncumulative es A erred Stock ($5.8125 per share)							(28)				
n dividends accrued on Cumulative es B erred Stock (5% per annum)							(94)				
ortization of discount on Series B erred Stock			12				(12)				
nmon shares issued		205,439		205		781					
nmon shares exchanged for Series A erred Stock	(3,670)	46,602	(367)	29		(167)	(5)	508			
nmon shares exchanged for capital rities		127,616		128		634					
nmon shares reissued for stock options and r employee benefit plans		3,900				(87)		117			
LANCE AT SEPTEMBER 30, 2009	**2,930**	**878,559**	**$ 2,717**	**$ 946**	**$ 87**	**$ 3,726**	**$ 5,431**	**$ (1,983)**	**$ 46**	**$ 218**	

(a) Net of reclassification adjustments.

See Notes to Consolidated Financial Statements (Unaudited).

5

Table of Contents

Consolidated Statements of Cash Flows (Unaudited)

in millions	Nine months ended September 30, 2009	2008
OPERATING ACTIVITIES		
Net loss	**$ (1,123)**	$ (933)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for loan losses	**2,403**	986
Intangible assets impairment	**241**	4
Depreciation and amortization expense	**295**	320
Net securities gains	**(112)**	(3)
Gain from sale/redemption of Visa Inc. shares	**(105)**	(165)
Gains on leased equipment	**(84)**	(21)
Gain related to exchange of common shares for capital securities	**(78)**	
Gain from sale of Key s claim associated with the Lehman Brothers bankruptcy	**(32)**	
Net (gains) losses from loan securitizations and sales	**(4)**	86
Net losses from principal investing	**84**	17
Provision (credit) for losses on lending-related commitments	**40**	(21)
Provision for losses on LIHTC guaranteed funds	**17**	10
Liability to Visa		(64)
Reversal of Honsador litigation reserve		(23)
Deferred income taxes	**(775)**	(245)
Net decrease in loans held for sale	**46**	709
Net increase in trading account assets	**(126)**	(393)
Other operating activities, net	**780**	118
NET CASH PROVIDED BY OPERATING ACTIVITIES	**1,467**	382
INVESTING ACTIVITIES		
Proceeds from sale/redemption of Visa Inc. shares	**105**	165
Cash used in acquisitions, net of cash acquired		(157)
Net decrease (increase) in short-term investments	**2,235**	(70)
Purchases of securities available for sale	**(13,574)**	(1,191)
Proceeds from sales of securities available for sale	**3,616**	877
Proceeds from prepayments and maturities of securities available for sale	**2,963**	1,124
Purchases of held-to-maturity securities	**(6)**	(6)
Proceeds from prepayments and maturities of held-to-maturity securities	**7**	6
Purchases of other investments	**(117)**	(391)
Proceeds from sales of other investments	**28**	148
Proceeds from prepayments and maturities of other investments	**50**	124
Net decrease (increase) in loans, excluding acquisitions, sales and transfers	**8,629**	(2,504)
Purchases of loans		(18)
Proceeds from loan securitizations and sales	**184**	268
Purchases of premises and equipment	**(128)**	(114)
Proceeds from sales of premises and equipment	**13**	8
Proceeds from sales of other real estate owned	**59**	16
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**4,064**	(1,715)

FINANCING ACTIVITIES		
Net increase (decrease) in deposits	**2,132**	(173)
Net decrease in short-term borrowings	**(7,899)**	(3,427)
Net proceeds from issuance of long-term debt	**486**	4,957
Payments on long-term debt	**(1,584)**	(1,189)
Net proceeds from issuance of common shares and preferred stock	**987**	1,688
Net proceeds from reissuance of common shares		6
Tax benefits under recognized compensation cost for stock-based awards	**(5)**	(2)
Cash dividends paid	**(168)**	(403)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(6,051)**	1,457
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	**(520)**	124
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD	**1,245**	1,803
CASH AND DUE FROM BANKS AT END OF PERIOD	**$ 725**	$ 1,927
Additional disclosures relative to cash flows:		
Interest paid	**$ 1,188**	$ 1,547
Income taxes paid (refunded)	**(165)**	329
Noncash items:		
Assets acquired		$ 2,810
Liabilities assumed		2,648
Loans transferred to portfolio from held for sale	**$ 117**	58
Loans transferred to held for sale from portfolio	**240**	459
Loans transferred to other real estate owned	**165**	67

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The unaudited condensed consolidated interim financial statements include the accounts of KeyCorp and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

We have provided the following list of acronyms and abbreviations as a useful tool for the reader. The acronyms and abbreviations identified below are used in the Notes to Consolidated Financial Statements (Unaudited) as well as Management s Discussion & Analysis of Financial Condition & Results of Operation.

AICPA: American Institute of Certified Public Accountants.
ALCO: Asset/Liability Management Committee.
A/LM: Asset/liability management.
AOCI: Accumulated other comprehensive income (loss).
Austin: Austin Capital Management, Ltd.
CAP: Capital Assistance Program.
CMO: Collateralized mortgage obligation.
Codification: FASB Accounting Standards Codification.
CPP: Capital Purchase Program.
CPR: Constant prepayment rate.
DGP: Debt Guarantee Program.
DIF: Deposit Insurance Fund.
EESA: Emergency Economic Stabilization Act of 2008.
EPS: Earnings per share.
ERISA: Employee Retirement Income Security Act.
EVE: Economic value of equity.
FASB: Financial Accounting Standards Board.
FDIC: Federal Deposit Insurance Corporation.
Federal Reserve: Board of Governors of the Federal Reserve.
FHLMC: Federal Home Loan Mortgage Corporation.
FNMA: Federal National Mortgage Association.
FSP: Financial Stability Plan.
GAAP: U.S. generally accepted accounting principles.
GNMA: Government National Mortgage Association.
Heartland: Heartland Payment Systems, Inc.
IRS: Internal Revenue Service.
ISDA: International Swaps and Derivatives Association.
KAHC: Key Affordable Housing Corporation.
KNSF Amalco: Key Nova Scotia Funding Ltd.
Moody s: Moody s Investors Service, Inc.
N/A: Not applicable.
NASDAQ: National Association of Securities Dealers Automated Quotation.
N/M: Not meaningful.
NOW: Negotiable Order of Withdrawal.
NYSE: New York Stock Exchange.
OCC: Office of the Comptroller of the Currency.
OCI: Other comprehensive income (loss).
OREO: Other real estate owned.
OTTI: Other-than-temporary impairment.
PPIP: Public-Private Investment Program.
S&P: Standard and Poor s Ratings Services, a Division of The McGraw-Hill Companies, Inc.
SCAP: Supervisory Capital Assessment Program.
SEC: Securities and Exchange Commission.
Series A Preferred Stock: KeyCorp s 7.750% Noncumulative Perpetual Convertible Preferred Stock, Series A.
Series B Preferred Stock: KeyCorp s Fixed-Rate Cumulative Perpetual Preferred Stock, Series B.
SFAS: Statement of Financial Accounting Standards.
SILO: Sale in, lease out.
SPE: Special purpose entity.
TALF: Term Asset-Backed Securities Loan Facility.
TARP: Troubled Asset Relief Program.
TE: Taxable equivalent.
TLGP: Temporary Liquidity Guarantee Program.
U.S. Treasury: United States Department of the Treasury.
VAR: Value at risk.
VIE: Variable interest entity.
XBRL: eXtensible Business Reporting Language.

LIBOR: London Interbank Offered Rate.
LIHTC: Low-income housing tax credit.
LILO: Lease in, lease out.

The consolidated financial statements include any voting rights entity in which we have a controlling financial interest. In accordance with the applicable consolidation accounting guidance, we consolidate a VIE if we have a variable interest in the entity and are exposed to the majority of its expected losses and/or residual returns (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 8 (Variable Interest Entities), which begins on page 29, for information on our involvement with VIEs.

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

Qualifying SPEs, including securitization trusts, established under the applicable accounting guidance for transfers of financial assets are not consolidated. In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140. This guidance will change the way entities account for securitizations and SPEs by eliminating the concept of a qualifying SPE, changing the requirements for derecognition of financial assets and requiring additional disclosures. Note 7 (Loan Securitizations and Mortgage Servicing Assets), which begins on page 26, provides information related to transfers of financial assets and servicing. For additional information regarding SFAS No. 166, which is effective January 1, 2010, see the section entitled Accounting Standards Pending Adoption at September 30, 2009 on page 12.

We believe that the unaudited condensed 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. Some previously reported amounts have been reclassified to conform to current reporting practices.

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 KeyCorp s 2008 Annual Report to Shareholders.

In preparing these financial statements, subsequent events were evaluated through the time the financial statements were issued on November 6, 2009. Financial statements are considered issued when they are widely distributed to all shareholders and other financial statement users, or filed with the SEC. In conjunction with applicable accounting standards, all material subsequent events have been either recognized in the financial statements or disclosed in the notes to the financial statements.

Goodwill and Other Intangible Assets

In accordance with the relevant goodwill and other intangibles accounting guidance, goodwill and certain other intangible assets are subject to impairment testing, which must be conducted at least annually. We perform the goodwill impairment testing in the fourth quarter of each year. Our reporting units for purposes of this testing are our major business segments, Community Banking and National Banking. Due to the ongoing uncertainty regarding market conditions, which may continue to negatively impact the performance of our reporting units, we continue to monitor the impairment indicators for goodwill and other intangible assets and to evaluate the carrying amount of these assets, as necessary.

During the first quarter of 2009, a review of impairment indicators prompted our review and evaluation of the carrying amount of the goodwill and other intangible assets assigned to our Community Banking and National Banking units. This review indicated that the estimated fair value of the Community Banking unit was greater than its carrying amount, while the estimated fair value of the National Banking unit was less than its carrying amount, reflecting continued weakness in the financial markets and requiring additional impairment testing. Based on the results of additional impairment testing for the National Banking unit, we recorded an after-tax noncash accounting charge of $187 million, or $.38 per common share, during the first quarter of 2009. Our regulatory and tangible capital ratios were not affected by this adjustment. As a result of this charge, we have now written off all of the goodwill that had been assigned to the National Banking unit.

In April 2009, we made the decision to wind down the operations of Austin, an investment subsidiary that specializes in managing hedge fund investments for its institutional customer base. As a result of this decision, we have accounted for this business as a discontinued operation. Of the $187 million impairment charge recorded during the first quarter of 2009, $23 million, or $.05 per common share, is related to the discontinued operation, and thus has been reclassified to income (loss) from discontinued operations, net of taxes on the income statement. See Note 3 (Acquisition and Divestitures), which begins on page 14, for additional information regarding the Austin discontinued operations.

Based on reviews of impairment indicators during both the second and third quarters of 2009, we determined that further reviews of goodwill and other intangible assets for our Community Banking unit were necessary. These further reviews indicated that the estimated fair value of the Community Banking unit continued to be greater than its carrying amount at both September 30, 2009, and June 30, 2009. At September 30, 2009, goodwill associated with the Community Banking unit was $917 million. Our review indicated that the estimated fair value of the Community Banking unit was 21% greater than its carrying amount at September 30, 2009. Accordingly, no further impairment testing was required. The fair value of the Community Banking reporting unit is estimated using comparable external market data (market approach) and discounted cash flow modeling that incorporates an appropriate risk premium and earnings forecast information (income approach). A sensitivity analysis of the estimated fair value of the Community Banking unit was performed, which indicated that the fair value continued to exceed the carrying amount under deteriorating assumptions. If actual results, and market and economic conditions, differ from the assumptions and data used, the estimated fair value of the Community Banking unit could change in the future.

A review of other intangible assets in the National Banking unit identified a $45 million intangible asset related to vendor relationships in the equipment leasing business that was impaired as a result of our actions taken to cease conducting business in both the commercial vehicle and office equipment leasing markets. Accordingly, we recorded a $45 million charge to write-off this intangible asset. Our review of the remaining intangible assets in the National Banking unit did not identify any impairment of those assets during the third quarter of 2009.

At September 30, 2009, intangible assets, other than goodwill, totaled $55 million (including $1 million classified as discontinued assets on the balance sheet). These assets are being amortized on either an accelerated or straight-line basis over periods ranging from three to thirty years.

Other-than-Temporary Impairments

During the second quarter of 2009, we adopted new accounting guidance related to the recognition and presentation of OTTI of debt securities. This new guidance also requires additional disclosures for both debt and equity securities that we hold. In accordance with the guidance, if the amortized cost of a debt security is greater than its fair value and we intend to sell it, or more-likely-than-not will be required to sell it, before the expected recovery of the amortized cost, then the entire impairment is recognized in earnings. If we have no intent to sell the security, or it is more-likely-than-not that we will not be required to sell it, before expected recovery, then the credit portion of the impairment is recognized in earnings, while the remaining portion attributable to factors such as liquidity and interest rate changes is recognized in equity as a component of AOCI on the balance sheet. The credit portion is equal to the difference between the cash flows expected to be collected and the amortized cost basis of the debt security. Additional information regarding this guidance is provided in this note under the heading Accounting Standards Adopted in 2009 and in Note 5 (Securities), which begins on page 21.

Table of Contents

Noncontrolling Interests

Our Principal Investing unit and the Real Estate Capital and Corporate Banking Services line of business have noncontrolling (minority) interests that are accounted for in accordance with the applicable consolidation accounting guidance. We report noncontrolling interests in subsidiaries as a component of equity on the consolidated balance sheets. Net loss on the consolidated statements of income includes our revenues, expenses, gains and losses and those pertaining to the noncontrolling interests. The portion of net results attributable to the noncontrolling interests is disclosed separately on the face of the income statements to arrive at the net loss attributable to Key.

Offsetting Derivative Positions

In accordance with relevant accounting guidance, we take into account the impact of 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 15 (Derivatives and Hedging Activities), which begins on page 40.

Accounting Standards Adopted in 2009

Business combinations. In December 2007, the FASB issued a new accounting standard regarding business combinations, which requires the acquiring entity in a business combination to recognize only the assets acquired and liabilities assumed in a transaction (e.g., acquisition costs must be expensed when incurred), establishes the fair value at the date of acquisition as the initial measurement for all assets acquired and liabilities assumed, and requires expanded disclosures. This guidance was effective for fiscal years beginning after December 15, 2008 (effective January 1, 2009, for us). Early adoption was prohibited.

Noncontrolling interests. In December 2007, the FASB issued a new accounting standard regarding noncontrolling interests, which requires all entities to report noncontrolling interests in subsidiaries as a component of equity and set forth other presentation and disclosure requirements. This guidance was effective for fiscal years beginning after December 15, 2008 (effective January 1, 2009, for us). Early adoption was prohibited. Additional information regarding this guidance is provided in this note under the heading Noncontrolling Interests. Adoption of this guidance did not have a material effect on our financial condition or results of operations.

Accounting for transfers of financial assets and repurchase financing transactions. In February 2008, the FASB issued a new accounting standard regarding accounting for transfers of financial assets and repurchase financing transactions, which presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (linked transaction). However, if certain criteria are met, the initial transfer and repurchase financing shall be evaluated separately. This guidance was effective for fiscal years beginning after November 15, 2008 (effective January 1, 2009, for us). Early adoption was prohibited. Adoption of this guidance did not have a material effect on our financial condition or results of operations.

Disclosures about derivative instruments and hedging activities. In March 2008, the FASB issued a new accounting standard regarding derivative instruments and hedging activities, which amended and expanded the existing disclosure requirements. This new guidance requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts, and gains and losses on derivative instruments, and disclosures about credit risk contingent features in derivative agreements. These expanded disclosure requirements were effective for fiscal years beginning after November 15, 2008 (effective January 1, 2009, for us). The required disclosures are provided in Note 15.

Determination of the useful life of intangible assets. In April 2008, the FASB issued a new accounting standard regarding the determination of the useful life of intangible assets, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under the applicable goodwill and other intangibles accounting guidance. This new guidance was effective for fiscal years beginning after December 15, 2008 (effective January 1, 2009, for us). Early adoption was prohibited. Adoption of this guidance did not have a material effect on our financial condition or results of operations.

Accounting for convertible debt instruments. In May 2008, the FASB issued a new accounting standard regarding the accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement). This guidance requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer s nonconvertible debt borrowing rate. This guidance was effective for fiscal years beginning after December 15, 2008 (effective January 1, 2009, for us). Early adoption was prohibited. We have not issued and do not have any convertible debt instruments outstanding that are subject to this guidance. Therefore, adoption of this guidance did not have an effect on our financial condition or results of operations.

Recognition and presentation of other-than-temporary impairments. In April 2009, the FASB issued a new accounting standard regarding the recognition and presentation of OTTI of debt securities, which requires additional disclosures for both debt and equity securities. This guidance was effective for interim and annual periods ending after June 15, 2009 (effective June 30, 2009, for us) with early adoption permitted. Additional information regarding this guidance is provided in this note under the heading Other-than-Temporary Impairments on page 9 and in Note 5.

Interim disclosures about fair value of financial instruments. In April 2009, the FASB issued a new accounting standard regarding interim disclosures about fair value of financial instruments. This guidance amended existing accounting guidance to require disclosures about the fair value of financial instruments in interim financial statements of publicly traded companies. This new guidance was effective for interim and annual periods ending after June 15, 2009 (effective June 30, 2009, for us) with early adoption permitted. The required disclosures are provided in Note 16 (Fair Value Measurements), which begins on page 47.

Determining fair value when volume and level of activity have significantly decreased and identifying transactions that are not orderly. In April 2009, the FASB issued a new accounting standard regarding the determination of fair value when the volume and level of activity for an asset or liability have significantly decreased and the identification of transactions that are not orderly. This standard provides additional guidance for: (i) estimating fair value in accordance with the accounting guidance on fair value measurements when the volume and level of activity for an asset or liability have significantly decreased, and (ii) identifying circumstances that indicate that a transaction is not orderly. This guidance emphasizes that 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 at the measurement date under current market conditions (i.e., not a forced liquidation or distressed sale). This standard was effective for interim and annual periods ending after June 15, 2009 (effective June 30, 2009, for us) with early adoption permitted. Adoption of this accounting guidance did not have a material effect on our financial condition or results of operations.

Subsequent events. In May 2009, the FASB issued a new accounting standard regarding subsequent events, which provides authoritative accounting literature for a topic that was previously addressed only in the auditing literature. This accounting guidance is similar to the guidance in the auditing literature with some exceptions that do not result in significant changes in practice. This new guidance was effective on a prospective basis for interim or annual financial periods ending after June 15, 2009 (effective June 30, 2009, for us). In preparing these financial statements, we evaluated subsequent events through the time the financial statements were issued on November 6, 2009.

Table of Contents

FASB accounting standards codification. In June 2009, the FASB issued accounting guidance that establishes the Codification as the single source of authoritative nongovernmental GAAP. As of the effective date, all existing accounting standard documents were superseded, and all other accounting literature not included in the Codification will be considered nonauthoritative, other than SFAS Nos. 166 and 167, described below, that have not yet been included in the Codification. The Codification was launched on July 1, 2009, and is effective for interim and annual periods ending after September 15, 2009 (effective September 30, 2009, for us).

Fair value of alternative investments. In September 2009, the FASB issued an update to the Codification, which provides additional guidance related to measuring the fair value of certain alternative investments, such as interests in private equity and venture capital funds. In addition to requiring additional disclosures, this guidance allows companies to use net asset value per share to estimate the fair value of these alternative investments as a practical expedient if certain conditions are met. This guidance is effective for interim and annual periods ending after December 15, 2009 (effective December 31, 2009, for us). As permitted by this guidance, we elected to early adopt the accounting requirements specified in the guidance as of September 30, 2009, and will adopt the disclosure requirements as of December 31, 2009. Adoption of this guidance did not have a material effect on our financial condition or results of operations.

Accounting Standards Pending Adoption at September 30, 2009

Employers disclosures about postretirement benefit plan assets. In December 2008, the FASB issued new accounting guidance regarding employers disclosures about postretirement benefit plan assets, which amends existing accounting guidance and will require additional disclosures about assets held in an employer s defined benefit pension or other postretirement plan, including fair values of each major asset category and the levels within the fair value hierarchy as set forth in the fair value measurement accounting guidance. This new guidance will be effective for fiscal years ending after December 15, 2009 (effective December 31, 2009, for us).

Transfers of financial assets. In June 2009, the FASB issued SFAS No. 166, which will change the way entities account for securitizations and SPEs by eliminating the concept of a qualifying SPE, changing the requirements for derecognition of financial assets and requiring additional disclosures. This guidance will be effective at the start of an entity s first fiscal year beginning after November 15, 2009 (effective January 1, 2010, for us). We are currently evaluating the impact this guidance may have on our financial condition or results of operations.

Consolidation of variable interest entities. In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R). In addition to requiring additional disclosures, this guidance will change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity will be based on, among other things, an entity s purpose and design, and its ability to direct the activities that most significantly impact the entity s economic performance. This guidance will be effective at the start of a company s first fiscal year beginning after November 15, 2009 (effective January 1, 2010, for us). We are currently evaluating the impact this guidance may have on our financial condition or results of operations.

Table of Contents

2. Earnings Per Common Share

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

dollars in millions, except per share amounts	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
EARNINGS				
Income (loss) from continuing operations	**$ (386)**	$ 14	**$ (1,082)**	$ (790)
Less: Net income (loss) attributable to noncontrolling interests	**(5)**	11	**(12)**	11
Income (loss) from continuing operations attributable to Key	**(381)**	3	**(1,070)**	(801)
Less: Dividends on Series A Preferred Stock	**7**	12	**34**	12
Noncash deemed dividend common shares exchanged for Series A Preferred Stock			**114**	
Cash dividends on Series B Preferred Stock	**31**		**94**	
Amortization of discount on Series B Preferred Stock	**3**		**11**	
Loss from continuing operations attributable to Key common shareholders	**(422)**	(9)	**(1,323)**	(813)
Loss from discontinued operations, net of taxes [(a)]	**(16)**	(39)	**(41)**	(143)
Net loss attributable to Key common shareholders	**$ (438)**	$ (48)	**$ (1,364)**	$ (956)
WEIGHTED-AVERAGE COMMON SHARES				
Weighted-average common shares outstanding (000)	**839,906**	491,179	**637,805**	435,846
Effect of dilutive convertible preferred stock, common stock options and other stock awards (000)				
Weighted-average common shares and potential common shares outstanding (000)	**839,906**	491,179	**637,805**	435,846
EARNINGS PER COMMON SHARE				
Loss from continuing operations attributable to Key common shareholders	**$ (.50)**	$ (.02)	**$ (2.07)**	$ (1.87)
Loss from discontinued operations, net of taxes [(a)]	**(.02)**	(.08)	**(.06)**	(.33)
Net loss attributable to Key common shareholders	**(.52)**	(.10)	**(2.14)**	(2.19)
Loss from continuing operations attributable to Key common shareholders assuming dilution	**$ (.50)**	$ (.02)	**$ (2.07)**	$ (1.87)
Loss from discontinued operations, net of taxes [(a)]	**(.02)**	(.08)	**(.06)**	(.33)
Net loss attributable to Key common shareholders assuming dilution	**(.52)**	(.10)	**(2.14)**	(2.19)

(a)

In September 2009, we made the decision to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In April 2009, we made the decision to wind down the operations of Austin, an investment subsidiary that specializes in managing hedge fund investments for its institutional customer base. As a result of these decisions, we have accounted for these businesses as discontinued operations. Included in the loss from discontinued operations for the nine-month period ended September 30, 2009, is a $23 million after tax, or $.05 per common share, charge for intangible assets impairment related to Austin recorded during the first quarter.

Table of Contents

3. Acquisition and Divestitures

Acquisition and divestitures activity entered into during 2008 and the first nine months of 2009 is summarized below.

Acquisition

U.S.B. Holding Co., Inc. On January 1, 2008, we acquired U.S.B. Holding Co., Inc., the holding company for Union State Bank, a 31-branch state-chartered commercial bank headquartered in Orangeburg, New York. U.S.B. Holding Co. had assets of $2.8 billion and deposits of $1.8 billion at the date of acquisition. Under the terms of the agreement, we exchanged 9,895,000 common shares, with a value of $348 million, and $194 million in cash for all of the outstanding shares of U.S.B. Holding Co. In connection with the acquisition, we recorded goodwill of approximately $350 million in the Community Banking reporting unit. The acquisition expanded our presence in markets both within and contiguous to our current operations in the Hudson Valley.

Divestitures

Education lending. In September 2009, we made the decision to exit the government-guaranteed education lending business and to focus on the growing demand from schools for integrated, simplified billing, payment and cash management solutions. This decision exemplifies our disciplined focus on our core relationship businesses. As a result of this decision, we have accounted for this business as a discontinued operation. Exit costs associated with this discontinued operation are expected to continue through June 30, 2010.

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

	Three months ended September 30,		Nine months ended September 30,	
in millions	**2009**	2008	**2009**	2008
Net interest income	**$ 26**	$ 21	**$ 74**	$ 71
Provision for loan losses	**42**	71	**97**	255
Net interest expense after provision for loan losses	**(16)**	(50)	**(23)**	(184)
Noninterest income	**2**		**18**	(3)
Noninterest expense	**15**	16	**45**	50
Loss before income taxes	**(29)**	(66)	**(50)**	(237)
Income taxes	**(11)**	(25)	**(19)**	(89)
Loss from discontinued operations, net of taxes [(a)]	**$ (18)**	$ (41)	**$ (31)**	$ (148)

(a) Includes after-tax charges of $12 million and $28 million for the three-month periods ended September 30, 2009 and 2008, respectively, and $47 million and $85 million for the nine-month periods ended September 30, 2009 and 2008, respectively, determined by applying a matched funds transfer pricing methodology to the liabilities assumed necessary to support the education lending operations.

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

in millions	**September 30, 2009**	December 31, 2008	September 30, 2008
Securities available for sale	**$ 176**	$ 191	$ 195
Loans, net of unearned income of $1, $2 and $2	**3,571**	3,669	3,711
Less: Allowance for loan losses	**164**	174	164

Net loans		**3,407**		3,495		3,547
Loans held for sale		**341**		401		223
Accrued income and other assets		**224**		270		299
Total assets	**$**	**4,148**	$	4,357	$	4,264
Noninterest-bearing deposits	**$**	**108**	$	133	$	111
Derivative liabilities				6		8
Accrued expense and other liabilities		**7**		24		25
Total liabilities	**$**	**115**	$	163	$	144

Table of Contents

Austin Capital Management, Ltd. In April 2009, we made the decision to wind down the operations of Austin, an investment subsidiary of KeyCorp that specializes in managing hedge fund investments for its institutional customer base. As a result of this decision, we have accounted for this business as a discontinued operation.

The results of this discontinued business are presented on one line as loss from discontinued operations, net of taxes on the income statement. The components of income (loss) from discontinued operations, net of taxes are as follows:

in millions	Three months ended September 30, 2009	2008	Nine months ended September 30, 2009	2008
Noninterest income	**$ 5**	$ 8	**$ 19**	$ 22
Intangible assets impairment			**27**	
Other noninterest expense	**2**	5	**7**	14
Income (loss) before income taxes	**3**	3	**(15)**	8
Income taxes	**1**	1	**(5)**	3
Income (loss) from discontinued operations, net of taxes	**$ 2**	$ 2	**$ (10)**	$ 5

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

in millions	September 30, 2009	December 31, 2008	September 30, 2008
Cash and due from banks	**$ 19**	$ 12	$ 10
Goodwill		25	18
Other intangible assets	**1**	12	12
Accrued income and other assets	**10**	7	9
Total assets	**$ 30**	$ 56	$ 49
Accrued expense and other liabilities	**$ 6**	$ 18	$ 11
Total liabilities	**$ 6**	$ 18	$ 11

4. Line of Business Results

Community Banking

Regional Banking provides individuals with branch-based deposit and investment products, personal finance services, and loans, including residential mortgages, home equity and various types of installment loans. This line of business also provides small businesses with deposit, investment and credit products, and business advisory services.

Regional Banking also offers financial, estate and retirement planning, and asset management services to assist high-net-worth clients with their banking, trust, portfolio management, insurance, charitable giving and related needs.

Commercial Banking provides midsize businesses with products and services that include commercial lending, cash management, equipment leasing, investment and employee benefit programs, succession planning, access to capital markets, derivatives and foreign exchange.

National Banking

Real Estate Capital and Corporate Banking Services consists of two business units, Real Estate Capital and Corporate Banking Services.

Real Estate Capital is a national business that provides construction and interim lending, permanent debt placements and servicing, equity and investment banking, and other commercial banking products and services to developers, brokers and owner-investors. This unit deals primarily with nonowner-occupied properties (i.e., generally properties in which at least 50% of the debt service is provided by rental income from nonaffiliated third parties). Real Estate Capital emphasizes providing clients with finance solutions through access to the capital markets.

Corporate Banking Services provides cash management, interest rate derivatives, and foreign exchange products and services to clients served by both the Community Banking and National Banking groups. Through its Public Sector and Financial Institutions businesses, Corporate Banking Services also provides a full array of commercial banking products and services to government and not-for-profit entities, and to community banks.

Equipment Finance meets the equipment leasing needs of companies worldwide and provides equipment manufacturers, distributors and resellers with financing options for their clients. Lease financing receivables and related revenues are assigned to other lines of business (primarily Institutional and Capital Markets, and Commercial Banking) if those businesses are principally responsible for maintaining the relationship with the client.

Institutional and Capital Markets, through its KeyBanc Capital Markets unit, provides commercial lending, treasury management, investment banking, derivatives, foreign exchange, equity and debt underwriting and trading, and syndicated finance products and services to large corporations and middle-market companies.

Through its Victory Capital Management unit, Institutional and Capital Markets also manages or offers advice regarding investment portfolios for a national client base, including corporations, labor unions, not-for-profit organizations, governments and individuals. These portfolios may be managed in separate accounts, common funds or the Victory family of mutual funds.

Consumer Finance provides government-guaranteed education loans to students and their parents, and processes tuition payments for private schools. Through its Commercial Floor Plan Lending unit, this line of business also finances inventory for automobile dealers. In October 2008, we exited retail and floor-plan lending for marine and recreational vehicle products, and began to limit new education loans to those backed by government guarantee. In September 2009, we made the decision to discontinue the education lending business and to focus on the growing demand from schools for integrated, simplified billing, payment and cash management solutions. The Consumer Finance line of business continues to service existing loans in these portfolios and will continue to originate education loans through December 4, 2009. These actions are consistent with our strategy of de-emphasizing nonrelationship or out-of-footprint businesses.

Other Segments

Other Segments consist of Corporate Treasury and our Principal Investing unit.

Reconciling Items

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

The table that spans pages 18 and 19 shows selected financial data for each major business group for the three- and nine-month periods ended September 30, 2009 and 2008. This table is accompanied by supplementary information for each of the lines of business that make up these groups. The information was derived from the internal financial reporting system that we use to monitor and manage our financial performance. GAAP guides financial accounting, but there is no authoritative guidance for management accounting the way we use our judgment and experience to make reporting decisions. Consequently, the line of business results we report may not be comparable with line of business results presented by other companies.

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

- Net interest income is determined by assigning a standard cost for funds used or a standard credit for funds provided based on their assumed maturity, prepayment and/or repricing characteristics. The net effect of this funds transfer pricing is charged to the lines of business based on the total loan and deposit balances of each line.

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

- The consolidated provision for loan losses is allocated among the lines of business primarily based on their actual net charge-offs, adjusted periodically for loan growth and changes in risk profile. The amount of the consolidated provision is based on the methodology that we use to estimate our consolidated allowance for loan losses. This methodology is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan Losses on page 79 of KeyCorp s 2008 Annual Report to Shareholders.

- Income taxes are allocated based on the statutory federal income tax rate of 35% (adjusted for tax-exempt interest income, income from corporate-owned life insurance and tax credits associated with investments in low-income housing projects) and a blended state income tax rate (net of the federal income tax benefit) of 2.5%.

- Capital is assigned based on our assessment of economic risk factors (primarily credit, operating and market risk) directly attributable to each line.

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

Three months ended September 30, *dollars in millions*	**Community Banking** **2009**	**2008**	**National Banking** **2009**	**2008**
SUMMARY OF OPERATIONS				
Net interest income (expense) (TE)	**$ 419**	$ 438	**$ 267**	$ 308 [c]
Noninterest income	**199**	213	**194**	152 [c]
Total revenue (TE) [a]	**618**	651	**461**	460
Provision for loan losses	**143**	56	**593**	279
Depreciation and amortization expense	**36**	38	**59**	70
Other noninterest expense	**450**	400	**375** [c]	252
Income (loss) from continuing operations before income taxes (TE)	**(11)**	157	**(566)**	(141)
Allocated income taxes and TE adjustments	**(4)**	59	**(213)**	(51)
Income (loss) from continuing operations	**(7)**	98	**(353)**	(90)
Loss from discontinued operations, net of taxes			**(16)**	(39)
Net income (loss)	**(7)**	98	**(369)**	(129)
Less: Net income (loss) attributable to noncontrolling interests			**(1)**	
Net income (loss) attributable to Key	**$ (7)**	$ 98	**$ (368)**	$ (129)
AVERAGE BALANCES				
Loans and leases	**$ 27,410**	$ 28,874	**$ 37,229**	$ 43,419
Total assets [a]	**30,304**	31,896	**42,479**	52,037
Deposits	**52,954**	50,378	**13,435**	12,304
OTHER FINANCIAL DATA				
Net loan charge-offs	**$ 94**	$ 70	**$ 493**	$ 163
Return on average allocated equity [b]	**(.83)%**	12.63%	**(26.70)%**	(6.91)%
Return on average allocated equity	**(.83)**	12.63	**(27.27)**	(9.91)
Average full-time equivalent employees	**8,419**	8,854	**2,780**	3,524

Nine months ended September 30, *dollars in millions*	**Community Banking** **2009**	**2008**	**National Banking** **2009**	**2008**
SUMMARY OF OPERATIONS				
Net interest income (expense) (TE)	**$ 1,228**	$ 1,293	**$ 788**	$ 127 [c]
Noninterest income	**583**	641	**688**	587 [c]
Total revenue (TE) [a]	**1,811**	1,934	**1,476**	714
Provision for loan losses	**411**	118	**1,990**	873
Depreciation and amortization expense	**110**	112	**185**	212

Other noninterest expense	**1,328**	1,193	**1,089** (c)	717
Income (loss) from continuing operations before income taxes (TE)	**(38)**	511	**(1,788)**	(1,088)
Allocated income taxes and TE adjustments	**(14)**	191	**(597)**	(406)
Income (loss) from continuing operations	**(24)**	320	**(1,191)**	(682)
Loss from discontinued operations, net of taxes			**(41)**	(143)
Net income (loss)	**(24)**	320	**(1,232)**	(825)
Less: Net income (loss) attributable to noncontrolling interests			**(5)**	
Net income (loss) attributable to Key	**$ (24)**	$ 320	**$ (1,227)**	$ (825)
AVERAGE BALANCES				
Loans and leases (b)	**$ 28,190**	$ 28,478	**$ 39,973**	$ 43,819
Total assets (a)	**31,119**	31,442	**46,460**	52,073
Deposits	**52,406**	50,034	**12,891**	12,049
OTHER FINANCIAL DATA				
Net loan charge-offs (b)	**$ 235**	$ 138	**$ 1,314**	$ 684
Return on average allocated equity (b)	**(.97)%**	14.04%	**(29.06)%**	(17.80)%
Return on average allocated equity	**(.97)**	14.04	**(30.12)**	(21.53)
Average full-time equivalent employees	**8,652**	8,783	**2,895**	3,611

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

(b) From continuing operations.

(c) National Banking s results for the third quarter of 2009 include a $45 million ($28 million after tax) write-off of intangible assets, other than goodwill, resulting from actions taken by us during the third quarter to cease lending in certain equipment leasing markets. For the first quarter of 2009, National Banking s results include a noncash charge for goodwill and other intangible assets impairment of $196 million ($164 million after tax). During the third quarter of 2008, National Banking s results include $54 million ($33 million after tax) of derivative-related charges recorded as a result of market disruption caused by the failure of Lehman Brothers, and $31 million ($19 million after tax) of realized and unrealized losses from the residential properties segment of the construction loan portfolio. During the second quarter of 2008, National Banking s taxable-equivalent net interest income and net results were reduced by $838 million and $536 million, respectively, as a result of its involvement with certain leveraged lease financing transactions that were challenged by the IRS. National Banking s taxable-equivalent net interest income and net results were reduced by $34 million and $21 million, respectively, during the first quarter of 2008 as a result of its involvement with these leveraged lease financing transactions.

Table of Contents

Other Segments		Total Segments		Reconciling Items		Key	
2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
$ (50)	$ (36)	**$ 636**	$ 710	**$ (37)**	$ (26)	**$ 599**	$ 684
(6) (d)	27	**387**	392	**(5)**	(2)	**382**	390
(56)	(9)	**1,023**	1,102	**(42)**	(28)	**981**	1,074
		736	335	**(3)**	1	**733**	336
		95	108			**95**	108
10	(15) (d)	**835**	637	**(29)**	(5)	**806**	632
(66)	6	**(643)**	22	**(10)**	(24)	**(653)**	(2)
(34)	(13)	**(251)**	(5)	**(16)**	(11) (e)	**(267)**	(16)
(32)	19	**(392)**	27	**6**	(13)	**(386)**	14
		(16)	(39)			**(16)**	(39)
(32)	19	**(408)**	(12)	**6**	(13)	**(402)**	(25)
(4)	11	**(5)**	11			**(5)**	11
$ (28)	$ 8	**$ (403)**	$ (23)	**$ 6**	$ (13)	**$ (397)**	$ (36)
$ 137	$ 165	**$ 64,776**	$ 72,458	**$ 54**	$ 78	**$ 64,830**	$ 72,536
19,913	13,803	**92,696**	97,736	**4,525**	5,420	**97,221**	103,156
1,800	1,965	**68,189**	64,647	**(157)**	(202)	**68,032**	64,445
		$ 587	$ 233			**$ 587**	$ 233
N/M	N/M	**(16.75)%**	.73%	**N/M**	N/M	**(13.79)%**	.14%
N/M	N/M	**(17.05)**	(1.05)	**N/M**	N/M	**(14.37)**	(1.64)
40	41	**11,239**	12,419	**5,197**	5,679	**16,436**	18,098

Other Segments		Total Segments		Reconciling Items		Key	
2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
$ (143)	$ (96)	**$ 1,873**	$ 1,324	**$ (104)**	$ (86)	**$ 1,769**	$ 1,238
192 (d)	82	**1,463**	1,310	**103** (e)	154 (e)	**1,566**	1,464
49	(14)	**3,336**	2,634	**(1)**	68	**3,335**	2,702
		2,401	991	**2**	(5)	**2,403**	986
		295	324			**295**	324
33	4	**2,450**	1,914	**(62)**	(26)	**2,388**	1,888

16	(18)	**(1,810)**	(595)	**59**	99	**(1,751)**	(496)
(23)	(44)	**(634)**	(259)	**(35)**	553 (e)	**(669)**	294
39	26	**(1,176)**	(336)	**94**	(454)	**(1,082)**	(790)
		(41)	(143)			**(41)**	(143)
39	26	**(1,217)**	(479)	**94**	(454)	**(1,123)**	(933)
(7)	11	**(12)**	11			**(12)**	11
$ 46	$ 15	**$ (1,205)**	$ (490)	**$ 94**	$ (454)	**$ (1,111)**	$ (944)
$ 147	$ 193	**$ 68,310**	$ 72,490	**$ 49**	$ 149	**$ 68,359**	$ 72,639
18,205	14,106	**95,784**	97,621	**4,823**	5,646	**100,607**	103,267
1,827	3,281	**67,124**	65,364	**13,690**	18,247	**80,814**	83,611
		$ 1,549	$ 822			**$ 1,549**	$ 822
N/M	N/M	**(16.88)%**	(5.39)%	**N/M**	N/M	**(13.62)%**	(12.44)%
N/M	N/M	**(17.10)**	(7.61)	**N/M**	N/M	**(14.14)**	(14.66)
40	42	**11,587**	12,436	**5,356**	5,793	**16,943**	18,229

(d) Other Segments results for the third quarter of 2009 include a $17 million ($11 million after tax) loss related to the exchange of common shares for capital securities. During the second quarter of 2009, National Banking s results include net gains of $125 million ($78 million after tax) in connection with the repositioning of the securities portfolio and a $95 million ($59 million after tax) gain related to the exchange of common shares for capital securities. For the third quarter of 2008, Other Segments results include a $23 million ($14 million after tax) credit, representing the reversal of the remaining reserve associated with the Honsador litigation, which was settled in September 2008.

(e) Reconciling Items for the second quarter of 2009 include a $32 million ($20 million after tax) gain from the sale of our claim associated with the Lehman Brothers bankruptcy. For the first quarter of 2009, Reconciling Items include a $105 million ($65 million after tax) gain from the sale of our remaining equity interest in Visa Inc. Reconciling Items for the third and second quarters of 2008 include charges of $30 million and $475 million, respectively, to income taxes for the interest cost associated with the previously disclosed leveraged lease tax litigation. For the first quarter of 2008, Reconciling Items include a $165 million ($103 million after tax) gain from the partial redemption of our equity interest in Visa Inc. and a $17 million charge to income taxes for the interest cost associated with the increase to our tax reserves for certain leveraged lease transactions.

Table of Contents

Supplementary information (Community Banking lines of business)

Three months ended September 30, *dollars in millions*	**Regional Banking** **2009**	**2008**	**Commercial Banking** **2009**	**2008**
Total revenue (TE)	**$ 522**	$ 549	**$ 96**	$ 102
Provision for loan losses	**93**	39	**50**	17
Noninterest expense	**437**	391	**49**	47
Net income (loss) attributable to Key	**(5)**	74	**(2)**	24
Average loans and leases	**19,347**	19,801	**8,063**	9,073
Average deposits	**48,551**	46,655	**4,403**	3,723
Net loan charge-offs	**78**	41	**16**	29
Net loan charge-offs to average loans	**1.60%**	.82%	**.79%**	1.27%
Nonperforming assets at period end	**$ 290**	$ 168	**$ 180**	$ 57
Return on average allocated equity	**(.85)%**	13.51%	**(.77)%**	10.53%
Average full-time equivalent employees	**8,120**	8,527	**299**	327

Nine months ended September 30, *dollars in millions*	**Regional Banking** **2009**	**2008**	**Commercial Banking** **2009**	**2008**
Total revenue (TE)	**$ 1,532**	$ 1,630	**$ 279**	$ 304
Provision for loan losses	**327**	74	**84**	44
Noninterest expense	**1,285**	1,168	**153**	137
Net income (loss) attributable to Key	**(51)**	243	**27**	77
Average loans and leases	**19,697**	19,664	**8,493**	8,814
Average deposits	**48,353**	46,367	**4,053**	3,667
Net loan charge-offs	**204**	103	**31**	35
Net loan charge-offs to average loans	**1.38%**	.70%	**.49%**	.53%
Nonperforming assets at period end	**$ 290**	$ 168	**$ 180**	$ 57
Return on average allocated equity	**(2.96)%**	15.03%	**3.56%**	11.62%
Average full-time equivalent employees	**8,340**	8,453	**312**	330

Supplementary information (National Banking lines of business)

hree months ended September 30, *ollars in millions*	**Real Estate Capital and Corporate Banking Services** **2009**	**2008**	**Equipment Finance** **2009**	**2008**	**Institutional and Capital Markets** **2009**	**2008**	**Consumer Finance** **2009**	**2008**
otal revenue (TE)	**$ 140**	$ 98	**$ 86**	$ 111	**$ 186**	$ 177	**$ 49**	$ 74
rovision for loan losses	**372**	99	**99**	64	**29**	17	**93**	99
oninterest expense	**135**	91	**126**	89	**138**	101	**35**	41
ncome (loss) from continuing perations attributable to Key	**(228)**	(57)	**(87)**	(26)	**12**	36	**(49)**	(43)
et income (loss) attributable to Key	**(228)**	(57)	**(87)**	(26)	**14**	38	**(67)**	(84)
verage loans and leases [(a)]	**14,902**	16,447	**8,462**	10,013	**7,383**	8,351	**6,482**	8,608
verage loans held for sale [(a)]	**248**	792	**73**	49	**147**	650	**1**	4

verage deposits	**10,624**	10,446	**15**	20	**2,450**	1,478	**346**	360
et loan charge-offs [a]	**309**	100	**51**	32	**49**		**84**	31
et loan charge-offs to average loans)	**8.23%**	2.42%	**2.39%**	1.27%	**2.63%**	%	**5.14%**	1.43%
onperforming assets at period end [a]	**$ 1,522**	$ 714	**$ 309**	$ 115	**$ 208**	$ 57	**$ 269**	$ 115
eturn on average allocated equity [a]	**(34.97)%**	(11.00)%	**(54.53)%**	(11.56)%	**4.32%**	11.15%	**(18.78)%**	(18.22)%
eturn on average allocated equity	**(34.97)**	(11.00)	**(54.53)**	(11.56)	**5.04**	11.77	**(25.68)**	(35.59)
verage full-time equivalent mployees [b]	**967**	1,209	**731**	897	**813**	964	**269**	454

ine months ended September 30, *ollars in millions*	**Real Estate Capital and Corporate Banking Services**		**Equipment Finance**		**Institutional and Capital Markets**		**Consumer Finance**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
otal revenue (TE)	**$ 497**	$ 417	**$ 288**	$ (490)	**$ 541**	$ 552	**$ 150**	$ 235
rovision for loan losses	**1,304**	509	**248**	124	**98**	69	**340**	171
oninterest expense	**378**	223	**302**	274	**442**	325	**152**	107
ncome (loss) from continuing perations attributable to Key	**(758)**	(197)	**(164)**	(555)	**(29)**	98	**(235)**	(28)
et income (loss) ttributable to Key	**(758)**	(197)	**(164)**	(555)	**(39)**	103	**(266)**	(176)
verage loans and leases [a]	**15,775**	16,676	**8,772**	10,310	**8,235**	7,951	**7,191**	8,882
verage loans held for sale [a]	**249**	799	**47**	44	**203**	566	**1**	5
verage deposits	**10,400**	10,231	**16**	18	**2,188**	1,441	**287**	359
et loan charge-offs [a]	**800**	513	**141**	84	**106**	7	**267**	80
et loan charge-offs to average loans)	**6.78%**	4.11%	**2.15%**	1.09%	**1.72%**	.12%	**4.96%**	1.20%
onperforming assets at period end [a]	**$ 1,522**	$ 714	**$ 309**	$ 115	**$ 208**	$ 57	**$ 269**	$ 115
eturn on average allocated equity [a]	**(39.08)%**	(12.89)%	**(33.48)%**	(81.47)%	**(3.37)%**	10.54%	**(29.67)%**	(4.05)%
eturn on average allocated equity	**(39.08)**	(12.89)	**(33.48)**	(81.47)	**(4.57)**	11.08	**(33.58)**	(25.44)
verage full-time equivalent mployees [b]	**991**	1,223	**759**	918	**865**	945	**280**	525

(a) From continuing operations.

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

Table of Contents

5. 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 are included in net securities gains on the income statement, as are actual gains and losses resulting from the sales of securities using the specific identification method. Unrealized losses on debt securities deemed to be other-than-temporary are included in net securities gains on the income statement or AOCI in accordance with the applicable accounting guidance related to the recognition of OTTI of debt securities, as further described on page 23 of this note.

Other securities held in the available-for-sale portfolio are primarily marketable equity securities that are traded on a public exchange such as the NYSE or NASDAQ.

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, 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, capital securities and preferred equity 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.

Table of Contents

	September 30, 2009			
in millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
U.S. Treasury, agencies and corporations	**$ 8**			**$ 8**
States and political subdivisions	**83**	**$ 4**		**87**
Collateralized mortgage obligations	**13,551**	**178**	**$ 48**	**13,681**
Other mortgage-backed securities	**1,432**	**93**		**1,525**
Other securities	**99**	**14**	**1**	**112**
Total securities available for sale [(a)]	**$ 15,173**	**$ 289**	**$ 49**	**$ 15,413**
HELD-TO-MATURITY SECURITIES				
States and political subdivisions	**$ 3**			**$ 3**
Other securities	**21**			**21**
Total held-to-maturity securities	**$ 24**			**$ 24**

	December 31, 2008			
in millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
U.S. Treasury, agencies and corporations	$ 9	$ 1		$ 10
States and political subdivisions	90	1		91
Collateralized mortgage obligations	6,380	148	$ 5	6,523
Other mortgage-backed securities	1,505	63	1	1,567
Other securities	71	1	17	55
Total securities available for sale [(a)]	$ 8,055	$ 214	$ 23	$ 8,246
HELD-TO-MATURITY SECURITIES				
States and political subdivisions	$ 4			$ 4
Other securities	21			21
Total held-to-maturity securities	$ 25			$ 25

	September 30, 2008			
in millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
U.S. Treasury, agencies and corporations	$ 10			$ 10
States and political subdivisions	92		$ 2	90
Collateralized mortgage obligations	6,368	$ 113	13	6,468
Other mortgage-backed securities	1,511	25	2	1,534
Other securities	98	3	7	94
Total securities available for sale [(a)]	$ 8,079	$ 141	$ 24	$ 8,196
HELD-TO-MATURITY SECURITIES				
States and political subdivisions	$ 7			$ 7
Other securities	21			21
Total held-to-maturity securities	$ 28			$ 28

(a) Excluded at September 30, 2009, December 31, 2008, and September 30, 2008, are retained interests in securitizations in the amount of $176 million, $191 million and $195 million, respectively, related to the discontinued operations of the education lending business.

22

Table of Contents

The following table summarizes our securities available for sale that were in an unrealized loss position as of September 30, 2009, December 31, 2008, and September 30, 2008.

	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
SEPTEMBER 30, 2009						
Securities available for sale:						
Collateralized mortgage obligations	**$ 5,537**	**$ 48**			**$ 5,537**	**$ 48**
Other securities	**1**		**$ 5**	**$ 1**	**6**	**1**
Total temporarily impaired securities	**$ 5,538**	**$ 48**	**$ 5**	**$ 1**	**$ 5,543**	**$ 49**
DECEMBER 31, 2008						
Securities available for sale:						
Collateralized mortgage obligations	$ 107		$ 360	$ 5	$ 467	$ 5
Other mortgage-backed securities	3		15	1	18	1
Other securities	40	$ 13	5	4	45	17
Total temporarily impaired securities	$ 150	$ 13	$ 380	$ 10	$ 530	$ 23
SEPTEMBER 30, 2008						
Securities available for sale:						
States and political subdivisions	$ 69	$ 2			$ 69	$ 2
Collateralized mortgage obligations	579	5	$ 382	$ 8	961	13
Other mortgage-backed securities	180	1	40	1	220	2
Other securities	49	6	2	1	51	7
Total temporarily impaired securities	$ 877	$ 14	$ 424	$ 10	$ 1,301	$ 24

Of the $49 million of gross unrealized losses at September 30, 2009, $48 million relates to fixed-rate collateralized mortgage obligations, which we invest in as part of an overall asset/liability management strategy. Since these instruments have fixed interest rates, their fair value is sensitive to movements in market interest rates. During the first nine months of 2009, interest rates generally increased, so the fair value of these 23 instruments, which had a weighted-average maturity of 4.0 years at September 30, 2009, decreased below their amortized cost.

The unrealized losses within each investment category are considered temporary since we do not intend to sell the securities, and it is more-likely-than-not that we will not be required to sell these securities prior to expected recovery. Accordingly, these investments have been 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, 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 these securities prior to expected recovery.

Debt securities identified to have OTTI 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 expected recovery, the entire impairment (i.e., difference between amortized cost and the fair value) is recognized in earnings. For those debt securities that we do not intend to sell, or it is more-likely-than-not that we will not be required to sell, prior to expected recovery, the credit portion of OTTI is recognized in earnings, while the remaining amount is recognized in equity as a component of AOCI on the balance sheet.

Table of Contents

The following table shows the OTTI losses recognized during the third quarter of 2009:

Three months ended September 30, 2009 *in millions*		
Total OTTI losses recognized on debt securities which Key does not intend to sell or more-likely-than-not will not be required to sell	$	4
Less: Portion of OTTI losses recognized in AOCI, pre-tax		2
Net OTTI losses recognized in earnings for debt securities which Key does not intend to sell or more-likely-than-not will not be required to sell		2
OTTI losses on equity securities recognized in earnings		
Total OTTI losses recognized in earnings	$	2

The following table shows changes in the cumulative credit portion of impairments on our debt securities. All credit-related impairments on debt securities relate to our education loan securitization residual interests. These assets are included in discontinued assets on the balance sheet as a result of our decision to exit the government-guaranteed education lending business. For more information about this discontinued operation, see Note 3 (Acquisition and Divestitures), which begins on page 14.

Three months ended September 30, 2009 *in millions*		
Balance at July 1, 2009	$	6
Impairment recognized in earnings		2
Balance at September 30, 2009	$	8

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

Nine months ended September 30, 2009 *in millions*		
Realized gains	$	128
Realized losses		16
Net securities gains	$	112

At September 30, 2009, securities available for sale and held-to-maturity securities totaling $8.9 billion were pledged to secure public and trust deposits, and securities sold under repurchase agreements, to facilitate access to secured funding, and for other purposes required or permitted by law.
The following table shows securities by remaining maturity. Collateralized mortgage obligations and other mortgage-backed securities both of which are included in the securities available-for-sale portfolio are presented based on their expected average lives. The remaining securities, including all of those in the held-to-maturity portfolio, 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.

September 30, 2009 *in millions*	**Securities Available for Sale** Amortized Cost	Fair Value	**Held-to-Maturity Securities** Amortized Cost	Fair Value
Due in one year or less	$ 606	$ 625	$ 5	$ 5
Due after one through five years	14,406	14,618	19	19
Due after five through ten years	137	144		
Due after ten years	24	26		
Total	$ 15,173	$ 15,413	$ 24	$ 24

6. Loans and Loans Held for Sale

Our loans by category are summarized as follows:

in millions	September 30, 2009	December 31, 2008	September 30, 2008
Commercial, financial and agricultural	**$ 20,600**	$ 27,260	$ 27,207
Commercial real estate:			
Commercial mortgage	**11,169** (a)	10,819	10,569
Construction	**5,473** (a)	7,717	7,708
Total commercial real estate loans	**16,642**	18,536	18,277
Commercial lease financing	**7,787**	9,039	9,437
Total commercial loans	**45,029**	54,835	54,921
Real estate residential mortgage	**1,763**	1,908	1,898
Home equity:			
Community Banking	**10,158**	10,124	9,970
National Banking	**880**	1,051	1,101
Total home equity loans	**11,038**	11,175	11,071
Consumer other Community Banking	**1,189**	1,233	1,274
Consumer other National Banking:			
Marine	**2,943**	3,401	3,529
Other	**231**	283	301
Total consumer other National Banking	**3,174**	3,684	3,830
Total consumer loans	**17,164**	18,000	18,073
Total loans (b)	**$ 62,193**	$ 72,835	$ 72,994

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

(b) Excluded at September 30, 2009, December 31, 2008, and September 30, 2008, are loans in the amount of $3.6 billion, $3.7 billion and $3.7 billion, respectively, related to the discontinued operations of the education lending business.

We use interest rate swaps to manage interest rate risk; these swaps modify the repricing characteristics of certain loans. For more information about such swaps, see Note 15 (Derivatives and Hedging Activities), which begins on page 40.

Our loans held for sale by category are summarized as follows:

in millions	September 30, 2009	December 31, 2008	September 30, 2008

Commercial, financial and agricultural	**$**	**128**	$	102	$	159
Real estate commercial mortgage		**302**		273		718
Real estate construction		**133**		164		262
Commercial lease financing		**29**		7		52
Real estate residential mortgage		**110**		77		57
Automobile		**1**		3		4
Total loans held for sale [(a)]	**$**	**703**	$	626	$	1,252

(a) Excluded at September 30, 2009, December 31, 2008, and September 30, 2008, are loans in the amount of $341 million, $401 million and $223 million, respectively, related to the discontinued operations of the education lending business.

Table of Contents

Changes in the allowance for loan losses are summarized as follows:

in millions	Three months ended September 30, 2009	2008	Nine months ended September 30, 2009	2008
Balance at beginning of period	**$ 2,339**	$ 1,288	**$ 1,629**	$ 1,195
Charge-offs	**(619)**	(259)	**(1,646)**	(904)
Recoveries	**32**	26	**97**	82
Net loans charged off	**(587)**	(233)	**(1,549)**	(822)
Provision for loan losses	**733**	336	**2,403**	986
Allowance related to loans acquired, net				32
Foreign currency translation adjustment		(1)	**2**	(1)
Balance at end of period	**$ 2,485**	$ 1,390	**$ 2,485**	$ 1,390

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

in millions	Three months ended September 30, 2009	2008	Nine months ended September 30, 2009	2008
Balance at beginning of period	**$ 65**	$ 51	**$ 54**	$ 80
Provision (credit) for losses on lending-related commitments	**29**	8	**40**	(21)
Balance at end of period [(a)]	**$ 94**	$ 59	**$ 94**	$ 59

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

7. Loan Securitizations and Mortgage Servicing Assets

Retained Interests in Loan Securitizations

A securitization involves the sale of a pool of loan receivables to investors through either a public or private issuance (generally by a qualifying SPE) of asset-backed securities. Generally, the assets are transferred to a trust that sells interests in the form of certificates of ownership. In previous years, we sold education loans in securitizations; however, we have not securitized any education loans since 2006 due to unfavorable market conditions.

When we sell loans in securitizations, we record a gain or loss when the net sale proceeds and residual interests, if any, differ from the loans allocated carrying amount. Gains or losses resulting from securitizations are recorded as one component of loss from discontinued operations, net of taxes on the income statement as a result of our decision to exit the government-guaranteed education lending business. For more information about this discontinued operation, see Note 3 (Acquisition and Divestitures), which begins on page 14.

A servicing asset is recorded if we purchase or retain the right to service securitized loans, and receive servicing fees that exceed the going market rate. We generally retain an interest in securitized loans in the form of an interest-only strip, residual asset, servicing asset or security. Our mortgage servicing assets are discussed in this note under the heading Mortgage Servicing Assets on page 28. Retained interests from education loan securitizations are accounted for as debt securities and classified as discontinued assets.

In accordance with the relevant consolidation accounting guidance, qualifying SPEs, including securitization trusts, established by us under the accounting guidance related to transfers of financial assets are exempt from consolidation.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140. This guidance will change the way entities account for securitizations and SPEs. Information related to our consolidation policy is included in Note 1 (Basis of Presentation), which begins on page 7. For additional information regarding SFAS No. 166, which is effective January 1, 2010, for us, see Note 1 under the heading Accounting Standards Pending Adoption at September 30, 2009 on page 12.

Table of Contents

We use certain assumptions and estimates to determine the fair value to be allocated to retained interests at the date of transfer and at subsequent measurement dates. Primary economic assumptions used to measure the fair value of our retained interests in education loans and the sensitivity of the current fair value of residual cash flows to immediate adverse changes in those assumptions at September 30, 2009, are as follows:

dollars in millions

Fair value of retained interests	$	176
Weighted-average life (years)		.5 - 6.7
PREPAYMENT SPEED ASSUMPTIONS (ANNUAL RATE)		4.00% - 26.00%
Impact on fair value of 1% CPR adverse change	$	(5)
Impact on fair value of 10% CPR adverse change		(32)
EXPECTED CREDIT LOSSES (STATIC RATE)		2.00% - 80.00%
Impact on fair value of 5% adverse change	$	(2)
Impact on fair value of 10% adverse change		(9)
RESIDUAL CASH FLOWS DISCOUNT RATE (ANNUAL RATE)		8.50% - 14.00%
Impact on fair value of 2% adverse change	$	(27)
Impact on fair value of 5% adverse change		(45)
EXPECTED STATIC DEFAULT (STATIC RATE)		3.75% - 40.00%
Impact on fair value of 1% adverse change	$	(8)
Impact on fair value of 10% adverse change		(67)
VARIABLE RETURNS TO TRANSFEREES		(a)

These sensitivities are hypothetical and should be relied upon with caution. Sensitivity analysis is based on the nature of the asset, the seasoning (i.e., age and payment history) of the portfolio and historical results. Changes in fair value based on a 1% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may cause changes in another. For example, increases in market interest rates may result in lower prepayments and increased credit losses, which might magnify or counteract the sensitivities.

(a) Forward LIBOR plus contractual spread over LIBOR ranging from .00% to 1.30%.

The fair value measurement of our mortgage servicing assets is described in this note under the heading Mortgage Servicing Assets on page 28. We conduct a quarterly review of the fair values of our other retained interests. The historical performance of each retained interest and the assumptions used to project future cash flows are reviewed, assumptions are revised and present values of cash flows are recalculated, as appropriate.

The present values of cash flows represent the fair value of the retained interests. If the fair value of a retained interest exceeds its carrying amount, the increase in fair value is recorded in equity as a component of AOCI on the balance sheet. Conversely, if the carrying amount of a retained interest exceeds its fair value, impairment is indicated. If we intend to sell the retained interest, or more-likely-than-not will be required to sell it, before the expected recovery of the amortized cost, then the entire impairment is recognized in earnings. If we do not have the intent to sell it, or it is more-likely-than-not that we will not be required to sell it, before expected recovery, then the credit portion of the impairment is recognized in earnings, while the remaining portion is recognized in AOCI.

Table of Contents

The table below shows the relationship between the education loans we manage and those held in discontinued assets. Managed loans include those held in discontinued assets, and those securitized and sold, but still serviced by us. Related delinquencies and net credit losses are also presented.

September 30, 2009 *in millions*	Loan Principal	Loans Past Due 60 days or More	Net Credit Losses For the Nine Months Ended
Education loans managed	$ 7,830	$ 269	$ 191
Less: Loans securitized	3,918	160	84
Loans held for sale or securitization	341	7	
Loans held in discontinued assets	$ 3,571	$ 102	$ 107

Mortgage Servicing Assets

We originate and periodically sell commercial mortgage loans but continue to service those loans for the buyers. We also may purchase the right to service commercial mortgage loans for other lenders. A servicing asset is recorded if we purchase or retain the right to service these loans, and receive servicing fees that exceed the going market rate. Changes in the carrying amount of mortgage servicing assets are summarized as follows:

in millions	Nine months ended September 30, 2009	2008
Balance at beginning of period	**$ 242**	$ 313
Servicing retained from loan sales	**7**	13
Purchases	**15**	4
Amortization	**(38)**	(75)
Balance at end of period	**$ 226**	$ 255
Fair value at end of period	**$ 353**	$ 412

The fair value of mortgage servicing assets is determined by calculating the present value of future cash flows associated with servicing the loans. This calculation uses a number of assumptions that are based on current market conditions. Primary economic assumptions used to measure the fair value of our mortgage servicing assets at September 30, 2009 and 2008, are:

- prepayment speed generally at an annual rate of 0.00% to 25.00%;
- expected credit losses at a static rate of 2.00%; and
- residual cash flows discount rate of 8.50% to 15.00%.

Changes in these assumptions could cause the fair value of mortgage servicing assets to change in the future. The volume of loans serviced and expected credit losses are critical to the valuation of servicing assets. A 1.00% increase in the assumed default rate of commercial mortgage loans at September 30, 2009, would cause an $8 million decrease in the fair value of our mortgage servicing assets.

Contractual fee income from servicing commercial mortgage loans totaled $52 million for both the nine-month periods ended September 30, 2009 and 2008. We have elected to remeasure servicing assets using the amortization method. The amortization of servicing assets is determined in proportion to, and over the period of, the estimated net servicing income. The amortization of servicing assets for each period, as shown in the preceding table, is recorded as a reduction to fee income. Both the contractual fee income and the amortization are recorded in other income on the income statement.

Servicing assets are evaluated quarterly for possible impairment. This process involves classifying the assets based on the types of loans serviced and their associated interest rates, and determining the fair value of each class. If the evaluation indicates that the carrying amount of the servicing assets exceeds their fair value, the carrying amount is reduced through a charge to income in the amount of such excess. For the nine-month periods ended September 30, 2009 and 2008, no servicing asset impairment occurred.

Table of Contents

8. Variable Interest Entities

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

- The entity does not have sufficient equity to conduct its activities without additional subordinated financial support from another party.
- The entity s investors lack the authority to make decisions about the activities of the entity through voting rights or similar rights, and do not have the obligation to absorb the entity s expected losses or the right to receive the entity s expected residual returns.
- The voting rights of some investors are not proportional to their economic interest in the entity, and substantially all of the entity s activities involve or are conducted on behalf of investors with disproportionately few voting rights.

Our VIEs, including those consolidated and those in which we hold a significant interest, are summarized below. We define a significant interest in a VIE as a subordinated interest that exposes us to a significant portion, but not the majority, of the VIE s expected losses or residual returns.

September 30, 2009	**Consolidated VIEs**	**Unconsolidated VIEs**		
in millions	**Total Assets**	**Total Assets**	**Total Liabilities**	**Maximum Exposure to Loss**
LIHTC funds	$ 186	$ 175		
LIHTC investments	N/A	907		$ 446

Our involvement with VIEs is described below.

Consolidated VIEs

LIHTC guaranteed funds. KAHC formed limited partnerships, known as funds, which invested in LIHTC operating partnerships. Interests in these funds were offered in syndication to qualified investors who paid a fee to KAHC for a guaranteed return. We also earned syndication fees from these funds and continue to earn asset management fees. The funds assets primarily are investments in LIHTC operating partnerships, which totaled $171 million at September 30, 2009. These investments are recorded in accrued income and other assets on the balance sheet and serve as collateral for the funds limited obligations. We have not formed new funds or added LIHTC partnerships since October 2003. However, we continue to act as asset manager and provide occasional funding for existing funds under a guarantee obligation. As a result of this guarantee obligation, we have determined that we are the primary beneficiary of these funds. We recorded expenses of $18 million related to this guarantee obligation during the first nine months of 2009. Additional information on return guarantee agreements with LIHTC investors is presented in Note 14 (Contingent Liabilities and Guarantees) under the heading Guarantees on page 37.

The partnership agreement for each guaranteed fund requires the fund to be dissolved by a certain date. In accordance with the applicable accounting guidance for distinguishing liabilities from equity, the third-party interests associated with these funds are considered mandatorily redeemable instruments and are recorded in accrued expense and other liabilities on the balance sheet. The FASB has indefinitely deferred the measurement and recognition provisions of this accounting guidance for mandatorily redeemable third-party interests associated with finite-lived subsidiaries, such as our LIHTC guaranteed funds. We adjust the financial statements each period for the third-party investors share of the funds profits and losses. At September 30, 2009, the settlement value of these third-party interests was estimated to be between $135 million and $145 million, while the recorded value, including reserves, totaled $192 million.

Table of Contents

Unconsolidated VIEs

LIHTC nonguaranteed funds. Although we hold significant interests in certain nonguaranteed funds that we formed and funded, we have determined that we are not the primary beneficiary of those funds because we do not absorb the majority of the expected losses of the funds. At September 30, 2009, assets of these unconsolidated nonguaranteed funds totaled $175 million. Our maximum exposure to loss in connection with these funds is minimal, and we do not have any liability recorded related to the funds. We elected to cease forming these funds in October 2003.

LIHTC investments. Through the Community Banking business group, we have made investments directly in LIHTC operating partnerships formed by third parties. As a limited partner in these operating partnerships, we are allocated tax credits and deductions associated with the underlying properties. We have determined that we are not the primary beneficiary of these investments because the general partners are more closely associated with the business activities of these partnerships. At September 30, 2009, assets of these unconsolidated LIHTC operating partnerships totaled approximately $907 million. Our maximum exposure to loss in connection with these partnerships is the unamortized investment balance of $372 million at September 30, 2009, plus $74 million of tax credits claimed but subject to recapture. We do not have any liability recorded related to these investments because we believe the likelihood of any loss in connection with these partnerships is remote. During the first nine months of 2009, we did not obtain significant direct investments (either individually or in the aggregate) in LIHTC operating partnerships.

We have additional investments in unconsolidated LIHTC operating partnerships that are held by the consolidated LIHTC guaranteed funds. Total assets of these operating partnerships were approximately $1.3 billion at September 30, 2009. The tax credits and deductions associated with these properties are allocated to the funds investors based on their ownership percentages. We have determined that we are not the primary beneficiary of these partnerships because the general partners are more closely associated with the business activities of these partnerships. Information regarding our exposure to loss in connection with these guaranteed funds is included in Note 14 under the heading Return guarantee agreement with LIHTC investors on page 38.

Commercial and residential real estate investments and principal investments. Our Principal Investing unit and the Real Estate Capital and Corporate Banking Services line of business make equity and mezzanine investments, some of which are in VIEs. These investments are held by nonregistered investment companies subject to the provisions of the AICPA Audit and Accounting Guide, Audits of Investment Companies. We are not currently applying the accounting or disclosure provisions in the applicable accounting guidance for consolidations to these investments, which remain unconsolidated; the FASB deferred the effective date of this guidance for such nonregistered investment companies until the AICPA clarifies the scope of the Audit Guide.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R), which will change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. Additional information regarding this new guidance is provided in Note 1 (Basis of Presentation) under the heading Accounting Standards Pending Adoption at September 30, 2009 on page 12.

Table of Contents

9. Nonperforming Assets and Past Due Loans from Continuing Operations

Impaired loans totaled $2.0 billion at September 30, 2009, compared to $985 million at December 31, 2008, and $777 million at September 30, 2008. Impaired loans had an average balance of $2.0 billion for the third quarter of 2009 and $703 million for the third quarter of 2008.

Our nonperforming assets and past due loans were as follows:

in millions	**September 30, 2009**	December 31, 2008	September 30, 2008
Impaired loans	**$ 2,013**	$ 985	$ 777
Other nonaccrual loans	**277**	236	187
Total nonperforming loans	**2,290**	1,221	964
Nonperforming loans held for sale	**304**	90	169
Other real estate owned (OREO)	**187**	110	64
Allowance for OREO losses	**(40)**	(3)	(4)
OREO, net of allowance	**147**	107	60
Other nonperforming assets	**58**	42	43
Total nonperforming assets	**$ 2,799**	$ 1,460	$ 1,236
Impaired loans with a specifically allocated allowance	**$ 1,787**	$ 876	$ 678
Specifically allocated allowance for impaired loans	**390**	178	193
Accruing loans past due 90 days or more	**$ 375**	$ 413	$ 308
Accruing loans past due 30 through 89 days	**1,071**	1,230	852

At September 30, 2009, we did not have any significant commitments to lend additional funds to borrowers with loans on nonperforming status.

We evaluate the collectability of our loans as described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan Losses on page 79 of KeyCorp s 2008 Annual Report to Shareholders.

Table of Contents

10. Capital Securities Issued by Unconsolidated Subsidiaries

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

The capital securities provide an attractive source of funds: they constitute Tier 1 capital for regulatory reporting purposes, but have the same tax advantages as debt for federal income tax purposes. During the first quarter of 2005, the Federal Reserve adopted a rule that allows bank holding companies to continue to treat capital securities as Tier 1 capital, but imposed stricter quantitative limits that would have taken effect March 31, 2009. On March 17, 2009, in light of continued stress in the financial markets, the Federal Reserve delayed the effective date of these new limits until March 31, 2011. We believe the new rule will not have any material effect on our financial condition.

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

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

On June 3, 2009, we commenced an offer to exchange common shares, $1 par value, for any and all institutional capital securities issued by the KeyCorp Capital I, KeyCorp Capital II, KeyCorp Capital III and KeyCorp Capital VII trusts. The institutional exchange offer, which expired on June 30, 2009, is a component of our comprehensive capital plan, which was submitted to the Federal Reserve Bank of Cleveland on June 1, 2009, following the May 7, 2009, announcement of the results of the forward-looking capital assessment, or stress test, conducted pursuant to the SCAP initiated by the U.S. Treasury and the federal banking regulators. As previously disclosed, our regulators determined that we needed to increase our Tier 1 common equity by $1.8 billion in order to satisfy the requirements of the SCAP.

In an effort to further enhance our Tier 1 common equity, on July 8, 2009, we commenced a separate offer to exchange common shares, $1 par value, for any and all retail capital securities issued by the KeyCorp Capital V, KeyCorp Capital VI, KeyCorp Capital VIII, KeyCorp Capital IX and KeyCorp Capital X trusts. On July 22, 2009, we amended our retail exchange offer, which expired on August 4, 2009, to reduce the maximum aggregate liquidation preference amount that would be accepted from $1.740 billion to $500 million.

For further information related to these exchange offers and other capital-generating activities, see Note 11 (Shareholders Equity), which begins on page 34. Additional information regarding the SCAP assessment is included in the Capital section under the heading Financial Stability Plan on page 99.

Table of Contents

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

dollars in millions	Capital Securities, Net of Discount [(a)]	Common Stock	Principal Amount of Debentures, Net of Discount [(b)]	Interest Rate of Capital Securities and Debentures [(c)]	Maturity of Capital Securities and Debentures
September 30, 2009					
KeyCorp Capital I	**$ 156**	**$ 6**	**$ 158**	**1.337%**	**2028**
KeyCorp Capital II	**104**	**4**	**103**	**6.875**	**2029**
KeyCorp Capital III	**140**	**4**	**132**	**7.750**	**2029**
KeyCorp Capital V	**132**	**4**	**128**	**5.875**	**2033**
KeyCorp Capital VI	**71**	**2**	**60**	**6.125**	**2033**
KeyCorp Capital VII	**184**	**5**	**182**	**5.700**	**2035**
KeyCorp Capital VIII	**202**		**205**	**7.000**	**2066**
KeyCorp Capital IX	**331**		**352**	**6.750**	**2066**
KeyCorp Capital X	**568**		**598**	**8.000**	**2068**
Union State Capital I	**20**	**1**	**21**	**9.580**	**2027**
Union State Statutory II	**20**		**20**	**4.068**	**2031**
Union State Statutory IV	**10**		**10**	**3.309**	**2034**
Total	**$ 1,938**	**$ 26**	**$ 1,969**	**6.589%**	
December 31, 2008	$ 3,042	$ 40	$ 3,084	6.931%	
September 30, 2008	$ 2,667	$ 40	$ 2,709	6.820%	

(a) The capital securities must be redeemed when the related debentures mature, or earlier if provided in the governing indenture. Each issue of capital securities carries an interest rate identical to that of the related debenture. Included in certain capital securities at September 30, 2009, December 31, 2008, and September 30, 2008, are basis adjustments of $147 million, $459 million and $84 million, respectively, related to fair value hedges. See Note 15 (Derivatives and Hedging Activities), which begins on page 40, for an explanation of fair value hedges.

(b) We have the right to redeem our debentures: (i) in whole or in part, on or after July 1, 2008 (for debentures owned by KeyCorp Capital I); March 18, 1999 (for debentures owned by KeyCorp Capital II); July 16, 1999 (for debentures owned by KeyCorp Capital III); July 21, 2008 (for debentures owned by KeyCorp Capital V); December 15, 2008 (for debentures owned by KeyCorp Capital VI); June 15, 2010 (for debentures owned by KeyCorp Capital VII); June 15, 2011 (for debentures owned by KeyCorp Capital VIII); December 15, 2011 (for debentures owned by KeyCorp Capital IX); March 15, 2013 (for debentures owned by KeyCorp Capital X); February 1, 2007 (for debentures owned by Union State Capital I); July 31, 2006 (for debentures owned by Union State Statutory II); and April 7, 2009 (for debentures owned by Union State Statutory IV); and (ii) in whole at any time within 90 days after and during the continuation of a tax event, an investment company event or a capital treatment event (as defined in the applicable indenture). If the debentures purchased by KeyCorp Capital I, KeyCorp Capital V, KeyCorp Capital VI, KeyCorp Capital VII, KeyCorp Capital VIII, KeyCorp

Capital IX, KeyCorp Capital X or Union State Statutory IV are redeemed before they mature, the redemption price will be the principal amount, plus any accrued but unpaid interest. If the debentures purchased by KeyCorp Capital II or KeyCorp Capital III are redeemed before they mature, the redemption price will be the greater of: (a) the principal amount, plus any accrued but unpaid interest or (b) the sum of the present values of principal and interest payments discounted at the Treasury Rate (as defined in the applicable indenture), plus 20 basis points (25 basis points for KeyCorp Capital III), plus any accrued but unpaid interest. If the debentures purchased by Union State Capital I are redeemed before they mature, the redemption price will be 104.31% of the principal amount, plus any accrued but unpaid interest. If the debentures purchased by Union State Statutory II are redeemed before they mature, the redemption price will be 104.50% of the principal amount, plus any accrued but unpaid interest. When debentures are redeemed in response to tax or capital treatment events, the redemption price generally is slightly more favorable to us. Included in the principal amount of debentures at September 30, 2009, December 31, 2008, and September 30, 2008, are adjustments related to hedging with financial instruments totaling $152 million, $461 million and $86 million, respectively.

(c) The interest rates for KeyCorp Capital II, KeyCorp Capital III, KeyCorp Capital V, KeyCorp Capital VI, KeyCorp Capital VII, KeyCorp Capital

VIII, KeyCorp Capital IX, KeyCorp Capital X and Union State Capital I are fixed. KeyCorp Capital I has a floating interest rate equal to three-month LIBOR plus 74 basis points that reprices quarterly. Union State Statutory II has a floating interest rate equal to three-month LIBOR plus 358 basis points that reprices quarterly. Union State Statutory IV has a floating interest rate equal to three-month LIBOR plus 280 basis points that reprices quarterly. The rates shown as the totals at September 30, 2009, December 31, 2008, and September 30, 2008, are weighted-average rates.

Table of Contents

11. Shareholders Equity

Supervisory Capital Assessment Program and Our Capital-Generating Activities

To implement the CAP, the Federal Reserve, the Federal Reserve Banks, the FDIC and the OCC commenced a review of the capital of the nineteen largest U.S. banking institutions. This review, referred to as the SCAP, involved a forward-looking capital assessment, or stress test, of all domestic bank holding companies with risk-weighted assets of more than $100 billion at December 31, 2008, of which we were one. As announced on May 7, 2009, under the SCAP assessment, our regulators determined that we needed to generate $1.8 billion in additional Tier 1 common equity or contingent common equity (i.e., mandatorily convertible preferred shares). Information regarding the CAP and our final SCAP assessment is included in the Capital section under the heading Financial Stability Plan on page 93 of KeyCorp s Form 10-Q Report for the quarterly period ended June 30, 2009.

Pursuant to the requirements of the SCAP assessment, we submitted a comprehensive capital plan to the Federal Reserve Bank of Cleveland on June 1, 2009, describing our action plan for raising the required amount of additional Tier 1 common equity from nongovernmental sources. In conjunction with our action plan, during the second quarter of 2009, we completed various transactions to generate the additional capital, as discussed below.

Common stock offering. On May 11, 2009, we launched a public at-the-market offering of up to $750 million in aggregate gross proceeds of common shares, $1 par value. We subsequently increased the aggregate gross sales price of the common shares to be issued to $1.0 billion on June 2, 2009, and on the same date, announced that we had successfully issued all $1.0 billion in additional common shares. In conjunction with the common stock offering, we issued 205,438,975 common shares at an average price of $4.87 per share.

Series A Preferred Stock public exchange offer. On June 3, 2009, we launched an offer to exchange common shares, $1 par value, for any and all outstanding shares of Series A Preferred Stock. In connection with the Series A Preferred Stock exchange offer, which expired on June 30, 2009, we issued 29,232,025 common shares, or 3.67% of the issued and outstanding common shares at June 30, 2009, for 2,130,461 shares of the outstanding Series A Preferred Stock, representing $213 million aggregate liquidation preference. The exchange ratio for this exchange offer was 13.7210 common shares per share of Series A Preferred Stock.

Institutional capital securities exchange offer. On June 3, 2009, we launched a separate offer to exchange common shares, $1 par value, for any and all institutional capital securities issued by the KeyCorp Capital I, KeyCorp Capital II, KeyCorp Capital III and KeyCorp Capital VII trusts. In connection with the institutional capital securities exchange offer, which expired on June 30, 2009, we issued 46,338,101 common shares, or 5.81% of the issued and outstanding common shares at June 30, 2009, for $294 million aggregate liquidation preference of the outstanding capital securities in the aforementioned trusts. The exchange ratios for this exchange offer, which ranged from 132.5732 to 160.9818 common shares per $1,000 liquidation preference of capital securities, were based on the timing of each investor s tender offer and the trust from which the capital securities were tendered.

In the aggregate, the Series A Preferred Stock and the institutional capital securities exchange offers generated $544 million of additional Tier 1 common equity. Both exchanges were conducted in reliance upon the exemption set forth in Section 3(a)(9) of the Securities Act of 1933, as amended.

We have complied with the requirements of the SCAP assessment, having generated total Tier 1 common equity in excess of $1.8 billion. We raised: (i) $1.5 billion of capital through the three transactions discussed above, (ii) $149 million of capital through other exchanges of Series A Preferred Stock, (iii) $125 million of capital through the sale of certain securities, and (iv) approximately $70 million of capital through the reduction of our dividend and interest obligations on the exchanged securities through the SCAP assessment period, which ends on December 31, 2010. Successful completion of our capital transactions has strengthened our capital framework, having improved KeyCorp s Tier 1 common equity ratio, which will benefit us should economic conditions worsen or any recovery of economic conditions be delayed.

In an effort to further enhance our Tier 1 common equity, on July 8, 2009, we commenced a separate, SEC-registered offer to exchange common shares, $1 par value, for any and all retail capital securities issued by the KeyCorp Capital V, KeyCorp Capital VI, KeyCorp Capital VIII, KeyCorp Capital IX and KeyCorp Capital X trusts. As of July 21, 2009, holders of approximately $534 million aggregate liquidation preference of capital securities had indicated that they would be tendering securities in the retail capital securities exchange offer, subject to applicable withdrawal rights. We announced on July 22, 2009, that we would limit the total aggregate liquidation preference of capital securities that we will accept in this exchange offer to $500 million. In connection with this exchange offer, which expired on August 4, 2009, we issued 81,278,214 common shares, or 9.25% of the issued and outstanding common shares at August 4, 2009. The exchange ratios for this exchange offer, which ranged from 3.8289 to 4.1518 common shares per $25 liquidation preference of capital securities, were based on the timing of each investor s tender offer and the trust from which the capital securities were tendered. The retail capital securities exchange offer generated approximately $505 million of additional Tier 1 common equity.

Preferred Stock Private Exchanges

During April and May 2009, we entered into agreements with certain institutional shareholders who had contacted us to exchange Series A Preferred Stock held by the institutional shareholders for common shares, $1 par value. In the aggregate, we exchanged 17,369,926 common shares, or 3.25% of the issued and outstanding common shares at May 18, 2009, the date on which the last of the exchange transactions settled, for 1,539,700 shares of the Series A Preferred Stock. The exchanges were conducted in reliance upon the exemption set forth in Section 3(a)(9) of the Securities Act of 1933, as amended, for securities exchanged by the issuer and an existing security holder where no commission or other remuneration is paid or given directly or indirectly by the issuer for soliciting such exchange. We utilized treasury shares to complete the transactions.

12. Employee Benefits

Pension Plans

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

in millions	**Three months ended September 30, 2009**	**2008**	**Nine months ended September 30, 2009**	**2008**
Service cost of benefits earned	**$ 12**	$ 13	**$ 37**	$ 39
Interest cost on projected benefit obligation	**14**	15	**43**	47
Expected return on plan assets	**(17)**	(23)	**(49)**	(70)
Amortization of prior service cost				1
Amortization of losses	**10**	4	**31**	10
Net pension cost	**$ 19**	$ 9	**$ 62**	$ 27

Other Postretirement Benefit Plans

We sponsor a contributory postretirement healthcare plan that covers substantially all active and retired employees hired before 2001 who meet certain eligibility criteria. Retirees contributions are adjusted annually to reflect certain cost-sharing provisions and benefit limitations. We also sponsor life insurance plans covering certain grandfathered employees. These plans are principally noncontributory. Separate Voluntary Employee Beneficiary Association trusts are used to fund the healthcare plan and one of the life insurance plans.

Table of Contents

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

in millions	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Service cost of benefits earned				$ 1
Interest cost on accumulated postretirement benefit obligation	**$ 1**	$ 1	**$ 3**	3
Expected return on plan assets	**(1)**	(2)	**(2)**	(4)
Amortization of unrecognized:				
Prior service benefit			**(1)**	(1)
Cumulative net gain				(1)
Net postretirement benefit income		$ (1)		$ (2)

13. Income Taxes

Lease Financing Transactions

During the second quarter of 2009, we resolved all outstanding federal income tax issues with the IRS for tax years 1997-2003, including all outstanding LILO and SILO tax issues for all open tax years through the execution of closing agreements in the first and second quarters of 2009. In conjunction with the IRS, we are currently completing the final tax calculations for the tax years 1997-2003, and the IRS is continuing its audits of our 2004-2006 tax years. We have deposited $2.0 billion with the IRS to cover the anticipated amount of taxes and associated interest cost due to the IRS for all tax years affected by the LILO/SILO tax settlement.

During 2009, we will amend our state tax returns to reflect the impact of the settlement on prior years state tax liabilities. While the settlement with the IRS provides a waiver of federal tax penalties, we anticipate that certain statutory penalties under state tax laws will be imposed on us. Although we intend to vigorously defend our position against the imposition of any such penalties, as of September 30, 2009, we have accrued a total of $32 million for potential penalties in accordance with current accounting guidance.

In accordance with the applicable accounting guidance related to a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction, throughout 2009, we have updated our assessment of the timing of the tax payments associated with the LILO/SILO settlement. As a result, we recognized a $2 million ($1 million after tax) increase to earnings during the third quarter of 2009, a $4 million ($2 million after tax) increase during the second quarter of 2009 and a $5 million ($3 million after tax) increase during the first quarter of 2009.

Deferred Tax Asset

As of September 30, 2009, we had a net deferred tax asset of $476 million included in accrued income and other assets on the balance sheet; previously we had been in a net deferred tax liability position. To determine the amount of deferred tax assets that are more likely than not to be realized, and therefore recorded, we conduct a quarterly assessment of all available evidence. This evidence includes, but is not limited to, taxable income in prior periods, projected future taxable income, and projected future reversals of deferred tax items. Based on these criteria, and in particular our projections for future taxable income, we currently believe that it is more likely than not that we will realize the net deferred tax asset in future periods.

Unrecognized Tax Benefits

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

Table of Contents

14. Contingent Liabilities and Guarantees

Legal Proceedings

Tax disputes. The information pertaining to lease financing transactions presented in Note 13 (Income Taxes) is incorporated herein by reference.

Taylor litigation. On August 11, 2008, a purported class action case was filed against KeyCorp, its directors and certain employees, captioned *Taylor v. KeyCorp et al.,* in the United States District Court for the Northern District of Ohio. On September 16, 2008, a second and related case was filed in the same district court, captioned *Wildes v. KeyCorp et al*. The plaintiffs in these cases seek to represent a class of all participants in our 401(k) Savings Plan and allege that the defendants in the lawsuit breached fiduciary duties owed to them under the ERISA. On January 7, 2009, the Court consolidated the *Taylor* and *Wildes* lawsuits into a single action. Plaintiffs have since filed their consolidated complaint, which continues to name certain employees as defendants but no longer names any outside directors. We strongly disagree with the allegations contained in the complaints and the consolidated complaint, and intend to vigorously defend against them.

Madoff-related claims. In December 2008, Austin, an investment subsidiary that specializes in managing hedge fund investments for its institutional customer base, determined that its funds had suffered investment losses of up to approximately $186 million resulting from the crimes perpetrated by Bernard L. Madoff and entities that he controls. The investment losses borne by Austin s clients stem from investments that Austin made in certain Madoff-advised hedge funds. Several lawsuits, including putative class actions and direct actions, and one arbitration proceeding were filed against Austin seeking to recover losses incurred as a result of Madoff s crimes. The lawsuits and arbitration proceeding allege various claims, including negligence, fraud, breach of fiduciary duties, and violations of federal securities laws and the ERISA. In the event we were to incur any liability for this matter, we believe such liability would be covered under the terms and conditions of our insurance policy, subject to a $25 million self-insurance deductible and usual policy exceptions.

In April 2009, we made the decision to wind down Austin s operations and have determined that the related exit costs will not be material. Information regarding the Austin discontinued operations is included in Note 3 (Acquisition and Divestitures), which begins on page 14.

Other litigation. In the ordinary course of business, we are subject to other legal actions that involve claims for substantial monetary relief. Based on information presently known to us, we do not believe there is any legal action to which we are a party, or involving any of our properties that, individually or in the aggregate, would reasonably be expected to have a material adverse effect on our financial condition.

Guarantees

We are a guarantor in various agreements with third parties. The following table shows the types of guarantees that we had outstanding at September 30, 2009. Information pertaining to the basis for determining the liabilities recorded in connection with these guarantees is included in Note 1 (Summary of Significant Accounting Policies) under the heading Guarantees on page 82 of KeyCorp s 2008 Annual Report to Shareholders.

Table of Contents

September 30, 2009 *in millions*		**Maximum Potential Undiscounted Future Payments**		**Liability Recorded**
Financial guarantees:				
Standby letters of credit	$	12,732	$	91
Recourse agreement with FNMA		716		6
Return guarantee agreement with LIHTC investors		213		63
Written interest rate caps [(a)]		168		27
Default guarantees		55		1
Total	$	13,884	$	188

(a) As of September 30, 2009, the weighted-average interest rate on written interest rate caps was .5%, and the weighted-average strike rate was 4.5%. Maximum potential undiscounted future payments were calculated assuming a 10% interest rate.

We determine the payment/performance risk associated with each type of guarantee described below based on the probability that we could be required to make the maximum potential undiscounted future payments shown in the preceding table. We use a scale of low (0-30% probability of payment), moderate (31-70% probability of payment) or high (71-100% probability of payment) to assess the payment/performance risk, and have determined that the payment/performance risk associated with each type of guarantee outstanding at September 30, 2009, is low.

Standby letters of credit. KeyBank issues standby letters of credit to address clients financing needs. These instruments obligate us to pay a specified third party when a client fails to repay an outstanding loan or debt instrument, or fails to perform some contractual nonfinancial obligation. Any amounts drawn under standby letters of credit are treated as loans to the client; they bear interest (generally at variable rates) and pose the same credit risk to us as a loan. At September 30, 2009, our standby letters of credit had a remaining weighted-average life of 1.8 years, with remaining actual lives ranging from less than one year to as many as nine years.

Recourse agreement with FNMA. We participate as a lender in the FNMA Delegated Underwriting and Servicing program. As a condition to FNMA s delegation of responsibility for originating, underwriting and servicing mortgages, we have agreed to assume a limited portion of the risk of loss during the remaining term on each commercial mortgage loan that we sell to FNMA. Accordingly, we maintain a reserve for such potential losses in an amount that we estimate to approximate the fair value of our liability. At September 30, 2009, the outstanding commercial mortgage loans in this program had a weighted-average remaining term of 6.6 years, and the unpaid principal balance outstanding of loans sold by us as a participant in this program was $2.3 billion. As shown in the above table, the maximum potential amount of undiscounted future payments that we could be required to make under this program is equal to approximately one-third of the principal balance of loans outstanding at September 30, 2009. If we are required to make a payment, we would have an interest in the collateral underlying the related commercial mortgage loan.

Return guarantee agreement with LIHTC investors. KAHC, a subsidiary of KeyBank, offered limited partnership interests to qualified investors. Partnerships formed by KAHC invested in low-income residential rental properties that qualify for federal low income housing tax credits under Section 42 of the Internal Revenue Code. In certain partnerships, investors paid a fee to KAHC for a guaranteed return that is based on the financial performance of the property and the property s confirmed LIHTC status throughout a fifteen-year compliance period. If KAHC defaults on its obligation to provide the guaranteed return, KeyBank is obligated to make any necessary payments to investors. These guarantees have expiration dates that extend through 2019, but there have been no new partnerships under this program since October 2003. Additional information regarding these partnerships is included in Note 8 (Variable Interest Entities), which begins on page 29.

No recourse or collateral is available to offset our guarantee obligation other than the underlying income stream from the properties and the residual value of the operating partnership interests. Any guaranteed returns that are not met through distribution of tax credits and deductions associated with the specific properties from the partnerships remain our obligation.

As shown in the table on page 38, KAHC maintained a reserve in the amount of $63 million at September 30, 2009, which we believe will be sufficient to cover estimated future obligations under the guarantees. The maximum exposure to loss reflected in the table represents undiscounted future payments due to investors for the return on and of their investments.

Written interest rate caps. In the ordinary course of business, we write interest rate caps for commercial loan clients that have variable rate loans with us and wish to limit their exposure to interest rate increases. At September 30, 2009, outstanding caps had a weighted-average life of 1.7 years.

We are obligated to pay the client if the applicable benchmark interest rate exceeds a specified level (known as the strike rate). These instruments are accounted for as derivatives. We typically mitigate our potential future payments by entering into offsetting positions with third parties.

Default guarantees. Some lines of business participate in guarantees that obligate us to perform if the debtor fails to satisfy all of its payment obligations to third parties. We generally undertake these guarantees in instances where the risk profile of the debtor should provide an investment return or to support our underlying investment. The terms of these default guarantees range from less than one year to as many as twelve years, while some default guarantees do not have a contractual end date. Although no collateral is held, we would receive a pro rata share should the third party collect some or all of the amounts due from the debtor.

Other Off-Balance Sheet Risk

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

Liquidity facilities that support asset-backed commercial paper conduits. We provide liquidity facilities to several unconsolidated third-party commercial paper conduits. These facilities obligate us to provide funding if there is a credit market disruption or there are other factors that would preclude the issuance of commercial paper by the conduits. The liquidity facilities, all of which expire by June 10, 2010, obligate us to provide aggregate funding of up to $651 million, with individual facilities ranging from $37 million to $100 million. The aggregate amount available to be drawn is based on the amount of current commitments to borrowers and totaled $539 million at September 30, 2009. We periodically evaluate our commitments to provide liquidity.

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

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

Heartland Payment Systems matter. Under an agreement between KeyBank and Heartland, Heartland utilizes KeyBank s membership in the Visa and MasterCard networks to register as an Independent Sales Organization for Visa and a Member Service Provider with MasterCard to provide merchant payment processing services for Visa and MasterCard transactions. On January 20, 2009, Heartland publicly announced its discovery of an alleged criminal breach of its credit card payment processing systems environment (the Intrusion) that reportedly occurred during 2008 and is alleged to have involved the malicious collection of in-transit, unencrypted payment card data that was being processed by Heartland.

Table of Contents

In Heartland s 2008 Form 10-K filed with the SEC on March 16, 2009, Heartland reported that it expects the major card brands, including Visa and MasterCard, to assert claims seeking to impose fines, penalties, and/or other assessments against Heartland and/or certain card brand members, such as KeyBank, as a result of the alleged potential breach of the respective card brand rules and regulations, and the alleged criminal breach of its credit card payment processing systems environment. Heartland also indicated that it is likely that the overall costs associated with the alleged breach will be material to it, and that it may need to seek financing in order to pay such costs. In Heartland s Form 8-K filed with the SEC on August 4, 2009, and in its Form 10-Q Report for the quarterly period ended June 30, 2009, filed on August 7, 2009, Heartland reported that it expensed a total of $19.4 million and $32.0 million for the three- and six-month periods ended June 30, 2009, respectively, related to the alleged breach. Heartland also indicated that $22.1 million of the year-to-date charges relate to fines imposed by the card brands in April 2009 against Heartland and its sponsor banks, and a settlement offer made by Heartland to resolve certain of the claims asserted against it. Heartland s Form 8-K also reported the accrual of a $14.4 million reserve in connection with the settlement offer.

Subsequently, in Heartland s Form 8-K filed with the SEC on November 3, 2009, Heartland reported that it recorded charges of $35.6 million and $67.5 million for the three- and nine-month periods ended September 30, 2009, respectively, related to the Intrusion. Heartland also indicated that $53.0 million of the year-to-date charges relate to: (i) assessments imposed in April 2009 by MasterCard and Visa against Heartland and its sponsor banks, (ii) settlement offers made by Heartland to certain card brands in an attempt to resolve certain claims asserted against its sponsor banks, and (iii) settlements deemed likely to be agreed upon in the near term with certain claimants. Heartland s Form 8-K also reported the accrual of a $45.2 million reserve at September 30, 2009, in connection with the settlement offers. Heartland further reported that the ultimate cost of resolving the claims that are the subject of the settlement offers may substantially exceed the amount that Heartland has accrued. Furthermore, even if the claims that are the subject of the settlement offers are resolved, Heartland indicated that a significant portion of the claims asserted against Heartland would still remain unresolved. Heartland continues to report that it is likely that the overall costs associated with the alleged breach will be material to it, and that they could have a material adverse effect on the results of its operations and financial condition.

KeyBank has received letters from both Visa and MasterCard assessing fines, penalties or assessments related to the Intrusion. KeyBank is in the process of pursuing appeals of such fines, penalties or assessments. Visa and MasterCard (as well as Heartland and KeyBank) are each still investigating the matter, and they may revise their respective assessments. Under its agreement with Heartland, KeyBank has certain rights of indemnification from Heartland for costs assessed against it by Visa and MasterCard, and other associated costs, and KeyBank has notified Heartland of its indemnification rights. In the event that Heartland is unable to fulfill its indemnification obligations to KeyBank, the charges (net of any indemnification) could be significant, although it is not possible to quantify at this time. Accordingly, under applicable accounting rules, we have not established any reserve. For further information on Heartland and the Intrusion, see Heartland s 2008 Form 10-K, Heartland s Form 10-Q filed with the SEC on May 11, 2009, Heartland s Form 8-K filed with the SEC on August 4, 2009, Heartland s Form 10-Q filed with the SEC on August 7, 2009, and Heartland s Form 8-K filed with the SEC on November 3, 2009.

15. Derivatives and Hedging Activities

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

The primary derivatives that we use are interest rate swaps, caps, floors and futures, foreign exchange contracts, energy derivatives, credit derivatives and equity derivatives. Generally, these instruments help us manage exposure to interest rate risk, mitigate the credit risk inherent in the loan portfolio, hedge against changes in foreign currency exchange rates, and meet client financing and hedging needs. Interest rate risk represents the possibility that economic value or net interest income will be adversely affected by fluctuations in interest rates. Credit risk is defined as the risk of loss arising from an obligor s inability or failure to meet contractual payment or performance terms.

Derivative assets and liabilities are recorded at fair value on the balance sheet, after taking into account the effects of master netting agreements. These master netting 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 September 30, 2009, after taking into account the effects of bilateral collateral and master netting agreements, we had $270 million of derivative assets and $100 million of derivative liabilities that relate to contracts entered into for hedging purposes. 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 $1.0 billion and derivative liabilities of $1.1 billion that were not designated as hedging instruments.

Interest Rate Risk Management

Fluctuations in net interest income and the economic value of equity may result from changes in interest rates, and differences in the repricing and maturity characteristics of interest-earning assets and interest-bearing liabilities. To minimize the volatility of net interest income and the economic value of equity, we manage exposure to interest rate risk in accordance with policy limits established by the Risk Management Committee of the Board of Directors. The primary derivative instruments used to manage interest rate risk are interest rate swaps, which modify the interest rate characteristics of certain assets and liabilities. These instruments are used to convert the contractual interest rate index of agreed-upon amounts of assets and liabilities (i.e., notional amounts) to another interest rate index.

We have designated certain receive fixed/pay variable interest rate swaps as fair value hedges, primarily to modify our exposure to interest rate risk. These contracts convert certain fixed-rate long-term debt into variable-rate obligations. 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 underlying notional amounts.

Additionally, we have designated 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 impact from interest rate decreases on future interest income. These contracts allow us to receive fixed-rate interest payments in exchange for making variable-rate payments over the lives of the contracts without exchanging the underlying notional amounts. Similarly, we have designated certain pay fixed/receive variable interest rate swaps as cash flow hedges to convert certain floating-rate debt into fixed-rate debt.

We also use interest rate swaps to hedge the floating-rate debt that funds fixed-rate leases entered into by our Equipment Finance line of business. These swaps are designated as cash flow hedges to mitigate the interest rate mismatch between the fixed-rate lease cash flows and the floating-rate payments on the debt.

We have used pay fixed/receive variable interest rate swaps as cash flow hedges to manage the interest rate risk associated with anticipated sales of certain commercial real estate loans. These swaps protected against a possible short-term decline in the value of the loans that could result from changes in interest rates between the time they were originated and the time they were sold. During the first quarter of 2009, these hedges were terminated. Therefore, we did not have any of these hedges outstanding at September 30, 2009.

Foreign Currency Exchange Risk Management

The derivatives used for managing foreign currency exchange risk are cross currency swaps. We have several outstanding issues of medium-term notes that are denominated in a foreign currency. The notes are subject to translation risk, which represents the possibility that changes in the fair value of the foreign-denominated debt will occur based on movement of the underlying foreign currency spot rate. It is our practice to hedge against potential fair value changes caused by changes in foreign currency exchange rates and interest rates. The hedge converts the notes to a variable-rate functional currency-denominated debt, which is designated as a fair value hedge of foreign currency exchange risk.

Credit Risk Management

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. This process entails the use of credit derivatives ¾ primarily credit default swaps ¾ to mitigate our credit risk. Credit default swaps enable us to transfer a portion of the credit risk associated with a particular extension of credit to a third party, and to manage portfolio concentration and correlation risks. Occasionally, we also provide credit protection to other lenders through the sale of credit default swaps. In most instances, this objective is accomplished through the use of an investment-grade diversified dealer-traded basket of credit default swaps. These transactions may generate fee income, and diversify and reduce overall portfolio credit risk volatility. Although we use these instruments for risk management purposes, they are not treated as hedging instruments as defined by the applicable accounting guidance for derivatives and hedging.

Trading Portfolio

Our trading portfolio consists of the following instruments:

¨ interest rate swap, cap, floor and futures contracts entered into generally to accommodate the needs of commercial loan clients;

¨ energy swap and options contracts entered into to accommodate the needs of clients;

¨ foreign exchange forward contracts entered into to accommodate the needs of clients;

¨ positions with third parties that are intended to offset or mitigate the interest rate or market risk related to client positions discussed above; and

¨ interest rate swaps, foreign exchange forward contracts and credit default swaps used for proprietary trading purposes.

We do not apply hedge accounting to any of these contracts.

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 basis as of September 30, 2009, and June 30, 2009, and the volume of our derivative transaction activity during the third quarter of 2009. The volume of activity is represented by the change in the notional amounts of our gross derivatives by type from June 30, 2009, to September 30, 2009. The notional amounts are not affected by bilateral collateral and master netting agreements. Our derivative instruments are recorded in derivative assets or derivative liabilities on the balance sheet, as indicated in the following table.

in millions	September 30, 2009 Notional Amount	September 30, 2009 Fair Value Derivative Assets	September 30, 2009 Fair Value Derivative Liabilities	June 30, 2009 Notional Amount	June 30, 2009 Fair Value Derivative Assets	June 30, 2009 Fair Value Derivative Liabilities
Derivatives designated as hedging instruments:						
Interest rate	$ 20,443	$ 600	$ 8	$ 23,234	$ 561	$ 14
Foreign exchange	2,664	87	233	2,550	68	324
Total	23,107	687	241	25,784	629	338
Derivatives not designated as hedging instruments:						
Interest rate	70,985	1,749	1,635	78,047	1,664	1,523
Foreign exchange	6,241	229	201	7,317	222	193
Energy and commodity	2,175	445	471	2,155	533	562
Credit	4,847	62	54	7,012	94	99
Total	84,248	2,485	2,361	94,531	2,513	2,377
Netting adjustments [a]	N/A	(1,887)	(1,417)	N/A	(1,960)	(2,187)
Total derivatives	$ 107,355	$ 1,285	$ 1,185	$ 120,315	$ 1,182	$ 528

(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 related to the offsetting of certain derivative contracts on the balance sheet. The net basis takes into account the impact of 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.

Fair value hedges. These hedging instruments 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 a hedging 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 recognized in other income on the income statement with no corresponding offset. During the nine-month period ended September 30, 2009, we did not exclude any portion of our hedging instruments from the assessment of hedge effectiveness. While some ineffectiveness is present in our hedging relationships, all of our fair value hedges remained highly effective during the first nine months of 2009.

The following table summarizes the pre-tax net gains (losses) on our fair value hedges during the nine-month period ended September 30, 2009, and where they are recorded on the income statement.

Nine months ended September 30, 2009 *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	$ (392)	Long-term debt	Other income	$ 390 [(a)]
Interest rate	Interest expense Long-term debt	170			
Foreign exchange	Other income	176	Long-term debt	Other income	(183) [(a)]
Foreign exchange	Interest expense Long-term debt	15	Long-term debt	Interest expense Long-term debt	(39) [(b)]
Total		$ (31)			$ 168

(a) Net gains on hedged items

represent the change in fair value caused by fluctuations in interest rates.

(b) Net losses on hedged items represent the change in fair value caused by fluctuations in foreign currency exchange rates.

Cash flow hedges. These hedging instruments are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. The effective portion of a gain or loss on a cash flow hedge is recorded as a component of AOCI on the balance sheet. The amounts are reclassified into earnings in the same period in which the hedged transaction impacts earnings, such as 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 nine-month period ended September 30, 2009, we did not exclude any portion of our hedging instruments from the assessment of hedge effectiveness. While some ineffectiveness is present in our hedging relationships, all of our cash flow hedges remained highly effective during the first nine months of 2009.

The following table summarizes the pre-tax net gains (losses) on our cash flow hedges during the nine-month period ended September 30, 2009, 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) recorded directly into income, representing the amount of hedge ineffectiveness.

Nine months ended September 30, 2009 *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)
Interest rate	$ 167	Interest income Loans	$ 340	Other income	$ (1)
Interest rate	16	Interest expense Long-term debt	(14)	Other income	1
Interest rate	4	Net gains (losses) from loan securitizations and sales	5	Other income	
Total	$ 187		$ 331		

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

in millions	December 31, 2008	2009 Hedging Activity	Reclassification of Gains to Net Income	September 30, 2009
Accumulated other comprehensive income resulting from cash flow hedges	$ 238	**$ 117**	**$ (207)**	**$ 148**

Given the interest rates, yield curves and notional amounts as of September 30, 2009, we would expect to reclassify an estimated $43 million of net losses on derivative instruments from AOCI to earnings during the next twelve months. The maximum length of time over which forecasted transactions are hedged is nineteen years.

Nonhedging instruments. Our derivatives that are not used in hedging relationships 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 investment banking and capital markets income (loss) on the income statement.

The following table summarizes the pre-tax net gains (losses) on our derivative instruments that are not used in hedging relationships for the nine-month period ended September 30, 2009, and where they are recorded on the income statement.

Nine months ended September 30, 2009 *in millions*	**Net Gains (Losses)** [(a)]
Interest rate	$ 18
Foreign exchange	38
Energy and commodity	5
Credit	(33)
Equity [(b)]	
Total	$ 28

(a) Recorded in investment banking and capital markets income (loss) on the income statement.

(b) We enter into equity contracts to accommodate the needs of clients and offset these positions with third parties. We did not enter into any new equity contracts during the nine months ended September 30, 2009.

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 using standard forms published by the ISDA. These agreements provide for the net settlement of all contracts with a single counterparty in the event of default. Additionally, we monitor credit risk exposure to the counterparty 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 ISDA and other related agreements. We generally

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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 $485 million at September 30, 2009, $974 million at December 31, 2008, and $281 million at September 30, 2008. The cash collateral netted against derivative liabilities totaled $14 million at September 30, 2009, $586 million at December 31, 2008, and $348 million at September 30, 2008.

At September 30, 2009, the largest gross exposure to an individual counterparty was $296 million, which was secured with $29 million in collateral. Additionally, we had a derivative liability of $366 million with this counterparty, whereby we pledged $99 million in collateral. After taking into account the effects of a master netting agreement and collateral, we did not have any remaining exposure to this counterparty.

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

in millions	**September 30, 2009**	December 31, 2008	September 30, 2008
Interest rate	**$ 1,445**	$ 2,333	$ 794
Foreign exchange	**193**	279	260
Energy and commodity	**110**	214	139
Credit	**22**	42	36
Equity		2	3
Derivative assets before cash collateral	**1,770**	2,870	1,232
Less: Related cash collateral	**485**	974	281
Total derivative assets	**$ 1,285**	$ 1,896	$ 951

We enter into derivative transactions with two primary groups: broker-dealers and banks, and clients. Since these groups have different economic characteristics, we manage counterparty credit exposure and credit risk in a different manner for each group.

We enter into transactions with broker-dealers and banks for purposes of A/LM, risk management and proprietary trading purposes. These types of transactions generally are high dollar volume. We generally enter into bilateral collateral and master netting agreements with these counterparties. At September 30, 2009, after taking into account the effects of master netting agreements, we had gross exposure of $1.2 billion to broker-dealers and banks. We had net exposure of $281 million after the application of master netting agreements and cash collateral. Our net exposure to broker-dealers and banks at September 30, 2009, was reduced to $63 million by $218 million of additional collateral held in the form of securities.

Additionally, 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 entering into offsetting positions with other banks. Due to the smaller size and magnitude of the individual contracts with clients, collateral is generally not exchanged on these derivative transactions. In order to address the risk of default associated with the uncollateralized contracts, we have established a reserve (included in derivative assets) in the amount of $64 million at September 30, 2009, which we estimate to be the potential future losses on amounts due from client counterparties in the event of default. At September 30, 2009, after taking into account the effects of master netting agreements, we had gross exposure of $1.2 billion to these counterparties. We had net exposure of $1.0 billion on our derivatives with clients after the application of master netting agreements, cash collateral and the related reserve.

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 obligations. We also sell credit derivatives, mainly index credit default swaps, to diversify the concentration risk within our loan portfolio. In addition, we have entered into derivatives for proprietary trading purposes.

Table of Contents

The following table summarizes the fair value of our credit derivatives purchased and sold by type as of September 30, 2009, and December 31, 2008. The fair value of credit derivatives presented below does not take into account the effects of bilateral collateral or master netting agreements.

	September 30, 2009			December 31, 2008		
in millions	**Purchased**	**Sold**	**Net**	**Purchased**	**Sold**	**Net**
Single name credit default swaps	**$ 9**	**$ (2)**	**$ 7**	$ 155	$ (104)	$ 51
Traded credit default swap indices		**1**	**1**	34	(47)	(13)
Other		**(1)**	**(1)**		(8)	(8)
Total credit derivatives	**$ 9**	**$ (2)**	**$ 7**	$ 189	$ (159)	$ 30

Single name credit default swaps are bilateral contracts between a buyer and seller, whereby protection against the credit risk of a reference entity is sold. The protected credit risk is related to adverse credit events, such as bankruptcy, failure to make payments, and acceleration or restructuring of obligations specified in the credit derivative contract using standard documentation terms governed by the ISDA. The credit default swap contract will reference a specific debt obligation of the reference entity. As the seller of a single name credit derivative, we would be required to pay the purchaser the difference between par value and the market price of the debt obligation (cash settlement) or receive the specified referenced asset in exchange for payment of the par value (physical settlement) if the underlying reference entity experiences a certain, predefined credit event. For a single name credit derivative, the notional amount represents the maximum amount that a seller could be required to pay under the credit derivative. In the event that physical settlement occurs and we receive our portion of the related debt obligation, we will join other creditors in the liquidation process, which may result in the recovery of a portion of the amount paid under the credit default swap contract. We also may purchase offsetting credit derivatives for the same reference entity from third parties that will permit us to recover the amount we pay should a credit event occur.

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

The following table provides information on the types of credit derivatives sold by us and held on the balance sheet at September 30, 2009, and December 31, 2008. This table includes derivatives sold both to diversify our credit exposure and for proprietary trading purposes. The payment/performance risk assessment is based on the default probabilities for the underlying reference entities debt obligations using the credit ratings matrix provided by Moody s, specifically Moody s Idealized Cumulative Default Rates, except as noted. The payment/performance risk shown in the table represents a weighted-average of the default probabilities for all reference entities in the respective portfolios. These default probabilities are directly correlated to the probability that we will have to make a payment under the credit derivative contracts.

	September 30, 2009			December 31, 2008		
dollars in millions	**Notional Amount**	**Average Term (Years)**	**Payment / Performance Risk**	**Notional Amount**	**Average Term (Years)**	**Payment / Performance Risk**
	$ 1,251	**2.56**	**5.05%**	$ 1,476	2.44	4.75%

Single name credit default swaps						
Traded credit default swap indices	**926**	**3.00**	**6.97**	1,759	1.51	4.67
Other	**25**	**1.00**	**Low (a)**	59	1.50	Low (a)
Total credit derivatives sold	**$ 2,202**			$ 3,294		

(a) The other credit derivatives are not referenced to an entity s debt obligation. We determined the payment/performance risk based on the probability that we could be required to pay the maximum amount under the credit derivatives. We have determined that the payment/performance risk associated with the other credit derivatives is low (i.e., less than or equal to 30% probability of payment).

46

Credit Risk Contingent Features

We have entered into certain derivative contracts that require us to post collateral to the counterparties when these contracts are in a net liability position. The amount of collateral to be posted is generally based on thresholds related to our long-term senior unsecured credit ratings with Moody s and S&P. The collateral to be posted is also based on minimum transfer amounts, which are specific to each Credit Support Annex (a component of the ISDA Master Agreement) that we have signed with the counterparties. In a limited number of instances, counterparties also have the right to terminate their ISDA Master Agreements with us if our ratings fall below a certain level, usually investment-grade level (i.e., Baa3 for Moody s and BBB- for S&P). At September 30, 2009, KeyBank s ratings with Moody s and S&P were A2 and A-, respectively, and KeyCorp s ratings with Moody s and S&P were Baa1 and B respectively. Upon a downgrade of our ratings, we could be required to post additional collateral under those ISDA Master Agreements where we are in a net liability position. As of September 30, 2009, the aggregate fair value of all derivative contracts with credit risk contingent features (i.e., those containing collateral posting or termination provisions based on our ratings) that were in a net liability position totaled $953 million, which includes $852 million in derivative assets and $1.8 billion in derivative liabilities. We had $888 million in cash and securities collateral posted to cover those positions as of September 30, 2009.

The following table summarizes the additional cash and securities collateral that KeyBank would have been required to deliver had the credit risk contingent features been triggered for the derivative contracts in a net liability position as of September 30, 2009. The additional collateral amounts were calculated based on scenarios under which KeyBank s ratings are downgraded one, two or three ratings as of September 30, 2009, and take into account all collateral already posted. At September 30, 2009, KeyCorp did not have any derivatives in a net liability position that contained credit risk contingent features.

September 30, 2009 *in millions*	**Moody s**	**S&P**
KeyBank s long-term senior unsecured credit ratings	A2	A-
One rating downgrade	$ 34	$ 32
Two rating downgrades	61	43
Three rating downgrades	72	44

If KeyBank s ratings had been downgraded below investment-grade as of September 30, 2009, payments of up to $115 million would have been required to either terminate the contracts or post additional collateral for those contracts in a net liability position, taking into account all collateral already posted. To be downgraded below investment-grade, KeyBank s long-term senior unsecured credit rating would need to be downgraded five ratings by Moody s and four ratings by S&P. At the time we filed this report on November 6, 2009, KeyCorp s and KeyBank s ratings remained unchanged from their ratings at September 30, 2009.

16. Fair Value Measurements

Fair Value Determination

As defined in the applicable accounting guidance for fair value measurements and disclosures, fair value is the price to sell an asset or 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.

Table of Contents

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 is not indicative of the counterparty s credit quality. Most classes of derivative contracts are valued using internally developed models based on market-standard derivative pricing conventions, which rely primarily on observable market inputs, such as interest rate yield curves and volatilities. Market convention implies a credit rating of AA equivalent in the pricing of derivative contracts, which assumes all counterparties have the same creditworthiness. In determining the fair value of derivatives, we consider the impact of master netting and cash collateral exchange agreements and, when appropriate, establish a default reserve to reflect the credit quality of the counterparty.

Liquidity valuation adjustments are made when we are unable to observe recent market transactions for identical or similar instruments. We adjust the fair value to reflect the uncertainty in the pricing and trading of the instrument. Liquidity valuation adjustments are made 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 fair value measurements are accurate and appropriate through our various controls, including:

- an independent review and approval of valuation models;
- a detailed review of profit and loss conducted on a regular basis; and
- a validation of valuation model components against benchmark data and similar products, where possible.

We review any changes to valuation methodologies to ensure they are appropriate and justified, and refine valuation methodologies as more market-based data becomes available.

Fair Value Hierarchy

The applicable accounting guidance for fair value measurements and disclosures establishes a three-level valuation hierarchy for determining fair value that is based on the transparency of the inputs used in the valuation process. The inputs used in determining fair value in each of the three levels of the hierarchy, from highest ranking to lowest, are as follows:

- ***Level 1***. Quoted prices in active markets for identical assets or liabilities.
- ***Level 2***. Either: (i) quoted market prices for similar assets or liabilities; (ii) observable inputs, such as interest rates or yield curves; or (iii) inputs derived principally from or corroborated by observable market data.
- ***Level 3***. Unobservable inputs.

The level in the fair value hierarchy ascribed to a fair value measurement in its entirety is based on the lowest level input that is significant to the overall fair value measurement.

Qualitative Disclosures of Valuation Techniques

Loans. Loans recorded as trading account assets are valued using an internal cash flow model because the market in which these assets typically trade is not active. The most significant inputs to our internal model are actual and projected financial results for the individual borrowers. Accordingly, these loans are classified as Level 3 assets.

Securities (trading and available for sale). Securities are classified as Level 1 when quoted market prices are available in an active market for those identical securities. Level 1 instruments include highly liquid government bonds, securities issued by the U.S. Treasury and exchange-traded equity securities. In the absence of availability of quoted prices for identical securities, we determine fair value using pricing models or quoted prices of similar securities. These instruments include municipal bonds and other bonds backed by the U.S. government, corporate bonds, certain mortgage backed securities, securities issued by the U.S. Treasury and certain agency and corporate collateralized mortgage obligations, and are classified as Level 2 assets. Inputs to the pricing models include actual trade data (i.e., spreads, credit ratings and interest rates) for comparable assets, spread tables, matrices, high-grade scales, option-adjusted spreads and standard inputs, such as yields, broker/dealer quotes, bids and offers. Where there is limited activity in the market for a particular instrument, we use internal models based on certain assumptions to determine fair value. Such instruments include certain commercial mortgage-backed securities and certain commercial paper, and are classified as Level 3 assets. Inputs for the Level 3 internal models include expected cash flows from the underlying loans, which take into account expected default and recovery percentages, market research, and discount rates commensurate with current market conditions.

Private equity and mezzanine investments. Valuations of private equity and mezzanine investments held primarily within our Real Estate Capital and Corporate Banking Services line of business are estimated based on the process described below since there is no market data available for these instruments. These investments are initially valued based upon the transaction price. The carrying amount is then adjusted based upon the estimated future cash flows associated with the investments. Inputs used in determining future cash flows include, but are not limited to, the cost of build-out, future selling prices, current market outlook and operating performance of the particular investment. Private equity and mezzanine investments are classified as Level 3 assets since our judgment impacts determination of fair value.

Principal investments. Principal investments consist of investments in equity and debt instruments made by Key Principal Partners, LLC, an affiliate of Key. They include direct investments (investments made in a particular company), as well as indirect investments (investments made through funds that include other investors) in predominantly privately held companies and funds. When quoted prices are available in an active market for the identical investment, they are used in the valuation process, and the related investments are classified as Level 1 assets. However, in most cases, quoted market prices are not available for the identical investment, and we must rely upon other sources and inputs, such as market multiples, historical and forecast earnings before interest, tax, depreciation and amortization, net debt levels, and investment risk ratings to perform the asset valuations. As of September 30, 2009, Key Principal Partners, LLC changed their methodology used to value indirect investments to incorporate new accounting guidance that allows certain entities to use statements from the investment manager to calculate net asset value per share. These investments are classified as Level 3 assets since our assumptions impact the overall determination of fair value.

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, so the majority of our derivative positions are valued using internally-developed models based on market convention that uses observable market inputs, such as interest rate curves, yield curves, the LIBOR discount rates and curves, index pricing curves, foreign currency curves and volatility curves. These derivative contracts are classified as Level 2 instruments and include interest rate swaps, certain options, cross currency swaps and credit default swaps. In addition, we have a few customized derivative instruments that are classified as Level 3 instruments. These derivative positions are valued using internally developed models. Inputs to the models consist of market-available data, such as bond spreads and asset values, as well as our assumptions, such as loss probabilities and proxy prices. Market convention implies a credit rating of AA equivalent in the pricing of derivative contracts, which assumes all counterparties have the same creditworthiness. In order 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 reserve. The credit component is valued on a counterparty-by-counterparty basis, and considers master netting agreements and collateral.

Table of Contents

Other assets and liabilities. The value of our repurchase and reverse repurchase agreements, trade date receivables and payables, and short positions is driven by the valuation of the underlying securities. The underlying securities may include equity securities, which are valued using quoted market prices in an active market for identical securities, resulting in a Level 1 classification. 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. Inputs include spreads, credit ratings and interest rates for the interest rate-driven products. Inputs include actual trade data for comparable assets, and bids and offers for the credit-driven products. Credit-driven securities include corporate bonds and mortgage-backed securities, while interest rate-driven securities include government bonds, U.S. Treasury bonds and other products backed by the U.S. government.

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. These assets and liabilities are measured at fair value on a regular basis. The following table presents our assets measured at fair value on a recurring basis at September 30, 2009.

September 30, 2009 *in millions*	**Level 1**	**Level 2**	**Level 3**	**Netting Adjustments** [(a)]	**Total**
ASSETS MEASURED ON A RECURRING BASIS					
Short term investments		$ 348			$ 348
Trading account assets:					
US Treasury, agencies and corporations	$ 9				9
Other mortgage-backed securities			$ 45		45
Other securities	73	753	498		1,324
Total trading account securities	82	753	543		1,378
Other trading account assets			28		28
Total trading account assets	82	753	571		1,406
Securities available for sale					
US Treasury, agencies and corporations		8			8
States and political subdivisions		87			87
Collateralized mortgage obligations		13,681			13,681
Other mortgage-backed securities		1,525			1,525
Other securities	99	13			112
Total securities available for sale	99	15,314			15,413
Other investments		3	1,059		1,062
Derivative assets	165	2,929	78	$ (1,887)	1,285
Accrued income and other assets	6	29	9		44
Total assets on a recurring basis at fair value	$ 352	$ 19,376	$ 1,717	$ (1,887)	$ 19,558
LIABILITIES MEASURED ON A RECURRING BASIS					
		$ 386			$ 386

Federal funds purchased and securities sold under repurchase agreements					
Bank notes and other short-term borrowings	$ 8	398			406
Derivative liabilities	141	2,460	$ 1	$ (1,417)	1,185
Accrued expense and other liabilities		134			134
Total liabilities on a recurring basis at fair value	$ 149	$ 3,378	$ 1	$ (1,417)	$ 2,111

(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 related to the offsetting of certain derivative contracts on the balance sheet. The net basis takes into account the impact of 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.

Changes in Level 3 Fair Value Measurements

The following table shows the change in the fair values of our Level 3 financial instruments for the nine months ended September 30, 2009. An instrument is classified as Level 3 if unobservable inputs are significant relative to the overall fair value measurement of the instrument. In addition to unobservable inputs, Level 3 instruments also may have inputs that are observable within the market. We mitigate the credit risk, interest rate risk and risk of loss related to many of these Level 3 instruments through the use of securities and derivative positions classified as Level 1 or Level 2. Level 1 or 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.

Table of Contents

in millions	Trading Account Assets: Other Mortgage-Backed Securities	Trading Account Assets: Other Securities	Trading Account Assets: Other Trading Account Assets	Other Investments	Derivative Instruments [(a)]	Accrued Income and Other Assets
Balance at December 31, 2008	$ 67	$ 758	$ 31	$ 1,134	$ 15	
Losses included in earnings	(22) [(b)]	(1) [(b)]	(1) [(b)]	(125) [(c)]	(12) [(b)]	
Purchases, sales, issuances and settlements		(259)	(2)	50	18	
Net transfers into Level 3					56	$ 9
Balance at September 30, 2009	$ 45	$ 498	$ 28	$ 1,059	$ 77	$ 9
Unrealized losses included in earnings	$ (22) [(b)]	$ (1) [(b)]	$ (1) [(b)]	$ (120) [(c)]	$ (1) [(b)]	

(a) Amount represents Level 3 derivative assets less Level 3 derivative liabilities.

(b) Realized and unrealized gains and losses on trading account assets and derivative instruments are reported in investment banking and capital markets income (loss) on the income statement.

(c) Other investments consist of principal investments, and private equity and mezzanine investments.

Realized and unrealized gains and losses on principal investments are reported in net losses from principal investments on the income statement. Realized and unrealized gains and losses on private equity and mezzanine investments are reported in investment banking and capital markets income (loss) on the income statement.

Assets Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis in accordance with GAAP. The adjustments to fair value generally result from the application of accounting standards that require assets and liabilities to be recorded at the lower of cost or fair value, or assessed for impairment. The following table presents our assets measured at fair value on a nonrecurring basis at September 30, 2009, that have been adjusted to fair value as a result of the process described above.

September 30, 2009 *in millions*	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS MEASURED ON A NONRECURRING BASIS				
Impaired loans		$ 9	$ 608	$ 617
Loans held for sale			90	90
Goodwill and other intangible assets				
Accrued income and other assets		22	97	119
Total assets on a nonrecurring basis at fair value		$ 31	$ 795 [(a)]	$ 826 [(a)]

(a) Excludes retained interests in securitizations in the amount of $18 million related to the discontinued operations of the education lending business.

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. Cash flow analysis considers internally-developed inputs, such as discount rates, default rates, costs of foreclosure and changes in real estate 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. Impaired loans with a specifically allocated allowance based on cash flow analysis or the underlying collateral are classified as Level 3 assets, while those 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. Current market conditions, including credit risk profiles and decreased real estate values, impacted the inputs used in our internal valuation analysis, resulting in write-downs of these assets.

Through a quarterly analysis of our commercial loan portfolios held for sale, we determined that certain adjustments were necessary to record the portfolios at the lower of cost or fair value in accordance with GAAP. After adjustments, these loans totaled $90 million at September 30, 2009. Current market conditions, including credit risk profiles, liquidity and decreased real estate values, impacted the inputs used in our internal models and other valuation methodologies, resulting in write-downs of these assets. The valuations of performing commercial mortgage and construction loans are conducted using internal models that rely on market data from sales or nonbinding bids of similar assets, including credit spreads, treasury rates, interest rate curves and risk profiles, as well as our own assumptions about the exit market for the loans and details about individual loans within the respective portfolios. Therefore, we have classified 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. The fair value of these loans was measured using inputs such as letters of intent, where available, or third-party appraisals. The valuations of nonperforming commercial mortgage and construction loans are based on current agreements to sell the loans or approved discounted payoffs. If a negotiated value is not available, third party appraisals, adjusted for current market conditions, are used. As the valuations are based on unobservable data, these loans have been classified as Level 3 assets. The valuation of commercial leases is 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. These leases have been classified as Level 3 assets. The inputs related to our assumptions include changes in the value of leased items and internal credit ratings. In addition, commercial leases may be valued using nonbinding bids when they are available and current. The leases valued under this methodology are classified as Level 2 assets. Additionally, during the first nine months of 2009, we transferred $131 million of commercial loans from held for sale to the loan portfolio at their current fair value.

During the first quarter of 2009, a review of impairment indicators prompted us to review and evaluate the carrying amount of the goodwill and other intangible assets assigned to the Community Banking and National Banking reporting units. Fair value of our reporting units is determined using both an income approach (discounted cash flow method) and a market approach (uses 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 uses a significant number of unobservable inputs, we have classified these assets as Level 3. The first quarter 2009 review indicated that the estimated fair value of the Community Banking unit was greater than its carrying amount, while the estimated fair value of the National Banking unit was less than its carrying amount, reflecting continued weakness in the financial markets and requiring additional impairment testing. Based on the results of the additional impairment testing for the National Banking unit, we recorded an after-tax noncash accounting charge of $187 million, or $.38 per common share, during the first quarter of 2009. Consequently, we have now written off all of the goodwill that had been assigned to the National Banking unit.

Based on reviews of impairment indicators during both the second and third quarters of 2009, we determined that further reviews of goodwill and other intangible assets for our Community Banking unit were necessary. These further reviews indicated that the estimated fair value of the Community Banking unit was greater than its carrying amount at both September 30, 2009, and June 30, 2009; therefore, no further impairment testing was required. The goodwill assigned to the Community Banking unit is recorded at cost on the balance sheet and, therefore, not included in the preceding table.

During the second quarter of 2009, a review of other intangible assets in the National Banking unit did not identify any impairment of those assets. However, during the third quarter of 2009, a review of other intangible assets in the National Banking unit identified a $45 million intangible asset related to vendor relationships in the equipment leasing business that was impaired as a result of our actions taken during the third quarter to cease conducting business in both the commercial vehicle and office equipment leasing markets. Accordingly, during the third quarter, we recorded a $45 million charge to write-off this intangible asset. Our review of the remaining intangible assets in the National Banking unit did not identify any impairment of those assets during the third quarter of 2009.

OREO and other repossessed properties are valued based on inputs such as appraisals and third-party price opinions, less estimated selling costs. Therefore, we have classified these assets as Level 3. OREO and other repossessed properties are classified as Level 2 if we receive binding purchase agreements to sell these properties. 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 as held for sale initially at the lower of the loan balance or fair value upon the date of foreclosure. Subsequent to foreclosure, valuations are updated periodically, and the assets may be marked down further, as a result of current market conditions, to a new cost basis. These adjusted assets totaled $105 million at September 30, 2009.

Table of Contents

The retained interests in securitizations related to the discontinued operations of the education lending business are valued using a discounted cash flow analysis with internally-developed inputs such as discount rates, prepayment rates and default rates. Therefore, we have classified these assets as Level 3. Current market conditions, including lower prepayments, interest rates and expected recovery rates, have impacted our modeling assumptions and consequently resulted in write-downs of these assets.

Fair Value Disclosures of Financial Instruments

Effective June 30, 2009, we adopted the applicable accounting guidance for financial instruments related to interim disclosures about the fair value of financial instruments. This guidance requires disclosures about the fair value of financial instruments in interim financial statements of publicly traded companies. The carrying amount and fair value of our financial instruments at September 30, 2009, and December 31, 2008, are shown in the following table.

	September 30, 2009		**December 31, 2008**	
in millions	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
ASSETS				
Cash and short-term investments [a]	**$ 3,711**	**$ 3,711**	$ 6,466	$ 6,466
Trading account assets [b]	**1,406**	**1,406**	1,280	1,280
Securities available for sale [b]	**15,173**	**15,413**	8,055	8,246
Held-to-maturity securities [c]	**24**	**24**	25	25
Other investments [d]	**1,448**	**1,448**	1,526	1,526
Loans, net of allowance [e]	**59,708**	**52,523**	71,206	63,081
Loans held for sale [e]	**703**	**703**	626	626
Mortgage servicing assets [f]	**226**	**353**	242	406
Derivative assets [g]	**1,285**	**1,285**	1,896	1,896
LIABILITIES				
Deposits with no stated maturity [a]	**$ 40,049**	**$ 40,049**	$ 37,255	$ 37,255
Time deposits [f]	**27,210**	**28,178**	27,872	28,528
Short-term borrowings [a]	**2,135**	**2,135**	10,034	10,034
Long-term debt [f]	**12,865**	**12,050**	14,995	12,859
Derivative liabilities [g]	**1,185**	**1,185**	1,032	1,032

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) Fair values of trading securities

and securities available for sale are determined based on quoted prices when available in an active market. If quoted prices are not available, we determine fair value using pricing models, quoted prices of similar securities or discounted cash flows. Where there is limited activity in the market for a particular instrument, we must make assumptions to determine fair value.

(c) Fair values of held-to-maturity securities are determined through the use of 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 for reasonableness to ensure they are consistent with the values placed on similar securities traded in the secondary markets.

(d) Fair values of most instruments categorized as other investments are determined by considering the issuer s recent financial performance and future potential, the values of companies in comparable businesses, the risks associated with the particular business or investment type, current market conditions, the nature and duration of resale restrictions, the issuer s payment history, our knowledge of the industry and other relevant factors.

(e) The fair value of the loans is based on the present value of the expected cash flows from the loans. 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 was 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. In some cases, as with loans held for sale, fair values are determined based on nonbinding quotes, when available. Excluded from the table above are loans, net of allowance and loans held for sale related to the discontinued operations of the education lending business. At September 30, 2009, and December 31, 2008, these loans, net of allowance had carrying amounts of $3.4 billion ($2.2 billion fair value) and $3.5 billion ($2.8 billion fair value), respectively. At September 30, 2009, and December 31, 2008, these loans held for sale had carrying amounts of $341 million ($341 million fair value) and $401 million ($401 million fair value), respectively.

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

(g) Information pertaining to our methodology for measuring the fair values of derivative assets and liabilities is included in Note 15 (Derivatives and Hedging Activities), which begins on page 40.

Table of Contents

Residential real estate mortgage loans with carrying amounts of $1.8 billion at September 30, 2009, and $1.9 billion at December 31, 2008, are included in the amount shown for Loans, net of allowance.

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.

We use valuation methods based on exit market prices in accordance with the applicable accounting guidance for fair value measurements and disclosures. In certain instances, we determine fair value based on assumptions pertaining to the factors a market participant would consider in valuing the asset. If we were to use different assumptions, the fair values shown in the preceding table could change significantly. 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.

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
KeyCorp

We have reviewed the condensed consolidated balance sheets of KeyCorp and subsidiaries (Key) as of September 30, 2009 and 2008, and the related condensed consolidated statements of income, changes in equity and cash flows for the three- and nine-month periods ended September 30, 2009 and 2008. These financial statements are the responsibility of Key s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Key as of December 31, 2008, and the related consolidated statements of income, changes in shareholders equity and cash flows for the year then ended not presented herein, and in our report dated February 25, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2008, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Cleveland, Ohio
November 6, 2009

Table of Contents

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

Introduction

This section generally reviews the financial condition and results of operations of KeyCorp and its subsidiaries for the quarterly and year-to-date periods ended September 30, 2009 and 2008. Some tables may include additional periods to comply with disclosure requirements or to illustrate trends in greater depth. When you read this discussion, you should also refer to the consolidated financial statements and related notes that appear on pages 3 through 54. A description of our business is included under the heading Description of Business on page 16 of KeyCorp s 2008 Annual Report to Shareholders.

Terminology

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

Additionally, our discussion contains industry-specific terms, as well as other acronyms and abbreviations. We want to explain some of these items at the outset so you can better understand the discussion that follows.

- In September 2009 and April 2009, we made decisions to discontinue the education lending business and wind down the operations of Austin, an investment subsidiary that specializes in managing hedge fund investments for its institutional customer base, respectively. As a result of these decisions, we have accounted for these businesses as ***discontinued operations***. We use the phrase ***continuing operations*** in this document to mean all of our businesses other than the education lending business and Austin.

- We engage in ***capital markets activities*** primarily through business conducted by our National Banking group. These activities encompass a variety of products and services. Among other things, we trade securities as a dealer, enter into derivative contracts (both to accommodate clients financing needs and for proprietary trading purposes), and conduct transactions in foreign currencies (both to accommodate clients needs and to benefit from fluctuations in exchange rates).

- For regulatory purposes, capital is divided into two classes. Federal regulations prescribe that at least one-half of a bank or bank holding company s ***total risk-based capital*** must qualify as ***Tier 1 capital***. Both total and Tier 1 capital serve as bases for several measures of capital adequacy, which is an important indicator of financial stability and condition. As a result of the SCAP, the banking regulators began supplementing their assessment of the capital adequacy of a bank based on a variation of Tier 1 capital, known as ***Tier 1 common equity***. While not included in any capital regulations, analysts and banking regulators have assessed capital adequacy using the Tier 1 common equity measure. You will find a more detailed explanation of total capital, Tier 1 capital and Tier 1 common equity and how they are calculated in the section entitled Capital, which begins on page 93.

A comprehensive list of acronyms and abbreviations used throughout this Form 10-Q is included in Note 1 (Basis of Presentation), which begins on page 7.

Forward-looking statements

This report and other reports filed by KeyCorp under the Securities Exchange Act of 1934, as amended, or registration statements filed by KeyCorp under the Securities Act of 1933, as amended, contain statements that are considered forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements about our long-term goals, financial condition, results of operations, earnings, levels of net loan charge-offs and nonperforming assets, interest rate exposure and profitability. These statements usually can be identified by the use of forward-looking language such as goal, objective, plan, will likely result, expects, plans, anticipates, projects, believes, estimates or other similar words, expressions or conditional verbs such as will, would, could should.

Forward-looking statements express our current expectations, forecasts of future events or long-term goals and, by their nature, are subject to assumptions, risks and uncertainties. Although we believe that the expectations, forecasts and goals reflected in these forward-looking statements are reasonable, actual results could differ materially for a variety of reasons, including the following factors:

¨ Recent indications of an improving economy may prove to be incorrect.

¨ Should the economy deteriorate from its present state or languish for a prolonged period, businesses and industries in regions in which we have significant investments or assets could be materially impacted, adversely affecting credit quality trends and our ability to generate loans.

¨ The EESA, the American Recovery and Reinvestment Act of 2009, the FSP, which was announced on February 10, 2009, by the Secretary of the U.S. Treasury in coordination with other financial institution regulators, and other initiatives undertaken by the U.S. government may not have the intended effect on the financial markets; the current extreme volatility and limited credit availability may persist. If these actions fail to help stabilize the financial markets and the current financial market and economic conditions continue or deteriorate further, our business, financial condition, results of operations, access to credit and the market price of our common shares could all suffer a material decline.

¨ As a financial services company, we are disproportionately affected by certain economic indicators such as unemployment and real estate asset prices.

¨ Should the fundamentals of the commercial real estate market continue to deteriorate, our financial condition could be adversely affected.

¨ Asset price deterioration has had (and may continue to have) a negative effect on the valuation of many of the asset categories represented on our balance sheet.

¨ Although we have fulfilled the requirement to generate $1.8 billion of additional Tier 1 common equity pursuant to the United States government s SCAP, a component of the U.S. Treasury s CAP, there can be no assurance that our regulators, including the U.S. Treasury and the Federal Reserve, will not require us to generate additional capital, including Tier 1 common equity, in the future. Future capital raising and augmentation efforts may be dilutive to our common shareholders and reduce the market price of our common shares.

¨ The credit ratings of KeyCorp and KeyBank are essential to maintaining liquidity. Further downgrades from the major credit ratings agencies could mean that our debt ratings fall below investment-grade, which, in turn, could have an adverse effect on access to liquidity sources, cost of funds, access to investors, and collateral or funding requirements.

¨ Unprecedented volatility in the stock markets, public debt markets and other capital markets, including continued disruption in the fixed income markets, has affected and could continue to affect our ability to raise capital or other funding for liquidity and business purposes, as well as revenue from client-based underwriting, investment banking and other capital markets-driven businesses.

¨ Interest rates could change more quickly or more significantly than we expect, which may have an adverse effect on our financial results.

¨ Trade, monetary and fiscal policies of various governmental bodies may affect the economic environment in which we operate, as well as our financial condition and results of operations.

- Changes in foreign exchange rates, equity markets, and the financial soundness of bond insurers, sureties and even other unrelated financial companies have the potential to affect current market values of financial instruments which, in turn, could have a material adverse effect on us.

Table of Contents

¨ The terms of the CPP, pursuant to which KeyCorp issued Series B Preferred Stock and a warrant to purchase KeyCorp common shares to the U.S. Treasury, may limit our ability to return capital to shareholders and could be dilutive to our common shares. If we are unable to redeem such Series B Preferred Stock within five years, the dividend rate will increase substantially. In addition, redemption of the warrant could prove to be difficult or costly.

¨ Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions.

¨ The problems in the housing markets, including issues related to FNMA and FHLMC, and related conditions in the financial markets, or other issues, such as the price volatility of oil or other commodities, could cause general economic conditions to deteriorate further. In addition, these problems may inflict further damage on the local economies or industries in which we have significant operations or assets, and, among other things, may materially impact credit quality in existing portfolios and/or our ability to generate loans in the future.

¨ Increases in interest rates or further weakening economic conditions could constrain borrowers ability to repay outstanding loans or diminish the value of the collateral securing those loans. Additionally, our allowance for loan losses may be insufficient if the estimates and judgments we used to establish the allowance prove to be inaccurate.

¨ We may face increased competitive pressure due to the recent consolidation of certain competing financial institutions and the conversion of certain investment banks to bank holding companies.

¨ We may become subject to new or heightened legal standards and regulatory requirements, practices or expectations, which may impede our profitability or affect our financial condition, including new regulations and programs imposed in connection with the TARP provisions of the EESA, such as the FSP and the CPP, being implemented and administered by the U.S. Treasury in coordination with other federal regulatory agencies, further laws enacted by the U.S. Congress in an effort to strengthen the fundamentals of the economy, or other regulations promulgated by federal regulators to mitigate the systemic risk presented by the current financial crisis, such as the FDIC s TLGP.

¨ It could take us longer than anticipated to implement strategic initiatives, including those designed to grow revenue or manage expenses; we may be unable to implement certain initiatives; or the initiatives we employ may be unsuccessful.

¨ Increases in FDIC premiums and fees, as well as proposed prepayments of FDIC premiums imposed on us due to the FDIC s restoration plan for the DIF established on October 7, 2008, as amended, and continued difficulties experienced by financial institutions, as well as debt-guarantee fees imposed on KeyBank and KeyCorp may have an adverse effect on our results of operations.

¨ Acquisitions and dispositions of assets, business units or affiliates could adversely affect us in ways that we have not anticipated.

¨ We are subject to voluminous and complex rules, regulations and guidelines imposed by a number of government authorities; regulatory requirements appear to be expanding in the current environment. Implementing and monitoring compliance with these requirements is a significant task, and failure to effectively do so may result in penalties or related costs that could have an adverse effect on our results of operations.

¨

We may have difficulty attracting and/or retaining key executives and/or relationship managers at compensation levels necessary to maintain a competitive market position.

¨ We may experience operational or risk management failures due to technological or other factors.

¨ Changes in accounting principles or in tax laws, rules and regulations could have an adverse effect on our financial results or capital.

¨ We may become subject to new legal obligations or liabilities, or the unfavorable resolution of pending litigation may have an adverse effect on our financial results or capital.

- Terrorist activities or military actions could disrupt the economy and the general business climate, which may have an adverse effect on our financial results or condition and that of our borrowers.
- We have leasing offices and clients throughout the world. Economic and political uncertainties resulting from terrorist attacks, military actions or other events that affect countries in which we operate may have an adverse effect on those leasing clients and their ability to make timely payments.

Forward-looking statements are not historical facts but instead represent only our current expectations and forecasts regarding future events, many of which, by their nature, are inherently uncertain and outside of our control. The factors discussed above are not intended to be a complete summary of all risks and uncertainties that may affect our business, the financial services industry and financial markets. Though we strive to monitor and mitigate risk, we cannot anticipate all potential economic, operational and financial developments that may have an adverse impact on our operations and financial results. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to revise any forward-looking statement to reflect subsequent events.

Before making an investment decision, you should carefully consider all risks and uncertainties disclosed in KeyCorp s SEC filings, including this and KeyCorp s other reports on Forms 8-K, 10-K and 10-Q and KeyCorp s registration statements under the Securities Act of 1933, as amended, all of which are accessible on the SEC s website at www.sec.gov.

Long-term goals

Our long-term financial goal is to achieve a return on average common equity at or above the respective median of our peer group. The strategy for achieving this goal is described under the heading Corporate strategy on page 18 of KeyCorp s 2008 Annual Report to Shareholders.

Economic overview

During the third quarter of 2009, the United States economy stabilized. Consumers were constrained by further job losses in the third quarter, although the pace of job losses slowed as the quarter progressed. During the current quarter, 768,000 Americans lost their jobs, compared to 1.3 million in the second quarter of 2009. The unemployment rate reached 9.8%, its highest level in 26 years. The average unemployment rate rose to 9.6%, exceeding the average rate of 9.3% for the second quarter of 2009 and substantially higher than the average rate of 5.8% for all of 2008. Since the recession began in December 2007, the United States economy has lost 7.2 million jobs.

Even in the face of continued job losses, consumers began to show more confidence as spending improved modestly. Spending rose at an average monthly rate of .4% for the quarter, compared to an average monthly increase of .1% in the second quarter of 2009 and an average monthly decline of .1% for all of 2008. The continuation of price discounts offered by retailers increased the demand for products and services. Consumer prices in September 2009 fell 1.3% from September 2008, compared to an annual increase of 4.9% in September 2008, compared to September 2007. The government s Car Allowance Rebate System, known as Cash for Clunkers, resulted in an increase in retail sales of approximately 4% during August. While businesses continued to reduce headcount and fixed investment, they were also successful in reducing inventory levels to better align with sales, thereby creating the potential for future increases in orders. Gross domestic product in the third and fourth quarters of 2009 is expected to benefit from a build up in inventories.

Housing continued to drag on consumer wealth, confidence and spending levels; however, real estate prices continued to show some signs of stabilization during the third quarter. Historically low mortgage rates, the availability of a first-time home buyer tax credit and perceived values by buyers spurred activity in the housing market. Foreclosures increased by 29% in September 2009 from one year ago, which compares favorably to the 34% annual increase reported in June 2009. Existing home sales increased by 14% and new home sales increased 1%, on a linked-quarter basis. Median prices in September 2009 for new and existing homes declined on a year-over-year and linked-quarter basis. The median price of existing homes fell by 3.9% and the median price of new homes fell by 4.6% from June 2009. Home building activity in September 2009 declined by 28% from the same month in 2008, but was flat compared to the second quarter.

The Federal Reserve held the federal funds target rate near zero during the third quarter of 2009 as the downside risks to the economy remained elevated. In general, other market interest rates increased early in the quarter before ending the quarter below their starting points. Much of the rise in interest rates was due to increased near-term economic optimism and heightened fears of future inflation, both sentiments that gradually faded. The benchmark two-year Treasury yield began the quarter at 1.11% and increased to 1.30% before settling at .96% on September 30, 2009. The ten-year Treasury yield, which began the quarter at 3.54%, reached 3.85% before closing the quarter at 3.31%. As credit concerns continued to ease, short-term interbank lending rates decreased by 31 basis points, and credit spreads for banks and financial firms continued to narrow dramatically during the quarter.

As the quarter ended, various Federal Reserve reports stated that although the recession appears to be over, growth will be sluggish into 2010 and interest rates will remain low for an extended period of time. The Federal Reserve announced that it will begin to unwind some of the current liquidity programs.

FDIC Developments

With liquidity concerns of financial institutions stabilizing, in October 2009, the FDIC adopted a final rule for concluding the debt guarantee component of the TLGP. Under the final rule, qualifying financial institutions were permitted to issue FDIC-guaranteed debt until October 31, 2009, with the FDIC s guarantee expiring no later than December 31, 2012. However, the FDIC has establish a limited emergency guarantee facility that permits insured depository institutions and certain other participating entities that have issued FDIC-guaranteed debt under the TLGP by September 9, 2009, to apply to the FDIC to issue FDIC-guaranteed debt for an additional six months (i.e., the FDIC will guarantee senior unsecured debt issued on or before April, 30, 2010). We have no plans to issue any additional debt under the TLGP.

On September 1, 2009, a final rule published in the Federal Register announced the FDIC s extension of the transaction account guarantee component of the TLGP for a period of six months until June 30, 2010, for those institutions currently participating in this program. Institutions that elect to participate in the extension will experience an increase in their quarterly annualized fee from 10 basis points to between 15 and 25 basis points based on their risk rating. On November 2, 2009, KeyBank chose to continue its participation in the program.

Further information on the TLGP-related developments is included in the Capital section under the heading Temporary Liquidity Guarantee Program on page 98.

Also, in September 2009, the FDIC proposed an amended DIF restoration plan that would require depository institutions, such as KeyBank, to prepay, on December 30, 2009, their estimated quarterly risk-based assessments for the third and fourth quarters of 2009 and for all of 2010, 2011 and 2012. For further information on the proposed amendment to the restoration plan, see the section entitled Deposits and other sources of funds, which begins on page 92.

Demographics

The extent to which our business has been affected by continued volatility and weakness in the housing market is directly related to the state of the economy in the regions in which our two major business groups, Community Banking and National Banking, operate.

The Community Banking group serves consumers and small to mid-sized businesses by offering a variety of deposit, investment, lending and wealth management products and services. These products and services are provided through a 14-state branch network organized into three internally defined geographic regions: Rocky Mountains and Northwest, Great Lakes, and Northeast. The National Banking group includes those corporate and consumer business units that operate nationally, within and beyond our 14-state branch network, as well as internationally. The specific products and services offered by the Community and National Banking groups are described in Note 4 (Line of Business Results), which begins on page 16.

Table of Contents

Figure 1 shows the geographic diversity of our Community Banking group s average core deposits, commercial loans and home equity loans.

Figure 1. Community Banking Geographic Diversity

Three months ended September 30, 2009	**Geographic Region**				
dollars in millions	**Rocky Mountains and Northwest**	**Great Lakes**	**Northeast**	**Nonregion (a)**	**Total**
Average core deposits	$13,907	$ 14,494	$13,571	$ 1,621	$43,593
Percent of total	31.9%	33.3%	31.1%	3.7%	100.0%
Average commercial loans	$ 6,129	$ 3,928	$ 3,096	$ 1,274	$14,427
Percent of total	42.5%	27.2%	21.5%	8.8%	100.0%
Average home equity loans	$ 4,493	$ 2,910	$ 2,638	$ 147	$10,188
Percent of total	44.1%	28.6%	25.9%	1.4%	100.0%

(a) Represents core deposit, commercial loan and home equity loan products centrally managed outside of our three Community Banking regions.

Figure 18 on page 85 shows the diversity of our commercial real estate lending business based on industry type and location. The homebuilder loan portfolio within the National Banking group has been adversely affected by the downturn in the U.S. housing market. Deteriorating market conditions in the residential properties segment of the commercial real estate construction portfolio, principally in Florida and southern California, have caused a significant increase in the levels of our nonperforming loans and net charge-offs since mid-2007. We have taken aggressive steps to reduce exposure in this segment of the loan portfolio. As previously reported, during the fourth quarter of 2007, we announced our decision to cease conducting business with nonrelationship homebuilders outside of the 14-state Community Banking footprint. During the second quarter of 2008, we initiated a process to further reduce exposure through the sale of certain loans. As a result of these actions, we have reduced the outstanding balances in the residential properties segment of the commercial real estate loan portfolio by $2.0 billion, or 56%, since December 31, 2007. Additional information about the loan sales is included in the Credit risk management section, which begins on page 108.

Results for the National Banking group have also been affected adversely by increasing credit costs and volatility in the capital markets, leading to declines in the market values of assets under management and the market values at which we record certain assets (primarily commercial real estate loans and securities held for sale or trading). Additionally, during the first quarter of 2009 we determined that the estimated fair value of the National Banking reporting unit was less than the carrying amount, reflecting the impact of continued weakness in the financial markets.

As a result, we recorded an after-tax noncash accounting charge of $187 million, of which $23 million relates to the discontinued operations of Austin. As a result of this charge and a similar after-tax charge of $420 million recorded during the fourth quarter of 2008, we have now written off all of the goodwill that had been assigned to our National Banking reporting unit.

Critical accounting policies and estimates

Our business is dynamic and complex. Consequently, we must exercise judgment in choosing and applying accounting policies and methodologies. These choices are critical; not only are they necessary to comply with GAAP, they also reflect our view of the appropriate way to record and report our overall financial performance. All accounting policies are important, and all policies described in Note 1 (Summary of Significant Accounting Policies), which begins on page 77 of KeyCorp s 2008 Annual Report to Shareholders, should be reviewed for a greater understanding of how our financial performance is recorded and reported.

In our opinion, some accounting policies are more likely than others to have a significant effect on our financial results and to expose those results to potentially greater volatility. These policies apply to areas of relatively greater business importance, or require us to exercise judgment and to make assumptions and estimates that affect amounts reported in the financial statements. Because these assumptions and estimates are based on current circumstances, they may change over time or prove to be inaccurate.

Table of Contents

We rely heavily on the use of judgment, assumptions and estimates to make a number of core decisions, including accounting for the allowance for loan losses; contingent liabilities, guarantees and income taxes; derivatives and related hedging activities; and assets and liabilities that involve valuation methodologies. A brief discussion of each of these areas appears on pages 20 through 23 of KeyCorp s 2008 Annual Report to Shareholders**.** Information about our review of goodwill and other intangible assets for impairment is included in Note 1 (Basis of Presentation) under the heading Goodwill and Other Intangible Assets on page 8.

Effective January 1, 2008, we adopted the applicable accounting guidance for fair value measurements and disclosures, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In the absence of quoted market prices, we determine the fair value of our assets and liabilities using internally developed models, which are based on our judgment, assumptions and estimates regarding credit quality, liquidity, interest rates and other relevant inputs. Our adoption of this accounting guidance and the process used to determine fair values are more fully described in Note 1 under the heading Fair Value Measurements on page 82 of KeyCorp s 2008 Annual Report to Shareholders and in Note 20 (Fair Value Measurements), which begins on page 118 of that report.

At September 30, 2009, $19.6 billion, or 20%, of our total assets were measured at fair value on a recurring basis. Approximately 92% of these assets were classified as Level 1 or Level 2 within the fair value hierarchy. At September 30, 2009, $2.1 billion, or 2%, of our total liabilities were measured at fair value on a recurring basis. Substantially all of these liabilities were classified as Level 1 or Level 2.

At September 30, 2009, $826 million, or 1%, of our total assets were measured at fair value on a nonrecurring basis. Approximately 4% of these assets were classified as Level 1 or Level 2. At September 30, 2009, there were no liabilities measured at fair value on a nonrecurring basis.

During the first nine months of 2009, we did not significantly alter the manner in which we applied our critical accounting policies or developed related assumptions and estimates.

Highlights of Our Performance

Financial performance

For the third quarter of 2009, the net loss from continuing operations attributable to Key common shareholders was $422 million, or $.50 per common share. These results compare to a net loss from continuing operations attributable to Key common shareholders of $9 million, or $.02 per common share, for the third quarter of 2008.

The loss for the current quarter is largely the result of an increase in the provision for loan losses, write-downs of certain real estate related investments, higher costs associated with OREO, and the write-off of certain intangible assets. During the third quarter, we continued to increase our loan loss reserves by recording a $733 million provision for loan losses, which exceeded net charge-offs by $146 million. As of the end of the current quarter, our allowance for loan losses was $2.5 billion, or 4.00% of total loans, up from $1.4 billion, or 1.90%, one year ago.

For the first nine months of 2009, the net loss from continuing operations attributable to Key common shareholders was $1.323 billion, or $2.07 per common share, compared to a net loss from continuing operations of $813 million, or $1.87 per common share, for the same period last year. Per share results for the first nine months of 2009 are after preferred stock dividends of $253 million, or $.40 per common share.

While our results continue to be impacted by the difficult operating environment, we believe the aggressive actions we have taken to address credit quality, strengthen capital and liquidity, and reshape our business mix position us to meet the challenges posed by the current environment and to emerge as a more competitive company when the economy rebounds. Further, we are encouraged by the continuation of deposit growth and the improvement in our net interest margin.

Table of Contents

During the third quarter, we exchanged common shares for retail capital securities, raising $505 million of additional Tier 1 common equity. This completed a series of successful capital raises and exchanges that generated approximately $2.4 billion of new Tier I common equity to bolster our overall capital. At September 30, 2009, KeyCorp s estimated Tier 1 risk-based capital and Tier 1 common equity ratios were 12.61% and 7.64%, respectively. Further information regarding the actions we have taken to generate additional capital is included in the Capital section under the heading Financial Stability Plan on page 99.

Our average deposits grew by $3.6 billion, or 6%, compared to the year-ago quarter, and we originated approximately $8.5 billion in new or renewed loans and commitments to consumers and businesses during the quarter, and $24.5 billion during the first nine months of the year. As part of a multi-year investment in our 14-state branch network, we have opened 32 new branches (including relocations) in 8 markets in 2009, and expect to open an additional 6 branches by the end of the year. Also, we will have completed renovations on approximately 160 branches over the past two years by the end of 2009.

Further, we are continuing to strengthen our business mix and to concentrate on the areas in which we believe we can be the most competitive. Early in October, we announced our decision to exit the government-guaranteed education lending business, following earlier actions taken to cease private student lending. Additionally, within the equipment leasing business, we have decided to cease lending in both the commercial vehicle and office leasing markets. These actions exemplify our disciplined focus on our core relationship businesses.

As a result of our decision to exit the government-guaranteed education lending business, we have applied discontinued operations accounting to the education lending business for all periods presented in this report. In addition, during the third quarter of 2009, we recorded a $45 million charge to write-off intangible assets, other than goodwill, associated with the actions taken to cease conducting business in certain equipment leasing markets.

Figure 2 shows our continuing and discontinued operating results for comparative quarters and for the nine-month periods ended September 30, 2009 and 2008.

Figure 2. Results of Operations

	Three months ended			**Nine months ended**	
in millions, except per share amounts	**9-30-09**	**6-30-09**	**9-30-08**	**9-30-09**	**9-30-08**
SUMMARY OF OPERATIONS					
Income (loss) from continuing operations attributable to Key	**$ (381)**	**$ (230)**	$ 3	**$ (1,070)**	$ (801)
Income (loss) from discontinued operations, net of taxes [(a)]	**(16)**	**4**	(39)	**(41)**	(143)
Net loss attributable to Key	**$ (397)**	**$ (226)**	$ (36)	**$ (1,111)**	$ (944)
Income (loss) from continuing operations attributable to Key	**$ (381)**	**$ (230)**	$ 3	**$ (1,070)**	$ (801)
Less: Dividends on Series A Preferred Stock	**7**	**15**	12	**34**	12
Noncash deemed dividend common shares exchanged for Series A Preferred Stock		**114**		**114**	
Cash dividends on Series B Preferred Stock	**31**	**31**		**94**	
Amortization of discount on Series B Preferred Stock	**3**	**4**		**11**	
Loss from continuing operations attributable to Key common shareholders	**(422)**	**(394)**	(9)	**(1,323)**	(813)

Income (loss) from discontinued operations, net of taxes [a]	**(16)**	**4**	(39)	**(41)**	(143)
Net loss attributable to Key common shareholders	**$ (438)**	**$ (390)**	$ (48)	**$ (1,364)**	$ (956)
PER COMMON SHARE ASSUMING DILUTION					
Loss from continuing operations attributable to Key common shareholders	**$ (.50)**	**$ (.68)**	$ (.02)	**$ (2.07)**	$ (1.87)
Income (loss) from discontinued operations, net of taxes [a]	**(.02)**	**.01**	(.08)	**(.06)**	(.33)
Net loss attributable to Key common shareholders [b]	**$ (.52)**	**$ (.68)**	$ (.10)	**$ (2.14)**	$ (2.19)

(a) In September 2009, we made the decision to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In April 2009, we made the decision to wind down the operations of Austin, an investment subsidiary that specializes in managing hedge fund investments for its institutional customer base. As a result of these decisions, we have accounted for these businesses as discontinued operations. Included in the loss from discontinued operations for the nine-month period ended September 30, 2009, is a $23 million after tax, or $.05 per common share, charge for intangible assets impairment related to Austin recorded during the first quarter.

(b) Earning per share may not foot due to rounding.

Table of Contents

Shown in Figure 3 are significant items that affect the comparability of our financial performance for the quarterly and year-to-date periods ended September 30, 2009 and 2008. Events leading to the recognition of these items, as well as other factors that contributed to the changes in our revenue and expense components, are reviewed in detail throughout the remainder of the Management s Discussion & Analysis section.

Figure 3. Significant Items Affecting the Comparability of Earnings

	Three months ended September 30, 2009			Three months ended September 30, 2008			Nine months ended September 30, 2009			Nine months September 3	
cept per share amounts	Pre-tax Amount	After-tax Amount	Impact on EPS	Pre-tax Amount	After-tax Amount	Impact on EPS	Pre-tax Amount	After-tax Amount	Impact on EPS	Pre-tax Amount	After-tax Amount
oan losses in excess of s	**$ (146)**	**$ (91)**	**$ (.11)**	$ (103)	$ (64)	$ (.13)	**$ (854)**	$ **(534)**	$ **(.84)**	$ (164)	$ (103
ge for intangible assets	**(45)**	**(28)**	**(.03)**	(4)	(3)	(.01)	**(241)**	**(151)**	**(.24)**	(4)	(3
ted dividend common ged for Series A k									**(.18)** [a]		
nrealized losses on loan portfolios held for sale	**(59)**	**(37)**	**(.04)**	(88) [b]	(56) [b]	(.11)	**(82)**	**(51)**	**(.08)**	(142) [b]	(89
n principal investing	**(6)**	**(4)**		(14)	(9)	(.02)	**(84)**	**(53)**	**(.08)**	(17)	(11
edit for losses on d commitments	**(29)**	**(18)**	**(.02)**	(8)	(5)	(.01)	**(40)**	**(25)**	**(.04)**	21	13
assessment							**(44)**	**(27)**	**(.04)**		
other exit costs	**(6)**	**(4)**		(19)	(14)	(.03)	**(28)**	**(18)**	**(.03)**	(33)	(22
repositioning of folio							**125**	**78**	**.12**		
e/redemption of Visa							**105**	**65**	**.10**	165	103
ated to exchange of s for capital securities	**(17)**	**(11)**	**(.01)**				**78**	**49**	**.08**		
e of Key s claim n the Lehman Brothers							**32**	**20**	**.03**		
d to leveraged lease tax					(30)	(.06)				(362)	(1,079
ation reserve				23	14	.03				23	14

(a) The deemed dividend related to the exchange of common shares for Series A Preferred Stock is subtracted from earnings to derive the numerator used in the calculation of per share results; it is not recorded as a reduction to equity.

(b) Includes $54 million ($33 million after tax) of derivative-related charges recorded as a result of market disruption caused by the failure of Lehman Brothers, and $31 million ($19 million after tax) of realized and unrealized losses from the residential properties segment of the construction loan portfolio.

Our financial performance for each of the past five quarters and for the nine-month periods ended September 30, 2009 and 2008, is summarized in Figure 4.

Table of Contents

Figure 4. Selected Financial Data

	2009			2008		Nine months ende September 30,	
nillions, except per share amounts	Third	Second	First	Fourth	Third	2009	
PERIOD							
ome	**$ 940**	**$ 945**	**$ 977**	$ 1,094	$ 1,167	**$ 2,862**	$ 3
pense	**348**	**376**	**388**	477	489	**1,112**	1
t income	**592**	**569**	**589**	617	678	**1,750**	1
or loan losses	**733**	**823**	**847**	551	336	**2,403**	
t income	**382**	**706**	**478**	383	390	**1,566**	1
t expense	**901**	**855**	**927**	1,264	740	**2,683**	2
continuing operations before es	**(660)**	**(403)**	**(707)**	(815)	(8)	**(1,770)**	
ss) from continuing operations to Key	**(381)**	**(230)**	**(459)**	(494)	3	**(1,070)**	
ss) from discontinued operations, (b)	**(16)**	**4**	**(29)**	(30)	(39)	**(41)**	
ributable to Key	**(397)** (a)	**(226)**	**(488)**	(524)	(36) (a)	**(1,111)** (a)	
continuing operations attributable mon shareholders	**(422)**	**(394)**	**(507)**	(524)	(9)	**(1,323)**	
ss) from discontinued operations, (b)	**(16)**	**4**	**(29)**	(30)	(39)	**(41)**	
ributable to Key common rs	**(438)** (a)	**(390)**	**(536)**	(554)	(48) (a)	**(1,364)** (a)	
IMON SHARE							
continuing operations attributable mon shareholders	**$ (.50)**	**$ (.68)**	**$ (1.03)**	$ (1.07)	$ (.02)	**$ (2.07)**	$ (
ss) from discontinued operations, (b)	**(.02)**	**.01**	**(.06)**	(.06)	(.08)	**(.06)**	
ributable to Key common rs	**(.52)**	**(.68)**	**(1.09)**	(1.13)	(.10)	**(2.14)**	(
continuing operations attributable mon shareholders assuming	**(.50)**	**(.68)**	**(1.03)**	(1.07)	(.02)	**(2.07)**	(
ss) from discontinued operations, assuming dilution(b)	**(.02)**	**.01**	**(.06)**	(.06)	(.08)	**(.06)**	
ributable to Key common rs assuming dilution	**(.52)** (a)	**(.68)**	**(1.09)**	(1.13)	(.10) (a)	**(2.14)** (a)	(
ends paid	**.01**	**.01**	**.0625**	.0625	.1875	**.0825**	.
at period end	**9.39**	**10.21**	**13.82**	14.97	16.16	**9.39**	1
ook value at period end	**8.29**	**8.92**	**11.76**	12.41	12.66	**8.29**	1
ce:							
	7.07	**9.82**	**9.35**	15.20	15.25	**9.82**	2

	4.40	**4.40**	**4.83**	4.99	7.93	**4.40**	
	6.50	**5.24**	**7.87**	8.52	11.94	**6.50**	1
average common shares g (000)	**839,906**	**576,883**	**492,813**	492,311	491,179	**637,805**	435
average common shares and ommon shares outstanding (000)	**839,906**	**576,883**	**492,813**	492,311	491,179	**637,805**	435
OD END							
	$ 62,193	**$ 67,167**	**$ 70,003**	$ 72,835	$ 72,994	**$ 62,193**	$ 72
sets	**84,173**	**85,649**	**84,722**	89,759	86,128	**84,173**	86
s	**96,989**	**97,792**	**97,834**	104,531	101,290	**96,989**	101
	67,259	**67,780**	**65,877**	65,127	64,567	**67,259**	64
debt	**12,865**	**13,462**	**14,978**	14,995	15,597	**12,865**	15
on shareholders equity	**8,253**	**8,138**	**6,892**	7,408	7,993	**8,253**	7
olders equity	**10,970**	**10,851**	**9,968**	10,480	8,651	**10,970**	8
MANCE RATIOS FROM UING OPERATIONS							
average total assets	**(1.62)%**	**(.96)%**	**(1.87)%**	(1.90)%	.01%	**(1.49)%**	(
average common equity	**(20.30)**	**(15.52)**	**(28.26)**	(26.15)	(.44)	**(21.31)**	(1
t margin (taxable equivalent)	**2.80**	**2.70**	**2.79**	2.79	3.17	**2.77**	
MANCE RATIOS FROM IDATED OPERATIONS							
average total assets	**(1.62)%** [a]	**(.90)%**	**(1.91)%**	(1.93)%	(.14)% [a]	**(1.48)%** [a]	(
average common equity	**(21.07)** [a]	**(15.32)**	**(29.87)**	(27.65)	(2.36) [a]	**(22.03)** [a]	(1
t margin (taxable equivalent)	**2.79**	**2.67**	**2.77**	2.76	3.13	**2.74**	
RATIOS AT PERIOD END							
olders equity to assets	**11.31%**	**11.10%**	**10.19%**	10.03%	8.54%	**11.31%**	
ey shareholders equity to tangible	**10.41**	**10.16**	**9.23**	8.92	6.95	**10.41**	
ommon equity to tangible assets	**7.58**	**7.35**	**6.06**	5.95	6.29	**7.58**	
mon equity	**7.64**	**7.36**	**5.62**	5.62	5.58	**7.64**	
based capital	**12.61**	**12.57**	**11.22**	10.92	8.55	**12.61**	
based capital	**16.65**	**16.67**	**15.18**	14.82	12.40	**16.65**	1
	12.07	**12.26**	**11.19**	11.05	9.28	**12.07**	
ND BROKERAGE ASSETS							
er management	**$ 66,145**	**$ 63,382**	**$ 60,164**	$ 64,717	$ 76,676	**$ 66,145**	$ 76
ed and brokerage assets	**25,883**	**23,261**	**21,786**	22,728	27,187	**25,883**	27
DATA							
ll-time-equivalent employees	**16,436**	**16,937**	**17,468**	17,697	18,098	**16,943**	18
	1,003	**993**	**989**	986	986	**1,003**	

(a) See Figure 5 on pages 67 and 68, which presents certain earnings data and performance ratios, excluding charges related to goodwill and other intangible assets impairment, and the tax treatment of certain leveraged lease financing transactions disallowed by the IRS. Figure 5 reconciles certain GAAP performance measures to the corresponding non-GAAP measures, which provides a basis for period-to-period comparisons.

(b) In September 2009, we made the decision to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In April 2009, we made the decision to wind down the operations of Austin, an investment subsidiary that specializes in managing hedge fund investments for its institutional customer base. As a result of these decisions, we have accounted for these businesses as discontinued operations.

Table of Contents

Figure 5 presents certain earnings data and performance ratios, excluding charges related to intangible assets impairment and the tax treatment of certain leveraged lease financing transactions disallowed by the IRS. We believe that eliminating the effects of significant items that are generally nonrecurring facilitates the analysis of results by presenting them on a more comparable basis.

During the third quarter of 2009, we recorded an after-tax charge of $28 million, or $.03 per common share, to write-off intangible assets, other than goodwill, associated with actions taken to cease conducting business in certain equipment leasing markets. In the first quarter of 2009, we recorded an after-tax charge of $164 million, or $.33 per common share, for the impairment of goodwill and other intangible assets related to the National Banking reporting unit. We have now written off all of the goodwill that had been assigned to our National Banking reporting unit.

As a result of an adverse federal court decision regarding our tax treatment of a leveraged sale-leaseback transaction, we recorded after-tax charges of $30 million, or $.06 per common share, during the third quarter of 2008, and $1.011 billion, or $2.43 per common share, during the second quarter of 2008. In the first quarter of 2008, we increased the tax reserves for certain LILO transactions and recalculated our lease income in accordance with prescribed accounting standards, resulting in after-tax charges of $38 million, or $.10 per diluted common share.

The figure also shows the computations of certain financial measures related to tangible common equity and Tier 1 common equity. The tangible common equity ratio has become a focus of some investors and we believe that this ratio may assist investors in analyzing our capital position absent the effects of intangible assets and preferred stock. Traditionally, the banking regulators have assessed bank and bank holding company capital adequacy based on both the amount and composition of capital, the calculation of which is prescribed in federal banking regulations. As a result of the SCAP, the Federal Reserve has focused its assessment of capital adequacy on a component of Tier 1 capital, known as Tier 1 common equity. Because the Federal Reserve has long indicated that voting common shareholders equity (essentially Tier 1 capital less preferred stock, qualifying capital securities and minority interests in subsidiaries) generally should be the dominant element in Tier 1 capital, such a focus is consistent with existing capital adequacy guidelines and does not imply a new or ongoing capital standard. Because Tier 1 common equity is neither formally defined by GAAP nor prescribed in amount by federal banking regulations, this measure is considered to be a non-GAAP financial measure. Since analysts and banking regulators may assess our capital adequacy using tangible common equity and Tier 1 common equity, we believe it is useful to provide investors the ability to assess our capital adequacy on these same bases. The figure also reconciles the GAAP performance measures to the corresponding non-GAAP measures. Additional detail regarding our regulatory capital position at September 30, 2009, December 31, 2008, and September 30, 2008, is presented in Figure 26 on page 97.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. To mitigate these limitations, we have procedures in place to ensure that these measures are calculated using the appropriate GAAP or regulatory components and to ensure that our performance is properly reflected to facilitate period-to-period comparisons. Although these non-GAAP financial measures are frequently used by investors in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP.

Table of Contents

Figure 5. GAAP to Non-GAAP Reconciliations

dollars in millions, except per share amounts	Three months ended 9-30-09	6-30-09	9-30-08	Nine months ended 9-30-09	9-30-08
NET INCOME (LOSS)					
Net loss attributable to Key (GAAP)	**$ (397)**	**$ (226)**	$ (36)	**$ (1,111)**	$ (944)
Charges related to intangible assets impairment, after tax	**28**		4	**192**	4
Charges related to leveraged lease tax litigation, after tax			30		1,079
Net income (loss) attributable to Key, excluding charges related to intangible assets impairment and leveraged lease tax litigation (non-GAAP)	**$ (369)**	**$ (226)**	$ (2)	**$ (919)**	$ 139
Noncash deemed dividend common shares exchanged for Series A Preferred Stock		**$ 114**		**$ 114**	
Other preferred dividends and amortization of discount on preferred stock	**$ 41**	**50**	$ 12	**139**	$ 12
Net loss attributable to Key common shareholders (GAAP)	**$ (438)**	**$ (390)**	$ (48)	**$ (1,364)**	$ (956)
Net income (loss) attributable to Key common shareholders, excluding charges related to intangible assets impairment and leveraged lease tax litigation (non-GAAP)	**(410)**	**(390)**	(14)	**(1,172)**	127
PER COMMON SHARE					
Net loss attributable to Key common shareholders assuming dilution (GAAP)	**$ (.52)**	**$ (.68)**	$ (.10)	**$ (2.14)**	$ (2.19)
Net income (loss) attributable to Key common shareholders, excluding charges related to intangible assets impairment and leveraged lease tax litigation assuming dilution (non-GAAP)	**(.49)**	**(.68)**	(.03)	**(1.84)**	.28
PERFORMANCE RATIOS FROM CONSOLIDATED OPERATIONS					
Return on average total assets: [(a)]					
Average total assets	**$ 97,221**	**$ 100,858**	$ 103,156	**$ 100,607**	$ 103,267
Return on average total assets (GAAP)	**(1.62)%**	**(.90)%**	(.14)%	**(1.48)%**	(1.22)%
Return on average total assets, excluding charges related to intangible assets impairment and leveraged lease tax litigation (non-GAAP)	**(1.51)**	**(.90)**	(.01)	**(1.22)**	.18
Return on average common equity: [(a)]					
Average common equity	**$ 8,249**	**$ 7,227**	$ 8,077	**$ 7,587**	$ 8,336
Return on average common equity (GAAP)	**(21.07)%**	**(15.32)%**	(2.36)%	**(22.03)%**	(15.32)%

Return on average common equity, excluding charges related to intangible assets impairment and leveraged lease tax litigation (non-GAAP)	**(19.72)**	**(15.32)**	(.69)	**(18.64)**	2.04
NET INTEREST INCOME AND MARGIN					
Net interest income:					
Net interest income (GAAP)	**$ 592**	**$ 569**	$ 678	**$ 1,750**	$ 1,699
Charges related to leveraged lease tax litigation, pre-tax					362
Net interest income, excluding charges related to leveraged lease tax litigation (non-GAAP)	**$ 592**	**$ 569**	$ 678	**$ 1,750**	$ 2,061
Net interest income/margin (TE):					
Net interest income (TE) (as reported)	**$ 599**	**$ 575**	$ 684	**$ 1,769**	$ 1,238
Charges related to leveraged lease tax litigation, pre-tax (TE)					872
Net interest income, excluding charges related to leveraged lease tax litigation (TE) (adjusted basis)	**$ 599**	**$ 575**	$ 684	**$ 1,769**	$ 2,110
Net interest margin (TE) (as reported) [a]	**2.80%**	**2.70%**	3.17%	**2.77%**	1.92%
Impact of charges related to leveraged lease tax litigation, pre-tax (TE) [a]					1.30
Net interest margin, excluding charges related to leveraged lease tax litigation (TE) (adjusted basis) [a]	**2.80%**	**2.70%**	3.17%	**2.77%**	3.22%

67