KEYCORP /NEW/
Form 10-Q
August 06, 2010

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 June 30, 2010

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) 689-3000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes 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	880,282,505 Shares

(Title of class)	(Outstanding at July 30, 2010)

KEYCORP
TABLE OF CONTENTS

	Page Number
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheets June 30, 2010 (Unaudited), December 31, 2009, and June 30, 2009 (Unaudited)	5
Consolidated Statements of Income (Unaudited) Three and six months ended June 30, 2010 and 2009	6
Consolidated Statements of Changes in Equity (Unaudited) Three and six months ended June 30, 2010 and 2009	7
Consolidated Statements of Cash Flows (Unaudited) Six months ended June 30, 2010 and 2009	8
Notes to Consolidated Financial Statements (Unaudited)	9
Note 1. Basis of Presentation	9
Note 2. Earnings Per Common Share	12
Note 3. Line of Business Results	13
Note 4. Securities	18
Note 5. Loans and Loans Held for Sale	22
Note 6. Mortgage Servicing Assets	23
Note 7. Variable Interest Entities	24
Note 8. Nonperforming Assets and Past Due Loans from Continuing Operations	27
Note 9. Capital Securities Issued by Unconsolidated Subsidiaries	28
Note 10. Shareholders Equity	30
Note 11. Employee Benefits	30
Note 12. Income Taxes	31
Note 13. Commitments, Contingent Liabilities and Guarantees	31

Note 14. Derivatives and Hedging Activities	36
Note 15. Fair Value Measurements	44
Note 16. Discontinued Operations	55
Report of Independent Registered Public Accounting Firm	59

EX-10.1
EX-15
EX-31.1
EX-31.2
EX-32.1
EX-32.2
EX-101 INSTANCE DOCUMENT
EX-101 SCHEMA DOCUMENT
EX-101 CALCULATION LINKBASE DOCUMENT
EX-101 LABELS LINKBASE DOCUMENT
EX-101 PRESENTATION LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT

	Page Number
Item 2. Management s Discussion & Analysis of Financial Condition & Results of Operations	60
Introduction	60
Terminology	60
Forward-looking statements	61
Long-term goals	62
Strategic developments	63
Economic overview	64
Regulatory Reform Developments	64
Interchange Fees	65
Regulation E pursuant to the Electronic Fund Transfer Act of 1978	66
Demographics	66
Critical accounting policies and estimates	67
Highlights of Our Financial Performance	68
Line of Business Results	73
Community Banking summary of operations	74
National Banking summary of operations	75
Other Segments	76
Results of Operations	77
Net interest income	77
Noninterest income	81
Trust and investment services income	82
Service charges on deposit accounts	83
Operating lease income	83
Net gains (losses) from loan sales	83
Net gains (losses) from principal investing	83
Investment banking and capital markets income (loss)	83
Noninterest expense	84
Personnel	85
Intangible assets impairment	85
Operating lease expense	85
Professional fees	85
Corporate-wide efficiency initiative	86
Income taxes	86
Financial Condition	87
Loans and loans held for sale	87
Commercial loan portfolio	87
Commercial real estate loans	87
Commercial lease financing	89
Consumer loan portfolio	90
Loans held for sale	90
Loan sales	91

Securities	93
Securities available for sale	93
Held-to-maturity securities	94
Other investments	95
Deposits and other sources of funds	95
Capital	97
Adoption of new accounting guidance	97
Dividends	97
Common shares outstanding	97
Capital availability and management	98
Capital adequacy	98

Table of Contents

	Page Number
The Dodd-Frank Act s Reform of Deposit Insurance	102
Risk Management	103
Overview	103
Market risk management	104
Interest rate risk management	104
Net interest income simulation analysis	104
Economic value of equity modeling	106
Management of interest rate exposure	106
Derivatives not designated in hedge relationships	107
Liquidity risk management	107
Governance structure	107
Sources of liquidity	107
Factors affecting liquidity	108
Managing liquidity risk	108
Long-term liquidity strategy	108
Our liquidity position and recent activity	108
Liquidity for KeyCorp	109
Liquidity programs	109
Liquidity and credit ratings	110
Credit risk management	111
Credit policy, approval and evaluation	111
Watch and criticized assets	111
Allowance for loan losses	112
Net loan charge-offs	113
Nonperforming assets	115
Operational risk management	118
Item 3. Quantitative and Qualitative Disclosure about Market Risk	119
Item 4. Controls and Procedures	119
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	119
Item 1A. Risk Factors	119
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	123
Item 5. Other Information	124
Item 6. Exhibits	124
Signature	125
Exhibits	126

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 9.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

Consolidated Balance Sheets

in millions, except share data	**June 30, 2010 (Unaudited)**	**December 31, 2009**	**June 30, 2009 (Unaudited)**
ASSETS			
Cash and due from banks	**$ 591**	$ 471	$ 706
Short-term investments	**1,984**	1,743	3,487
Trading account assets	**1,014**	1,209	771
Securities available for sale	**19,773**	16,641	11,988
Held-to-maturity securities (fair value: $19, $24 and $25)	**19**	24	25
Other investments	**1,415**	1,488	1,450
Loans, net of unearned income of $1,641, $1,770 and $1,994	**53,334**	58,770	67,167
Less: Allowance for loan losses	**2,219**	2,534	2,339
Net loans	**51,115**	56,236	64,828
Loans held for sale	**699**	443	761
Premises and equipment	**872**	880	858
Operating lease assets	**589**	716	842
Goodwill	**917**	917	917
Other intangible assets	**42**	50	104
Corporate-owned life insurance	**3,109**	3,071	3,016
Derivative assets	**1,153**	1,094	1,182
Accrued income and other assets (including $134 of consolidated LIHTC guaranteed funds VIEs, see Note 7) [(a)]	**4,061**	4,096	2,775
Discontinued assets (including $3,285 of consolidated education loan securitization trusts VIEs at fair value, see Note 7) [(a)]	**6,814**	4,208	4,082
Total assets	**$ 94,167**	$ 93,287	$ 97,792
LIABILITIES			
Deposits in domestic offices:			
NOW and money market deposit accounts	**$ 25,526**	$ 24,341	$ 23,939
Savings deposits	**1,883**	1,807	1,795
Certificates of deposit ($100,000 or more)	**8,476**	10,954	13,486
Other time deposits	**10,430**	13,286	15,055
Total interest-bearing	**46,315**	50,388	54,275
Noninterest-bearing	**15,226**	14,415	12,873
Deposits in foreign office interest-bearing	**834**	768	632
Total deposits	**62,375**	65,571	67,780
Federal funds purchased and securities sold under repurchase agreements	**2,836**	1,742	1,530

Bank notes and other short-term borrowings	**819**	340	1,710
Derivative liabilities	**1,321**	1,012	528
Accrued expense and other liabilities	**2,154**	2,007	1,600
Long-term debt	**10,451**	11,558	13,462
Discontinued liabilities (including $3,135 of consolidated education loan securitization trusts VIEs at fair value, see Note 7) [(a)]	**3,139**	124	122
Total liabilities	**83,095**	82,354	86,732
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, 2,904,839 and 2,904,839 shares	**291**	291	291
Fixed-Rate Cumulative Perpetual Preferred Stock, Series B, $100,000 liquidation preference; authorized and issued 25,000 shares	**2,438**	2,430	2,422
Common shares, $1 par value; authorized 1,400,000,000 shares; issued 946,348,435, 946,348,435 and 865,070,221 shares	**946**	946	865
Common stock warrant	**87**	87	87
Capital surplus	**3,701**	3,734	3,292
Retained earnings	**5,118**	5,158	5,878
Treasury stock, at cost (65,833,721, 67,813,492 and 67,824,373 shares)	**(1,914)**	(1,980)	(1,984)
Accumulated other comprehensive income (loss)	**153**	(3)	
Key shareholders equity	**10,820**	10,663	10,851
Noncontrolling interests	**252**	270	209
Total equity	**11,072**	10,933	11,060
Total liabilities and equity	**$ 94,167**	$ 93,287	$ 97,792

(a) Assets of the VIEs can only be used by the particular VIE and there is no recourse to Key with respect to the liabilities of the consolidated education loan securitization trusts VIEs.

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 June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
INTEREST INCOME				
Loans	**$ 677**	$ 819	**$ 1,387**	$ 1,659
Loans held for sale	**5**	8	**9**	16
Securities available for sale	**154**	89	**304**	189
Held-to-maturity securities			**1**	1
Trading account assets	**10**	13	**21**	26
Short-term investments	**2**	3	**4**	6
Other investments	**13**	13	**27**	25
Total interest income	**861**	945	**1,753**	1,922
INTEREST EXPENSE				
Deposits	**188**	296	**400**	596
Federal funds purchased and securities sold under repurchase agreements	**2**	1	**3**	2
Bank notes and other short-term borrowings	**4**	4	**7**	10
Long-term debt	**50**	75	**101**	156
Total interest expense	**244**	376	**511**	764
NET INTEREST INCOME	**617**	569	**1,242**	1,158
Provision for loan losses	**228**	823	**641**	1,670
Net interest income (expense) after provision for loan losses	**389**	(254)	**601**	(512)
NONINTEREST INCOME				
Trust and investment services income	**112**	119	**226**	229
Service charges on deposit accounts	**80**	83	**156**	165
Operating lease income	**43**	59	**90**	120
Letter of credit and loan fees	**42**	44	**82**	82
Corporate-owned life insurance income	**28**	25	**56**	52
Net securities gains (losses) [a]	**(2)**	125	**1**	111
Electronic banking fees	**29**	27	**56**	51
Gains on leased equipment	**2**	36	**10**	62
Insurance income	**19**	16	**37**	34
Net gains (losses) from loan sales	**25**	(3)	**29**	4
Net gains (losses) from principal investing	**17**	(6)	**54**	(78)
Investment banking and capital markets income (loss)	**31**	14	**40**	31
Gain from sale/redemption of Visa Inc. shares				105
Gain related to exchange of common shares for capital securities		95		95

Other income	**66**	72	**105**	121
Total noninterest income	**492**	706	**942**	1,184
NONINTEREST EXPENSE				
Personnel	**385**	375	**747**	734
Net occupancy	**64**	63	**130**	129
Operating lease expense	**35**	49	**74**	99
Computer processing	**47**	48	**94**	95
Professional fees	**41**	46	**79**	80
FDIC assessment	**33**	70	**70**	100
OREO expense, net	**22**	15	**54**	21
Equipment	**26**	25	**50**	47
Marketing	**16**	17	**29**	31
Provision (credit) for losses on lending-related commitments	**(10)**	11	**(12)**	11
Intangible asset impairment				196
Other expense	**110**	136	**239**	239
Total noninterest expense	**769**	855	**1,554**	1,782
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**112**	(403)	**(11)**	(1,110)
Income taxes	**11**	(176)	**(71)**	(414)
INCOME (LOSS) FROM CONTINUING OPERATIONS	**101**	(227)	**60**	(696)
Income (loss) from discontinued operations, net of taxes, of ($17), ($8), ($15) and ($14) (see Note 16)	**(27)**	4	**(25)**	(25)
NET INCOME (LOSS)	**74**	(223)	**35**	(721)
Less: Net income (loss) attributable to noncontrolling interests	**4**	3	**20**	(7)
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	**$ 70**	$ (226)	**$ 15**	$ (714)
Income (loss) from continuing operations attributable to Key common shareholders	**$ 56**	$ (394)	**$ (42)**	$ (901)
Net income (loss) attributable to Key common shareholders	**29**	(390)	**(67)**	(926)
Per common share:				
Income (loss) from continuing operations attributable to Key common shareholders	**$ .06**	$ (.68)	**$ (.05)**	$ (1.68)
Income (loss) from discontinued operations, net of taxes	**(.03)**	.01	**(.03)**	(.05)
Net income (loss) attributable to Key common shareholders	**.03**	(.68)	**(.08)**	(1.73)
Per common share assuming dilution:				

Income (loss) from continuing operations attributable to Key common shareholders	**$ .06**	$ (.68)	**$ (.05)**	$ (1.68)
Income (loss) from discontinued operations, net of taxes	**(.03)**	.01	**(.03)**	(.05)
Net income (loss) attributable to Key common shareholders	**.03**	(.68)	**(.08)**	(1.73)
Cash dividends declared per common share	**$ .01**	$ .01	**$ .02**	$ .0725
Weighted-average common shares outstanding (000)	**874,664**	576,883	**874,526**	535,080
Weighted-average common shares and potential common shares outstanding (000)	**874,664**	576,883	**874,526**	535,080

(a) For the three months ended June 30, 2010, Key had $4 million in impairment losses related to securities, which were recognized in earnings. 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 AOCI. (see Note 4)

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents

Consolidated Statements of Changes in Equity (Unaudited)

	Key Shareholders Equity										
									Accumulated		
	Preferred Stock Outstanding	Common Shares Outstanding	Preferred	Common	Common Stock	Capital	Retained	Treasury Stock	Other Comprehensive Income	Noncontrolling	Comprehensive Incom
llars in millions, except per share amounts	(000)	(000)	Stock	Shares	Warrant	Surplus	Earnings	at Cost	(Loss)	Interests	(Los
LANCE AT DECEMBER 31, 2008	6,600	495,002	$ 3,072	$ 584	$ 87	$ 2,553	$ 6,727	$ (2,608)	$ 65	$ 201	
t income (loss)							(714)			(7)	$ (72
her comprehensive income (loss):											
t unrealized gains (losses) on securities ailable for sale, net of income taxes of ($23)									(38)		(3
t unrealized gains (losses) on derivative ancial instruments, net of income taxes of 37)									(61)		(6
t contribution to noncontrolling interests										15	1
reign currency translation adjustments									21		2
t pension and postretirement benefit costs, t of income taxes									13		1
tal comprehensive income (loss)											$ (77
ferred compensation						15					
sh dividends declared on common shares 0725 per share)							(37)				
sh dividends declared on Noncumulative ries A eferred Stock ($3.875 per share)							(22)				
sh dividends accrued on Cumulative ries B eferred Stock (5% per annum)							(63)				
nortization of discount on Series B eferred Stock			8				(8)				
mmon shares issued		205,439		206		781					
mmon shares exchanged for Series A eferred Stock	(3,670)	46,602	(367)	29		(167)	(5)	508			
mmon shares exchanged for capital curities		46,338		46		196					
mmon shares reissued for stock options and her employee benefit plans		3,865				(86)		116			
LANCE AT JUNE 30, 2009	2,930	797,246	$ 2,713	$ 865	$ 87	$ 3,292	$ 5,878	$ (1,984)		$ 209	
LANCE AT DECEMBER 31, 2009	2,930	878,535	$ 2,721	$ 946	$ 87	$ 3,734	$ 5,158	$ (1,980)	$ (3)	$ 270	
							45				**$ 4**

mulative effect adjustment to beginning lance of Retained Earnings											
t income (loss)							**15**			**20**	**3**
her comprehensive income (loss):											
t unrealized gains (losses) on securities ailable for sale, net of income taxes of $136									**230**		**23**
t unrealized gains (losses) on derivative ancial instruments, net of income taxes of 39)									**(66)**		**(6**
t distribution from noncontrolling interests										**(38)**	**(3**
reign currency translation adjustments									**(19)**		**(1**
t pension and postretirement benefit costs, t of income taxes									**11**		**1**
tal comprehensive income (loss)											**$ 19**
ferred compensation						**9**					
sh dividends declared on common shares 02 per share)							**(18)**				
sh dividends declared on Noncumulative ries A eferred Stock ($3.875 per share)							**(12)**				
sh dividends accrued on Cumulative ries B eferred Stock (5% per annum)							**(62)**				
nortization of discount on Series B eferred Stock			**8**				**(8)**				
mmon shares reissued for stock options and her employee benefit plans		**1,980**				**(42)**		**66**			
LANCE AT JUNE 30, 2010	**2,930**	**880,515**	**$ 2,729**	**$ 946**	**$ 87**	**$ 3,701**	**$ 5,118**	**$ (1,914)**	**$ 153**	**$ 252**	

See Notes to Consolidated Financial Statements (Unaudited).

7

Table of Contents

Consolidated Statements of Cash Flows (Unaudited)

	Six months ended June 30,	
in millions	**2010**	**2009**
OPERATING ACTIVITIES		
Net income (loss)	$ **35**	$ (721)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for loan losses	**641**	1,670
Depreciation and amortization expense	**173**	201
Intangible assets impairment		196
Net losses (gains) from principal investing	**(54)**	78
Net losses (gains) from loan sales	**(29)**	(4)
Deferred income taxes	**(66)**	(413)
Net securities losses (gains)	**(1)**	(111)
Gain from sale/redemption of Visa Inc. shares		(105)
Gain related to exchange of common shares for capital securities		(95)
Gains on leased equipment	**(10)**	(62)
Gain from sale of Key s claim associated with the Lehman		(32)
Provision for losses on LIHTC guaranteed funds		16
Provision (credit) for losses on lending-related commitments	**(12)**	11
Net decrease (increase) in loans held for sale excluding transfers from continuing operations	**(48)**	(180)
Net decrease (increase) in trading account assets	**195**	509
Other operating activities, net	**729**	(84)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**1,553**	874
INVESTING ACTIVITIES		
Proceeds from sale/redemption of Visa Inc. shares		105
Net decrease (increase) in short-term investments	**(241)**	1,734
Purchases of securities available for sale	**(4,453)**	(8,031)
Proceeds from sales of securities available for sale	**32**	2,957
Proceeds from prepayments and maturities of securities available for sale	**1,676**	1,404
Purchases of held-to-maturity securities	**(2)**	(6)
Proceeds from prepayments and maturities of held-to-maturity securities	**4**	6
Purchases of other investments	**(60)**	(82)
Proceeds from sales of other investments	**88**	14
Proceeds from prepayments and maturities of other investments	**53**	41
Net decrease (increase) in loans, excluding acquisitions, sales and transfers	**3,882**	4,581
Proceeds from loan sales	**293**	80
Purchases of premises and equipment	**(54)**	(73)
Proceeds from sales of premises and equipment	**1**	2
Proceeds from sales of other real estate owned	**79**	12
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**1,298**	2,744
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	**(3,196)**	2,653
Net increase (decrease) in short-term borrowings	**1,573**	(6,794)
Net proceeds from issuance of long-term debt	**18**	455

Payments on long-term debt	**(1,034)**	(1,331)
Net proceeds from issuance of common shares and preferred stock		987
Tax benefits over (under) recognized compensation cost for stock-based awards		(5)
Cash dividends paid	**(92)**	(122)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(2,731)**	(4,157)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	**120**	(539)
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD	**471**	1,245
CASH AND DUE FROM BANKS AT END OF PERIOD	**$ 591**	$ 706
Additional disclosures relative to cash flows:		
Interest paid	**$ 528**	$ 799
Income taxes paid (refunded)	**(157)**	(109)
Noncash items:		
Loans transferred to portfolio from held for sale		$ 92
Loans transferred to held for sale from portfolio	**$ 208**	47
Loans transferred to other real estate owned	**99**	91

See Notes to Consolidated Financial Statements (Unaudited).

8

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

As used in these Notes, references to Key, we, our, us and similar terms refer to the consolidated entity consisting 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 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.
CMO: Collateralized mortgage obligation.
Common Shares: Common Shares, $1 par value.
CPP: Capital Purchase Program of the U.S. Treasury.
DIF: Deposit Insurance Fund.
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act
ERM: Enterprise risk management.
EVE: Economic value of equity.
FASB: Financial Accounting Standards Board.
FDIC: Federal Deposit Insurance Corporation.
Federal Reserve: Board of Governors of the Federal Reserve System**.**
FHLMC: Federal Home Loan Mortgage Corporation.
FNMA: Federal National Mortgage Association.
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.
LIBOR: London Interbank Offered Rate.
LIHTC: Low-income housing tax credit.
LILO: Lease in, lease out transaction.
Moody s: Moody s Investors Service, Inc.
N/A: Not applicable.
NASDAQ: National Association of Securities Dealers Automated Quotation System.
N/M: Not meaningful.
NOW: Negotiable Order of Withdrawal.
NYSE: New York Stock Exchange.
OCI: Other comprehensive income (loss).
OREO: Other real estate owned.
OTTI: Other-than-temporary impairment.
QSPE: Qualifying special purpose entity.
PBO: Projected Benefit Obligation
S&P: Standard and Poor s Ratings Services, a Division of The McGraw-Hill Companies, Inc.
SCAP: Supervisory Capital Assessment Program administered by the Federal Reserve.
SEC: U.S. Securities & 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 issued to the U.S. Treasury under the CPP.
SILO: Sale in, lease out transaction.
SPE: Special purpose entity.
TAG: Transaction Account Guarantee program of the FDIC.
TARP: Troubled Assets Relief Program
TE: Taxable equivalent.
TLGP: Temporary Liquidity Guarantee Program of the FDIC.
U.S. Treasury: United States Department of the Treasury.
VAR: Value at risk.
VEBA: Voluntary Employee Benefit Association.
VIE: Variable interest entity.
XBRL: eXtensible Business Reporting Language.

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

The consolidated financial statements include any voting rights entities in which we have a controlling financial interest. In accordance with the applicable accounting guidance for consolidations, we also consolidate a VIE if we have: (i) a variable interest in the entity; (ii) the power to direct activities of the VIE that most significantly impact the entity s economic performance; and (iii) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE (i.e., we are considered to be the primary beneficiary). Variable interests can include equity interests, subordinated debt, derivative contracts, leases, service agreements, guarantees, standby letters of credit, loan commitments, and other contracts, agreements and financial instruments. See Note 7 (Variable Interest Entities) for information on our involvement with VIEs.

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

Effective January 1, 2010, we prospectively adopted new accounting guidance which changes the way we account for securitizations and SPEs by eliminating the concept of a QSPE and changing the requirements for derecognition of financial assets. In adopting this guidance, we had to analyze our existing QSPEs for possible consolidation. As a result, we consolidated our education loan securitization trusts thereby adding $2.8 billion in discontinued assets and liabilities to our balance sheet including $2.6 billion of loans. Prior to January 1, 2010, QSPEs, including securitization trusts, established under the applicable accounting guidance for transfers of financial assets were not consolidated. For additional information related to the consolidation of our education loan securitization trusts, see the section entitled Accounting Standards Adopted in 2010 in this note and Note 16 (Discontinued Operations).

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 our 2009 Annual Report to Shareholders.

In preparing these financial statements, subsequent events were evaluated through the time the financial statements were issued. Financial statements are considered issued when they are widely distributed to all shareholders and other financial statement users, or filed with the SEC. In compliance 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 relevant accounting guidance, goodwill and certain other intangible assets are subject to impairment testing, which must be conducted at least annually. We perform goodwill impairment testing in the fourth quarter of each year. Our reporting units for purposes of this testing are our two business groups, Community Banking and National Banking. Due to uncertainty regarding the strength of the economic recovery, we continue to monitor the impairment indicators for goodwill and other intangible assets, and to evaluate the carrying amount of these assets as necessary.

Based on our review of impairment indicators during the first and second quarters of 2010, we determined that further reviews of goodwill recorded in our Community Banking unit were necessary. These reviews indicated the estimated fair value of the Community Banking unit continued to exceed its carrying amount

Table of Contents

at both June 30, 2010 and March 31, 2010. No further impairment testing was required. There was no goodwill associated with our National Banking unit at either June 30, 2010 or March 31, 2010.

Offsetting Derivative Positions

In accordance with the applicable accounting guidance related to the offsetting of certain derivative contracts on the balance sheet, we take into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts held with a single counterparty on a net basis, and to offset the net derivative position with the related collateral when recognizing derivative assets and liabilities. Additional information regarding derivative offsetting is provided in Note 14 (Derivatives and Hedging Activities).

Accounting Guidance Adopted in 2010

Transfers of financial assets. In June 2009, the FASB issued new accounting guidance which changes the way entities account for securitizations and SPEs by eliminating the concept of a QSPE and changing the requirements for derecognition of financial assets. This guidance, which also requires additional disclosures, was effective at the start of an entity s first fiscal year beginning after November 15, 2009 (effective January 1, 2010, for us). Adoption of this guidance did not have a material effect on our financial condition or results of operations.

Consolidation of variable interest entities. In June 2009, the FASB issued new accounting guidance which, in addition to requiring additional disclosures, changes 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 is based on, among other things, the entity s purpose and design, and the company s ability to direct the activities that most significantly impact the entity s economic performance. This guidance was effective at the start of a company s first fiscal year beginning after November 15, 2009 (effective January 1, 2010, for us).

In conjunction with our prospective adoption of this guidance on January 1, 2010, we consolidated our education loan securitization trusts (classified as discontinued assets and liabilities), thereby adding $2.8 billion in assets and liabilities to our balance sheet, of which $2.6 billion were loans.

In February 2010, the FASB deferred the application of this new guidance for certain investment entities and clarified other aspects of the guidance. Entities qualifying for this deferral will continue to apply the previously existing consolidation guidance.

Improving disclosures about fair value measurements. In January 2010, the FASB issued accounting guidance which requires new disclosures regarding certain aspects of an entity s fair value disclosures and clarifies existing fair value disclosure requirements. The new disclosures and clarifications were effective for interim and annual reporting periods beginning after December 15, 2009 (effective January 1, 2010, for us), except for disclosures regarding purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements, which are effective for interim and annual periods beginning after December 15, 2010 (effective January 1, 2011, for us). Our policy is to recognize transfers between levels of the fair value hierarchy at the end of the reporting period. The required disclosures are provided in Note 15 (Fair Value Measurements).

Accounting Guidance Pending Adoption at June 30, 2010

Credit quality disclosures. In July 2010, the FASB issued new accounting guidance which requires additional disclosures about the credit quality of financing receivables (i.e. loans) and the allowance for credit losses. Most of these additional disclosures will be required for interim and annual reporting periods ending on or after December 15, 2010 (effective December 31, 2010, for us). Specific items regarding activity that occurred before the issuance of this accounting guidance, such as the allowance rollforward and modification disclosures, will be required for periods beginning after December 15, 2010 (January 1, 2011, for us).

Embedded credit derivatives. In March 2010, the FASB issued new accounting guidance that amends and clarifies how entities should evaluate credit derivatives embedded in beneficial interests in securitized financial assets. This accounting guidance eliminates the existing scope exception for most credit derivative features embedded in beneficial interests in securitized financial assets. This guidance will be effective the first day of the fiscal quarter beginning after June 15, 2010 (effective July 1, 2010, for us) with early adoption permitted. We have no financial instruments that would be subject to this accounting guidance.

2. Earnings Per Common Share

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

	Three months ended June 30,		**Six months ended June 30,**	
dollars in millions, except per share amounts	**2010**	**2009**	**2010**	**2009**
EARNINGS				
Income (loss) from continuing operations	**$ 101**	$ (227)	**$ 60**	$ (696)
Less: Net income (loss) attributable to noncontrolling interests	**4**	3	**20**	(7)
Income (loss) from continuing operations attributable to Key	**97**	(230)	**40**	(689)
Less: Dividends on Series A Preferred Stock	**6**	15	**12**	27
Noncash deemed dividend common shares exchanged for Series A Preferred Stock		114		114
Cash dividends on Series B Preferred Stock	**31**	31	**62**	63
Amortization of discount on Series B Preferred Stock	**4**	4	**8**	8
Income (loss) from continuing operations attributable to Key common shareholders	**56**	(394)	**(42)**	(901)
Income (loss) from discontinued operations, net of taxes [(a)]	**(27)**	4	**(25)**	(25)
Net income (loss) attributable to Key common shareholders	**$ 29**	$ (390)	**$ (67)**	$ (926)
WEIGHTED-AVERAGE COMMON SHARES				
Weighted-average common shares outstanding (000)	**874,664**	576,883	**874,526**	535,080
Effect of dilutive convertible preferred stock, common stock options and other stock awards (000)				
Weighted-average common shares and potential common shares outstanding (000)	**874,664**	576,883	**874,526**	535,080
EARNINGS PER COMMON SHARE				
Income (loss) from continuing operations attributable to Key common shareholders	**$ .06**	$ (.68)	**$ (.05)**	$ (1.68)
Income (loss) from discontinued operations, net of taxes [(a)]	**(.03)**	.01	**(.03)**	(.05)

Net income (loss) attributable to Key common shareholders		**.03**		(.68)		**(.08)**		(1.73)
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**$**	**.06**	$	(.68)	**$**	**(.05)**	$	(1.68)
Income (loss) from discontinued operations, net of taxes [(a)]		**(.03)**		.01		**(.03)**		(.05)
Net income (loss) attributable to Key common shareholders assuming dilution		**.03**		(.68)		**(.08)**		(1.73)

(a) In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. As a result of these decisions, we have accounted for these businesses as discontinued operations. The loss from discontinued operations for the six-month period ended June 30, 2010, was primarily attributable to

fair value adjustments related to the education lending securitization trusts. Included in the loss from discontinued operations for the six-month period ended June 30, 2009, is a charge for intangible assets impairment related to Austin.

3. Line of Business Results

The specific lines of business that comprise each of the major business groups (operating segments) are described below. During the first quarter of 2010, we re-aligned our reporting structure for our business groups. Prior to 2010, Consumer Finance consisted mainly of portfolios which were identified as exit or run-off portfolios and were included in our National Banking segment. For all periods presented, we are reflecting the results of these exit portfolios in Other Segments. The automobile dealer floor-plan business, previously included in Consumer Finance, has been re-aligned with the Commercial Banking line of business within the Community Banking segment. Our tuition processing business was moved from Consumer Finance to Global Treasury Management within Real Estate Capital and Corporate Banking Services. In addition, other previously identified exit portfolios included in the National Banking segment have been moved to Other Segments.

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 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. A variety of cash management services, including the processing of tuition payments for private schools, are provided through the Global Treasury Management unit.

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.

Institutional and Capital Markets, through its Victory Capital Management unit, 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.

Other Segments

Other Segments consist of Corporate Treasury, our Principal Investing unit and various exit portfolios which were previously included within the National Banking segment. These exit portfolios were moved to Other Segments during the first quarter of 2010.

Reconciling Items

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

The table on the following pages shows selected financial data for each major business group for the three- and six-month periods ended June 30, 2010 and 2009. 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 82 in our 2009 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 2.2%.

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

Table of Contents

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 June 30,	**Community Banking**		**National Banking**	
dollars in millions	**2010**	**2009**	**2010**	**2009**
SUMMARY OF OPERATIONS				
Net interest income (TE)	**$ 408**	$ 437	**$ 199**	$ 234
Noninterest income	**199**	193	**210**	211
Total revenue (TE) [a]	**607**	630	**409**	445
Provision (credit) for loan losses	**121**	199	**99**	494
Depreciation and amortization expense	**9**	11	**25**	31
Other noninterest expense	**446**	485	**234**	261
Income (loss) from continuing operations before income taxes (TE)	**31**	(65)	**51**	(341)
Allocated income taxes and TE adjustments	**(1)**	(35)	**18**	(129)
Income (loss) from continuing operations	**32**	(30)	**33**	(212)
Income (loss) from discontinued operations, net of taxes				
Net income (loss)	**32**	(30)	**33**	(212)
Less: Net income (loss) attributable to noncontrolling interests				(1)
Net income (loss) attributable to Key	**$ 32**	$ (30)	**$ 33**	$ (211)
AVERAGE BALANCES [b]				
Loans and leases	**$ 27,218**	$ 30,305	**$ 20,948**	$ 28,586
Total assets [a]	**30,292**	33,162	**24,781**	34,798
Deposits	**50,421**	52,786	**12,474**	13,019
OTHER FINANCIAL DATA				
Net loan charge-offs [b]	**$ 148**	$ 114	**$ 173**	$ 252
Return on average allocated equity [b]	**3.46 %**	(3.30) %	**3.92 %**	(21.47) %
Return on average allocated equity	**3.46**	(3.30)	**3.92**	(21.47)
Average full-time equivalent employees [e]	**8,246**	8,709	**2,327**	2,545

Six months ended June 30,	**Community Banking**		**National Banking**	
dollars in millions	**2010**	**2009**	**2010**	**2009**
SUMMARY OF OPERATIONS				
Net interest income (TE)	**$ 821**	$ 859	**$ 396**	$ 456
Noninterest income	**386**	381	**389**	410

Total revenue (TE) [a]	**1,207**	1,240	**785**	866
Provision (credit) for loan losses	**263**	340	**260**	1,005
Depreciation and amortization expense	**18**	22	**51**	63
Other noninterest expense	**904**	941	**479**	657 [c]
Income (loss) from continuing operations before income taxes (TE)	**22**	(63)	**(5)**	(859)
Allocated income taxes and TE adjustments	**(16)**	(44)	**(5)**	(251)
Income (loss) from continuing operations	**38**	(19)		(608)
Income (loss) from discontinued operations, net of taxes				
Net income (loss)	**38**	(19)		(608)
Less: Net income (loss) attributable to noncontrolling interests				(3)
Net income (loss) attributable to Key	**$ 38**	$ (19)		$ (605)
AVERAGE BALANCES [b]				
Loans and leases	**$ 27,492**	$ 30,787	**$ 21,690**	$ 29,141
Total assets [a]	**30,581**	33,664	**25,521**	35,999
Deposits	**50,937**	52,223	**12,445**	12,496
OTHER FINANCIAL DATA				
Net loan charge-offs [b]	**$ 264**	$ 203	**$ 424**	$ 492
Return on average allocated equity [b]	**2.06 %**	(1.06) %		(30.83) %
Return on average allocated equity	**2.06**	(1.06)		(30.83)
Average full-time equivalent employees [e]	**8,217**	8,823	**2,348**	2,583

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

are located in the United States.

(b) From continuing operations.

(c) Other Segments results for the second quarter of 2009 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 Key common shares for capital securities.

(d) Reconciling Items for the second quarter of 2009 include a $32 million ($20 million after tax) gain from the sale of Key s claim associated with the Lehman Brothers bankruptcy.

(e) The number of average full-time equivalent employees has not been adjusted for

discontinued
operations.

Other Segments 2010	Other Segments 2009	Total Segments 2010	Total Segments 2009	Reconciling Items 2010	Reconciling Items 2009	Key 2010	Key 2009
$ 9	$ (91)	**$ 616**	$ 580	**$ 7**	$ (5)	**$ 623**	$ 575
77	278 (c)	**486**	682	**6**	24 (d)	**492**	706
86	187	**1,102**	1,262	**13**	19	**1,115**	1,281
7	131	**227**	824	**1**	(1)	**228**	823
10	18	**44**	60	**41**	40	**85**	100
33	34	**713**	780	**(29)**	(25)	**684**	755
36	4	**118**	(402)		5	**118**	(397)
3	(8)	**20**	(172)	**(3)**	2	**17**	(170)
33	12	**98**	(230)	**3**	3	**101**	(227)
				(27)	4	**(27)**	4
33	12	**98**	(230)	**(24)**	7	**74**	(223)
4	4	**4**	3			**4**	3
$ 29	$ 8	**$ 94**	$ (233)	**$ (24)**	$ 7	**$ 70**	$ (226)
$ 6,738	$ 9,765	**$ 54,904**	$ 68,656	**$ 49**	$ 54	**$ 54,953**	$ 68,710
30,583	27,920	**85,656**	95,880	**2,188**	608	**87,844**	96,488
1,574	1,974	**64,469**	67,779	**(60)**	(416)	**64,409**	67,363
$ 115	$ 136	**$ 436**	$ 502	**$ (1)**		**$ 435**	$ 502
N/M	N/M	**4.60 %**	(10.50) %	**N/M**	N/M	**3.65%**	(9.04) %
N/M	N/M	**4.60**	(10.50)	**N/M**	N/M	**2.64**	(8.89)
40	87	**10,613**	11,341	**5,052**	5,596	**15,665**	16,937

Other Segments 2010	Other Segments 2009	Total Segments 2010	Total Segments 2009	Reconciling Items 2010	Reconciling Items 2009	Key 2010	Key 2009
$ 25	$ (132)	**$ 1,242**	$ 1,183	**$ 13**	$ (13)	**$ 1,255**	$ 1,170
157	282 (c)	**932**	1,073	**10**	111 (d)	**942**	1,184
182	150	**2,174**	2,256	**23**	98	**2,197**	2,354
128	324	**651**	1,669	**(10)**	1	**641**	1,670
21	36	**90**	121	**83**	80	**173**	201
63	73	**1,446**	1,671	**(65)**	(90)	**1,381**	1,581

(30)	(283)	**(13)**	(1,205)	**15**	107	**2**	(1,098)
(31)	(126)	**(52)**	(421)	**(6)**	19	**(58)**	(402)
1	(157)	**39**	(784)	**21**	88	**60**	(696)
				(25)	(25)	**(25)**	(25)
1	(157)	**39**	(784)	**(4)**	63	**35**	(721)
20	(4)	**20**	(7)			**20**	(7)
$ (19)	$ (153)	**$ 19**	$ (777)	**$ (4)**	$ 63	**$ 15**	$ (714)
$ 7,047	$ 10,180	**$ 56,229**	$ 70,108	**$ 53**	$ 45	**$ 56,282**	$ 70,153
29,962	27,651	**86,064**	97,314	**2,219**	584	**88,283**	97,898
1,609	1,884	**64,991**	66,603	**(109)**	(293)	**64,882**	66,310
$ 269	$ 267	**$ 957**	$ 962			**$ 957**	$ 962
N/M	N/M	**.46%**	(17.62) %	**N/M**	N/M	**.75%**	(13.52) %
N/M	N/M	**.46**	(17.62)	**N/M**	N/M	**.28**	(14.01)
41	97	**10,606**	11,503	**5,112**	5,698	**15,718**	17,201

Table of Contents

Supplementary information (Community Banking lines of business)

Three months ended June 30,	**Regional Banking**		**Commercial Banking**	
dollars in millions	**2010**	**2009**	**2010**	**2009**
Total revenue (TE)	**$ 494**	$ 527	**$ 113**	$ 103
Provision for loan losses	**57**	166	**64**	33
Noninterest expense	**409**	439	**46**	57
Net income (loss) attributable to Key	**30**	(38)	**2**	8
Average loans and leases	**18,405**	19,745	**8,813**	10,560
Average loans held for sale	**69**	168	**1**	1
Average deposits	**45,234**	48,717	**5,187**	4,069
Net loan charge-offs	**82**	72	**66**	42
Net loan charge-offs to average loans	**1.79 %**	1.46 %	**3.00 %**	1.60 %
Nonperforming assets at period end	**$ 339**	$ 245	**$ 222**	$ 267
Return on average allocated equity	**4.90 %**	(6.60) %	**.64 %**	2.39 %
Average full-time equivalent employees	**7,891**	8,339	**355**	370

Six months ended June 30,	**Regional Banking**		**Commercial Banking**	
dollars in millions	**2010**	**2009**	**2010**	**2009**
Total revenue (TE)	**$ 985**	$ 1,034	**$ 222**	$ 206
Provision for loan losses	**172**	234	**91**	106
Noninterest expense	**830**	849	**92**	114
Net income (loss) attributable to Key	**14**	(10)	**24**	(9)
Average loans and leases	**18,578**	19,874	**8,914**	10,913
Average loans held for sale	**75**	142	**1**	2
Average deposits	**45,713**	48,253	**5,224**	3,970
Net loan charge-offs	**179**	125	**85**	78
Net loan charge-offs to average loans	**1.94 %**	1.27 %	**1.92 %**	1.44 %
Nonperforming assets at period end	**$ 339**	$ 245	**$ 222**	$ 267
Return on average allocated equity	**1.15 %**	(.88) %	**3.82 %**	(1.37) %
Average full-time equivalent employees	**7,864**	8,451	**353**	372

Supplementary information (National Banking lines of business)

Three months ended June 30,	**Real Estate Capital and Corporate Banking Services**		**Equipment Finance**		**Institutional and Capital Markets**	
dollars in millions	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Total revenue (TE)	**$ 176**	$ 191	**$ 61**	$ 65	**$ 172**	$ 189
Provision for loan losses	**77**	414	**10**	42	**12**	38
Noninterest expense	**106**	113	**49**	60	**104**	119
Net income (loss) attributable to Key	**(4)**	(209)	**1**	(23)	**36**	21
Average loans and leases	**11,465**	15,145	**4,478**	5,051	**5,005**	8,390
Average loans held for sale	**194**	182	**16**	18	**171**	193

Average deposits	**9,811**	10,678	**5**	9	**2,658**	2,332
Net loan charge-offs	**142**	212	**18**	29	**13**	11
Net loan charge-offs to average loans	**4.97 %**	5.61 %	**1.61 %**	2.30 %	**1.04 %**	.53 %
Nonperforming assets at period end	**$ 867**	$ 1,023	**$ 106**	$ 105	**$ 116**	$ 89
Return on average allocated equity	**(.78) %**	(34.43) %	**1.14 %**	(25.07) %	**14.92 %**	7.40 %
Average full-time equivalent employees	**1,052**	1,125	**549**	637	**726**	783

Six months ended June 30,	**Real Estate Capital and Corporate Banking Services**		**Equipment Finance**		**Institutional and Capital Markets**	
dollars in millions	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Total revenue (TE)	**$ 320**	$ 374	**$ 122**	$ 130	**$ 343**	$ 362
Provision for loan losses	**222**	852	**14**	83	**24**	70
Noninterest expense	**221**	304	**96**	113	**213**	303
Net income (loss) attributable to Key	**(76)**	(530)	**7**	(41)	**69**	(34)
Average loans and leases	**11,900**	15,432	**4,525**	5,041	**5,265**	8,668
Average loans held for sale	**154**	194	**9**	13	**148**	230
Average deposits	**9,823**	10,433	**5**	9	**2,617**	2,054
Net loan charge-offs	**349**	385	**36**	50	**39**	57
Net loan charge-offs to average loans	**5.91 %**	5.03 %	**1.60 %**	2.00 %	**1.49 %**	1.33 %
Nonperforming assets at period end	**$ 867**	$ 1,023	**$ 106**	$ 105	**$ 116**	$ 89
Return on average allocated equity	**(7.42) %**	(45.00) %	**3.92 %**	(20.12) %	**14.13 %**	(5.86) %
Average full-time equivalent employees	**1,065**	1,146	**556**	639	**727**	798

Table of Contents

4. Securities

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

Other securities held in the available-for-sale portfolio 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 and adjusted for amortization of premiums and accretion of discounts using the interest method. This method produces a constant rate of return on the adjusted carrying amount.

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

	June 30, 2010			
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	**75**	**$ 3**		**78**
Collateralized mortgage obligations	**17,817**	**473**		**18,290**
Other mortgage-backed securities	**1,187**	**96**		**1,283**
Other securities	**106**	**11**	**$ 3**	**114**
Total securities available for sale	**$ 19,193**	**$ 583**	**$ 3**	**$ 19,773**
HELD-TO-MATURITY SECURITIES				
States and political subdivisions	**$ 3**			**$ 3**
Other securities	**16**			**16**
Total held-to-maturity securities	**$ 19**			**$ 19**

	December 31, 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	81	$ 2		83
Collateralized mortgage obligations	14,894	187	$ 75	15,006
Other mortgage-backed securities	1,351	77		1,428
Other securities	100	17	1	116
Total securities available for sale	$ 16,434	$ 283	$ 76	$ 16,641
HELD-TO-MATURITY SECURITIES				
States and political subdivisions	$ 3			$ 3
Other securities	21			21
Total held-to-maturity securities	$ 24			$ 24

June 30, 2009

in millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
U.S. Treasury, agencies and corporations	$ 1,710			$ 1,710
States and political subdivisions	85	$ 1		86
Collateralized mortgage obligations	8,462	99	$ 38	8,523
Other mortgage-backed securities	1,525	74		1,599
Other securities	66	6	2	70
Total securities available for sale	$ 11,848	$ 180	$ 40	$ 11,988
HELD-TO-MATURITY SECURITIES				
States and political subdivisions	$ 4			$ 4
Other securities	21			21
Total held-to-maturity securities	$ 25			$ 25

Table of Contents

The following table summarizes our securities available for sale that were in an unrealized loss position as of June 30, 2010, December 31, 2009, and June 30, 2009.

	Duration of Unrealized Loss Position					
	Less than 12 Months		12 Months or Longer		Total	
in millions	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
JUNE 30, 2010						
Securities available for sale:						
Other securities	**$ 18**	**$ 2**	**$ 3**	**$ 1**	**$ 21**	**$ 3**
Total temporarily impaired securities	**$ 18**	**$ 2**	**$ 3**	**$ 1**	**$ 21**	**$ 3**
DECEMBER 31, 2009						
Securities available for sale:						
Collateralized mortgage obligations	$ 4,988	$ 75			$ 4,988	$ 75
Other securities	2		$ 4	$ 1	6	1
Total temporarily impaired securities	$ 4,990	$ 75	$ 4	$ 1	$ 4,994	$ 76
JUNE 30, 2009						
Securities available for sale:						
Collateralized mortgage obligations	$ 1,660	$ 38			$ 1,660	$ 38
Other securities	10	1	$ 2	$ 1	12	2
Total temporarily impaired securities	$ 1,670	$ 39	$ 2	$ 1	$ 1,672	$ 40

The unrealized losses within each investment category are considered temporary since we expect to collect all contractually due amounts from these securities. 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 the expected recovery of the amortized cost, the entire impairment (i.e., the difference between amortized cost and the fair value) is recognized in earnings. For those debt securities that we do not intend to sell, or more-likely-than-not will not be required to sell, prior to expected recovery, the credit portion of OTTI is recognized in earnings, while the remaining OTTI is recognized in equity as a

component of AOCI on the balance sheet. As shown in the following table, there was $4 million in impairment losses recognized in earnings for the three months ended June 30, 2010.

Three months ended June 30, 2010 *in millions*	
Balance at March 31, 2010	
Impairment recognized in earnings	$ 4
Balance at June 30, 2010	$ 4

20

Table of Contents

As a result of adopting new consolidation guidance on January 1, 2010, we have consolidated our education loan securitization trusts and eliminated our residual interests in these trusts. Prior to our consolidation of these trusts, we accounted for the residual interests associated with these securitizations as debt securities which we regularly assessed for impairment. These residual interests will no longer be assessed for impairment. The consolidated assets and liabilities related to these trusts are included in discontinued assets and discontinued liabilities on the balance sheet as a result of our decision to exit the education lending business. For more information about this discontinued operation, see Note 16 (Discontinued Operations).
Realized gains and losses related to securities available for sale were as follows:

Six months ended June 30, 2010 *in millions*	
Realized gains	$ 5
Realized losses	4
Net securities gains (losses)	$ 1

At June 30, 2010, securities available for sale and held-to-maturity securities totaling $12.1 billion were pledged to secure securities sold under repurchase agreements, public and trust deposits, to facilitate access to secured funding, and for other purposes required or permitted by law.
The following table shows securities by remaining maturity. 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.

	Securities Available for Sale		**Held-to-Maturity Securities**	
June 30, 2010 *in millions*	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 679	$ 698	$ 2	$ 2
Due after one through five years	18,371	18,924	17	17
Due after five through ten years	126	133		
Due after ten years	17	18		
Total	$ 19,193	$ 19,773	$ 19	$ 19

Table of Contents

5. Loans and Loans Held for Sale

Our loans by category are summarized as follows:

in millions	June 30, 2010	December 31, 2009	June 30, 2009
Commercial, financial and agricultural	**$ 17,113**	$ 19,248	$ 23,542
Commercial real estate:			
Commercial mortgage	**9,971**	10,457	11,761
Construction	**3,430**	4,739	6,119
Total commercial real estate loans	**13,401**	15,196	17,880
Commercial lease financing	**6,620**	7,460	8,263
Total commercial loans	**37,134**	41,904	49,685
Real estate residential mortgage	**1,846**	1,796	1,753
Home equity:			
Community Banking	**9,775**	10,048	10,250
Other	**753**	838	940
Total home equity loans	**10,528**	10,886	11,190
Consumer other Community Banking	**1,147**	1,181	1,199
Consumer other:			
Marine	**2,491**	2,787	3,095
Other	**188**	216	245
Total consumer other	**2,679**	3,003	3,340
Total consumer loans	**16,200**	16,866	17,482
Total loans [(a)]	**$ 53,334**	$ 58,770	$ 67,167

(a) Excludes loans in the amount of $6.6 billion, $3.5 billion and $3.6 billion at June 30, 2010, December 31, 2009 and June 30, 2009, respectively, related to the discontinued operations of the education lending business.

We use interest rate swaps, which modify the repricing characteristics of certain loans, to manage interest rate risk. For more information about such swaps, see Note 20 (Derivatives and Hedging Activities), which begins on page 122 of our 2009 Annual Report to Shareholders.

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

in millions	**June 30, 2010**	December 31, 2009	June 30, 2009
Commercial, financial and agricultural	**$ 255**	$ 14	$ 51
Real estate commercial mortgage	**235**	171	288
Real estate construction	**112**	92	146
Commercial lease financing	**16**	27	30
Real estate residential mortgage	**81**	139	245
Automobile			1
Total loans held for sale [(a)]	**$ 699** [(b)]	$ 443 [(b)]	$ 761

(a) Excludes loans in the amount of $92 million, $434 million and $148 million at June 30, 2010, December 31, 2009, and June 30, 2009, respectively, related to the discontinued operations of the education lending business.

(b) The beginning balance at December 31, 2009 of $443 million increased by new originations in the amount of $1.321 billion and net transfers from held to maturity in the amount of $174 million, and decreased by loan sales of

$1.200 billion, transfers to OREO/valuation adjustments of $17 million and loan payments of $22 million, for an ending balance of $699 million at June 30, 2010.

22

Table of Contents

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

	Three months ended June 30,		Six months ended June 30,	
in millions	**2010**	**2009**	**2010**	**2009**
Balance at beginning of period	**$ 2,425**	$ 2,016	**$ 2,534**	$ 1,629
Charge-offs	**(492)**	(540)	**(1,049)**	(1,027)
Recoveries	**57**	38	**92**	65
Net loans charged off	**(435)**	(502)	**(957)**	(962)
Provision for loan losses from continuing operations	**228**	823	**641**	1,670
Foreign currency translation adjustment	**1**	2	**1**	2
Balance at end of period	**$ 2,219**	$ 2,339	**$ 2,219**	$ 2,339

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

	Three months ended June 30,		Six months ended June 30,	
in millions	**2010**	**2009**	**2010**	**2009**
Balance at beginning of period	**$ 119**	$ 54	**$ 121**	$ 54
Provision (credit) for losses on lending-related commitments	**(10)**	11	**(12)**	11
Balance at end of period [(a)]	**$ 109**	$ 65	**$ 109**	$ 65

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

6. 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 loans in exchange for servicing fees that exceed the going market rate. Changes in the carrying amount of mortgage servicing assets are summarized as follows:

	Six months ended June 30,	
in millions	**2010**	**2009**
Balance at beginning of period	**$ 221**	$ 242

Servicing retained from loan sales	**3**	4
Purchases	**7**	15
Amortization	**(22)**	(27)
Balance at end of period	**$ 209**	$ 234
Fair value at end of period	**$ 307**	$ 403

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 June 30, 2010 and 2009, are:

- prepayment speed generally at an annual rate of 0.00% to 25.00%;
- expected credit losses at a static rate of 2.00% to 3.00%; and
- residual cash flows discount rate of 7.00% 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. At June 30, 2010, a 1.00% increase in the assumed default rate of commercial mortgage loans would cause a $9 million decrease in the fair value of our mortgage servicing assets.

Table of Contents

Contractual fee income from servicing commercial mortgage loans totaled $37 million and $34 million for the six-month periods ended June 30, 2010 and 2009, respectively. 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.

Additional information pertaining to the accounting for mortgage and other servicing assets is included in Note 1 (Summary of Significant Accounting Policies) under the heading Servicing Assets on page 82 of our 2009 Annual Report to Shareholders and Note 16 (Discontinued Operations) under the heading Education lending.

7. Variable Interest Entities

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

- The entity does not have sufficient equity to conduct its activities without additional subordinated financial support from another party.
- The entity s investors lack the power to direct the activities that most significantly impact the entity s economic performance.
- The entity s equity at risk holders do not have the obligation to absorb losses and the right to receive 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; however, we do not have the power to direct the activities that most significantly impact the entity s economic performance.

	Consolidated VIEs		**Unconsolidated VIEs**		
in millions	**Total Assets**	**Total Liabilities**	**Total Assets**	**Total Liabilities**	**Maximum Exposure to Loss**
June 30, 2010					
LIHTC funds	$ 134	N/A	$ 175		
Education loan securitization trusts	3,285	$ 3,135	N/A	N/A	N/A
LIHTC investments	N/A	N/A	963		$ 451

Table of Contents

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 the funds and continue to earn asset management fees. The funds assets primarily are investments in LIHTC operating partnerships, which totaled $118 million at June 30, 2010. 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 additional expenses of approximately $2 million related to this guarantee obligation during the first six months of 2010. Additional information on return guarantee agreements with LIHTC investors is presented in Note 13 (Commitments, Contingent Liabilities and Guarantees) under the heading Guarantees.

In accordance with the applicable accounting guidance for distinguishing liabilities from equity, third-party interests associated with our LIHTC guaranteed funds are considered mandatorily redeemable instruments and are recorded in accrued expense and other liabilities on the balance sheet. However, the FASB has indefinitely deferred the measurement and recognition provisions of this accounting guidance for mandatorily redeemable third-party interests associated with finite-lived subsidiaries, such as our LIHTC guaranteed funds. We adjust our financial statements each period for the third-party investors share of the funds profits and losses. At June 30, 2010, we estimated the settlement value of these third-party interests to be between $83 million and $93 million, while the recorded value, including reserves, totaled $143 million. The partnership agreement for each of our guaranteed funds requires the fund to be dissolved by a certain date.

Education loan securitization trusts. In September 2009, we decided to exit the government-guaranteed education lending business. Therefore, we have accounted for this business as a discontinued operation. As part of our education lending business model, we would originate and securitize education loans. We, as the transferor, retained a portion of the risk in the form of a residual interest and also retained the right to service the securitized loans and receive servicing fees.

As a result of adopting the new consolidation accounting guidance issued by the FASB in June 2009, we have consolidated our ten outstanding education loan securitization trusts as of January 1, 2010. We were required to consolidate these trusts because we hold the residual interests and are the master servicer who has the power to direct the activities that most significantly impact the economic performance of these trusts. We elected to consolidate these trusts at fair value. The assets held by these trusts can only be used to settle the obligations or securities issued by the trusts. We cannot sell the assets or transfer the liabilities of the consolidated trusts. The security holders or beneficial interest holders do not have recourse to us. We do not have any liability recorded related to these trusts other than the securities issued by the trusts. We have not securitized any education loans since 2006. Additional information regarding these trusts is provided in Note 16 (Discontinued Operations) under the heading Education lending.

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 funds expected losses and do not have the power to direct activities that most significantly impact the economic performance of these entities. At June 30, 2010, 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 have not formed nonguaranteed funds since 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 have the power to direct the activities of the partnerships that most significantly impact their economic performance and have the obligation to absorb expected losses and the right to receive benefits from the entity. At June 30, 2010, assets of these unconsolidated LIHTC operating partnerships totaled approximately $963 million. At June 30, 2010, our maximum exposure to loss in connection with these partnerships is the unamortized investment balance of $373 million plus $78 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 six months of 2010, 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 June 30, 2010. The tax credits and deductions associated with these properties are allocated to the funds investors based on their ownership percentages. We have determined that we are not the primary beneficiary of these partnerships because the general partners have the power to direct the activities that most significantly impact their economic performance and the obligation to absorb expected losses and right to receive residual returns from the entity. Information regarding our exposure to loss in connection with these guaranteed funds is included in Note 13 under the heading Return guarantee agreement with LIHTC investors.

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 has indefinitely deferred the effective date of this guidance for such nonregistered investment companies.

8. Nonperforming Assets and Past Due Loans from Continuing Operations

Impaired loans totaled $1.4 billion at June 30, 2010, compared to $1.9 billion at December 31, 2009, and $1.9 billion at June 30, 2009. Impaired loans had an average balance of $1.6 billion for the second quarter of 2010 and $1.7 billion for the second quarter of 2009. At June 30, 2010, restructured loans (which are included in impaired loans) totaled $213 million while at December 31, 2009, restructured loans totaled $364 million. Although $76 million in restructured loans were added during the first six months of 2010, the decrease in restructured loans was primarily attributable to the transfer out of $207 million of troubled debt restructurings to performing status, and $83 million in payments and charge-offs. Restructured loans were nominal at June 30, 2009.

Our nonperforming assets and past due loans were as follows:

in millions	**June 30, 2010**	**December 31, 2009**	**June 30, 2009**
Impaired loans	**$ 1,435**	$ 1,903	$ 1,912
Other nonperforming loans	**268**	284	273
Total nonperforming loans	**1,703**	2,187	2,185
Nonperforming loans held for sale	**221**	116	145
Other real estate owned (OREO)	**200**	191	182
Allowance for OREO losses	**(64)**	(23)	(11)
OREO, net of allowance	**136**	168	171
Other nonperforming assets	**26**	39	47
Total nonperforming assets	**$ 2,086**	$ 2,510	$ 2,548
Impaired loans with a specifically allocated allowance	**$ 1,099**	$ 1,645	$ 1,731
Specifically allocated allowance for impaired loans	**157**	300	393
Restructured loans included in nonaccrual loans [(a)]	**$ 167**	$ 139	
Restructured loans with a specifically allocated allowance [(b)]	**65**	256	
Specifically allocated allowance for restructured loans [(c)]	**15**	44	
Accruing loans past due 90 days or more	**$ 240**	$ 331	$ 552
Accruing loans past due 30 through 89 days	**610**	933	1,081

(a) Restructured loans (i.e. troubled debt restructurings) are those for which we, for reasons related to a borrower s

financial difficulties, have granted a concession to the borrower that we would not otherwise have considered. These concessions are made to improve the collectability of the loan and generally take the form of a reduction of the interest rate, extension of the maturity date or reduction in the principal balance.

(b) Included in impaired loans with a specifically allocated allowance.

(c) Included in specifically allocated allowance for impaired loans.

At June 30, 2010, 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 82 of our 2009 Annual Report to Shareholders.

Table of Contents

9. Capital Securities Issued by Unconsolidated Subsidiaries

We own the outstanding common stock of business trusts formed by us 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.

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

w required distributions on the capital securities;

w the redemption price when a capital security is redeemed; and

w the amounts due if a trust is liquidated or terminated.

Our capital securities have historically provided an attractive source of funds: they currently constitute Tier 1 capital for regulatory reporting purposes, but have the same federal tax advantages as debt.

In 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 were to take 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 this new rule will not have any material effect on our financial condition.

The enactment of the Dodd-Frank Act changes the regulatory capital standards that apply to bank holding companies by phasing-out the treatment of capital securities and cumulative preferred securities (excluding TARP CPP preferred stock issued to the United States or its agencies or instrumentalities before October 4, 2010) as Tier 1 eligible capital. This three year phase-out period, which commences January 1, 2013, and it will ultimately result in our capital securities being treated only as Tier 2 capital. These changes in effect apply the same leverage and risk-based capital requirements that apply to depository institutions to bank holding companies, savings and loan companies, and non-bank financial companies identified as systemically important. The Federal Reserve has 180 days from the enactment of the Dodd-Frank Act to issue its regulations in this area. We anticipate that the Federal Reserve s rulemaking on this matter should provide additional clarity to the regulatory capital guidelines applicable to bank holding companies such as Key.

As of June 30, 2010, the capital securities issued by the KeyCorp and Union State Bank capital trusts represent $1.8 billion or 14% of our Tier 1 capital.

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
June 30, 2010					
KeyCorp Capital I	**$ 156**	**$ 6**	**$ 158**	**1.031** %	