KEYCORP /NEW/
Form 10-Q
November 01, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

Form 10-Q

[ü] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2012

or

[ ] 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

KeyCorp

(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 ¨

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 ¨

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No 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	933,646,295 Shares
(Title of class)	(Outstanding at October 31, 2012)

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KEYCORP

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets

in millions, except per share data	September 30, 2012 (Unaudited)	December 31, 2011	September 30, 2011 (Unaudited)
ASSETS			
Cash and due from banks	**$ 974**	$ 694	$ 828
Short-term investments	**2,208**	3,519	4,766
Trading account assets	**663**	623	729
Securities available for sale	**11,962**	16,012	17,612
Held-to-maturity securities (fair value: $4,212, $2,133 and $1,186)	**4,153**	2,109	1,176
Other investments	**1,106**	1,163	1,210
Loans, net of unearned income of $980, $1,388 and $1,413	**51,419**	49,575	48,195
Less: Allowance for loan and lease losses	**888**	1,004	1,131
Net loans	**50,531**	48,571	47,064
Loans held for sale	**628**	728	479
Premises and equipment	**942**	944	924
Operating lease assets	**290**	350	393
Goodwill	**979**	917	917
Other intangible assets	**182**	17	18
Corporate-owned life insurance	**3,309**	3,256	3,227
Derivative assets	**771**	945	940
Accrued income and other assets (including $59 of consolidated LIHTC guaranteed funds VIEs, see Note 9)[(a)]	**2,871**	3,077	2,946
Discontinued assets (including $2,542 of consolidated education loan securitization trust VIEs (see Note 9) and $71 of loans in portfolio at fair value)[(a)]	**5,381**	5,860	6,033
Total assets	**$ 86,950**	$ 88,785	$ 89,262
LIABILITIES			
Deposits in domestic offices:			
NOW and money market deposit accounts	**$ 30,573**	$ 27,954	$ 27,548
Savings deposits	**2,393**	1,962	1,968
Certificates of deposit ($100,000 or more)	**3,226**	4,111	4,457
Other time deposits	**4,941**	6,243	6,695
Total interest-bearing	**41,133**	40,270	40,668
Noninterest-bearing	**22,486**	21,098	19,803
Deposits in foreign office interest-bearing	**569**	588	561
Total deposits	**64,188**	61,956	61,032
Federal funds purchased and securities sold under repurchase agreements	**1,746**	1,711	1,728
Bank notes and other short-term borrowings	**388**	337	519
Derivative liabilities	**657**	1,026	1,141
Accrued expense and other liabilities	**1,238**	1,763	1,556
Long-term debt	**6,119**	9,520	10,717
Discontinued liabilities (including $2,335 of consolidated education loan securitization trust VIEs at fair value, see Note 9)[(a)]	**2,335**	2,550	2,651
Total liabilities	**76,671**	78,863	79,344

EQUITY			
Preferred stock, $1 par value, authorized 25,000,000 shares:			
7.75% Noncumulative Perpetual Convertible Preferred Stock, Series A, $100 liquidation preference; authorized 7,475,000 shares; issued 2,904,839, 2,904,839 and 2,904,839 shares	**291**	291	291
Common shares, $1 par value; authorized 1,400,000,000 shares; issued 1,016,969,905, 1,016,969,905 and 1,016,969,905 shares	**1,017**	1,017	1,017
Capital surplus	**4,118**	4,194	4,191
Retained earnings	**6,762**	6,246	6,079
Treasury stock, at cost (80,775,030, 63,962,113 and 64,161,618)	**(1,868)**	(1,815)	(1,820)
Accumulated other comprehensive income (loss)	**(69)**	(28)	143
Key shareholders equity	**10,251**	9,905	9,901
Noncontrolling interests	**28**	17	17
Total equity	**10,279**	9,922	9,918
Total liabilities and equity	**$ 86,950**	$ 88,785	$ 89,262

(a) The 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 LIHTC or education loan securitization trust VIEs.

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Income (Unaudited)

dollars in millions, except per share amounts	Three months ended September 30, 2012	2011	Nine months ended September 30, 2012	2011
INTEREST INCOME				
Loans	**$ 538**	$ 543	**$ 1,592**	$ 1,664
Loans held for sale	**5**	3	**15**	10
Securities available for sale	**93**	140	**314**	455
Held-to-maturity securities	**21**	2	**50**	3
Trading account assets	**4**	5	**15**	21
Short-term investments	**1**	3	**4**	5
Other investments	**9**	9	**27**	33
Total interest income	**671**	705	**2,017**	2,191
INTEREST EXPENSE				
Deposits	**60**	95	**208**	305
Federal funds purchased and securities sold under repurchase agreements	**1**	1	**3**	4
Bank notes and other short-term borrowings	**1**	3	**5**	9
Long-term debt	**37**	57	**138**	163
Total interest expense	**99**	156	**354**	481
NET INTEREST INCOME	**572**	549	**1,663**	1,710
Provision (credit) for loan and lease losses	**109**	10	**172**	(38)
Net interest income (expense) after provision for loan and lease losses	**463**	539	**1,491**	1,748
NONINTEREST INCOME				
Trust and investment services income	**106**	107	**317**	330
Service charges on deposit accounts	**74**	74	**212**	211
Operating lease income	**17**	30	**59**	97
Letter of credit and loan fees	**52**	55	**162**	157
Corporate-owned life insurance income	**26**	31	**86**	86
Net securities gains (losses)[(a)]				1
Electronic banking fees	**18**	33	**54**	96
Gains on leased equipment	**46**	7	**109**	16
Insurance income	**13**	13	**36**	42
Net gains (losses) from loan sales	**39**	18	**93**	48
Net gains (losses) from principal investing	**11**	34	**70**	86
Investment banking and capital markets income (loss)	**38**	25	**118**	110
Other income	**104**	56	**185**	114
Total noninterest income	**544**	483	**1,501**	1,394
NONINTEREST EXPENSE				
Personnel	**411**	382	**1,185**	1,133
Net occupancy	**65**	65	**191**	192
Operating lease expense	**13**	23	**45**	76
Computer processing	**43**	40	**127**	124
Business services and professional fees	**49**	47	**138**	129
FDIC assessment	**7**	7	**23**	45
OREO expense, net	**1**	1	**14**	8
Equipment	**27**	26	**80**	78
Marketing	**18**	16	**48**	36
Provision (credit) for losses on lending-related commitments	**(8)**	(1)	**(2)**	(17)
Intangible asset amortization on credit cards	**6**		**6**	
Other intangible asset amortization	**3**	1	**5**	3
Other expense	**99**	85	**291**	266

Total noninterest expense	**734**	692	**2,151**	2,073
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**273**	330	**841**	1,069
Income taxes	**52**	95	**184**	300
INCOME (LOSS) FROM CONTINUING OPERATIONS	**221**	235	**657**	769
Income (loss) from discontinued operations, net of taxes of $-, ($11), $3 and ($23) (see Note 11)		(17)	**5**	(37)
NET INCOME (LOSS)	**221**	218	**662**	732
Less: Net income (loss) attributable to noncontrolling interests	**2**	1	**7**	12
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	**$ 219**	$ 217	**$ 655**	$ 720
Income (loss) from continuing operations attributable to Key common shareholders	**$ 214**	$ 229	**$ 634**	$ 656
Net income (loss) attributable to Key common shareholders	**214**	212	**639**	619
Per common share:				
Income (loss) from continuing operations attributable to Key common shareholders	**$ .23**	$ .24	**$ .67**	$ .71
Income (loss) from discontinued operations, net of taxes		(.02)	**.01**	(.04)
Net income (loss) attributable to Key common shareholders [b]	**.23**	.22	**.68**	.67
Per common share assuming dilution:				
Income (loss) from continuing operations attributable to Key common shareholders	**$ .23**	$ .24	**$ .67**	$ .71
Income (loss) from discontinued operations, net of taxes		(.02)	**.01**	(.04)
Net income (loss) attributable to Key common shareholders [b]	**.23**	.22	**.67**	.67
Cash dividends declared per common share	**$ .05**	$ .03	**$ .13**	$ .07
Weighted-average common shares outstanding (000) [c]	**936,223**	948,702	**943,378**	926,298
Weighted-average common shares and potential common shares outstanding (000)	**940,764**	950,686	**947,582**	930,449

(a) For the three months ended September 30, 2012 and 2011, we did not have any impairment losses related to securities.

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

(c) Assumes conversion of stock options and/or Preferred Series A, as applicable.
See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Comprehensive Income (Unaudited)

in millions	Three months ended September 30, 2012	2011	Nine months ended September 30, 2012	2011
Net income (loss)	**$ 221**	$ 218	**$ 662**	$ 732
Other comprehensive income (loss):				
Net unrealized gains (losses) on securities available for sale, net of income taxes of ($17), $32, ($48), and $93	**(28)**	54	**(81)**	157
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $12, ($7), $17, and ($3)	**20**	(13)	**28**	(6)
Foreign currency translation adjustments	**9**	(8)	**5**	5
Net pension and postretirement benefit costs, net of income taxes	**2**	1	**7**	4
Other comprehensive income (loss), net of tax:	**224**	252	**621**	892
Net contribution from (distribution to) noncontrolling interests	**5**	(13)	**4**	(252)
Total comprehensive income (loss) attributable to Key	**$ 229**	$ 239	**$ 625**	$ 640

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Changes in Equity (Unaudited)

dollars in millions, except per share amounts	Preferred Shares Outstanding (000)	Common Shares Outstanding (000)	Key Shareholders Equity							
			Preferred Stock	Common Shares	Common Stock Warrant	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests
BALANCE AT DECEMBER 31, 2010	2,930	880,608	$ 2,737	$ 946	$ 87	$ 3,711	$ 5,557	$ (1,904)	$ (17)	$ 257
Correction of an error in cumulative effective adjustment							(30) [(a)]			
Net income (loss)							720			12
Other comprehensive income (loss):										
Net unrealized gains (losses) on securities available for sale, net of income taxes of $93									157	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $(3)									(6)	
Net distribution to noncontrolling interests										(252)
Foreign currency translation adjustments									5	
Net pension and postretirement benefit costs, net of income taxes									4	
Deferred compensation						(2)				
Cash dividends declared on common shares ($.07 per share)							(67)			
Cash dividends declared on Noncumulative Series A Preferred Stock ($5.8125 per share)							(17)			
Cash dividends accrued on Cumulative Series B Preferred Stock (5% per annum)							(31)			
Series B Preferred Stock - TARP redemption	(25)		(2,451)				(49)			
Repurchase of common stock warrant					(87)	17				
Amortization of discount on Series B Preferred Stock			4				(4)			
Common shares issuance		70,621		71		533				
Common shares reissued for stock options and other employee benefit plans		1,579				(68)		84		
Other			1							
BALANCE AT SEPTEMBER 30, 2011	2,905	952,808	$ 291	$ 1,017		$ 4,191	$ 6,079	$ (1,820)	$ 143	$ 17
BALANCE AT DECEMBER 31, 2011	2,905	953,008	$ 291	$ 1,017		$ 4,194	$ 6,246	$ (1,815)	$ (28)	$ 17
Net income (loss)							655			7

Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of $(48)								(81)	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $17								28	
Net contribution from noncontrolling interests									4
Foreign currency translation adjustments								5	
Net pension and postretirement benefit costs, net of income taxes								7	
Deferred compensation					10				
Cash dividends declared on common shares ($.13 per share)						(123)			
Cash dividends declared on Noncumulative Series A Preferred Stock ($5.8125 per share)						(16)			
Common shares repurchased		(20,107)					(163)		
Common shares reissued (returned) for stock options and other employee benefit plans		3,294			(86)		110		
BALANCE AT SEPTEMBER 30, 2012	2,905	936,195	$ 291	$ 1,017	$ 4,118	$ 6,762	$ (1,868)	$ (69)	$ 28

(a) Corrected the cumulative effective adjustment made to beginning retained earnings on January 1, 2010 related to the consolidation of the student loan securitization trusts in discontinued operations. See Note 11 (Acquisitions and Discontinued Operations) for more information.

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Cash Flows (Unaudited)

in millions	Nine months ended September 30, 2012	2011
OPERATING ACTIVITIES		
Net income (loss)	**$ 662**	$ 732
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision (credit) for loan and lease losses	**172**	(38)
Depreciation, amortization, and accretion, net	**178**	208
FDIC (payments) net of FDIC expense	**19**	41
Deferred income taxes (benefit)	**36**	(261)
Net losses (gains) and writedown on OREO	**12**	6
Provision (credit) for customer derivative losses	**5**	(12)
Net losses (gains) from loan sales	**(93)**	(48)
Net losses (gains) from principal investing	**(70)**	(86)
Provision (credit) for losses on lending-related commitments	**2**	(17)
(Gains) losses on leased equipment	**(109)**	(16)
Net securities losses (gains)		(1)
Net decrease (increase) in loans held for sale excluding loan transfers from continuing operations	**23**	66
Net decrease (increase) in trading account assets	**(40)**	256
Other operating activities, net	**(141)**	1,045
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**656**	1,875
INVESTING ACTIVITIES		
Cash received (used) in acquisitions, net of cash acquired	**866**	
Net decrease (increase) in short-term investments	**1,311**	(3,422)
Purchases of securities available for sale	**(232)**	(624)
Proceeds from sales of securities available for sale	**1**	1,662
Proceeds from prepayments and maturities of securities available for sale	**4,159**	3,532
Proceeds from prepayments and maturities of held-to-maturity securities	**437**	11
Purchases of held-to-maturity securities	**(2,481)**	(1,170)
Purchases of other investments	**(48)**	(125)
Proceeds from sales of other investments	**17**	57
Proceeds from prepayments and maturities of other investments	**134**	63
Net decrease (increase) in loans, excluding acquisitions, sales and transfers	**(1,226)**	1,257
Proceeds from loan sales	**114**	111
Purchases of premises and equipment	**(93)**	(102)
Proceeds from sales of premises and equipment	**1**	1
Proceeds from sales of other real estate owned	**55**	112
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**3,015**	1,363
FINANCING ACTIVITIES		
Net increase (decrease) in deposits, excluding acquisitions	**184**	422
Net increase (decrease) in short-term borrowings	**86**	(949)
Net proceeds from issuance of long-term debt	**20**	1,021
Payments on long-term debt	**(3,381)**	(1,086)
Repurchase of Treasury Shares	**(163)**	
Net proceeds from issuance of common shares		604
Net proceeds from reissuance of common shares	**2**	
Series B Preferred Stock - TARP redemption		(2,500)
Repurchase of common stock warrant		(70)
Cash dividends paid	**(139)**	(130)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(3,391)**	(2,688)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	**280**	550
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD	**694**	278
CASH AND DUE FROM BANKS AT END OF PERIOD	**$ 974**	$ 828

Additional disclosures relative to cash flows:				
Interest paid	**$**	**302**	$	445
Income taxes paid (refunded)		**39**		(314)
Noncash items:				
Assets acquired	**$**	**1,194**		
Liabilities assumed		**2,059**		
Loans transferred to portfolio from held for sale	**$**	**93**		
Loans transferred to held for sale from portfolio		**16**	$	78
Loans transferred to other real estate owned		**32**		34

See Notes to Consolidated Financial Statements (Unaudited).

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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.

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

References to our 2011 Annual Report on Form 10-K refer to our Annual Report on Form 10-K for the year ended December 31, 2011, that has been filed with the U.S. Securities and Exchange Commission and is available on its website (www.sec.gov) or on our website (www.key.com/ir).

ABO: Accumulated benefit obligation.
AICPA: American Institute of Certified Public Accountants.
ALCO: Asset/Liability Management Committee.
ALLL: Allowance for loan and lease losses.
A/LM: Asset/liability management.
AOCI: Accumulated other comprehensive income (loss).
APBO: Accumulated postretirement benefit obligation.
Austin: Austin Capital Management, Ltd.
BHCs: Bank holding companies.
CCAR: Comprehensive Capital Analysis and Review.
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 of 2010.
ERISA: Employee Retirement Income Security Act of 1974.
ERM: Enterprise risk management.
EVE: Economic value of equity.
FASB: Financial Accounting Standards Board.
FDIC: Federal Deposit Insurance Corporation.
Federal Reserve: Board of Governors of the Federal Reserve System.

FHLMC: Federal Home Loan Mortgage Corporation.
FNMA: Federal National Mortgage Association.
FVA: Fair value of pension plan assets.
GAAP: U.S. generally accepted accounting principles.
GNMA: Government National Mortgage Association.
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 Investor Services, Inc.
N/A: Not applicable.
NASDAQ: The NASDAQ Stock Market LLC.
N/M: Not meaningful.
NOW: Negotiable Order of Withdrawal.
NPR: Notice of proposed rulemaking.
NYSE: New York Stock Exchange.
OCC: Office of the Comptroller of the Currency.
OCI: Other comprehensive income (loss).
OREO: Other real estate owned.
OTTI: Other-than-temporary impairment.
QSPE: Qualifying special purpose entity.
PCI: Purchased credit impaired.
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 Asset Relief Program.
TDR: Troubled debt restructuring.
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 Beneficiary Association.
VIE: Variable interest entity.
XBRL: eXtensible Business Reporting Language.

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

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

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

We believe that the unaudited consolidated interim financial statements reflect all adjustments of a normal recurring nature and disclosures that are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full year. The interim financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our 2011 Annual Report on Form 10-K. See Note 11 (Acquisitions and Discontinued Operations) for further information regarding an error correction that was made during the third quarter of 2011.

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.

Acquisitions

On July 13, 2012, we acquired 37 branches in Western New York and recorded approximately $2 billion of assets acquired and deposits assumed at their estimated fair values as of the acquisition date. Fair value adjustments to assets acquired and liabilities assumed will be amortized in accordance with the applicable accounting guidance over periods consistent with the average life, useful life and/or contractual term of the related assets and liabilities. The core deposit intangible will be amortized over a seven-year period using an accelerated amortization method reflective of the manner in which the related benefit attributable to the deposits will be recognized. In a second closing of this acquisition on September 14, 2012, we acquired approximately $69 million of credit card assets and assumed a related reward liability of $1 million. The fair values of these assets and the liability including the purchased credit card relationship intangible asset are still being determined.

On August 1, 2012, we acquired approximately $718 million (based on estimated fair value at acquisition date) in Key-branded credit card assets from Elan Financial Services, Inc. These assets and the related purchased credit card relationship intangible asset were recorded at acquisition date fair value. The intangible asset related to this acquisition will be amortized over an eight-year period using an accelerated amortization method reflective of the manner in which the related benefit attributable to the credit card assets will be recognized.

Additional information regarding these acquisitions is provided in Note 11.

Purchased Loans

We evaluate purchased loans for impairment in accordance with the applicable accounting guidance. Purchased loans that have evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that all contractually required payments will not be collected are deemed PCI and initially recorded at fair value without recording an allowance for loan losses. Fair value of these loans is determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected, as adjusted for an estimate of future credit losses and prepayments, and then a market-based discount rate is applied to those cash flows. PCI loans are generally accounted for on a pool basis, with pools formed based on the common characteristics of the loans, such as loan collateral type or loan product type. Each pool is accounted for as a single asset with one composite interest rate and an aggregate expectation of cash flows.

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Under the accounting model for PCI loans, the excess of cash flows expected to be collected over the carrying amount of the loans, referred to as the accretable amount, is accreted into interest income over the life of the loans in each pool using the effective yield method. Accordingly, PCI loans are not subject to classification as nonaccrual (and nonperforming) in the same manner as originated loans. Rather, acquired PCI loans are considered to be accruing loans because their interest income relates to the accretable yield recognized at the pool level and not to contractual interest payments at the loan level. The difference between contractually required principal and interest payments and the cash flows expected to be collected, referred to as the nonaccretable amount, includes estimates of both the impact of prepayments and future credit losses expected to be incurred over the life of the loans in each pool.

Subsequent to acquisition of loans determined to be PCI loans, actual cash collections are monitored relative to management s expectations, and revised cash flow expectations are prepared, as necessary. These revised expectations involve updates, as necessary, of the key assumptions used in the initial estimate of fair value. A decrease in expected cash flows in subsequent periods may indicate that the loan pool is impaired thus requiring the establishment of an allowance for loan losses by a charge to the provision for loan losses. An increase in expected cash flows in subsequent periods initially reduces any previously established allowance for loan losses by the increase in the present value of cash flows expected to be collected, and results in a recalculation of the amount of accretable yield for the loan pool. The adjustment of accretable yield due to an increase in expected cash flows is accounted for as a change in estimate. The additional cash flows expected to be collected are reclassified from the nonaccretable difference to the accretable yield, and the amount of periodic accretion is adjusted accordingly over the remaining life of the loans in the pool.

A purchased loan may be resolved either through receipt of payment (in full or in part) from the borrower, the sale of the loan to a third party or foreclosure of the collateral. In the event of a sale of the loan, a gain or loss on sale is recognized and reported within noninterest income based on the difference between the sales proceeds and the carrying amount of the loan. In the case of a foreclosure an individual loan is removed from the pool based on comparing the amount received from its resolution (fair value of the underlying collateral less costs to sell). Any difference between this amount and the loan carrying value is absorbed by the nonaccretable difference established for the entire pool. For loans resolved by payment in full, there is no adjustment of the nonaccretable difference since there is no difference between the amount received at resolution and the outstanding balance of the loan. In these cases, the remaining accretable amount balance is unaffected and any material change in remaining effective yield caused by the removal of the loan from the pool is addressed in connection with the subsequent cash flow re-assessment for the pool. PCI loans subject to modification are not removed from the pool even if those loans would otherwise be deemed TDRs as the pool, and not the individual loan, represents the unit of account.

Offsetting Derivative Positions

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

Accounting Guidance Adopted in 2012

Fair value measurement. In May 2011, the FASB issued accounting guidance that changed the wording used to describe many of the current accounting requirements for measuring fair value and disclosing information about fair value measurements. This accounting guidance clarified the FASB s intent about the application of existing fair value measurement requirements. It was effective for the interim and annual periods beginning on or after December 15, 2011 (effective January 1, 2012, for us). The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations. As required by this accounting guidance, additional information regarding the classification is provided in Note 5 (Fair Value Measurements).

Presentation of comprehensive income. In June 2011, the FASB issued new accounting guidance that required all nonowner changes in shareholders equity to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This new accounting guidance did not change any of the components currently recognized in net income or comprehensive income. It was effective for public entities for interim and annual periods beginning after December 15, 2011 (effective January 1, 2012, for us) as well as interim and annual periods thereafter. As required by this accounting guidance, Consolidated Statements of Comprehensive Income (Unaudited) are now included as part of our financial statements.

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Testing goodwill for impairment. In September 2011, the FASB issued new accounting guidance that simplified how an entity tests goodwill for impairment. It permits an entity to first assess qualitative factors to determine whether additional goodwill impairment testing is required. This accounting guidance was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 (effective January 1, 2012, for us). The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations.

Repurchase agreements. In April 2011, the FASB issued accounting guidance that changed the accounting for repurchase agreements and other similar arrangements by eliminating the collateral maintenance requirement when assessing effective control in these transactions. This change could result in more of these transactions being accounted for as secured borrowings instead of sales. This accounting guidance was effective for new transactions and transactions modified on or after the first interim or annual period beginning after December 15, 2011 (effective January 1, 2012, for us). The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations since we do not account for these types of arrangements as sales.

Accounting Guidance Pending Adoption at September 30, 2012

Testing indefinite-lived intangible assets for impairment. In July 2012, the FASB issued new accounting guidance that simplifies how an entity tests indefinite-lived intangible assets other than goodwill for impairment. It permits an entity to first assess qualitative factors to determine whether further testing for impairment of indefinite-lived intangible assets other than goodwill is required. This accounting guidance will be effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 (January 1, 2013, for us). Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

Offsetting disclosures. In December 2011, the FASB issued new accounting guidance that requires an entity to disclose information about offsetting and related arrangements to enable financial statement users to understand the effect of those arrangements on the entity s financial position. This new accounting guidance will be effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods (effective January 1, 2013, for us).

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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, 2012	2011	Nine months ended September 30, 2012	2011
EARNINGS				
Income (loss) from continuing operations	**$ 221**	$ 235	**$ 657**	$ 769
Less: Net income (loss) attributable to noncontrolling interests	**2**	1	**7**	12
Income (loss) from continuing operations attributable to Key	**219**	234	**650**	757
Less: Dividends on Series A Preferred Stock	**5**	5	**16**	17
Cash dividends on Series B Preferred Stock				31
Amortization of discount on Series B Preferred Stock[b]				53
Income (loss) from continuing operations attributable to Key common shareholders	**214**	229	**634**	656
Income (loss) from discontinued operations, net of taxes[a]		(17)	**5**	(37)
Net income (loss) attributable to Key common shareholders	**$ 214**	$ 212	**$ 639**	$ 619
WEIGHTED-AVERAGE COMMON SHARES				
Weighted-average common shares outstanding (000)	**936,223**	948,702	**943,378**	926,298
Effect of dilutive convertible preferred stock, common share options and other stock awards (000)	**4,541**	1,984	**4,204**	4,151
Weighted-average common shares and potential common shares outstanding (000)	**940,764**	950,686	**947,582**	930,449
EARNINGS PER COMMON SHARE				
Income (loss) from continuing operations attributable to Key common shareholders	**$ .23**	$ .24	**$ .67**	$ .71
Income (loss) from discontinued operations, net of taxes [a]		(.02)	**.01**	(.04)
Net income (loss) attributable to Key common shareholders[c]	**.23**	.22	**.68**	.67
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**$ .23**	$ .24	**$ .67**	$ .71
Income (loss) from discontinued operations, net of taxes [a]		(.02)	**.01**	(.04)
Net income (loss) attributable to Key common shareholders assuming dilution[c]	**.23**	.22	**.67**	.67

(a) In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. As a result of these decisions, we have accounted for these businesses as discontinued operations. The income from discontinued operations for the nine months ended September 30, 2012, was primarily attributable to fair value adjustments related to the education lending securitization trusts.

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

(c) EPS may not foot due to rounding.

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3. Loans and Loans Held for Sale

Our loans by category are summarized as follows:

in millions	September 30, 2012	December 31, 2011	September 30, 2011
Commercial, financial and agricultural[a]	**$ 21,979**	$ 19,759	$ 17,848
Commercial real estate:			
Commercial mortgage	**7,529**	8,037	7,958
Construction	**1,067**	1,312	1,456
Total commercial real estate loans	**8,596**	9,349	9,414
Commercial lease financing	**4,960**	5,674	5,957
Total commercial loans	**35,535**	34,782	33,219
Residential prime loans:			
Real estate residential mortgage	**2,138**	1,946	1,875
Home equity:			
Key Community Bank	**9,768**	9,229	9,347
Other	**409**	535	565
Total home equity loans	**10,177**	9,764	9,912
Total residential prime loans	**12,315**	11,710	11,787
Consumer other Key Community Bank	**1,313**	1,192	1,187
Credit cards	**710**		
Consumer other:			
Marine	**1,448**	1,766	1,871
Other	**98**	125	131
Total consumer other	**1,546**	1,891	2,002
Total consumer loans	**15,884**	14,793	14,976
Total loans [b] [c]	**$ 51,419**	$ 49,575	$ 48,195

(a) September 30, 2012 loan balance includes $88 million of commercial credit card balances.

(b) Excluded at September 30, 2012, December 31, 2011, and September 30, 2011, are loans in the amount of $5.3 billion, $5.8 billion and $6.0 billion, respectively, related to the discontinued operations of the education lending business.

(c) September 30, 2012 includes purchased loans of $231 million of which $25 million were PCI loans.

Our loans held for sale are summarized as follows:

in millions	September 30, 2012	December 31, 2011	September 30, 2011

Commercial, financial and agricultural	**$ 13**	$ 19	$ 29
Real estate commercial mortgage	**484**	567	325
Real estate construction	**10**	35	20
Commercial lease financing	**4**	12	26
Real estate residential mortgage	**117**	95	79
Total loans held for sale	**$ 628**	$ 728	$ 479

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

in millions	**September 30, 2012**	**December 31, 2011**	**September 30, 2011**
Balance at beginning of the period	**$ 656**	$ 479	$ 381
New originations	**1,280**	1,235	853
Transfers from held to maturity, net	**13**	19	23
Loan sales	**(1,311)**	(932)	(759)
Loan draws (payments), net	**(9)**	(72)	1
Transfers to OREO / valuation adjustments	**(1)**	(1)	(20)
Balance at end of period	**$ 628**	$ 728	$ 479

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4. Asset Quality

We manage our exposure to credit risk by closely monitoring loan performance trends and general economic conditions. A key indicator of the potential for future credit losses is the level of nonperforming assets and past due loans.

Our nonperforming assets and past due loans were as follows:

in millions	September 30, 2012	December 31, 2011	September 30, 2011
Total nonperforming loans [a][b]	**$ 653**	$ 727	$ 788
Nonperforming loans held for sale	**19**	46	42
OREO	**29**	65	63
Other nonperforming assets	**17**	21	21
Total nonperforming assets	**$ 718**	$ 859	$ 914
Nonperforming assets from discontinued operation - education lending [f]	**$ 22**	$ 23	$ 22
Restructured loans included in nonperforming loans [a][c]	**$ 217**	$ 191	$ 178
Restructured loans with an allocated specific allowance [d]	**78**	50	27
Specifically allocated allowance for restructured loans [e]	**31**	10	5
Accruing loans past due 90 days or more	**$ 89**	$ 164	$ 118
Accruing loans past due 30 through 89 days	**354**	441	478

(a) September 30, 2012 includes $38 million of performing secured loans that were discharged through Chapter 7 bankruptcy and not formally re-affirmed as addressed in recently updated regulatory guidance. Such loans have been designated as nonperforming and TDRs.

(b) September 30, 2012 excludes $25 million of PCI loans acquired in July 2012.

(c) A loan is restructured (i.e., TDRs) when the borrower is experiencing financial difficulty and we grant a concession that we would not otherwise consider to improve the collectability of the loan. Typical concessions include: reducing the interest rate, extending the maturity date, or reducing the principal balance.

(d) Included in individually impaired loans allocated a specific allowance.

(e) Included in allowance for individually evaluated impaired loans.

(f) Includes approximately $3 million of restructured loans at September 30, 2012. See Note 11 for further discussion.

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

cash flows expected to be collected from the purchased loans is accreted to interest income over the remaining term of the loans. Accordingly, these loans are not subject to classification as non-accrual (and nonperforming) in the same manner as originated loans. Rather, purchased loans are considered to be accruing loans because their interest income relates to the accretable yield recognized at the pool level and not to the contractual interest payments at the loan level.

At September 30, 2012, the approximate carrying amount of our commercial nonperforming loans outstanding represented 59% of their original contractual amount, total nonperforming loans outstanding represented 70% of their original contractual amount owed, and nonperforming assets in total were carried at 67% of their original contractual amount.

At September 30, 2012, our twenty largest nonperforming loans totaled $202 million, representing 31% of total loans on nonperforming status from continuing operations. At September 30, 2011, the twenty largest nonperforming loans totaled $265 million, representing 34% of total loans on nonperforming status.

The amount by which nonperforming loans and loans held for sale reduced expected interest income was $18 million for the nine months ended September 30, 2012, and $31 million for the year ended December 31, 2011.

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The following tables set forth a further breakdown of individually impaired loans as of September 30, 2012, December 31, 2011 and September 30, 2011:

September 30, 2012 *in millions*	Recorded Investment [a]	Unpaid Principal Balance [b]	Specific Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial, financial and agricultural	$ 57	$ 118		$ 58
Commercial real estate:				
Commercial mortgage	106	182		109
Construction	42	203		47
Total commercial real estate loans	148	385		156
Total commercial loans with no related allowance recorded	205	503		214
Real estate residential mortgage				1
Home equity:				
Key Community Bank	45	45		23
Other	2	2		1
Total home equity loans	47	47		24
Consumer other Key Community Bank	1	1		1
Consumer other:				
Marine	4	4		2
Total consumer other	4	4		2
Total consumer loans	52	52		28
Total loans with no related allowance recorded	257	555		242
With an allowance recorded:				
Commercial, financial and agricultural	35	45	$ 12	39
Commercial real estate:				
Commercial mortgage	31	32	7	44
Construction				2
Total commercial real estate loans	31	32	7	46
Total commercial loans with an allowance recorded	66	77	19	85
Real estate residential mortgage	18	18	1	17
Home equity:				
Key Community Bank	20	20	10	16
Other	8	8	1	7
Total home equity loans	28	28	11	23
Consumer other Key Community Bank	2	2	1	2
Consumer other:				

Marine	56	56	7	53
Other	1	1		1
Total consumer other	57	57	7	54
Total consumer loans	105	105	20	96
Total loans with an allowance recorded	171	182	39	181
Total	$ 428	$ 737	$ 39	$ 423

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

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

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December 31, 2011 *in millions*	Recorded Investment [a]	Unpaid Principal Balance [b]	Specific Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial, financial and agricultural	$ 88	$ 195		$ 75
Commercial real estate:				
Commercial mortgage	100	240		131
Construction	30	113		98
Total commercial real estate loans	130	353		229
Total loans with no related allowance recorded	218	548		304
With an allowance recorded:				
Commercial, financial and agricultural	62	70	$ 26	75
Commercial real estate:				
Commercial mortgage	96	115	21	91
Construction	12	18	4	29
Total commercial real estate loans	108	133	25	120
Commercial lease financing				6
Total loans with an allowance recorded	170	203	51	201
Total	$ 388	$ 751	$ 51	$ 505

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

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

September 30, 2011 *in millions*	Recorded Investment [a]	Unpaid Principal Balance [b]	Specific Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial, financial and agricultural	$ 91	$ 202		$ 104
Commercial real estate:				
Commercial mortgage	139	292		131
Construction	58	203		71
Total commercial real estate loans	197	495		202
Total commercial loans with an allowance recorded	288	697		306
Home equity Key Community Bank	2	2		1
Total loans with no related allowance recorded	290	699		307

With an allowance recorded:				
Commercial, financial and agricultural	53	61	$ 20	48
Commercial real estate:				
Commercial mortgage	78	90	14	84
Construction	20	20	10	27
Total commercial real estate loans	98	110	24	111
Total loans with an allowance recorded	151	171	44	159
Total	$ 441	$ 870	$ 44	$ 466

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

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

For the nine months ended September 30, 2012 and 2011, interest income recognized on the outstanding balances of accruing impaired loans totaled $4 million for each period presented.

At September 30, 2012, aggregate restructured loans (accrual, nonaccrual and held-for-sale loans) totaled $323 million, compared to $276 million at December 31, 2011, and $277 million at September 30, 2011. We added $192 million in restructured loans during the nine months ended of 2012, which were partially offset by $144 million in payments and charge-offs.

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A further breakdown of restructured loans (TDRs) included in nonperforming loans by loan category as of September 30, 2012, follows:

September 30, 2012 *dollars in millions*	Number of loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	91	$ 107	$ 54
Commercial real estate:			
Real estate commercial mortgage	18	47	29
Real estate construction	8	53	30
Total commercial real estate loans	26	100	59
Total commercial loans	117	207	113
Real estate residential mortgage	70	7	7
Home equity:			
Key Community Bank	1,804	89	58
Other	486	11	7
Total home equity loans	2,290	100	65
Consumer other Key Community Bank	125	2	2
Consumer other:			
Marine	491	33	28
Other	91	2	2
Total consumer other	582	35	30
Total consumer loans	3,067	144	104
Total nonperforming TDRs	3,184	351	217
Prior-year accruing [(a)]			
Commercial, financial and agricultural	152	15	7
Commercial real estate:			
Real estate commercial mortgage	7	71	45
Real estate construction	1	15	
Total commercial real estate loans	8	86	45
Total commercial loans	160	101	52
Real estate residential mortgage	108	11	11
Home equity:			
Key Community Bank	86	6	6
Other	95	3	3
Total home equity loans	181	9	9
Consumer other Key Community Bank	20		
Consumer other:			
Marine	126	32	32
Other	51	2	2

Total consumer other	177	34	34
Total consumer loans	486	54	54
Total prior-year accruing TDRs	646	155	106
Total TDRs	3,830	$ 506	$ 323

(a) All TDRs that were restructured prior to January 1, 2012 and are fully accruing.

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A further breakdown of restructured loans (TDRs) included in nonperforming loans by loan category as of September 30, 2011, follows:

September 30, 2011 *dollars in millions*	Number of loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	11	$ 84	$ 46
Commercial real estate:			
Real estate commercial mortgage	12	74	69
Real estate construction	6	50	18
Total commercial real estate loans	18	124	87
Commercial lease financing	182	24	11
Total commercial loans	211	232	144
Real estate residential mortgage	73	7	7
Home equity:			
Key Community Bank	30	2	1
Other	29	1	1
Total home equity loans	59	3	2
Consumer other Key Community Bank	7		
Consumer other:			
Marine	43	26	25
Other	18		
Total consumer other	61	26	25
Total consumer loans	200	36	34
Total nonperforming TDRs	411	268	178
Prior-year accruing [(a)]			
Commercial, financial and agricultural	1	8	5
Commercial real estate:			
Real estate commercial mortgage	4	57	32
Real estate construction	3	39	19
Total commercial real estate loans	7	96	51
Commercial lease financing	167	17	13
Total commercial loans	175	121	69
Real estate residential mortgage	56	9	9
Home equity:			
Key Community Bank	64	6	6
Other	71	3	2
Total home equity loans	135	9	8
Consumer other Key Community Bank	14		
Consumer other:			
Marine	109	13	11
Other	34	2	2

Total consumer other	143	15	13
Total consumer loans	348	33	30
Total prior-year accruing TDRs	523	154	99
Total TDRs	934	$ 422	$ 277

(a) All TDRs that were restructured prior to January 1, 2011 and are fully accruing.

We classify loan modifications as TDRs when a borrower is experiencing financial difficulties and we have granted a concession to the borrower without commensurate financial, structural, or legal consideration. All commercial and consumer loan TDRs, regardless of size, are evaluated for impairment individually to determine the probable loss content and are assigned a specific loan allowance if deemed appropriate. The financial effects of TDRs are reflected in the components that comprise the allowance for loan and lease losses in either the amount of charge-offs or loan loss provision and appropriately impact the ultimate allowance level. Additional information regarding TDRs for discontinued operations is provided in Note 11 (Acquisitions and Discontinued Operations).

Commercial and consumer loan TDRs are considered subsequently defaulted at 90 days past due and when they are greater than 60 days past due, respectively, for principal and interest payments. There were no significant commercial or consumer loans that were designated as TDRs during calendar year 2011, for which there was a payment default during the first nine months of 2012.

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Our loan modifications are handled on a case by case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet our client s financial needs. A majority of our concessions granted to borrowers are in the form of interest rate reductions. Other concession types include forgiveness of principal and other modifications of loan terms. Consumer loan concessions include Home Affordable Modification Program (HAMP) loans of approximately $3 million as of September 30, 2012. These loan concessions have successfully completed the required trial period under HAMP and as a result have been permanently modified and are included in consumer TDRs.

As of September 30, 2012, $38 million of performing secured loans discharged through Chapter 7 bankruptcy and not reaffirmed by the borrower were reclassified as TDRs. Regardless of delinquency status, these loans were transferred at the collateral s fair market value less selling costs, classified as nonaccrual, and are included in nonperforming loans.

The following table shows the concession types for our commercial accruing and nonaccruing TDRs and other selected financial data.

dollars in millions	**September 30, 2012**	**December 31, 2011**	**September 30, 2011**
Interest rate reduction	**$ 145**	$ 177	$ 195
Forgiveness of principal	**7**	23	12
Other modification of loan terms	**14**	8	6
Total	**$ 166**	$ 208	$ 213
Total commercial and consumer TDRs [(a)]	**$ 323**	$ 276	$ 277
Total commercial TDRs to total commercial loans	**.47 %**	.60 %	.64 %
Total commercial TDRs to total loans	**.32**	.42	.44
Total commercial loans	**$ 35,535**	$ 34,782	$ 33,219
Total loans	**51,419**	49,575	48,195

(a) Commitments outstanding to lend additional funds to borrowers whose terms have been modified in TDRs are $47 million, $25 million, and $39 million at September 30, 2012, December 31, 2011, and September 30, 2011, respectively.

Our policies for determining past due loans, placing loans on nonaccrual, applying payments on nonaccrual loans and resuming accrual of interest for our commercial and consumer loan portfolios are disclosed in Note 1 (Summary of Significant Accounting Policies) under the heading Nonperforming Loans on page 117 of our 2011 Annual Report on Form 10-K. Pursuant to regulatory guidance issued in January 2012, the above-mentioned policy for nonperforming loans was revised effective for the second quarter of 2012. As of June 30, 2012, any second lien home equity loan with an associated first lien that is: 120 days or more past due; in foreclosure; or when the first mortgage delinquency timeframe is unknown, is reported as a nonperforming loan. This policy was implemented prospectively, and, therefore, prior periods were not presented. Credit card loans on which payments are past due for 90 days are placed on nonaccrual status.

At September 30, 2012, approximately $50.3 billion, or 98%, of our total loans are current. At September 30, 2012, total past due loans and nonperforming loans of $1.1 billion represent approximately 2% of total loans.

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The following aging analysis as of September 30, 2012 and 2011, of past due and current loans provides further information regarding Key s credit exposure.

September 30, 2012 *in millions*	Current	30-59 Days Past Due	60-89 Days Past Due	90 and Greater Days Past Due	Nonperforming Loans [(a)]	Total Past Due and Nonperforming Loans	Purchased Credit Impaired	Total Loans
LOAN TYPE								
Commercial, financial and agricultural	$ 21,766	$ 46	$ 19	$ 15	$ 132	$ 212	$ 1	$ 21,979
Commercial real estate:								
Commercial mortgage	7,344	19	3	26	134	182	3	7,529
Construction	993	5	3	13	53	74		1,067
Total commercial real estate loans	8,337	24	6	39	187	256	3	8,596
Commercial lease financing	4,881	48	11	2	18	79		4,960
Total commercial loans	$ 34,984	$ 118	$ 36	$ 56	$ 337	$ 547	$ 4	$ 35,535
Real estate residential mortgage	$ 1,997	$ 22	$ 13	$ 6	$ 83	$ 124	$ 17	$ 2,138
Home equity:								
Key Community Bank	9,492	57	30	15	171	273	3	9,768
Other	374	9	5	3	18	35		409
Total home equity loans	9,866	66	35	18	189	308	3	10,177
Consumer other Key Community Bank	1,290	9	4	6	3	22	1	1,313
Credit cards	692	6	4		8	18		710
Consumer other:								
Marine	1,377	29	9	2	31	71		1,448
Other	92	2	1	1	2	6		98
Total consumer other	1,469	31	10	3	33	77		1,546
Total consumer loans	$ 15,314	$ 134	$ 66	$ 33	$ 316	$ 549	$ 21	$ 15,884
Total loans	$ 50,298	$ 252	$ 102	$ 89	$ 653	$ 1,096	$ 25	$ 51,419

(a) Includes $38 million of performing secured loans that were discharged through Chapter 7 bankruptcy and not formally re-affirmed as addressed in recently updated regulatory guidance. Such loans have been designated as nonperforming and TDRs.

September 30, 2011 *in millions*	Current	30-59 Days Past Due	60-89 Days Past Due	90 and Greater Days Past Due	Nonperforming Loans	Total Past Due and Nonperforming Loans	Total Loans
LOAN TYPE							
Commercial, financial and agricultural	$ 17,576	$ 40	$ 20	$ 24	$ 188	$ 272	$ 17,848

Commercial real estate:							
Commercial mortgage	7,612	101	3	5	237	346	7,958
Construction	1,345	5	5	8	93	111	1,456
Total commercial real estate loans	8,957	106	8	13	330	457	9,414
Commercial lease financing	5,812	57	23	34	31	145	5,957
Total commercial loans	$ 32,345	$ 203	$ 51	$ 71	$ 549	$ 874	$ 33,219
Real estate residential mortgage	$ 1,747	$ 20	$ 11	$ 9	$ 88	$ 128	$ 1,875
Home equity:							
Key Community Bank	9,125	63	35	22	102	222	9,347
Other	529	13	7	4	12	36	565
Total home equity loans	9,654	76	42	26	114	258	9,912
Consumer other Key Community Bank	1,159	11	5	8	4	28	1,187
Consumer other:							
Marine	1,781	36	19	3	32	90	1,871
Other	125	3	1	1	1	6	131
Total consumer other	1,906	39	20	4	33	96	2,002
Total consumer loans	$ 14,466	$ 146	$ 78	$ 47	$ 239	$ 510	$ 14,976
Total loans	$ 46,811	$ 349	$ 129	$ 118	$ 788	$ 1,384	$ 48,195

The risk characteristic prevalent to both commercial and consumer loans is the risk of loss arising from an obligor s inability or failure to meet contractual payment or performance terms. Evaluation of this risk is stratified and monitored by the assigned loan risk rating grades for the commercial loan portfolios and the regulatory risk ratings assigned for the consumer loan portfolios. This risk rating stratification assists in the determination of the ALLL. Loan grades are assigned at the time of origination, verified by credit risk management, and periodically reevaluated thereafter.

Most extensions of credit are subject to loan grading or scoring. This risk rating methodology blends our judgment with quantitative modeling. Commercial loans generally are assigned two internal risk ratings. The first rating reflects the

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probability that the borrower will default on an obligation; the second rating reflects expected recovery rates on the credit facility. Default probability is determined based on, among other factors, the financial strength of the borrower, an assessment of the borrower s management, the borrower s competitive position within its industry sector, and our view of industry risk within the context of the general economic outlook. Types of exposure, transaction structure, and collateral, including credit risk mitigants, affect the expected recovery assessment.

Credit quality indicators for loans are updated on an ongoing basis. Bond rating classifications are indicative of the credit quality of our commercial loan portfolios and are determined by converting our internally assigned risk rating grades to bond rating categories. Payment activity and the regulatory classifications of pass and substandard are indicators of the credit quality of our consumer loan portfolios.

Credit quality indicators for our commercial and consumer loan portfolios excluding $25 million of purchased credit impaired loans, based on bond rating, regulatory classification and payment activity as of September 30, 2012 and September 30, 2011 are as follows:

Commercial Credit Exposure

Credit Risk Profile by Creditworthiness Category [a]

September 30,
in millions

	Commercial, financial and agricultural		RE Commercial		RE Construction		Commercial Lease		Total	
RATING [b] [c]	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
AAA AA	**$ 166**	$ 109	**$ 1**	$ 2	**$ 1**	$ 3	**$ 465**	$ 639	**$ 633**	$ 753
A	**755**	655	**63**	62	**1**	1	**1,107**	1,272	**1,926**	1,990
BBB BB	**19,229**	14,928	**6,137**	5,747	**759**	762	**3,087**	3,509	**29,212**	24,946
B	**940**	807	**585**	726	**38**	132	**188**	306	**1,751**	1,971
CCC C	**888**	1,349	**740**	1,421	**268**	558	**113**	231	**2,009**	3,559
Total	**$ 21,978**	$ 17,848	**$ 7,526**	$ 7,958	**$ 1,067**	$ 1,456	**$ 4,960**	$ 5,957	**$ 35,531**	$ 33,219

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

(b) Our bond rating to internal loan grade conversion system is as follows: AAA - AA = 1, A = 2, BBB - BB = 3 - 13, B = 14 - 16, and CCC - C = 17 - 20.

(c) Our internal loan grade to regulatory-defined classification is as follows: Pass = 1-16, Special Mention = 17, Substandard = 18, Doubtful = 19, and Loss = 20.

Consumer Credit Exposure

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

September 30,

in millions

	Residential Prime	
GRADE	**2012**	**2011**

Pass	**$ 11,999**	$ 11,550
Substandard	**296**	237
Total	**$ 12,295**	$ 11,787

Credit Risk Profile Based on Payment Activity [a] [b]

September 30, *in millions*	**Consumer Key Community Bank**		**Credit cards**		**Consumer**		**Marine**		**Consumer**		**Other**		**Total**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Performing	**$ 1,309**	$ 1,183	**$ 702**		**$ 1,417**	$ 1,839	**$ 96**	$ 130	**$ 3,524**	$ 3,152				
Nonperforming	**3**	4	**8**		**31**	32	**2**	1	**44**	37				
Total	**$ 1,312**	$ 1,187	**$ 710**		**$ 1,448**	$ 1,871	**$ 98**	$ 131	**$ 3,568**	$ 3,189				

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

(b) Our past due payment activity to regulatory classification conversion is as follows: pass = less than 90 days; and substandard = 90 days and greater plus nonperforming loans. As of September 30, 2012, any second lien home equity loan with an associated first lien: that is 120 days or more past due; in foreclosure; or when the first mortgage delinquency timeframe is unknown, is reported as a nonperforming loan in accordance with regulatory guidance issued in January 2012.

We determine the appropriate level of the ALLL on at least a quarterly basis. The methodology is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses beginning on page 117 of our 2011 Annual Report on Form 10-K. We apply expected loss rates to existing loans with similar risk characteristics as noted in the credit quality indicator table above and exercise judgment to assess the impact of factors such as changes in economic conditions, changes in credit policies or underwriting standards, and changes in the level of credit risk associated with specific industries and markets.

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For all commercial and consumer loan TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance greater than $2.5 million, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. We estimate the extent of impairment by comparing the recorded investment of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan s observable market price. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses. The ALLL at September 30, 2012 represents our best estimate of the probable credit losses inherent in the loan portfolio at that date.

While quantitative modeling factors such as default probability and expected recovery rates are constantly changing as the financial strength of the borrower and overall economic conditions change, there have been no changes to the accounting policies or methodology we used to estimate the ALLL.

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

At September 30, 2012, the ALLL was $888 million, or 1.73% of loans, compared to $1.1 billion, or 2.35% of loans, at September 30, 2011. At September 30, 2012, the ALLL was 135.99% of nonperforming loans compared to 143.53% at September 30, 2011.

A summary of the allowance for loan and lease losses for the periods indicated is presented in the table below:

	Three months ended		**Nine months ended**	
	September 30,		**September 30,**	
in millions	**2012**	**2011**	**2012**	**2011**
Balance at beginning of period continuing operations	**$ 888**	$ 1,230	**$ 1,004**	$ 1,604
Charge-offs	**(141)**	(157)	**(404)**	(566)
Recoveries	**32**	48	**117**	130
Net loans charged off	**(109)**	(109)	**(287)**	(436)
Provision for loan and lease losses from continuing operations	**109**	10	**172**	(38)
Foreign currency translation adjustment			**(1)**	1
Balance at end of period continuing operations	**$ 888**	$ 1,131	**$ 888**	$ 1,131

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

in millions	December 31, 2011	Provision	Charge-offs	Recoveries	September 30, 2012
Commercial, financial and agricultural	$ 334	**$ 9**	**$ (65)**	**$ 40**	**$ 318**
Real estate commercial mortgage	272	**(10)**	**(69)**	**18**	**221**
Real estate construction	63	**(1)**	**(19)**	**3**	**47**
Commercial lease financing	78	**(10)**	**(20)**	**18**	**66**
Total commercial loans	747	**(1)**	**(173)**	**79**	**652**
Real estate residential mortgage	37	**5**	**(19)**	**2**	**25**
Home equity:					
Key Community Bank	103	**92**	**(113)**	**7**	**89**
Other	29	**14**	**(23)**	**4**	**24**
Total home equity loans	132	**106**	**(136)**	**11**	**113**
Consumer other Key Community Bank	41	**15**	**(29)**	**5**	**32**
Credit cards		**27**	**(2)**		**25**
Consumer other:					
Marine	46	**14**	**(41)**	**18**	**37**
Other	1	**5**	**(4)**	**2**	**4**
Total consumer other:	47	**19**	**(45)**	**20**	**41**
Total consumer loans	257	**172**	**(231)**	**38**	**236**
Total ALLL continuing operations	1,004	**171** [(a)]	**(404)**	**117**	**888**
Discontinued operations	104	**4**	**(56)**	**13**	**65**
Total ALLL including discontinued operations	$ 1,108	**$ 175**	**$ (460)**	**$ 130**	**$ 953**

(a) Includes $1 million of foreign currency translation adjustment.

in millions	December 31, 2010	Provision	Charge-offs	Recoveries	September 30, 2011
Commercial, financial and agricultural	$ 485	$ (24)	$ 124	$ 33	$ 370
Real estate commercial mortgage	416	(31)	89	9	305
Real estate construction	145	4	81	19	87
Commercial lease financing	175	(62)	36	19	96
Total commercial loans	1,221	(113)	330	80	858
Real estate residential mortgage	49	4	22	3	34
Home equity:					
Key Community Bank	120	59	78	9	110
Other	57	10	35	3	35
Total home equity loans	177	69	113	12	145
Consumer other Key Community Bank	57	12	34	6	41
Consumer other:					
Marine	89	(4)	60	26	51

Other	11	(5)	7	3	2
Total consumer other:	100	(9)	67	29	53
Total consumer loans	383	76	236	50	273
Total ALLL continuing operations	1,604	(37) [a]	566	130	1,131
Discontinued operations	114	99	107	9	115
Total ALLL including discontinued operations	$ 1,718	$ 62	$ 673	$ 139	$ 1,246

(a) Includes $1 million of foreign currency translation adjustment.

Our ALLL decreased by $243 million, or 21%, since the third quarter of 2011. This contraction was associated with the improvement in credit quality of our loan portfolios, which has trended more favorably over the past seven quarters. Our asset quality metrics have showed continued improvement and, therefore, resulted in favorable risk rating migration and a reduction in our general allowance. Our general allowance encompasses the application of expected loss rates to our existing loans with similar risk characteristics and an assessment of factors such as changes in economic conditions and changes in credit policies or underwriting standards. Our delinquency trends showed continued improvement during 2011 and the first nine months of 2012. We attribute this improvement to a more moderate level of lending activity, more favorable conditions in the capital markets, improvement in client income statements, and continued run off in our exit loan portfolio.

For continuing operations, the loans outstanding individually evaluated for impairment totaled $428 million, with a corresponding allowance of $39 million at September 30, 2012. Loans outstanding collectively evaluated for impairment totaled $51.0 billion, with a corresponding allowance of $849 million at September 30, 2012. PCI loans evaluated for impairment totaled $25 million, with no corresponding allowance at September 30, 2012.

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A breakdown of the individual and collective ALLL and the corresponding loan balances as of September 30, 2012 follows:

September 30, 2012	Allowance			Outstanding		
in millions	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit Impaired	Loans	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit Impaired
Commercial, financial and agricultural	$ 12	$ 306		$ 21,979	$ 92	$ 21,886	$ 1
Commercial real estate:							
Commercial mortgage	7	214		7,529	138	7,388	3
Construction		47		1,067	42	1,025	
Total commercial real estate loans	7	261		8,596	180	8,413	3
Commercial lease financing		66		4,960		4,960	
Total commercial loans	19	633		35,535	272	35,259	4
Real estate residential mortgage	1	24		2,138	18	2,103	17
Home equity:							
Key Community Bank	10	79		9,768	65	9,700	3
Other	1	23		409	10	399	
Total home equity loans	11	102		10,177	75	10,099	3
Consumer other Key Community Bank	1	31		1,313	2	1,310	1
Credit cards		25		710		710	
Consumer other:							
Marine	7	30		1,448	60	1,388	
Other		4		98	1	97	
Total consumer other	7	34		1,546	61	1,485	
Total consumer loans	20	216		15,884	156	15,707	21
Total ALLL continuing operations	39	849		51,419	428	50,966	25
Discontinued operations		65		5,328 [(a)]	3	5,325	
Total ALLL including discontinued operations	$ 39	$ 914		$ 56,747	$ 431	$ 56,291	$ 25

(a) Amount includes $2.6 billion of loans carried at fair value that are excluded from ALLL consideration.

A breakdown of the individual and collective ALLL and the corresponding loan balances as of September 30, 2011 follows:

September 30, 2011	Allowance[(a)]		Outstanding[(a)]		
in millions	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Loans	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Commercial, financial and agricultural	$ 20	$ 349	$ 17,848	$ 144	$ 17,704
Commercial real estate:					
Commercial mortgage	14	291	7,958	217	7,741
Construction	10	78	1,456	78	1,378

Total commercial real estate loans	24	369	9,414	295	9,119
Commercial lease financing		96	5,957		5,957
Total commercial loans	44	814	33,219	439	32,780
Real estate residential mortgage		34	1,875		1,875
Home equity:					
Key Community Bank		110	9,347	2	9,345
Other		35	565		565
Total home equity loans		145	9,912	2	9,910
Consumer other Key Community Bank		41	1,187		1,187
Consumer other:					
Marine		51	1,871		1,871
Other		2	131		131
Total consumer other		53	2,002		2,002
Total consumer loans		273	14,976	2	14,974
Total ALLL continuing operations	44	1,087	48,195	441	47,754
Discontinued operations		115	5,984		5,984
Total ALLL including discontinued operations	$ 44	$ 1,202	$ 54,179	$ 441	$ 53,738

(a) There were no loans acquired with deteriorated credit quality at September 30, 2011.

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The liability for credit losses inherent in lending-related commitments, such as letters of credit and unfunded loan commitments, is included in accrued expense and other liabilities on the balance sheet. We establish the amount of this reserve by considering both historical trends and current market conditions quarterly, or more often if deemed necessary. Our liability for credit losses on lending-related commitments has decreased by $13 million since the third quarter of 2011 to $43 million at September 30, 2012. When combined with our ALLL, our total allowance for credit losses represented 1.81% of loans at September 30, 2012, compared to 2.46% at September 30, 2011.

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

in millions	**Three months ended September 30,**		**Nine months ended September 30,**	
	2012	**2011**	**2012**	**2011**
Balance at beginning of period	**$ 51**	$ 57	**$ 45**	$ 73
Provision (credit) for losses on lending-related commitments	**(8)**	(1)	**(2)**	(17)
Balance at end of period	**$ 43**	$ 56	**$ 43**	$ 56

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5. Fair Value Measurements

Fair Value Determination

As defined in the applicable accounting guidance, 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.

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

¿ the amount of time since the last relevant valuation;

¿ whether there is an actual trade or relevant external quote available at the measurement date; and

¿ volatility associated with the primary pricing components.

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

¿ an independent review and approval of valuation models and assumptions;

¿ recurring detailed reviews of profit and loss; and

¿ a validation of valuation model components against benchmark data and similar products, where possible.

We recognize transfers between levels of the fair value hierarchy at the end of the reporting period. Quarterly, we review any changes to our valuation methodologies to ensure they are appropriate and justified, and refine our valuation methodologies if more market-based data becomes available. The Fair Value Committee, which is governed by ALCO, oversees the valuation process for all lines of business and support areas, as applicable. Various Working Groups that report to the Fair Value Committee analyze and approve the valuation methodologies used to fair value assets and liabilities managed within specific areas. The Working Groups are discussed in more detail in the qualitative disclosures within this footnote and in Note 11 (Acquisitions and Discontinued Operations). Formal documentation in the form of fair value valuation methodologies are prepared by the lines of business and support areas as appropriate detailing the asset or liability class and related general ledger accounts, valuation techniques, fair value hierarchy level, market participants, accounting methods, valuation methodology, group responsible for valuations, and valuation inputs.

Additional information regarding our accounting policies for determining fair value is provided in Note 1 (Summary of Significant Accounting Policies) under the heading Fair Value Measurements on page 122 of our 2011 Annual Report on Form 10-K.

Qualitative Disclosures of Valuation Techniques

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

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

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

- ¿ Securities are classified as Level 2 if quoted prices for identical securities are not available, and fair value is determined using pricing models (either by a third-party pricing service or internally) or quoted prices of similar securities. These instruments include municipal bonds; bonds backed by the U.S. government; corporate bonds; certain mortgage-backed securities; securities issued by the U.S. Treasury; money markets; and certain agency and corporate CMOs. Inputs to the pricing models include 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, benchmark securities, bids, and offers.

- ¿ Securities are classified as Level 3 when there is limited activity in the market for a particular instrument. In such cases, we use internal models based on certain assumptions to determine fair value. Level 3 instruments consist of certain commercial mortgage-backed securities. Our Real Estate Capital line of business is responsible for the valuation process for these commercial mortgage-backed securities, which is conducted on a quarterly basis. The methodology incorporates a loan-by-loan credit review in combination with discounting the risk-adjusted bond cash flows. A detailed credit review of the underlying loans involves a screening process using a multitude of filters to identify the highest risk loans associated with these commercial mortgage-backed securities. Each of the highest risk loans identified is re-underwritten and loan specific defaults and recoveries are assigned. A matrix approach is used to assign an expected default and recovery percentage for the loans which are not individually re-underwritten. Bond classes will then be run through a discounted cash flow analysis, taking into account the expected default and recovery percentages as well as discount rates developed by our Finance area. 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. Changes in the credit quality of the underlying loans or market discount rate would impact the value of the bonds. An increase in the underlying loan credit quality or decrease in the market discount rate would positively impact the bond value. A decrease in the underlying loan credit quality or increase in the market discount rate would negatively impact the bond value.

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

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

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

- ¿ substantiate actual inputs used for a sample of securities by comparing the actual inputs used by our third-party pricing service to comparable inputs for similar securities; and

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

Private equity and mezzanine investments. Private equity and mezzanine investments consist of investments in debt and equity securities through our Real Estate Capital line of business. They include direct investments made in specific properties, as well as indirect investments made in funds that pool assets of many investors to invest in properties. There is no active market for these investments, so we employ other valuation methods.

Private equity and mezzanine investments are classified as Level 3 assets since our judgment significantly influences the determination of fair value. Our Fund Management, Asset Management, and Accounting groups are responsible for

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reviewing the valuation models and determining the fair value of these investments on a quarterly basis. Direct investments in properties are initially valued based upon the transaction price. This amount is then adjusted to fair value based on current market conditions using the discounted cash flow method based on the expected investment exit date. The fair values of the assets are reviewed and adjusted quarterly. Periodically, a third-party appraisal is obtained for the investment to validate the specific inputs for determining fair value.

Inputs used in calculating future cash flows include the cost of build-out, future selling prices, current market outlook, and operating performance of the investment. Investment income and expense assumptions are based on market inputs, such as rental/leasing rates and vacancy rates for the geographic- and property type-specific markets. For investments under construction, investment income and expense assumptions are determined using expected future build-out costs and anticipated future rental prices based on current market conditions, discount rates, holding period, the terminal cap rate and sales commissions paid in the terminal cap year. For investments that are in lease-up or are fully leased, income and expense assumptions are based on the current geographic market lease rates, underwritten expenses, market lease terms, and historical vacancy rates. Asset Management validates these inputs on a quarterly basis through the use of industry publications, third-party broker opinions, and comparable property sales, where applicable. Changes in the significant inputs (rental/leasing rates, vacancy rates, valuation capitalization rate, discount rate, and terminal cap rate) would significantly affect the fair value measurement. Increases in rental/leasing rates would increase fair value while increases in the vacancy rates, the valuation capitalization rate, the discount rate, and the terminal cap rate would decrease fair value.

Indirect investments are valued using a methodology that is consistent with accounting guidance that allows us to use statements from the investment manager to calculate net asset value per share. A primary input used in estimating fair value is the most recent value of the capital accounts as reported by the general partners of the funds in which we invest. The calculation to determine the investment s fair value is based on our percentage ownership in the fund multiplied by the net asset value of the fund, as provided by the fund manager.

Investments in real estate private equity funds are included within private equity and mezzanine investments. The main purpose of these funds is to acquire a portfolio of real estate investments that provides attractive risk-adjusted returns and current income for investors. Certain of these investments do not have readily determinable fair values and represent our ownership interest in an entity that follows measurement principles under investment company accounting. The following table presents the fair value of our indirect investments and related unfunded commitments at September 30, 2012:

September 30, 2012

in millions	**Fair Value**	**Unfunded Commitments**
INVESTMENT TYPE		
Passive funds [(a)]	$ 18	$ 3
Co-managed funds [(b)]	24	3
Total	$ 42	$ 6

(a) We invest in passive funds, which are multi-investor private equity funds. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying investments in the funds. Some funds have no restrictions on sale, while others require investors to remain in the fund until maturity. The funds will be liquidated over a period of one to seven years.

(b) We are a manager or co-manager of these funds. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying investments in the funds. In addition, we receive management fees. We can sell or transfer our interest in any of these funds with the written consent of a majority of the fund s investors. In one instance, the other co-manager of the fund must consent to the sale or transfer of our interest in the fund. The funds will mature over a period of two to five years.

Principal investments. Principal investments consist of investments in equity and debt instruments made by our principal investing entities. They include direct investments (investments made in a particular company), as well as indirect investments (investments made through funds that include other investors). During the first half of 2011, employees who managed our various principal investments formed two independent entities that serve as investment managers of these investments going forward. Under this new arrangement, which was mutually agreeable to

both parties, these individuals are no longer employees of Key.

Each investment is adjusted to fair value with any net realized or unrealized gain/loss recorded in the current period s earnings. This process is a coordinated and documented effort by the Principal Investing Entities Deal Team (comprised of individuals from one of the independent investment managers noted above), the Key Principal Partners (KPP) Controller and certain members of the KPP Controller s staff, a member of Key s senior management team, and the Investment Committee (members comprised of individuals from Key and one of the independent investment managers). This process involves an in-depth review of the condition of each investment depending on the type of investment.

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Our direct investments include investments in debt and equity instruments of both private and public companies. When quoted prices are available in an active market for the identical direct investment, we use the quoted prices in the valuation process, and the related investments are classified as Level 1 assets. However, in most cases, quoted market prices are not available for our direct investments, and we must perform valuations using other methods. These direct investment valuations are an in-depth analysis of the condition of each investment and are based on the unique facts and circumstances related to each individual investment. There is a certain amount of subjectivity surrounding the valuation of these investments due to the combination of quantitative and qualitative factors that are used in the valuation models. Therefore, these direct investments are classified as Level 3 assets. The specific inputs used in the valuations of each type of direct investment are described below.

Interest-bearing securities (i.e., loans) are valued on a quarterly basis. Valuation adjustments are determined by the Principal Investing Entities Deal Team and are subject to approval by the Investment Committee. Valuations of debt instruments are based on the Principal Investing Entities Deal Team s knowledge of the current financial status of the subject company, which is regularly monitored throughout the term of the investment. Significant unobservable inputs used in the valuations of these investments include the company s payment history, adequacy of cash flows from operations, and current operating results, including market multiples, and historical and forecast earnings before interest, taxation, depreciation, and amortization. Inputs can also include the seniority of the debt, the nature of any pledged collateral, the extent to which the security interest is perfected and the net liquidation value of collateral.

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

Our indirect investments are classified as Level 3 assets since our significant inputs are not observable in the marketplace. Indirect investments include primary and secondary investments in private equity funds engaged mainly in venture- and growth-oriented investing. These investments do not have readily determinable fair values. Indirect investments are valued using a methodology that is consistent with accounting guidance that allows us to estimate fair value based upon net asset value per share (or its equivalent, such as member units or an ownership interest in partners capital to which a proportionate share of net assets is attributed). The significant unobservable input used in estimating fair value is primarily the most recent value of the capital accounts as reported by the general partners of the funds in which we invest.

For indirect investments, management makes adjustments as deemed appropriate to the net asset value and only if it is determined that the net asset value does not properly reflect fair value. In determining the need for an adjustment to net asset value, management performs an analysis of the private equity funds based on the independent fund manager s valuations as well as management s own judgment. Significant unobservable inputs used in these analyses include current fund financial information provided by the fund manager, an estimate of future proceeds expected to be received on the investment, and market multiples. Management also considers whether the independent fund manager adequately marks down an impaired investment, maintains financial statements in accordance with GAAP, or follows a practice of holding all investments at cost.

The fair value of our indirect investments and related unfunded commitments at September 30, 2012 was $455 million and $103 million, respectively. Our indirect investments consist of buyout, venture capital, and fund of funds. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying investments of the fund. An investment in any one of these funds can be sold only with the approval of the fund s general partners. We estimate that the underlying investments of the funds will be liquidated over a period of one to ten years.

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

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

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

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. For the interest rate-driven products, such as government bonds, U.S. Treasury bonds and other products backed by the U.S. government, inputs include spreads, credit ratings and interest rates. For the credit-driven products, such as corporate bonds and mortgage-backed securities, inputs include actual trade data for comparable assets, and bids and offers.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Certain assets and liabilities are measured at fair value on a recurring basis in accordance with GAAP. The following tables present these assets and liabilities at September 30, 2012 and December 31, 2011.

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September 30, 2012

in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Short-term investments:				
Securities purchased under resale agreements		$ 294		$ 294
Trading account assets:				
U.S. Treasury, agencies and corporations		486		486
States and political subdivisions		14	$ 56	70
Collateralized mortgage obligations		4		4
Other mortgage-backed securities		9	1	10
Other securities	$ 10	78		88
Total trading account securities	10	591	57	658
Commercial loans		5		5
Total trading account assets	10	596	57	663
Securities available for sale:				
States and political subdivisions		$ 54		$ 54
Collateralized mortgage obligations		11,283		11,283
Other mortgage-backed securities		597	1	598
Other securities	$ 27			27
Total securities available for sale	27	11,934	1	11,962
Other investments:				
Principal investments:				
Direct			$ 214	$ 214
Indirect			455	455
Total principal investments			669	669
Equity and mezzanine investments:				
Direct			$	$
Indirect			42	42
Total equity and mezzanine investments			42	42
Total other investments			711	711
Derivative assets:				
Interest rate		$ 1,841	$ 23	$ 1,864
Foreign exchange	$ 52	29		81
Energy and commodity		183		183
Credit		14	5	19
Equity				
Derivative assets	52	2,067	28	2,147
Netting adjustments[(a)]				(1,376)
Total derivative assets	52	2,067	28	771
Accrued income and other assets		138		138
Total assets on a recurring basis at fair value	$ 89	$ 15,029	$ 797	$ 14,539
LIABILITIES MEASURED ON A RECURRING BASIS				
Federal funds purchased and securities sold under repurchase agreements:				
Securities sold under repurchase agreements		$ 398		$ 398
Bank notes and other short-term borrowings:				
Short positions	$ 4	384		388
Derivative liabilities:				
Interest rate		1,283		1,283

Foreign exchange	56	27		83
Energy and commodity		177	$ 1	178
Credit		17	1	18
Equity				
Derivative liabilities	56	1,504	2	1,562
Netting adjustments[(a)]				(905)
Total derivative liabilities	56	1,504	2	657
Accrued expense and other liabilities	1			1
Total liabilities on a recurring basis at fair value	$ 61	$ 2,286	$ 2	$ 1,444

(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 applicable accounting guidance. The net basis takes into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related collateral. Total derivative assets and liabilities include these netting adjustments.

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December 31, 2011

in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Short term investments:				
Securities purchased under resale agreements		$ 236		$ 236
Trading account assets:				
U.S. Treasury, agencies and corporations		353		353
States and political subdivisions		81		81
Collateralized mortgage obligations		19		19
Other mortgage-backed securities		27	$ 35	62
Other securities	$ 79	29		108
Total trading account securities	79	509	35	623
Commercial loans				
Total trading account assets	79	509	35	623
Securities available for sale:				
States and political subdivisions		63		63
Collateralized mortgage obligations		15,162		15,162
Other mortgage-backed securities		778		778
Other securities	9			9
Total securities available for sale	9	16,003		16,012
Other investments:				
Principal investments:				
Direct	11		225	236
Indirect			473	473
Total principal investments	11		698	709
Equity and mezzanine investments:				
Direct			15	15
Indirect			36	36
Total equity and mezzanine investments			51	51
Total other investments	11		749	760
Derivative assets:				
Interest rate		1,915	38	1,953
Foreign exchange	86	65		151
Energy and commodity		253		253
Credit		30	7	37
Equity		3		3
Derivative assets	86	2,266	45	2,397
Netting adjustments [(a)]				(1,452)
Total derivative assets	86	2,266	45	945
Accrued income and other assets	7	105		112
Total assets on a recurring basis at fair value	$ 192	$ 19,119	$ 829	$ 18,688
LIABILITIES MEASURED ON A RECURRING BASIS				
Federal funds purchased and securities sold under repurchase agreements:				
Securities sold under repurchase agreements		$ 292		$ 292
Bank notes and other short-term borrowings:				
Short positions		337		337
Derivative liabilities:				

Interest rate		1,398		1,398
Foreign exchange	$ 79	209		288
Energy and commodity		252	$ 1	253
Credit		34	28	62
Equity		3		3
Derivative liabilities	79	1,896	29	2,004
Netting adjustments [(a)]				(978)
Total derivative liabilities	79	1,896	29	1,026
Accrued expense and other liabilities	23	22		45
Total liabilities on a recurring basis at fair value	$ 102	$ 2,547	$ 29	$ 1,700

(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 applicable accounting guidance. The net basis takes into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related collateral. Total derivative assets and liabilities include these netting adjustments.

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Changes in Level 3 Fair Value Measurements

The following table shows the change in the fair values of our Level 3 financial instruments for the three and nine months ended September 30, 2012 and 2011. We mitigate the credit risk, interest rate risk, and risk of loss related to many of these Level 3 instruments by using securities and derivative positions classified as Level 1 or Level 2. Level 1 and Level 2 instruments are not included in the following table. Therefore, the gains or losses shown do not include the impact of our risk management activities.

	Trading Account Assets		Other Investments				Derivative Instruments			(a)
			Principal Investments		Equity and Mezzanine Investments					
in millions	Other Mortgage-Backed Securities	Other Securities	Direct	Indirect	Direct	Indirect	Interest Rate	Energy and Commodity	Credit	
Balance at December 31, 2011	$ 35		$ 225	$ 473	$ 15	$ 36	$ 38	$ (1)	$ (21)	
Gains (losses) included in earnings	2 (b)	$ 2 (b)	12 (c)	50 (c)	3 (c)	6 (c)	(5) (b)	1 (b)	(11) (b)	(b)
Purchases			11	24		4	1	(1)		
Sales	(32)		(34)	(92)			(7)			
Issuances										
Settlements		(3)			(18)	(4)			37	
Transfers into Level 3		57 (d)					7 (d)			
Transfers out of Level 3	(4) (d)						(11) (d)			
Balance at September 30, 2012	$ 1	56	$ 214	$ 455	$	$ 42	$ 23	$ (1)	$ 5	
Unrealized gains (losses) included in earnings	(b)	$ 2 (b)	$ 10 (c)	$ 21 (c)	$ 15 (c)	$ 6 (c)	(b)	(b)		(b)
Balance at June 30, 2012	$ 1	$ 57	$ 231	$ 482	$ 18	$ 43	$ 35	(1)	$ 5	
Gains (losses) included in earnings	(b)	4 (b)	4 (c)	7 (c)	(c)	(c)	(2) (b)	(b)	(4) (b)	(b)
Purchases			1	4						
Sales			(22)	(38)			(6)			
Issuances										
Settlements		(5)			(18)				4	
Transfers into Level 3						(1) (d)	3 (d)			
Transfers out of Level 3							(7) (d)			
Balance at September 30, 2012	$ 1	56	$ 214	$ 455	$	$ 42	$ 23	(1)	$ 5	
Unrealized gains (losses) included in earnings	(b)	4 (b)	$ 2 (c)	$ (7) (c)	$ 5 (c)	$ (c)	(b)	(b)		(b)
Balance at December 31, 2010	$ 1	$ 21	$ 372	$ 526	$ 20	$ 30	$ 75	$ 1	$ 11	
Gains (losses) included in earnings	(b)	2 (b)	4 (c)	76 (c)	17 (c)	(c)	54 (b)	(1) (b)	(11) (b)	(b)
Purchases			38	56		12	11			
Sales			(24)	(55)			(24)		(1)	
Issuances										
Settlements		(23)			(24)	(3)			8	
Transfers into Level 3	33 (d)						11 (d)			
Transfers out of Level 3			(125) (e)	(109) (e)		(3) (d)	(13) (d)			

Balance at September 30, 2011	$ 34	$	$ 265	$ 494	$ 13	$ 36	$ 114	$	$ 7
Unrealized gains (losses) included in earnings	(b)	$ 2 (b)	$ 5 (c)	$ 55 (c)	$ 36 (c)	$ (3) (c)	(b)	(b)	(b)
Balance at June 30, 2011	$ 1		$ 270	$ 470	$ 14	$ 33	$ 81		$ 8
Gains (losses) included in earnings	(b)	$ (1) (b)	2 (c)	33 (c)	4 (c)	(c)	40 (b)	(b)	(1) (b)
Purchases			8	10		3			
Sales			(15)	(19)			(4)		(1)
Issuances									
Settlements		1			(5)				1
Transfers into Level 3	33 (d)						1 (d)		
Transfers out of Level 3			(e)	(e)			(4) (d)		
Balance at September 30, 2011	$ 34		$ 265	$ 494	$ 13	$ 36	$ 114		$ 7
Unrealized gains (losses) included in earnings	(b)	$ (1) (b)	$ (3) (c)	$ 27 (c)	$ 4 (c)	$ (c)	(b)	(b)	(b)

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

(d) Our policy is to recognize transfers into and transfers out of Level 3 as of the end of the reporting period.

(e) Transfers out of Level 3 for principal investments represent investments that were deconsolidated during the second quarter of 2011 when employees who managed our various principal investments left Key and formed two independent entities that serve as investment managers of these investments.

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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 guidance that requires 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, 2012 and December 31, 2011:

	September 30, 2012				December 31, 2011			
in millions	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS MEASURED ON A NONRECURRING BASIS								
Impaired loans			**$ 52**	**$ 52**			$ 149	$ 149
Loans held for sale [(a)]			**10**	**10**			15	15
Accrued income and other assets	**$ 15**		**22**	**37**	$ 19		25	44
Total assets on a nonrecurring basis at fair value	**$ 15**		**$ 84**	**$ 99**	$ 19		$ 189	$ 208

(a) During the first nine months of 2012, we transferred $17 million of commercial and consumer loans and leases from held-for-sale status to the held-to-maturity portfolio at their current fair value.

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

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

Subject loans are evaluated for impairment on a quarterly basis. Loans included in the previous quarter s review are reevaluated and if their values are materially different from the prior quarter evaluation, the underlying information (loan balance and in most cases, collateral value) is compared. Material differences are evaluated for reasonableness, and discussions are held between the relationship managers and their senior managers to understand the difference and determine if any adjustment is necessary. The inputs are developed and substantiated on a quarterly basis, based on current borrower developments, market conditions and collateral values.

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

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

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

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

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Loans held for sale. Through a quarterly analysis of our loan portfolios held for sale, which include both performing and nonperforming loans, we determined that adjustments were necessary to record some of the portfolios at the lower of cost or fair value in accordance with GAAP. Loans held for sale portfolios adjusted to fair value totaled $10 million at September 30, 2012 and $15 million at December 31, 2011.

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

Valuations of performing commercial mortgage and construction loans held for sale are conducted using internal models that rely on market data from sales or nonbinding bids on similar assets, including credit spreads, treasury rates, interest rate curves and risk profiles, 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.

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

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

Valuations of direct financing leases and operating lease assets held for sale are performed using an internal model that relies on market data, such as swap rates and bond ratings, as well as our own assumptions about the exit market for the leases and details about the individual leases in the portfolio. The inputs based on our assumptions include changes in the value of leased items and internal credit ratings. These leases have been classified as Level 3 assets. Leases also may be valued using current nonbinding bids when they are available. These leases are classified as Level 2 assets. In a distressed market where market data is not available, an estimate of the fair value of the leased asset may be used to value the lease, resulting in a Level 3 classification. In an inactive market, the market value of the assets held for sale is determined as the present value of the future cash flows discounted at the current buy rate. KEF Accounting calculates an estimated fair value buy rate based on the credit premium inherent in the relevant bond index and the appropriate swap rate on the measurement date. The amount of the adjustment is calculated as book value minus the present value of future cash flows discounted at the calculated buy rate.

Goodwill and other intangible assets. On a quarterly basis, we review impairment indicators to determine whether we need to evaluate the carrying amount of the goodwill and other intangible assets assigned to Key Community Bank and Key Corporate Bank. We also perform an annual impairment test for goodwill. Fair value of our reporting units is determined using both an income approach (discounted cash flow method) and a market approach (using publicly traded company and recent transactions data), which are weighted equally.

Inputs used include market-available data, such as industry, historical and expected growth rates, and peer valuations, as well as internally driven inputs, such as forecasted earnings and market participant insights. Since this valuation relies on a significant number of unobservable inputs, we have classified goodwill as Level 3. We use a third party valuation services provider to perform the annual, and if necessary, any interim, Step 1 valuation process, and to perform a Step 2 analysis, if needed, on our reporting units. Annual and any interim valuations prepared by the third-party valuation service provider are reviewed by the appropriate individuals within Key to ensure that the assumptions used in preparing the analysis are appropriate and properly supported. For additional information on the results of recent goodwill impairment testing, see Note 10 (Goodwill and Other Intangible Assets) on page 161 of our 2011 Annual Report on Form 10-K.

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

Our primary assumptions include attrition rates, alternative costs of funds and rates paid on deposits. For additional information on the results of other intangible assets impairment testing, see Note 10 (Goodwill and Other Intangible Assets) on page 161 of our 2011 Annual Report on Form 10-K.

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

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

- Consumer Real Estate Valuation Process: The Asset Management team within our Risk Operations group is responsible for valuation policies and procedures in this area. The current vendor partner provides monthly reporting of all broker price opinion evaluations, appraisals and the monthly market plans. Market plans are reviewed monthly, and valuations are reviewed and tested monthly to ensure proper pricing has been established and guidelines are being met. Risk Operations Compliance validates and provides periodic testing of the valuation process. The Asset Management team reviews changes in fair value measurements. The current vendor partner managed brokers review pricing monthly, while third-party broker price opinions are reviewed every 90 days, and the fair value is written down based on changes to the valuation. External factors are documented and monitored as appropriate.

Mortgage servicing assets are valued based on inputs such as prepayment speeds, earn rates, credit default rates, discount rates and servicing advances. We classify these assets as Level 3. Additional information regarding the valuation of mortgage servicing assets is provided in Note 8 (Mortgage Servicing Assets).

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Quantitative Information about Level 3 Fair Value Measurements

The range and weighted-average of the significant unobservable inputs used to fair value our material Level 3 recurring and nonrecurring assets during the third quarter of 2012, along with the valuation techniques used, are shown in the following table:

September 30, 2012 *dollars in millions*	Fair Value of Level 3 Assets	Valuation Technique	Significant Unobservable Input	Range (Weighted-Average)
Recurring				
Other investments principal investments direct:	$ 202	Individual analysis of the condition of each investment		
Debt instruments			EBITDA multiple	4.9 - 6.0% (5.9%)
Equity instruments of private companies			EBITDA multiple (where applicable)	5.5 - 10.8% (4.7%)
			Revenue multiple (where applicable)	0.2 - 4.4% (0.6%)
Nonrecurring				
Impaired loans	52	Fair value of underlying collateral	Discount	0.00 - 100.00% (35%)
Goodwill	979	Discounted cash flow and market data	Earnings multiple of peers	8.30 - 11.90 (10.01)
			Equity multiple of peers	1.21 - 1.32 (1.27)
			Control premium	N/A (32.00%)
			Weighted-average cost of capital	N/A (15.00%)
Mortgage servicing assets	237	Discounted cash flow	Prepayment speed	0.00 - 25.00% (10.40%)
			Expected credit losses	1.00 - 3.00% (2.40%)
			Residual cash flows discount rate	7.00 - 15.00% (9.20%)
			Value assigned to escrow funds	0.27 - 2.78% (1.50%)
			Servicing cost	950 - 20,200 (2,582)
			Loan assumption rate	0.00 - 3.00% (2.24%)
			Percentage late	0.00 - 2.00% (0.22%)

Fair Value Disclosures of Financial Instruments

The levels in the fair value hierarchy ascribed to our financial instruments at September 30, 2012, along with the related carrying amounts and fair values at September 30, 2012 and December 31, 2011, are shown in the following table.

	September 30, 2012						December 31, 2011	
		Fair Value						
in millions	Carrying Amount	Level 1	Level 2	Level 3	Netting Adjustment	Total	Carrying Amount	Fair Value
ASSETS								
Cash and short-term investments [(a)]	**$ 3,182**	**$ 2,888**	**$ 294**			**$ 3,182**	$ 4,213	$ 4,213
Trading account assets [(e)]	**663**	**10**	**596**	**$ 57**		**663**	623	623
Securities available for sale [(e)]	**11,962**	**27**	**11,934**	**1**		**11,962**	16,012	16,012

Held-to-maturity securities [b]	**4,153**		**4,212**			**4,212**	2,109	2,133
Other investments [e]	**1,106**		**395**	**711**		**1,106**	1,163	1,163
Loans, net of allowance [c]	**50,531**			**49,737**		**49,737**	48,571	47,561
Loans held for sale [e]	**628**			**628**		**628**	728	728
Mortgage servicing assets [d]	**188**			**237**		**237**	173	245
Derivative assets [e]	**771**	**52**	**2,067**	**28**	**$ (1,376) [f]**	**771**	945	945
LIABILITIES								
Deposits with no stated maturity [a]	**$ 55,452**		**$ 55,452**			**$ 55,452**	$ 51,014	$ 51,014
Time deposits [d]	**8,736**	**$ 569**	**8,344**			**8,913**	10,942	11,253
Short-term borrowings [a]	**2,134**	**4**	**2,130**			**2,134**	2,048	2,048
Long-term debt [d]	**6,119**	**2,819**	**3,777**			**6,596**	9,520	9,792
Derivative liabilities [e]	**657**	**56**	**1,504**	**$ 2**	**$ (905) [f]**	**657**	1,026	1,026

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Valuation Methods and Assumptions

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

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

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

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

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

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

We use valuation methods based on exit market prices in accordance with applicable accounting guidance. We determine fair value based on assumptions pertaining to the factors a market participant would consider in valuing the asset. A substantial portion of our fair value adjustments are related to liquidity. During 2011 and into 2012, the fair values of our loan portfolios improved, primarily due to increasing liquidity in the loan markets. If we were to use different assumptions, the fair values shown in the preceding table could change significantly. If a nonexit price methodology were used for valuing our loan portfolio for continuing operations, it would result in a premium of .4%. Also, because the applicable accounting guidance for financial instruments excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements, the fair value amounts shown in the table above do not, by themselves, represent the underlying value of our company as a whole.

Education lending business. The discontinued education lending business consists of assets and liabilities (recorded at fair value) in the securitization trusts, as well as loans in portfolio (recorded at fair value), loans in portfolio (recorded at carrying value with appropriate valuation reserves) and loans held for sale (prior to the second quarter of 2011), all of which are outside the trusts. The fair value of loans held for sale was identical to the aggregate carrying amount of the loans. All of these loans were excluded from the table above as follows:

¿ Loans at carrying value, net of allowance, of $2.7 billion ($2.3 billion at fair value) at September 30, 2012 and $2.9 billion ($2.5 billion at fair value) at December 31, 2011;

¿ Portfolio loans at fair value of $71 million at September 30, 2012 and $76 million at December 31, 2011;

¿ There were no loans held for sale at September 30, 2012 or December 31, 2011; and

¿ Loans in the trusts at fair value of $2.5 billion at September 30, 2012 and $2.7 billion at December 31, 2011.

Securities issued by the education lending securitization trusts, which are the primary liabilities of the trusts, totaling $2.3 billion in fair value at September 30, 2012, and $2.5 billion in fair value at December 31, 2011, are also excluded from the above table.

These loans and securities are classified as Level 3 because we rely on unobservable inputs when determining fair value since observable market data is not available. Additional information regarding the consolidation of the education lending securitization trusts is provided in Note 11 (Acquisitions and Discontinued Operations).

Residential real estate mortgage loans. Residential real estate mortgage loans with carrying amounts of $2.1 billion at September 30, 2012 and $1.9 billion at December 31, 2011 are included in Loans, net of allowance in the above table.

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

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6. Securities

Securities available for sale. These are securities that we intend to hold for an indefinite period of time; they may, however 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 and capital securities.

Unrealized losses on equity securities deemed to be other-than-temporary, and realized gains and losses resulting from sales of securities using the specific identification method, are included in 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.

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.

The increase in our held-to-maturity securities is invested in Federal Agency CMOs as we increased this portfolio in response to potential future changes in regulatory capital rules.

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in millions	September 30, 2012 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
States and political subdivisions	**$ 52**	**$ 2**		**$ 54**
Collateralized mortgage obligations	**10,949**	**334**		**11,283**
Other mortgage-backed securities	**543**	**55**		**598**
Other securities	**25**	**2**	**$**	**27**
Total securities available for sale	**$ 11,569**	**$ 393**	**$**	**$ 11,962**
HELD-TO-MATURITY SECURITIES				
Collateralized mortgage obligations	**$ 4,135**	**$ 59**		**$ 4,194**
Other securities	**18**			**18**
Total held-to-maturity securities	**$ 4,153**	**$ 59**		**$ 4,212**

in millions	December 31, 2011 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
States and political subdivisions	$ 60	$ 3		$ 63
Collateralized mortgage obligations	14,707	455		15,162
Other mortgage-backed securities	715	63		778
Other securities	8	1		9
Total securities available for sale	$ 15,490	$ 522		$ 16,012
HELD-TO-MATURITY SECURITIES				
Collateralized mortgage obligations	$ 2,091	$ 24		$ 2,115
Other securities	18			18
Total held-to-maturity securities	$ 2,109	$ 24		$ 2,133

in millions	September 30, 2011 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
States and political subdivisions	62	$ 3		65
Collateralized mortgage obligations	16,108	575		16,683
Other mortgage-backed securities	780	70		850
Other securities	14			14

Total securities available for sale	$ 16,964	$ 648	$ 17,612
HELD-TO-MATURITY SECURITIES			
States and political subdivisions	$ 1		$ 1
Collateralized mortgage obligations	1,157	10	1,167
Other securities	18		18
Total held-to-maturity securities	$ 1,176	10	$ 1,186

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The following table summarizes our securities that were in an unrealized loss position as of September 30, 2012, December 31, 2011, and September 30, 2011.

	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, 2012						
Securities available for sale:						
State and political divisions						
Collateralized mortgage obligations	**$ 7**				**$ 7**	
Other securities	**14**	**$**	**3**		**17**	**$**
Held-to-maturity:						
Collateralized mortgage obligations						
Total temporarily impaired securities	**$ 21**	**$**	**3**		**$ 24**	**$**
December 31, 2011						
Securities available for sale:						
Collateralized mortgage obligations	$ 1				$ 1	
Other securities	3				3	
Total temporarily impaired securities	$ 4				$ 4	
September 30, 2011						
Securities available for sale:						
State and political divisions	**$ 1**				**$ 1**	
Collateralized mortgage obligations	**1**				**1**	
Other securities	**5**				**5**	
Held-to-maturity:						
Collateralized mortgage obligations	**404**				**404**	
Total temporarily impaired securities	**$ 411**	**$**			**$ 411**	

Our four fixed-rate collateralized mortgage obligations, which we had invested in as part of an overall A/LM strategy, had gross unrealized losses at September 30, 2012, which were not material. Since these securities have fixed interest rates, their fair value is sensitive to movements in market interest rates. These unrealized losses are considered temporary since we expect to collect all contractually due amounts from this security. Accordingly, these investments have been reduced to their fair value through OCI, not earnings. These securities have a weighted-average maturity of .4 years at September 30, 2012.

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

The 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, we did not have any impairment losses recognized in earnings for the three months ended September 30, 2012.

Three months ended September 30, 2012

in millions		
Balance at June 30, 2012	$	4
Impairment recognized in earnings		
Balance at September 30, 2012	$	4

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

Nine months ended September 30, 2012

in millions

Realized gains	
Realized losses	
Net securities gains (losses)	

At September 30, 2012, securities available for sale and held-to-maturity securities totaling $10.4 billion were pledged to secure securities sold under repurchase agreements, to secure public and trust deposits, to facilitate access to secured funding, and for other purposes required or permitted by law.

The following table shows securities by remaining maturity. CMOs and other mortgage-backed securities both of which are included in the securities available-for-sale portfolio 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	
September 30, 2012				
in millions	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 839	$ 851	$ 9	$ 9
Due after one through five years	10,681	11,058	4,144	4,203
Due after five through ten years	44	47		
Due after ten years	5	6		
Total	$ 11,569	$ 11,962	$ 4,153	$ 4,212

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7. Derivatives and Hedging Activities

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

The primary derivatives that we use are interest rate swaps, caps, floors, and futures; foreign exchange contracts; 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. As further discussed in this note:

¿ interest rate risk represents the possibility that the EVE or net interest income will be adversely affected by fluctuations in interest rates;

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

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

Derivative assets and liabilities are recorded at fair value on the balance sheet, after taking into account the effects of bilateral collateral and master netting agreements. These agreements allow us to settle all derivative contracts held with a single counterparty on a net basis, and to offset net derivative positions with related 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, 2012, after taking into account the effects of bilateral collateral and master netting agreements, we had $170 million of derivative assets and a positive $97 million of derivative liabilities that relate to contracts entered into for hedging purposes. Our hedging derivative liabilities are in an asset position largely due to contracts with positive fair values as a result of master netting agreements. As of the same date, after taking into account the effects of bilateral collateral and master netting agreements and a reserve for potential future losses, we had derivative assets of $601 million and derivative liabilities of $754 million that were not designated as hedging instruments.

The Dodd-Frank Act, which is currently being implemented, may limit the types of derivative activities that KeyBank and other insured depository institutions may conduct. As a result, we may not continue to use all of the types of derivatives noted above in the future.

Additional information regarding our accounting policies for derivatives is provided in Note 1 (Summary of Significant Accounting Policies) under the heading Derivatives on page 121 of our 2011 Annual Report on Form 10-K.

Derivatives Designated in Hedge Relationships

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

We designate certain receive fixed/pay variable interest rate swaps as fair value hedges. These swaps are used primarily to modify our consolidated exposure to changes in interest rates. 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 notional amounts.

Similarly, we designate certain receive fixed/pay variable interest rate swaps as cash flow hedges. These contracts effectively convert certain floating-rate loans into fixed-rate loans to reduce the potential adverse effect of interest rate decreases on future interest income. Again, we receive fixed-rate interest payments in exchange for making variable-rate

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payments over the lives of the contracts without exchanging the notional amounts. We also designate certain pay fixed/receive variable interest rate swaps as cash flow hedges. These swaps convert certain floating-rate debt into fixed-rate debt. We also use these swaps to manage the interest rate risk associated with anticipated sales of certain commercial real estate loans. The swaps protect against the possible short-term decline in the value of the loans that could result from changes in interest rates between the time they are originated and the time they are sold.

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

The derivatives used for managing foreign currency exchange risk are cross currency swaps. During 2011 and prior years, Key had outstanding issuances of medium-term notes that were denominated in foreign currencies. The notes were subject to translation risk, which represented the possibility that the fair value of the foreign-denominated debt would change based on movement of the underlying foreign currency spot rate. It has been our practice to hedge against potential fair value volatility caused by changes in foreign currency exchange rates and interest rates. The hedge converted the notes to a variable-rate U.S. currency-denominated debt, which was designated as a fair value hedge of foreign currency exchange risk. As of September 30, 2012, Key has no debt being hedged in this manner.

Derivatives Not Designated in Hedge Relationships

On occasion, we enter into interest rate swap contracts to manage economic risks but do not designate the instruments in hedge relationships. Excluding contracts addressing customer exposures, the amount of derivatives hedging risks on an economic basis at September 30, 2012, was not significant.

Like other financial services institutions, we originate loans and extend credit, both of which expose us to credit risk. We actively manage our overall loan portfolio and the associated credit risk in a manner consistent with asset quality objectives. This process entails the use of credit derivatives primarily credit default swaps. Credit default swaps enable us to transfer to a third party a portion of the credit risk associated with a particular extension of credit, and to manage portfolio concentration and correlation risks. Occasionally, we also provide credit protection to other lenders through the sale of credit default swaps. This objective is accomplished primarily 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 credit default swaps for risk management purposes, they are not treated as hedging instruments.

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

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

These contracts are not designated as part of hedge relationships.

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

The following table summarizes the fair values of our derivative instruments on a gross basis as of September 30, 2012, December 31, 2011, and September 30, 2011. The change in the notional amounts of these derivatives by type from December 31, 2011, to September 30, 2012, indicates the volume of our derivative transaction activity during the first nine months of 2012. The notional amounts are not affected by bilateral collateral and master netting agreements. Our derivative instruments are included in derivative assets or derivative liabilities on the balance sheet, as indicated in the following table:

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	September 30, 2012			December 31, 2011			September 30, 2011		
		Fair Value			Fair Value			Fair Value	
in millions	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:									
Interest rate	**$ 16,596**	**$ 604**	**$ 31**	$ 15,067	$ 589	$ 27	$ 12,139	$ 613	$ 29
Foreign exchange	**264**		**10**	554		147	1,098		238
Total	**16,860**	**604**	**41**	15,621	589	174	13,237	613	267
Derivatives not designated as hedging instruments:									
Interest rate	**55,391**	**1,260**	**1,252**	48,537	1,364	1,371	47,302	1,429	1,447
Foreign exchange	**5,126**	**81**	**73**	5,549	151	141	6,312	190	176
Energy and commodity	**1,749**	**183**	**178**	1,610	253	253	1,835	270	275
Credit	**2,242**	**19**	**18**	3,210	37	62	2,951	40	37
Equity	**13**			17	3	3	23	3	3
Total	**64,521**	**1,543**	**1,521**	58,923	1,808	1,830	58,423	1,932	1,938
Netting adjustments [(a)]		**(1,376)**	**(905)**		(1,452)	(978)		(1,605)	(1,064)
Total derivatives	**$ 81,381**	**$ 771**	**$ 657**	$ 74,544	$ 945	$ 1,026	$ 71,660	$ 940	$ 1,141

(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. The net basis takes into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related collateral.

Fair value hedges. Instruments designated as fair value hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. The effective portion of a change in the fair value of an instrument designated as a fair value hedge is recorded in earnings at the same time as a change in fair value of the hedged item, resulting in no effect on net income. The ineffective portion of a change in the fair value of such a hedging instrument is recorded in other income on the income statement with no corresponding offset. During the nine-month period ended September 30, 2012, we did not exclude any portion of these hedging instruments from the assessment of hedge effectiveness. While there is some immaterial ineffectiveness in our hedging relationships, all of our fair value hedges remained highly effective as of September 30, 2012.

The following table summarizes the pre-tax net gains (losses) on our fair value hedges for the nine-month periods ended September 30, 2012 and 2011, and where they are recorded on the income statement.

	Nine months ended September 30, 2012			
in millions	Income Statement Location of Net Gains (Losses) on Derivative	Net Gains (Losses) on Derivative	Income Statement Location of Hedged Item	Net Gains (Losses) on Hedged Item

Interest rate		Other income	**$ (14)**	Long-term debt		Other income	**$ 8**	**(a)**
Interest rate	Interest expense	Long-term debt	**123**					
Foreign exchange		Other income	**5**	Long-term debt		Other income	**(6)**	**(a)**
Foreign exchange	Interest expense	Long-term debt	**1**	Long-term debt	Interest expense	Long-term debt	**(1)**	**(b)**
Total			**$ 115**				**$ 1**	

	Nine months ended September 30, 2011							
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	$ 193	Long-term debt		Other income	$ (193)	(a)
Interest rate	Interest expense	Long-term debt	169					
Foreign exchange		Other income	2	Long-term debt		Other income	(5)	(a)
Foreign exchange	Interest expense	Long-term debt	9	Long-term debt	Interest expense	Long-term debt	(12)	(b)
Total			$ 373				$ (210)	

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

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

Cash flow hedges. Instruments designated as cash flow hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. Initially, the effective portion of a gain or loss on a cash flow hedge is recorded as a component of AOCI on the balance sheet and is subsequently reclassified into income when the hedged transaction affects earnings (e.g., when we pay variable-rate interest on debt, receive variable-rate interest on commercial loans, or sell commercial real estate loans). The ineffective portion of cash flow hedging transactions is included in other

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income on the income statement. During the nine-month period ended September 30, 2012, we did not exclude any portion of these hedging instruments from the assessment of hedge effectiveness. While there is some immaterial ineffectiveness in our hedging relationships, all of our cash flow hedges remained highly effective as of September 30, 2012.

Considering the interest rates, yield curves, and notional amounts as of September 30, 2012, we would expect to reclassify an estimated $34 million of net losses on derivative instruments from AOCI to income during the next twelve months for our cash flow hedges. In addition, we expect to reclassify approximately $9 million of net gains related to terminated cash flow hedges from AOCI to income during the next twelve months. The maximum length of time over which we hedge forecasted transactions is 16 years.

Net investment hedges. In May 2012, we entered into foreign currency forward contracts to hedge our exposure to changes in the carrying value of our investments as a result of changes in the related foreign exchange rates. Instruments designated as net investment hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. Initially, the effective portion of a gain or loss on a net investment hedge is recorded as a component of AOCI on the balance sheet when the terms of the derivative match the notional and currency risk being hedged. The effective portion is subsequently reclassified into income when the hedged transaction affects earnings (e.g., when we dispose of a foreign subsidiary). At September 30, 2012, AOCI reflected unrecognized after-tax losses totaling $10 million related to cumulative changes in the fair value of our net investment hedge, which offset the unrecognized after-tax gains on net investment balances. The ineffective portion of net investment hedging transactions is included in other income on the income statement. However, there was no net investment hedge ineffectiveness as of September 30, 2012. We did not exclude any portion of our hedging instruments from the assessment of hedge effectiveness while these hedges were outstanding during 2012.

The following table summarizes the pre-tax net gains (losses) on our cash flow and net investment hedges for the nine-month periods ended September 30, 2012 and 2011, and where they are recorded on the income statement. The table includes the effective portion of net gains (losses) recognized in OCI during the period, the effective portion of net gains (losses) reclassified from OCI into income during the current period, and the portion of net gains (losses) recognized directly in income, representing the amount of hedge ineffectiveness.

	Nine months ended September 30, 2012					
in millions	Net Gains (Losses) Recognized in OCI (Effective Portion)	Income Statement Location of Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)	Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)	Income Statement Location of Net Gains (Losses) Recognized in Income (Ineffective Portion)	Net Gains (Losses) Recognized in Income (Ineffective Portion)
Cash Flow Hedges					
Interest rate	**$ 106**	Interest income Loans	**$ 45**	Other income	
Interest rate	**(8)**	Interest expense Long-term debt	**(7)**	Other income	
Interest rate		Net gains (losses) from loan sales		Other income	
Net Investment Hedges					
Foreign exchange contracts	**(15)**	Other Income		Other income	
Total	**$ 83**		**$ 38**		

	Nine months ended September 30, 2011				
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	$	65	Interest income	Loans	$	38	Other income
Interest rate		(44)	Interest expense	Long-term debt		(8)	Other income
Interest rate			Net gains (losses) from loan sales				Other income
Total	$	21			$	30	

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

in millions	**December 31, 2011**	**2012 Hedging Activity**	**Reclassification of Gains to Net Income**	**September 30, 2012**
AOCI resulting from cash flow and net investment hedges	$ (2)	**$ 52**	**$ (24)**	**$ 26**

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Nonhedging instruments. Our derivatives that are not designated as hedging instruments are recorded at fair value in derivative assets and derivative liabilities on the balance sheet. Adjustments to the fair values of these instruments, as well as any premium paid or received, are included in investment banking and capital markets income (loss) on the income statement.

The following table summarizes the pre-tax net gains (losses) on our derivatives that are not designated as hedging instruments for the nine-month periods ended September 30, 2012 and 2011, and where they are recorded on the income statement.

in millions	Nine months ended September 30, 2012	2011
NET GAINS (LOSSES) [(a)]		
Interest rate	**$ 16**	$ 11
Foreign exchange	**27**	31
Energy and commodity	**8**	3
Credit	**(16)**	(14)
Total net gains (losses)	**$ 35**	$ 31

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

Counterparty Credit Risk

Like other financial instruments, derivatives contain an element of credit risk. This risk is measured as the expected positive replacement value of the contracts. We use several means to mitigate and manage exposure to credit risk on derivative contracts. We generally enter into bilateral collateral and master netting agreements that provide for the net settlement of all contracts with a single counterparty in the event of default. Additionally, we monitor counterparty credit risk exposure on each contract to determine appropriate limits on our total credit exposure across all product types. We review our collateral positions on a daily basis and exchange collateral with our counterparties in accordance with ISDA and other related agreements. We generally hold collateral in the form of cash and highly rated securities issued by the U.S. Treasury, government-sponsored enterprises or GNMA. The collateral netted against derivative assets on the balance sheet totaled $503 million at September 30, 2012, $486 million at December 31, 2011, and $511 million at September 30, 2011. The collateral netted against derivative liabilities totaled $32 million at September 30, 2012, $11 million at December 31, 2011 and $30 million at September 30, 2011.

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

in millions	September 30, 2012	December 31, 2011	September 30, 2011
Largest gross exposure (derivative asset) to an individual counterparty	**$ 197**	$ 194	$ 205
Collateral posted by this counterparty	**67**	64	54
Derivative liability with this counterparty	**216**	250	250
Collateral pledged to this counterparty	**91**	127	114
Net exposure after netting adjustments and collateral	**5**	7	14

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 bilateral collateral and master netting agreements and other means used to mitigate risk.

in millions	**September 30, 2012**	**December 31, 2011**	**September 30, 2011**
Interest rate	**$ 1,195**	$ 1,257	$ 1,298
Foreign exchange	**24**	64	71
Energy and commodity	**51**	96	65
Credit	**4**	12	15
Equity		2	2
Derivative assets before collateral	**1,274**	1,431	1,451
Less: Related collateral	**503**	486	511
Total derivative assets	**$ 771**	$ 945	$ 940

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

We enter into transactions with broker-dealers and banks for various risk management purposes. These types of transactions generally are high dollar volume. We generally enter into bilateral collateral and master netting agreements with these counterparties. At September 30, 2012, for derivatives that have associated bilateral collateral and master netting agreements, we had gross exposure of $959 million to broker-dealers and banks. We had net exposure of $214 million after the application of master netting agreements and collateral; our net exposure to broker-dealers and banks at September 30, 2012, was reduced to $10 million with $204 million of additional collateral held in the form of securities.

We enter into transactions with clients to accommodate their business needs. These types of transactions generally are low dollar volume. We generally enter into master netting agreements with these counterparties. In addition, we mitigate our overall portfolio exposure and market risk by buying and selling U.S. Treasuries and Eurodollar futures, and entering into offsetting positions and other derivative contracts. Due to the smaller size and magnitude of the individual contracts with clients, collateral generally is not exchanged in connection with these derivative transactions. To address the risk of default associated with the uncollateralized contracts, we have established a default reserve (included in derivative assets) in the amount of $20 million at September 30, 2012, which we estimate to be the potential future losses on amounts due from client counterparties in the event of default. At December 31, 2011, the default reserve was $22 million. At September 30, 2012, for derivatives that have associated master netting agreements, we had gross exposure of $606 million to client counterparties. We had net exposure of $557 million on our derivatives with clients after the application of master netting agreements, 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 and swap obligations. We also sell credit derivatives, mainly index credit default swaps, to diversify the concentration risk within our loan portfolio.

The following table summarizes the fair value of our credit derivatives purchased and sold by type as of September 30, 2012, December 31, 2011 and September 30, 2011. The fair value of credit derivatives presented below does not take into account the effects of bilateral collateral or master netting agreements.

	September 30, 2012			**December 31, 2011**			**September 30, 2011**		
in millions	**Purchased**	**Sold**	**Net**	**Purchased**	**Sold**	**Net**	**Purchased**	**Sold**	**Net**
Single name credit default swaps	**$ (2)**	**$**	**$ (2)**	$ 3	$ (1)	$ 2	$ 9	$ (5)	$ 4
Traded credit default swap indices	**(1)**	**5**	**4**	6	(6)		6	(8)	(2)
Other		**(1)**	**(1)**	1	(1)		2	(1)	1
Total credit derivatives	**$ (3)**	**$ 4**	**$ 1**	$ 10	$ (8)	$ 2	$ 17	$ (14)	$ 3

Single name credit default swaps are bilateral contracts whereby the seller agrees, for a premium, to provide protection against the credit risk of a specific entity (the reference entity) in connection with a specific debt obligation. The protected credit risk is related to adverse credit events, such as bankruptcy, failure to make payments, and acceleration or restructuring of obligations, identified in the credit derivative contract. As the seller of a single name credit derivative, we would be required to pay the purchaser the difference between the par value and the market price of the debt obligation (cash settlement) or receive the specified referenced asset in exchange for payment of the par value (physical settlement) if the underlying reference entity experiences a predefined credit event. For a single name credit derivative, the notional amount represents the maximum amount that a seller could be required to pay. If we effect a physical settlement and receive our portion of the related debt obligation,

we will join other creditors in the liquidation process, which may enable us to recover a portion of the amount paid under the credit default swap contract. We also may purchase offsetting credit derivatives for the same reference entity from third parties that will permit us to recover the amount we pay should a credit event occur.

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

The majority of transactions represented by the other category shown in the above table are risk participation agreements. In these transactions, the lead participant has a swap agreement with a customer. The lead participant (purchaser of protection) then enters into a risk participation agreement with a counterparty (seller of protection), under which the counterparty receives a fee to accept a portion of the lead participant s credit risk. If the customer defaults on the swap

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contract, the counterparty to the risk participation agreement must reimburse the lead participant for the counterparty s percentage of the positive fair value of the customer swap as of the default date. If the customer swap has a negative fair value, the counterparty has no reimbursement requirements. The notional amount represents the maximum amount that the seller could be required to pay. If the customer defaults on the swap contract and the seller fulfills its payment obligations under the risk participation agreement, the seller is entitled to a pro rata share of the lead participant s claims against the customer under the terms of the swap agreement.

The following table provides information on the types of credit derivatives sold by us and held on the balance sheet at September 30, 2012, December 31, 2011, and September 30, 2011. The payment/performance risk assessment is based on the default probabilities for the underlying reference entities debt obligations using a Moody s credit ratings matrix known as Moody s Idealized Cumulative Default Rates. The payment/performance risk shown in the table represents a weighted-average of the default probabilities for all reference entities in the respective portfolios. These default probabilities are directly correlated to the probability that we will have to make a payment under the credit derivative contracts.

	September 30, 2012			**December 31, 2011**			**September 30, 2011**		
dollars in millions	**Notional Amount**	**Average Term (Years)**	**Payment / Performance Risk**	**Notional Amount**	**Average Term (Years)**	**Payment / Performance Risk**	**Notional Amount**	**Average Term (Years)**	**Payment / Performance Risk**
Single name credit default swaps	**$ 553**	**2.37**	**3.74 %**	$ 878	2.18	4.98 %	$ 903	2.37	3.89 %
Traded credit default swap indices	**466**	**2.66**	**3.56**	343	3.20	4.58	346	3.45	4.04
Other	**27**	**5.32**	**11.53**	18	5.74	10.89	20	5.55	10.82
Total credit derivatives sold	**$ 1,046**			$ 1,239			$ 1,269		

Credit Risk Contingent Features

We have entered into certain derivative contracts that require us to post collateral to the counterparties when these contracts are in a net liability position. The amount of collateral to be posted is based on the amount of the net liability and thresholds generally related to our long-term senior unsecured credit ratings with Moody s and S&P. Collateral requirements also are based on minimum transfer amounts, which are specific to each Credit Support Annex (a component of the ISDA Master Agreement) that we have signed with the counterparties. In a limited number of instances, counterparties 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, 2012, KeyBank s ratings with Moody s and S&P were A3 and A-, respectively, and KeyCorp s ratings with Moody s and S&P were Baa1 and BBB+, respectively. If there were a downgrade of our rating 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, 2012, the aggregate fair value of all derivative contracts with credit risk contingent features (i.e., those containing collateral posting or termination provisions based on our ratings) held by KeyBank that were in a net liability position totaled $572 million, which includes $558 million in derivative assets and $1.1 billion in derivative liabilities. We had $563 million in cash and securities collateral posted to cover those positions as of September 30, 2012. 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) as of September 30, 2012, held by KeyCorp that were in a net liability position totaled $29 million, which is comprised solely of $29 million in derivative liabilities. We had $27 million in cash and securities collateral posted to cover those positions as of September 30, 2012.

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, 2012, December 31, 2011, and September 30, 2011. 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, 2012, and take into account all collateral already posted. A similar calculation was performed for KeyCorp and additional collateral of $3 million would have been required as of September 30, 2012, while additional collateral would not have been required as of December 31, 2011 and September 30, 2011.

in millions	**September 30, 2012**		**December 31, 2011**		**September 30, 2011**	
	Moody s	**S&P**	**Moody s**	**S&P**	**Moody s**	**S&P**
KeyBank s long-term senior unsecured credit ratings	**A3**	**A-**	A3	A-	A3	A-
One rating downgrade	**$ 6**	**$ 6**	$ 11	$ 11	$ 11	$ 11
Two rating downgrades	**11**	**11**	16	16	16	16
Three rating downgrades	**13**	**13**	16	16	16	16

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KeyBank s long-term senior unsecured credit rating currently is four ratings above noninvestment grade at Moody s and S&P. If KeyBank s ratings had been downgraded below investment grade as of September 30, 2012, payments of up to $14 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. If KeyCorp s ratings had been downgraded below investment grade as of September 30, 2012, payments of up to $3 million would have been required to either terminate the contracts or post additional collateral for those contracts in a net liability position, taking into account all collateral already posted.

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8. Mortgage Servicing Assets

We originate and periodically sell commercial mortgage loans but continue to service those loans for the buyers. We also may purchase the right to service commercial mortgage loans for other lenders. 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:

in millions	Nine months ended September 30, 2012	2011
Balance at beginning of period	**$ 173**	$ 196
Servicing retained from loan sales	**30**	15
Purchases	**31**	7
Amortization	**(43)**	(41)
Impairments	**(3)**	
Balance at end of period	**$ 188**	$ 177
Fair value at end of period	**$ 237**	$ 260

The fair value of mortgage servicing assets is determined by calculating the present value of future cash flows associated with servicing the loans. This calculation uses a number of assumptions that are based on current market conditions. The primary economic assumptions used to measure the fair value of our mortgage servicing assets at September 30, 2012, and 2011, generally are:

¿ prepayment speed at an annual rate of 0.00% to 25.00%;

¿ expected credit losses at a static rate of 1.00% to 3.00%;

¿ residual cash flows discount rate of 7.00% to 15.00%; and

¿ value assigned to escrow funds at an interest rate of .27% to 2.78%.

If these economic assumptions change or prove incorrect, the fair value of mortgage servicing assets may as a result change in the future. The volume of loans serviced, expected credit losses, and the value assigned to escrow deposits are critical to the valuation of servicing assets. At September 30, 2012, a 1.00% decrease in the value assigned to the escrow deposits would cause a $33 million decrease in the fair value of our mortgage servicing assets. An increase in the assumed default rate of commercial mortgage loans of 1.00% would cause a $2 million decrease in the fair value of our mortgage servicing assets.

Contractual fee income from servicing commercial mortgage loans totaled $67 million for the nine-month period ended September 30, 2012, and $72 million for the nine-month period ended September 30, 2011. We have elected to account for servicing assets using the amortization method. The amortization of servicing assets is determined in proportion to, and over the period of, the estimated net servicing income. The amortization of servicing assets 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.

Subsequent to its January 19, 2011, publicly issued announcement, Moody s, a credit rating agency that rates KeyCorp and KeyBank debt securities, indicated to KeyBank that certain escrow deposits associated with our mortgage servicing operations had to be moved to another financial institution that meets Moody s minimum ratings threshold. As a result of this decision by Moody s, during the first quarter of 2011, KeyBank transferred approximately $1.5 billion of these escrow deposit balances to an acceptably-rated institution resulting in an immaterial impairment of the related mortgage servicing assets. We funded this movement of the escrow deposits by selling a similar amount of securities available for sale at the time of the transfer. KeyBank had ample liquidity reserves to offset the loss of these deposits.

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 119 of our 2011 Annual Report on Form 10-K and Note 11 (Acquisitions and Discontinued Operations) under the heading Education lending in this report.

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9. Variable Interest Entities

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

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

Our VIEs are summarized below. We define a significant interest in a VIE as a subordinated interest that exposes us to a significant portion, but not the majority, of the VIE s expected losses or residual returns, even though we do not have the power to direct the activities that most significantly impact the entity s economic performance.

	Consolidated VIEs		Unconsolidated VIEs		
in millions	Total Assets	Total Liabilities	Total Assets	Total Liabilities	Maximum Exposure to Loss
September 30, 2012					
LIHTC funds	$ 59	69	$ 113		
Education loan securitization trusts	2,542	$ 2,335	N/A	N/A	N/A
LIHTC investments	N/A	N/A	767		$ 418

Our involvement with VIEs is described below.

Consolidated VIEs

LIHTC guaranteed funds. KAHC formed limited partnerships, known as funds, that 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 $40 million at September 30, 2012. 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 to 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. Additional information on return guarantee agreements with LIHTC investors is presented in Note 12 (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 September 30, 2012, we estimated the settlement

value of these third-party interests to be between $10 million and $43 million, while the recorded value, including reserves, totaled $65 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. In the past, as part of our education lending business model, we originated and securitized education loans. As the transferor, we 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. We have not securitized any education loans since 2006.

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We consolidated our ten outstanding education loan securitization trusts as of January 1, 2010, and made a corresponding $45 million cumulative effect adjustment. We were required to consolidate these trusts because we hold the residual interests and, as the master servicer we have the power to direct the activities that most significantly influence the trusts economic performance. We elected to consolidate these trusts at fair value. The trust assets can be used only to settle the obligations or securities that the trusts issue; we cannot sell the assets or transfer the liabilities. The security holders or beneficial interest holders do not have recourse to us, and we do not have any liability recorded related to their securities. During the third quarter of 2011, we determined that the $45 million adjustment was incorrect. Further information regarding this error and how we corrected it as well as additional information about these education loan securitization trusts is generally provided in Note 11 (Acquisitions and Discontinued Operations) under the heading Education lending.

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 because we do not absorb the majority of the funds expected losses and do not have the power to direct activities that most significantly influence the economic performance of these entities. At September 30, 2012, assets of these unconsolidated nonguaranteed funds totaled $113 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 Key Community Bank, 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 that most significantly influence the economic performance of their respective partnerships and have the obligation to absorb expected losses and the right to receive benefits.

At September 30, 2012, assets of these unconsolidated LIHTC operating partnerships totaled approximately $767 million. At September 30, 2012, our maximum exposure to loss in connection with these partnerships is the unamortized investment balance of $321 million plus $97 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 is remote. During the first nine months of 2012, 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 $994 million at September 30, 2012. 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. Information regarding our exposure to loss in connection with these guaranteed funds is included in Note 12 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 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.

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10. Income Taxes

Income Tax Provision

In accordance with the applicable accounting guidance, the principal method established for computing the provision for income taxes in interim periods requires us to make our best estimate of the effective tax rate expected to be applicable for the full year. This estimated effective tax rate is then applied to interim consolidated pre-tax operating income to determine the interim provision for income taxes. Additionally, the accounting guidance allows for an alternative method to computing the effective tax rate and, thus the interim provision for income taxes, when a taxpayer is unable to calculate a reliable estimate of the effective tax rate for the entire year. For the third quarter and second quarters of 2012, we applied an estimated annual effective rate to the interim period s consolidated pre-tax operating income. For the interim periods during 2011, we applied the alternative method allowed under the accounting guidance. The provision for the quarters during 2011 was calculated by applying the statutory federal income tax rate to the quarter s consolidated operating income before taxes after modifications. These items included modifications for nontaxable items recognized in the quarter, which were comprised of income from corporate-owned life insurance, tax credits related to investments in low-income housing projects, and state taxes. During those periods, we concluded that the uncertainty of the economic environment made the alternative method more reliable in determining the tax provision for those periods.

The effective tax rate, which is the provision for income taxes as a percentage of income from continuing operations before income taxes, was 18.9% for the third quarter of 2012, 19.8% for the second quarter of 2012, and 28.6% for the third quarter of 2011. The effective tax rates are below our combined federal and state statutory tax rate of 37.2%, due primarily to income from investments in tax-advantaged assets such as corporate-owned life insurance and credits associated with investments in low-income housing projects. In addition, during the third quarter and the first nine months of 2012, our effective tax rate was lower due to the early termination of certain leveraged leases that resulted in nontaxable gains pursuant to a prior settlement with the IRS.

Deferred Tax Asset

At September 30, 2012, from continuing operations, we had a federal deferred tax asset of $97 million and a state deferred tax liability of $23 million compared to a federal deferred tax asset of $111 million and a state deferred tax liability of $19 million at December 31, 2011, and a consolidated federal net deferred tax asset of $62 million and a state deferred tax liability of $29 million at September 30, 2011, included in accrued income and other assets on the balance sheet. To determine the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded, we conduct a quarterly assessment of all available evidence. This evidence includes, but is not limited to, taxable income in prior periods, projected future taxable income, and projected future reversals of deferred tax items. Based on these criteria, and in particular our expectations 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.

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11. Acquisitions and Discontinued Operations

Acquisitions

Western New York Branches. On July 13, 2012, we acquired 37 retail banking branches in Western New York. This acquisition, which is being accounted for as a business combination, will allow us to improve profitability by leveraging our brand, growing client relationships, and aligning our cost structure with the current operating environment. The acquisition date estimated fair value of the assets and deposits acquired was approximately $2 billion. We received loans with an estimated fair value of $244 million (including $25 million of PCI loans), $8 million of premises and equipment and assumed $2 billion of deposits. Cash of $1.8 billion was received to assume the net liabilities, and we recorded an estimated core deposit intangible asset of $40 million and an estimated goodwill asset of $62 million in the Community Bank reporting unit during the third quarter of 2012. All of the goodwill related to this acquisition is expected to be deductible for tax purposes. The fair value estimates relating to our July 13, 2012 acquisition represent our best estimate of fair value and are expected to be finalized during the fourth quarter of 2012. A $5 million increase in our allowance for loan and lease losses and $2 million in expense amortization related to the core deposit intangible asset were recorded during the quarter ending September 30, 2012 related to this acquisition.

A second closing of this acquisition occurred on September 14, 2012 when we acquired $69 million of credit card assets and assumed a reward liability of $1 million resulting in a cash payment to the seller of $68 million. The fair value of these credit card assets and the related purchased credit card relationship intangible asset are currently being determined. No additional goodwill is expected to result from the acquisition of these credit card assets.

Key-Branded Credit Card Portfolio. On August 1, 2012, we acquired Key-branded credit card assets from Elan Financial Services, Inc. This acquisition was accounted for as an asset purchase and is part of our strategy to diversify our revenue stream and to provide opportunities for future growth. The estimated fair value of the credit card assets purchased was approximately $718 million at the acquisition date. We also recorded an estimated purchased credit card relationship intangible asset of approximately $135 million and a rewards liability of approximately $9 million in the Community Bank reporting unit. The fair value estimates relating to this asset acquisition are expected to be finalized during the fourth quarter of 2012. A $24 million increase in our allowance for loan and lease losses was recorded during the quarter ending September 30, 2012 related to the acquisition of these credit card assets. We also recorded $6 million in amortization related to the purchased credit card relationship intangible asset during the third quarter of 2012.

Discontinued operations

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

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

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

in millions	Three months ended September 30, 2012	2011	Nine months ended September 30, 2012	2011
Net interest income	**$ 28**	$ 35	**$ 89**	$ 106
Provision for loan and lease losses	**(2)**	37	**4**	99
Net interest income (expense) after provision for loan and lease losses	**30**	(2)	**85**	7
Noninterest income	**(21)**	(16)	**(41)**	(37)
Noninterest expense	**$ 9**	10	**27**	30
Income (loss) before income taxes		(28)	**17**	(60)
Income taxes		(10)	**6**	(22)
Income (loss) from discontinued operations, net of taxes [(a)]		$ (18)	**$ 11**	$ (38)

(a) Includes after-tax charges of $13 million and $12 million for the three-month periods ended September 30, 2012 and 2011, respectively, and $39 million and $37 million for the nine-month periods ended September 30, 2012 and 2011, respectively, determined by applying a matched funds transfer pricing methodology to the liabilities assumed necessary to support the discontinued operations.

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

in millions	September 30, 2012	December 31, 2011	September 30, 2011
Trust loans at fair value	**$ 2,513**	$ 2,726	$ 2,829
Portfolio loans at fair value	**71**	76	75
Loans, net of unearned income of ($2), ($2) and $1	**2,744**	3,010	3,080
Less: Allowance for loan and lease losses	**65**	104	115
Net loans	**5,263**	5,708	5,869
Trust accrued income and other assets at fair value	**29**	34	31
Accrued income and other assets	**68**	87	101
Total assets	**$ 5,360**	$ 5,829	$ 6,001
Trust accrued expense and other liabilities at fair value	**$ 25**	$ 28	$ 28
Trust securities at fair value	**2,310**	2,522	2,623
Total liabilities	**$ 2,335**	$ 2,550	$ 2,651

The discontinued education lending business consists of assets and liabilities in the securitization trusts (recorded at fair value), as well as loans in portfolio (recorded at fair value), and loans in portfolio (recorded at carrying value with appropriate valuation reserves) which are held outside the trust.

At September 30, 2012, portfolio loans recorded at carrying value include 246 TDRs with a recorded investment of approximately $3 million (pre-modification and post- modification). A specifically allocated allowance of less than $1 million was assigned to these loans as of September 30, 2012. There have been no significant payment defaults. There are no significant commitments outstanding to lend additional funds to these borrowers. Additional information regarding TDR classification and ALLL methodology is provided in Note 4 (Asset Quality).

In the past, as part of our education lending business model, we originated and securitized education loans. The process of securitization involves taking a pool of loans from our balance sheet and selling them to a bankruptcy-remote QSPE, or trust. This trust then issues securities to investors in the capital markets to raise funds to pay for the loans. The interest generated on the loans pays holders of the securities issued. As the transferor, we retain a portion of the risk in the form of a residual interest and also retain the right to service the securitized loans and receive servicing fees.

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

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The trust assets can be used only to settle the obligations or securities the trusts issue; we cannot sell the assets or transfer the liabilities. The loans in the consolidated trusts consist of both private and government-guaranteed loans. The security holders or beneficial interest holders do not have recourse to Key. Our economic interest or risk of loss associated with these education loan securitization trusts is approximately $207 million as of September 30, 2012. We record all income and expense (including fair value adjustments) through the income (loss) from discontinued operations, net of tax line item in our income statement.

We elected to consolidate these trusts at fair value. Carrying the assets and liabilities of the trusts at fair value better depicts our economic interest. The fair value of the assets and liabilities of the trusts is determined by calculating the present value of the future expected cash flows. We rely on unobservable inputs (Level 3) when determining the fair value of the assets and liabilities of the trusts because observable market data is not available. See further discussion regarding our valuation process later in this note.

A cumulative effect adjustment of approximately $45 million, which increased our beginning balance of retained earnings at January 1, 2010, was recorded when the trusts were consolidated. The amount of this cumulative effect adjustment was driven primarily by derecognizing the residual interests and servicing assets related to these trusts and consolidating the assets and liabilities at fair value.

During the third quarter of 2011, we corrected an error related to the $45 million cumulative effect adjustment recorded to beginning retained earnings upon consolidation of the education loan securitization trusts on January 1, 2010. Deferred taxes had not been appropriately recognized for the assets and liabilities of the trusts consolidated which were accounted for at fair value for book purposes but not for tax. We assessed the materiality of the error in accordance with the applicable SEC guidance and concluded that the error was not material, individually or in the aggregate, to our financial position for any prior period or the quarter ending September 30, 2011, to trends for those periods affected, or to a fair presentation of our financial statements for those periods. The error had no impact on our results of operations. Accordingly, results for periods prior to the quarter ending September 30, 2011 were not restated. Instead, accrued income and other assets and retained earnings were reduced by $30 million to correct this error in the third quarter of 2011.

On September 27, 2011, we purchased the government-guaranteed loans from one of the education loan securitization trusts pursuant to the legal terms of the particular trust. The trust used the cash proceeds from the sale of these loans to retire the outstanding securities related to these government-guaranteed loans. This particular trust remains in existence and continues to maintain the private education loan portfolio and has securities related to these loans outstanding. The government-guaranteed loans we purchased are held as portfolio loans and continue to be accounted for at fair value. The portfolio loans were valued using an internal discounted cash flow model, which was affected by assumptions for defaults, expected credit losses, discount rates and prepayments. The portfolio loans are considered to be Level 3 assets since we rely on unobservable inputs when determining fair value. See following discussion regarding our valuation process for these loans as well as the trust loans and securities.

Corporate Treasury, within our Finance area, is responsible for the quarterly valuation process that determines the fair value of the loans and securities in our education loan securitization trusts as well as our student loans held in portfolio that are accounted for at fair value. Corporate Treasury provides these fair values to a Working Group Committee (the Working Group) that is comprised of representatives from the line of business, Credit and Market Risk Management, Accounting, Business Finance (part of our Finance area), and Corporate Treasury. The Working Group is a subcommittee of the Fair Value Committee that is discussed in more detail in Note 5 (Fair Value Measurements). The Working Group reviews all significant inputs and assumptions and approves the resulting fair values.

The Working Group reviews actual performance trends of the loans and securities on a quarterly basis and uses statistical analysis and qualitative measures to determine assumptions for future performance. Predictive models that incorporate delinquency and charge-off trends along with economic outlooks assist the Working Group to forecast future defaults. The Working Group uses this information to formulate the credit outlook for each of the securitization trusts. Higher projected defaults, fewer expected recoveries, elevated prepayment speeds and higher discount rates would be expected to result in a lower fair value of the loans and securities in these securitization trusts as well as the portfolio loans at fair value. Default expectations and discount rate changes have the most significant impact on the fair values of the loans and securities. It is important to note that increased cash flow uncertainty, whether through higher defaults and prepayments or fewer recoveries, can result in higher discount rates for use in the fair value process for these loans and securities.

The valuation process for the education loan securitization trust and portfolio loans that are accounted for at fair value is based on a discounted cash flow analysis using a model purchased from a third party that is maintained by Corporate

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Treasury. The market for student loans, either whole-loan purchases or securitization, is relatively illiquid and has not recovered from the effects of the financial crisis. The valuation process begins with loan-by-loan-level data that is aggregated into pools, based on underlying loan structural characteristics (i.e., current unpaid principal balance, contractual term, interest rate, etc.). Cash flows for these loan pools are developed using a financial model that reflects certain assumptions for defaults, recoveries, status change and prepayments.

A net earnings stream, taking into account cost of funding, is calculated and discounted back to the measurement date using an appropriate discount rate. This resulting amount is used to determine the present value of the loans which represents their fair value to a market participant.

The unobservable inputs set forth in the following table are reviewed and approved by the Working Group on a quarterly basis. The Working Group determines these assumptions based on available data, discussions with appropriate individuals internal and external to Key, as well as the knowledge and experience of the individuals on the Working Group.

A similar discounted cash flow approach to that described above is used on a quarterly basis by Corporate Treasury to fair value the trust securities. In valuing these securities, the discount rates used are provided by a third-party valuation consultant. These discount rates are based primarily on secondary market spread indices for similar student loans and asset-backed securities and are developed by the consultant using market-based data. On a quarterly basis, the Working Group reviews the discount rate inputs used in the valuation process for reasonableness based on the historical and current market knowledge of the Working Group members.

A quarterly variance analysis reconciles valuation changes in the model used to calculate the fair value of the trust loans and securities and the portfolio loans at fair value. This quarterly analysis considers loan and securities runoff, yields, future default and recovery changes, and the timing of cash releases to us from the trusts. Back testing for expected defaults to actual experience is also performed as the impact of future defaults has a significant impact on the fair value of these loans and securities over time. In addition, our internal model validation group periodically performs a review to ensure the accuracy and validity of the model for determining the fair value of these loans and securities.

The following table shows the significant unobservable inputs used to measure the fair value of the education loan securitization trust loans and securities and the portfolio loans accounted for at fair value as of September 30, 2012:

September 30, 2012 *dollars in millions*	**Fair Value of Level 3 Assets and Liabilities**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Trust loans and portfolio loans accounted for at fair value	**$** 2,584	Discounted cash flow	Prepayment speed Expected credit losses Discount rate Expected defaults	4.00 - 26.00% (10.22%) 2.00 - 80.00% (52.34%) 2.60 - 7.30% (4.90%) 8.00 - 21.50% (12.60%)
Trust securities	2,310	Discounted cash flow	Discount rate	1.80 - 6.50% (4.30%)

The following table shows the consolidated trusts assets and liabilities at fair value and the portfolio loans at fair value and their related contractual values as of September 30, 2012. At September 30, 2012, loans held by the trusts with unpaid principal balances of $38 million ($36 million on a fair value basis) and portfolio loans at fair value with unpaid principal balances of $2 million ($3 million on a fair value basis) were 90 days or more past due. Loans held by the trusts aggregating $16 million ($15 million on a fair value basis) were in nonaccrual status, while portfolio loans at fair value in nonaccrual status aggregated to less than $1 million on both a contractual amount and fair value basis. Portfolio loans at carrying value that are 90 days or more past due were $47 million, $48 million and $49 million at September 30, 2012, December 31, 2011 and September 30, 2011, respectively. Portfolio loans at carrying value in nonaccrual (and nonperforming) status were $5 million, $3 million, and $3 million at September 30, 2012, December 31, 2011, and September 30, 2011, respectively. Our policies for determining past due loans, placing loans on nonaccrual, applying payments on nonaccrual loans and resuming accrual of interest are disclosed in Note 1 (Summary of Significant Accounting Policies) under the heading Nonperforming Loans on page 2011 Annual Report on Form 10-K.

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September 30, 2012

in millions	Contractual Amount	Fair Value
ASSETS		
Portfolio loans	$ 68	$ 71
Trust loans	2,617	2,513
Trust other assets	29	29
LIABILITIES		
Trust securities	$ 2,665	$ 2,310
Trust other liabilities	25	25

The following table presents the assets and liabilities of the trusts that were consolidated and are measured at fair value, as well as the portfolio loans that are measured at fair value on a recurring basis.

September 30, 2012

in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Portfolio loans			$ 71	$ 71
Trust loans			2,513	2,513
Trust other assets			29	29
Total assets on a recurring basis at fair value			$ 2,613	$ 2,613
LIABILITIES MEASURED ON A RECURRING BASIS				
Trust securities			$ 2,310	$ 2,310
Trust other liabilities			25	25
Total liabilities on a recurring basis at fair value			$ 2,335	$ 2,335

The following table shows the change in the fair values of the Level 3 consolidated education loan securitization trusts for the nine-month period ended September 30, 2012.

in millions	Portfolio Student Loans	Trust Student Loans	Trust Other Assets	Trust Securities	Trust Other Liabilities
Balance at December 31, 2011	$ 76	$ 2,726	$ 34	$ 2,522	$ 28
Gains (losses) recognized in earnings [(a)]		59		103	
Purchases					
Sales					
Issuances					
Settlements	(5)	(272)	(5)	(315)	(3)
Balance at September 30, 2012	$ 71	$ 2,513	$ 29	$ 2,310	$ 25

(a) Gains (losses) on the Trust Student Loans and Trust Securities were driven primarily by fair value adjustments.

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

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

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in millions	Three months ended September 30, 2012	2011	Nine months ended September 30, 2012	2011
Noninterest income				$ 1
Noninterest expense			$ 9	1
Income (loss) before income taxes			(9)	
Income taxes	$	(1)	(3)	(1)
Income (loss) from discontinued operations, net of taxes	$	1	$ (6)	$ 1

The discontinued assets of Austin included on the balance sheet are as follows; there were no discontinued liabilities at September 30, 2012, December 31, 2011, and September 30, 2011:

in millions	September 30, 2012	December 31, 2011	September 30, 2011
Cash and due from banks	$ 21	$ 31	$ 31
Net loans			1
Total assets	$ 21	$ 31	$ 32

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

in millions	Three months ended September 30, 2012	2011	Nine months ended September 30, 2012	2011
Net interest income	$ 28	$ 35	$ 89	$ 106
Provision for loan and lease losses	(2)	37	4	99
Net interest income (expense) after provision for loan and lease losses	30	(2)	85	7
Noninterest income	(21)	(16)	(41)	(36)
Noninterest expense	$ 9	10	36	31
Income (loss) before income taxes		(28)	8	(60)
Income taxes		(11)	3	(23)
Income (loss) from discontinued operations, net of taxes [(a)]		$ (17)	$ 5	$ (37)

(a) Includes after-tax charges of $13 million and $12 million for the three-month periods ended September 30, 2012 and 2011, respectively, and $39 million and $37 million for the nine-month periods ended September 30, 2012 and 2011, respectively, determined by applying a matched funds transfer pricing methodology to the liabilities assumed necessary to support the discontinued operations.

The combined assets and liabilities of the discontinued operations are as follows:

in millions	**September 30, 2012**	**December 31, 2011**	**September 30, 2011**
Cash and due from banks	**$ 21**	$ 31	$ 31
Trust loans at fair value	**2,513**	2,726	2,829
Portfolio loans at fair value	**71**	76	75
Loans, net of unearned income of ($2), ($2) and $1	**2,744**	3,010	3,081
Less: Allowance for loan and lease losses	**65**	104	115
Net loans	**5,263**	5,708	5,870
Trust accrued income and other assets at fair value	**29**	34	31
Accrued income and other assets	**68**	87	101
Total assets	**$ 5,381**	$ 5,860	$ 6,033
Trust accrued expense and other liabilities at fair value	**$ 25**	$ 28	$ 28
Trust securities at fair value	**2,310**	2,522	2,623
Total liabilities	**$ 2,335**	$ 2,550	$ 2,651

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12. Contingent Liabilities and Guarantees

Legal Proceedings

The following provides information on material developments in our legal proceedings during the quarter. Additional information on our legal proceedings is available in our 2011 Annual Report on Form 10-K, Note 16 (Commitments, Contingent Liabilities and Guarantees) under the heading Legal Proceedings on pages 175-177, and in our Form 10-Q filings for the periods ended June 30, 2012 and March 31, 2012, Note 12 (Contingent Liabilities and Guarantees) under the heading Legal Proceedings on page 60.

Austin Related Claims.

Madoff-related claims. As previously reported, Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers, 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 controlled. The investment losses borne by Austin s funds stem from investments in certain Madoff-advised hedge funds. Several lawsuits, including putative class actions and direct actions, and an arbitration proceeding, are pending against Austin, KeyCorp, Victory Capital Management and certain employees and former employees of Key (collectively the KeyCorp defendants) alleging various claims, including negligence, fraud, breach of fiduciary duties, and violations of federal securities laws and ERISA. The lawsuits have been consolidated into one action styled *In re Austin Capital Management, Ltd., Securities & Employee Retirement Income Security Act (ERISA) Litigation* (Austin MDL) pending in federal court in New York. The KeyCorp defendants motion to dismiss the consolidated amended complaint is pending in the Austin MDL. The arbitration proceeding remains in abeyance. Additionally, an informal demand was asserted against Austin seeking recovery related to certain redemptions of investments made by Austin funds in Madoff-advised hedge funds prior to the revelation of Madoff s crimes. That demand was settled in August 2012 for an immaterial amount, which was paid out of existing reserves.

Monday litigation. As previously reported, KeyCorp and certain current and former directors and officers were named as defendants in the shareholder derivative lawsuit captioned *Warren Monday, et al., v. Henry L. Meyer III, et al.* (Monday), filed in the United States District Court for the Northern District of Ohio. As previously reported, plaintiffs filed a notice of appeal after the court dismissed the lawsuit in late 2011. While the matter was pending on appeal, the parties agreed to a settlement, subject to the approval of the court. On August 6, 2012 a fairness hearing was held. The court entered an order on August 13, 2012 approving the settlement and dismissing the case. The settlement amount was immaterial and paid out of existing reserves.

Checking Account Overdraft Litigation. As previously reported, KeyBank was named a defendant in a putative class action seeking to represent a national class of KeyBank customers allegedly harmed by KeyBank s overdraft practices. The complaint alleges that KeyBank unfairly manipulates customer transactions to maximize the number of overdraft charges. The claims asserted against KeyBank include breach of contract and breach of covenant of good faith and fair dealing, common law unconscionability, conversion, unjust enrichment and violation of the Washington Consumer Protection Act. Plaintiffs seek restitution and disgorgement of overdraft fees paid by plaintiffs since February 2004 as a result of the alleged manipulation of customer transactions, damages, expenses of litigation, attorneys fees, and other relief deemed equitable by the court. The case was transferred and consolidated for purposes of pretrial discovery and motion proceedings to a multidistrict proceeding styled *In Re: Checking Account Overdraft Litigation* pending in the United States District Court for the Southern District of Florida. KeyBank filed a notice of appeal with the United States Court of Appeals for the Eleventh Circuit in regard to the denial of KeyBank s motion to compel arbitration. On August 21, 2012, the court of appeals vacated the district court s order denying KeyBank s motion to compel arbitration and remanded the case for further consideration. At this stage of the proceedings it is too early to determine if the matter would reasonably be expected to have a material adverse effect on our financial condition.

Other litigation. In the ordinary course of business, we are subject to various other litigation, investigations and administrative proceedings. These other matters may involve claims for substantial monetary relief. Due to the complex nature of these various other matters, it may be years before some matters are resolved. While it is impossible to ascertain the ultimate resolution or range of financial liability, based on information presently known to us, we do not believe there is any other matter to which we are a party, or involving any of our properties that, individually or in the aggregate, would reasonably be expected to have a material adverse effect on our financial condition. We note, however, that in light of the inherent uncertainty in legal proceedings there can be no assurance that the ultimate resolution will not exceed established reserves. As a result, the outcome of a particular matter, or a combination of matters, may be material to our results of operations for a particular period, depending upon the size of the loss or our income for that particular period.

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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, 2012. 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 177 of our 2011 Annual Report on Form 10-K.

September 30, 2012 *in millions*	**Maximum Potential Undiscounted Future Payments**	**Liability Recorded**
Financial guarantees:		
Standby letters of credit	$ 10,377	$ 52
Recourse agreement with FNMA	1,003	7
Return guarantee agreement with LIHTC investors	43	43
Written put options [(a)]	2,003	50
Default guarantees	3	1
Total	$ 13,429	$ 153

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

We determine the payment/performance risk associated with each type of guarantee described below based on the probability that we could be required to make the maximum potential undiscounted future payments shown in the preceding table. We use a scale of low (0-30% 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, 2012, 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, 2012, our standby letters of credit had a remaining weighted-average life of 2.9 years, with remaining actual lives ranging from less than one year to as many as eleven years.

Recourse agreement with FNMA. We participate as a lender in the FNMA Delegated Underwriting and Servicing program. FNMA delegates responsibility for originating, underwriting, and servicing mortgages, and we assume a limited portion of the risk of loss during the remaining term on each commercial mortgage loan that we sell to FNMA. We maintain a reserve for such potential losses in an amount that we believe approximates the fair value of our liability. At September 30, 2012, the outstanding commercial mortgage loans in this program had a weighted-average remaining term of 6.4 years, and the unpaid principal balance outstanding of loans sold by us as a participant was $3.1 billion. As shown in the preceding 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, 2012. If we are required to make a payment, we would have an interest in the collateral underlying the related commercial mortgage loan; any loss we incur could be offset by the amount of any recovery from the collateral.

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

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As shown in the previous table, KAHC maintained a reserve in the amount of $43 million at September 30, 2012, 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. A majority of these payments are due and payable within the next twelve months.

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

Written put options. In the ordinary course of business, we write interest rate caps and floors for commercial loan clients that have variable and fixed rate loans, respectively, with us and wish to mitigate their exposure to changes in interest rates. At September 30, 2012, our written put options had an average life of 1.8 years. These instruments are considered to be guarantees, as we are required to make payments to the counterparty (the commercial loan client) based on changes in an underlying variable that is related to an asset, a liability, or an equity security that the client holds (i.e., the commercial loan client). We are obligated to pay the client if the applicable benchmark interest rate is above or below a specified level (known as the strike rate). These written put options are accounted for as derivatives at fair value, as further discussed in Note 7 (Derivatives and Hedging Activities). We typically mitigate our potential future payment obligations by entering into offsetting positions with third parties.

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

Default guarantees. Some lines of business participate in guarantees that obligate us to perform if the debtor (typically a client) fails to satisfy all of its payment obligations to third parties. We generally undertake these guarantees for one of two possible reasons: either the risk profile of the debtor should provide an investment return, or we are supporting our underlying investment in the debtor. The terms of these default guarantees range from less than one year to as many as seven years; 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, and from other relationships.

Liquidity facilities that support asset-backed commercial paper conduits. At September 30, 2012, we did not have any liquidity facilities remaining outstanding with any unconsolidated third-party commercial paper conduits. The liquidity facility, which expired during the second quarter of 2012, obligated us to provide aggregate funding of up to a certain amount in the event that a credit market disruption or other factors prevented the conduit from issuing commercial paper.

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

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

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13. Trust Preferred Securities Issued by Unconsolidated Subsidiaries

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

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

¿ required distributions on the trust preferred securities;

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

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

The Dodd-Frank Act changes the regulatory capital standards that apply to BHCs by requiring the phase-out of the treatment of trust preferred securities and cumulative preferred securities as Tier 1 eligible capital. This three-year phase-out period, which commences January 1, 2013, will ultimately require us to treat our mandatorily redeemable trust preferred securities as Tier 2 capital. On June 12, 2012, the Federal Reserve, the FDIC, and the OCC jointly announced three NPRs that would revise and replace the agencies current capital rules in a manner consistent with implementing the final framework for strengthening international capital and liquidity regulation (Basel III) adopted by the Basel Committee on Banking Supervision (the Basel Committee). One NPR proposes rules implementing the phase-out of trust preferred securities as Tier 1 capital, consistent with the Dodd-Frank Act, as part of the implementation of Basel III. A more thorough discussion of current rulemaking underway in the U.S. to implement Basel III is in the Supervision and Regulation portion of this report.

As of September 30, 2012, the trust preferred securities issued by the KeyCorp capital trusts represent $339 million or 3.5% of our total qualifying Tier 1 capital, net of goodwill. As previously reported, on July 12, 2012, we completed the redemption in full of the trust preferred securities issued by KeyCorp Capital VII and KeyCorp Capital X, with an aggregate liquidation preference of $707 million.

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

dollars in millions	Trust Preferred Securities, Net of Discount	(a) Common Stock	Principal Amount of Debentures, Net of Discount	(b) Interest Rate of Trust Preferred Securities and Debentures	(c) Maturity of Trust Preferred Securities and Debentures
September 30, 2012					
KeyCorp Capital I	**$ 156**	**$ 6**	**$ 162**	**1.201 %**	**2028**
KeyCorp Capital II	**116**	**4**	**120**	**6.875**	**2029**
KeyCorp Capital III	**151**	**4**	**155**	**7.750**	**2029**
Total	**$ 423**	**$ 14**	**$ 437**	**5.095 %**	
December 31, 2011	$ 1,206	$ 19	$ 1,225	6.610 %	
September 30, 2011	$ 1,576	$ 19	$ 1,595	6.574 %	

(a) The trust preferred securities must be redeemed when the related debentures mature, or earlier if provided in the governing indenture. Each issue of trust preferred securities carries an interest rate identical to that of the related debenture. Certain trust preferred securities include basis adjustments related to fair value hedges totaling $83 million at September 30, 2012, $160 million at December 31, 2011, and $169 million at September 30, 2011. See Note 7 (Derivatives and Hedging Activities) for an explanation of fair value hedges.

(b) We have the right to redeem these 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); and July 16, 1999 (for debentures owned by KeyCorp Capital III). If the debentures purchased by KeyCorp Capital I are redeemed before they mature, the redemption price will be the principal amount, plus any accrued but unpaid interest. If the debentures purchased by KeyCorp Capital II or KeyCorp Capital III are redeemed before they mature, the redemption price will be the greater of: (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 or 50 basis points in the case of redemption upon either a tax event or a capital treatment event for KeyCorp Capital III), plus any accrued but unpaid interest. When debentures are redeemed in response to tax or capital treatment events, the redemption price for KeyCorp Capital II and KeyCorp Capital III generally is slightly more favorable to us. The principal amount of certain debentures includes basis adjustments related to fair value hedges totaling $83 million at September 30, 2012, $160 million at December 31, 2011, and $169 million at September 30, 2011. See Note 7 (Derivatives and Hedging Activities) for an explanation of fair value hedges.

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

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14. Employee Benefits

Pension Plans

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

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

	Three months ended September 30,		Nine months ended September 30,	
in millions	**2012**	**2011**	**2012**	**2011**
Interest cost on PBO	**$ 12**	$ 14	**$ 36**	$ 42
Expected return on plan assets	**(18)**	(20)	**(54)**	(60)
Amortization of losses	**4**	3	**12**	9
Net pension cost	**$ (2)**	$ (3)	**$ (6)**	(9)

Other Postretirement Benefit Plans

We sponsor a retiree healthcare plan in which all employees age 55 with five years of service (or employees age 50 with 15 years of service who are terminated under conditions that entitle them to a severance benefit) are eligible to participate. Participant contributions are adjusted annually. Key may provide a subsidy towards the cost of coverage for certain employees hired before 2001 with a minimum of 15 years of service at the time of termination. We also maintain a death benefit plan that provides a death benefit for a very limited number of (i) former Key employees who retired from their employment with Key prior to 1994; (ii) former Key employees who elect a grandfathered pension benefit under the KeyCorp Cash Balance Pension Plan; and (iii) Key employees who otherwise were provided a historical death benefit at the time of their termination. The death benefit plan is noncontributory. We use separate VEBA trusts to fund the healthcare plan and the death benefit plan.

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

	Three months ended September 30,		Nine months ended September 30,	
in millions	**2012**	**2011**	**2012**	**2011**
Interest cost on APBO	**$ 1**	$ 1	**$ 3**	$ 3
Expected return on plan assets	**(1)**	(1)	**(3)**	(3)
Net postretirement benefit cost				

The Patient Protection and Affordable Care Act and Education Reconciliation Act of 2010, which were both signed into law in March 2010, changed the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide a benefit that is at least actuarially equivalent to the benefits under Medicare Part D. As a result of these laws, these subsidy payments become taxable in tax years beginning after December 31, 2012. The accounting guidance applicable to income taxes requires the impact of a change in tax law to be immediately recognized in the period that includes the enactment date. The changes to the tax law regarding these subsidies did not affect us as we did not have a deferred tax asset recorded for Medicare Part D subsidies received.

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15. Shareholders Equity

Comprehensive Capital Plan

As previously reported, as authorized by our Board and pursuant to our 2012 capital plan submitted to the Federal Reserve as part of CCAR and not objected to by the Federal Reserve, KeyCorp had authority to repurchase up to $344 million of our Common Shares for general repurchase and repurchases in connection with employee elections under our compensation and benefit programs.

During the third quarter of 2012, we completed $82 million of Common Share repurchases. Following completion of these repurchases, we have remaining authority to repurchase up to $177 million of our Common Shares for general repurchase and repurchases in connection with employee elections under our compensation and benefit programs. Our existing repurchase program does not have an expiration date. Common Share repurchases under the current authorization are expected to be executed through the first quarter of 2013.

Repurchase of TARP CPP Preferred Stock, Warrant and Completion of Equity and Debt Offerings

During 2011, we completed the repurchase of the $2.5 billion of Series B Preferred Stock and corresponding warrant issued to the U.S. Treasury Department. As a result of the repurchase, we recorded a $49 million one-time deemed dividend in the first quarter of 2011 related to the remaining difference between the repurchase price and the carrying value of the preferred shares at the time of repurchase. On April 20, 2011 we repurchased the warrant directly from the U.S. Treasury for $70 million. Beginning with the second quarter of 2011, the repurchase resulted in the elimination of quarterly dividends of $31 million and discount amortization of $4 million, or $140 million on an annual basis, related to these preferred shares. In total, we paid $2.867 billion to the U.S. Treasury during the investment period in the form of dividends, principal and repurchase of the warrant, resulting in a return to the U.S. Treasury of $367 million above the initial investment of $2.5 billion on November 14, 2008.

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16. Line of Business Results

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

Key Community Bank

Key Community Bank serves individuals and small to mid-sized businesses through its 14-state branch network.

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

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

Key Corporate Bank

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 Key Community Bank and Key Corporate Bank 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 community banks. A variety of commercial payment products are provided through the Enterprise Commercial Payments Group.

Equipment Finance meets the equipment financing 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.

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.

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The table on the following pages shows selected financial data for our two major business segments for the three- and nine- month periods ended September 30, 2012 and September 30, 2011. This table is accompanied by supplementary information for our Key Corporate Bank business segment.

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

The selected financial data 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.

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

- The consolidated provision for loan and lease 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 and lease losses. This methodology is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses on page 117 in our 2011 Annual Report on Form 10-K.

- 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 of business.

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.

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Three months ended September 30,	Key Community Bank		Key Corporate Bank	
dollars in millions	**2012**	**2011**	**2012**	**2011**
SUMMARY OF OPERATIONS				
Net interest income (TE)	**$ 365**	$ 371	**$ 182**	$ 172
Noninterest income	**211**	194	**210**	197
Total revenue (TE) [(a)]	**576**	565	**392**	369
Provision (credit) for loan and lease losses	**120**	39	**(3)**	(40)
Depreciation and amortization expense	**16**	9	**11**	17
Other noninterest expense	**496**	448	**198**	199
Income (loss) from continuing operations before income taxes (TE)	**(56)**	69	**186**	193
Allocated income taxes (benefit) and TE adjustments	**(33)**	12	**68**	70
Income (loss) from continuing operations	**(23)**	57	**118**	123
Income (loss) from discontinued operations, net of taxes				
Net income (loss)	**(23)**	57	**118**	123
Less: Net income (loss) attributable to noncontrolling interests				
Net income (loss) attributable to Key	**$ (23)**	$ 57	**$ 118**	$ 123
AVERAGE BALANCES [(b)]				
Loans and leases	**$ 28,386**	$ 26,270	**$ 18,886**	$ 16,986
Total assets [(a)]	**32,136**	29,681	**22,914**	21,168
Deposits	**49,537**	47,672	**12,873**	10,544
OTHER FINANCIAL DATA				
Net loan charge-offs [(b)]	**$ 93**	$ 60	**$ 8**	$ 22
Return on average allocated equity [(b)]	**(3.11) %**	7.19 %	**27.61 %**	22.70 %
Return on average allocated equity	**(3.11)**	7.19	**27.61**	22.70
Average full-time equivalent employees [(c)]	**9,139**	8,641	**2,146**	2,209

Nine months ended September 30,	Key Community Bank		Key Corporate Bank	
dollars in millions	**2012**	2011	**2012**	2011
SUMMARY OF OPERATIONS				
Net interest income (TE)	**$ 1,066**	$ 1,123	**$ 551**	$ 535
Noninterest income	**576**	566	**634**	630
Total revenue (TE) [(a)]	**1,642**	1,689	**1,185**	1,165
Provision (credit) for loan and lease losses	**133**	130	**14**	(137)
Depreciation and amortization expense	**35**	29	**37**	56
Other noninterest expense	**1,411**	1,321	**620**	596
Income (loss) from continuing operations before income taxes (TE)	**63**	209	**514**	650
Allocated income taxes (benefit) and TE adjustments	**(12)**	37	**188**	238
Income (loss) from continuing operations	**75**	172	**326**	412
Income (loss) from discontinued operations, net of taxes				
Net income (loss)	**75**	172	**326**	412
Less: Net income (loss) attributable to noncontrolling interests			**3**	
Net income (loss) attributable to Key	**$ 75**	$ 172	**$ 323**	$ 412
AVERAGE BALANCES [(b)]				
Loans and leases	**$ 27,352**	$ 26,275	**$ 18,668**	$ 17,275
Total assets [(a)]	**30,993**	29,703	**22,831**	21,459
Deposits	**48,523**	47,831	**12,281**	10,671
OTHER FINANCIAL DATA				
Net loan charge-offs [(b)]	**$ 192**	$ 215	**$ 43**	$ 126
Return on average allocated equity [(b)]	**3.42 %**	7.13 %	**24.10 %**	23.57 %
Return on average allocated equity	**3.42**	7.13	**24.10**	23.57
Average full-time equivalent employees [(c)]	**8,872**	8,509	**2,163**	2,131

(a)

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

(b) From continuing operations.

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

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Other Segments		Total Segments		Reconciling Items		Key	
2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
$ 29	$ 10	**$ 576**	$ 553	**$ 2**	$ 2	**$ 578**	$ 555
131	93	**552**	484	**(8)**	(1)	**544**	483
160	103	**1,128**	1,037	**(6)**	1	**1,122**	1,038
(7)	10	**110**	9	**(1)**	1	**109**	10
2	4	**29**	30	**35**	35	**64**	65
15	22	**709**	669	**(39)**	(42)	**670**	627
150	67	**280**	329	**(1)**	7	**279**	336
46	14	**81**	96	**(23)**	5	**58**	101
104	53	**199**	233	**22**	2	**221**	235
					(17)		(17)
104	53	**199**	233	**22**	(15)	**221**	218
2	1	**2**	1			**2**	1
$ 102	$ 52	**$ 197**	$ 232	**$ 22**	$ (15)	**$ 219**	$ 217
$ 3,365	$ 4,683	**$ 50,637**	$ 47,939	**$ 58**	$ 69	**$ 50,695**	$ 48,008
25,197	29,605	**80,247**	80,454	**534**	1,005	**80,781**	81,459
408	817	**62,818**	59,033	**(142)**	(133)	**62,676**	58,900
$ 8	$ 26	**$ 109**	$ 108		$ 1	**$ 109**	$ 109
62.62 %	26.42 %	**14.82 %**	15.15 %	**1.77 %**	.21 %	**8.52 %**	9.44 %
60.93	26.42	**14.77**	15.15	**1.78**	(1.59)	**8.52**	8.76
5	6	**11,290**	10,856	**4,543**	4,634	**15,833**	15,490

Other Segments		Total Segments		Reconciling Items		Key	
2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
$ 56	$ 55	**$ 1,673**	$ 1,713	**$ 8**	$ 16	**$ 1,681**	$ 1,729
307	209	**1,517**	1,405	**(16)**	(11)	**1,501**	1,394
363	264	**3,190**	3,118	**(8)**	5	**3,182**	3,123
26	(25)	**173**	(32)	**(1)**	(6)	**172**	(38)
7	15	**79**	100	**104**	108	**183**	208
53	65	**2,084**	1,982	**(116)**	(117)	**1,968**	1,865
277	209	**854**	1,068	**5**	20	**859**	1,088
71	46	**247**	321	**(45)**	(2)	**202**	319
206	163	**607**	747	**50**	22	**657**	769
				5	(37)	**5**	(37)
206	163	**607**	747	**55**	(15)	**662**	732
4	12	**7**	12			**7**	12

$ 202	$ 151	**$ 600**	$ 735	**$ 55**	$ (15)	**$ 655**	$ 720
$ 3,784	$ 4,985	**$ 49,804**	$ 48,535	**$ 56**	$ 51	**$ 49,860**	$ 48,586
26,210	29,971	**80,034**	81,133	**689**	1,236	**80,723**	82,369
468	796	**61,272**	59,298	**(143)**	(142)	**61,129**	59,156
$ 52	$ 95	**$ 287**	$ 436			**$ 287**	$ 436
39.80 %	24.86 %	**14.85 %**	15.42 %	**1.42 %**	.77 %	**8.59 %**	9.93 %
38.88	24.86	**14.81**	15.42	**1.57**	(.52)	**8.66**	9.44
5	31	**11,040**	10,671	**4,525**	4,710	**15,565**	15,381

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Supplementary information (Key Corporate Bank lines of business)

Three months ended September 30, *dollars in millions*	Real Estate Capital and Corporate Banking Services 2012	Real Estate Capital and Corporate Banking Services 2011	Equipment Finance 2012	Equipment Finance 2011	Institutional and Capital Markets 2012	Institutional and Capital Markets 2011
Total revenue (TE)	**$ 166**	$ 153	**$ 57**	$ 68	**$ 169**	$ 148
Provision (credit) for loan and lease losses	**(3)**	(38)		(8)		6
Noninterest expense	**62**	68	**35**	45	**112**	103
Net income (loss) attributable to Key	**67**	78	**14**	19	**37**	26
Average loans and leases	**7,342**	7,089	**5,159**	4,620	**6,385**	5,277
Average loans held for sale	**359**	173	**7**	7	**75**	93
Average deposits	**9,674**	7,339	**6**	11	**3,193**	3,194
Net loan charge-offs	**9**	19	**(1)**	(1)		4
Net loan charge-offs to average loans	**.49 %**	1.06 %	**(.08) %**	(.09) %	**%**	.30 %
Nonperforming assets at period end	**$ 142**	$ 240	**$ 30**	$ 31	**$ 25**	$ 55
Return on average allocated equity	**34.44 %**	28.01 %	**22.73 %**	23.05 %	**21.61 %**	14.37 %
Average full-time equivalent employees	**929**	971	**383**	434	**834**	804

Nine months ended September 30, *dollars in millions*	Real Estate Capital and Corporate Banking Services 2012	Real Estate Capital and Corporate Banking Services 2011	Equipment Finance 2012	Equipment Finance 2011	Institutional and Capital Markets 2012	Institutional and Capital Markets 2011
Total revenue (TE)	**$ 512**	$ 495	**$ 179**	$ 194	**$ 494**	$ 476
Provision (credit) for loan and lease losses	**1**	(78)	**4**	(64)	**9**	5
Noninterest expense	**193**	193	**109**	143	**355**	316
Net income (loss) attributable to Key	**197**	240	**41**	72	**85**	100
Average loans and leases	**7,461**	7,791	**4,943**	4,596	**6,264**	4,888
Average loans held for sale	**329**	181	**18**	3	**140**	99
Average deposits	**9,071**	7,802	**7**	10	**3,203**	2,859
Net loan charge-offs	**32**	110	**8**	12	**3**	4
Net loan charge-offs to average loans	**.57 %**	1.89 %	**.22 %**	.35 %	**.06 %**	.11 %
Nonperforming assets at period end	**$ 142**	$ 240	**$ 30**	$ 31	**$ 25**	$ 55
Return on average allocated equity	**31.18 %**	25.43 %	**21.48 %**	28.65 %	**16.43 %**	18.09 %
Average full-time equivalent employees	**965**	936	**390**	434	**808**	761

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Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

KeyCorp

We have reviewed the consolidated balance sheets of KeyCorp and subsidiaries (Key) as of September 30, 2012 and 2011, the related consolidated statements of income and comprehensive income for the three- and nine-month periods ended September 30, 2012 and 2011, and the related consolidated statements of changes in equity and cash flows for the nine-month periods ended September 30, 2012 and 2011. 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 consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Key as of December 31, 2011, and the related consolidated statements of income, changes in equity, and cash flows for the year then ended not presented herein, and in our report dated February 27, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2011, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Cleveland, Ohio
November 1, 2012

/s/ Ernst & Young LLP

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

Introduction

This section reviews the financial condition and results of operations of KeyCorp and its subsidiaries for the quarterly and year to date periods ended September 30, 2012 and 2011. Some tables may include additional periods to comply with disclosure requirements or to illustrate trends in greater depth. When you read this discussion, you should also refer to the consolidated financial statements and related notes in this report. The page locations of specific sections and notes that we refer to are presented in the table of contents.

References to our 2011 Annual Report on Form 10-K refer to our Annual Report on Form 10-K for the year ended December 31, 2011, which has been filed with the SEC and is available on its website (www.sec.gov) or on our website (www.key.com/ir).

Terminology

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

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

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

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

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

- For regulatory purposes, capital is divided into two classes. Federal regulations currently prescribe that at least one-half of a bank or BHC s ***total risk-based capital*** must qualify as ***Tier 1 capital***. Both total and Tier 1 capital serve as bases for several measures of capital adequacy, which is an important indicator of financial stability and condition. As described in the section entitled Introduction that begins on page 36 of our 2011 Annual Report on Form 10-K, the regulators conduct a review of capital adequacy for each of the country s nineteen largest banking institutions, including KeyCorp. This regulatory assessment began in 2009 and has continued into 2012. As part of this capital adequacy review, banking regulators evaluated a component of Tier 1 capital, known as ***Tier 1 common equity***. For a detailed explanation of total capital, Tier 1 capital and Tier 1 common equity and how they are calculated see the section entitled Capital.

Additionally, a comprehensive list of the acronyms and abbreviations used throughout this discussion is included in Note 1 (Basis of Presentation).

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Selected financial data

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

Figure 1. Selected Financial Data

dollars in millions, except per share amounts	2012 Third	2012 Second	2012 First	2011 Fourth	2011 Third	Nine months ended September 30, 2012	Nine months ended September 30, 2011
FOR THE PERIOD							
Interest income	**$ 671**	**$ 662**	**$ 684**	$ 698	$ 705	**$ 2,017**	$ 2,191
Interest expense	**99**	**124**	**131**	141	156	**354**	481
Net interest income	**572**	**538**	**553**	557	549	**1,663**	1,710
Provision (credit) for loan and lease losses	**109**	**21**	**42**	(22)	10	**172**	(38)
Noninterest income	**544**	**485**	**472**	414	483	**1,501**	1,394
Noninterest expense	**734**	**714**	**703**	717	692	**2,151**	2,073
Income (loss) from continuing operations before income taxes	**273**	**288**	**280**	276	330	**841**	1,069
Income (loss) from continuing operations attributable to Key	**219**	**226**	**205**	207	234	**650**	757
Income (loss) from discontinued operations, net of taxes[a]		**10**	**(5)**	(7)	(17)	**5**	(37)
Net income (loss) attributable to Key	**219**	**236**	**200**	200	217	**655**	720
Income (loss) from continuing operations attributable to Key common shareholders	**214**	**221**	**199**	201	229	**634**	656
Income (loss) from discontinued operations, net of taxes[a]		**10**	**(5)**	(7)	(17)	**5**	(37)
Net income (loss) attributable to Key common shareholders	**214**	**231**	**194**	194	212	**639**	619
PER COMMON SHARE							
Income (loss) from continuing operations attributable to Key common shareholders	**$ .23**	**$ .23**	**$ .21**	$ .21	$ .24	**$ .67**	$ .71
Income (loss) from discontinued operations, net of taxes[a]		**.01**	**(.01)**	(.01)	(.02)	**.01**	(.04)
Net income (loss) attributable to Key common shareholders[d]	**.23**	**.24**	**.20**	.20	.22	**.68**	.67
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**$ .23**	**$ .23**	**$ .21**	$ .21	$ .24	**$ .67**	$ .71
Income (loss) from discontinued operations, net of taxes assuming dilution[a]		**.01**	**(.01)**	(.01)	(.02)	**.01**	(.04)
Net income (loss) attributable to Key common shareholders assuming dilution[d]	**.23**	**.24**	**.20**	.20	.22	**.67**	.67
Cash dividends paid	**.05**	**.05**	**.03**	.03	.03	**.13**	.07
Book value at period end	**10.64**	**10.43**	**10.26**	10.09	10.09	**10.64**	10.09
Tangible book value at period end	**9.54**	**9.45**	**9.28**	9.11	9.10	**9.54**	9.10
Market price:							
High	**9.12**	**8.54**	**8.82**	7.89	8.48	**9.12**	9.77
Low	**7.46**	**6.80**	**7.26**	5.59	5.63	**6.80**	5.63
Close	**8.74**	**7.74**	**8.50**	7.69	5.93	**8.74**	5.93
Weighted-average common shares outstanding (000)	**936,223**	**944,648**	**949,342**	948,658	948,702	**943,378**	926,298
Weighted-average common shares and potential common shares outstanding (000)	**940,764**	**948,087**	**953,971**	951,684	950,686	**947,582**	930,449
AT PERIOD END							
Loans	**$ 51,419**	**$ 49,605**	**$ 49,226**	$ 49,575	$ 48,195	**$ 51,419**	$ 48,195
Earning assets	**72,139**	**71,899**	**72,796**	73,729	74,167	**72,139**	74,167
Total assets	**86,950**	**86,523**	**87,431**	88,785	89,262	**86,950**	89,262
Deposits	**64,188**	**62,167**	**61,494**	61,956	61,032	**64,188**	61,032
Long-term debt	**6,119**	**7,521**	**8,898**	9,520	10,717	**6,119**	10,717

Key common shareholders equity	**9,960**	**9,864**	**9,808**	9,614	9,610	**9,960**	9,610
Key shareholders equity	**10,251**	**10,155**	**10,099**	9,905	9,901	**10,251**	9,901
PERFORMANCE RATIOS FROM CONTINUING OPERATIONS							
Return on average total assets	**1.08 %**	**1.12 %**	**1.02 %**	1.01 %	1.14 %	**1.08 %**	1.23 %
Return on average common equity	**8.57**	**9.06**	**8.25**	8.26	9.52	**8.63**	9.62
Return on average tangible common equity	**9.56**	**10.01**	**9.13**	9.15	10.56	**9.57**	10.72
Net interest margin (TE)[(b)]	**3.23**	**3.06**	**3.16**	3.13	3.09	**3.15**	3.18
Cash efficiency ratio[(b)]	**64.62**	**69.29**	**68.09**	73.29	66.57	**67.25**	66.28
PERFORMANCE RATIOS FROM CONSOLIDATED OPERATIONS							
Return on average total assets	**1.01 %**	**1.10**	**%.93 %**	.91 %	.98 %	**1.01 %**	1.09 %
Return on average common equity	**8.57**	**9.47**	**8.04**	7.97	8.82	**8.70**	9.08
Return on average tangible common equity[(b)]	**9.56**	**10.46**	**8.90**	8.83	9.77	**9.64**	10.12
Net interest margin (TE)	**3.14**	**2.99**	**3.08**	3.04	3.02	**3.07**	3.10
Loan to Deposit[(c)]	**86.24**	**86.38**	**86.97**	87.00	85.71	**86.24**	85.71
CAPITAL RATIOS AT PERIOD END							
Key shareholders equity to assets	**11.79 %**	**11.74 %**	**11.55 %**	11.16 %	11.09 %	**11.79 %**	11.09 %
Tangible Key shareholders equity to tangible assets	**10.73**	**10.78**	**10.60**	10.21	10.15	**10.73**	10.15
Tangible common equity to tangible assets[(b)]	**10.39**	**10.44**	**10.26**	9.88	9.82	**10.39**	9.82
Tier 1 common equity[(b)]	**11.30**	**11.63**	**11.55**	11.26	11.28	**11.30**	11.28
Tier 1 risk-based capital	**12.10**	**12.45**	**13.29**	12.99	13.49	**12.10**	13.49
Total risk-based capital	**15.17**	**15.83**	**16.68**	16.51	17.05	**15.17**	17.05
Leverage	**11.37**	**11.35**	**12.12**	11.79	11.93	**11.37**	11.93
TRUST AND BROKERAGE ASSETS							
Assets under management	**$ 49,670**	**$ 49,149**	**$ 52,633**	$ 51,732	$ 51,584	**$ 49,670**	$ 51,584
Nonmanaged and brokerage assets	**24,220**	**23,912**	**33,021**	30,639	28,007	**24,220**	28,007
OTHER DATA							
Average full-time-equivalent employees	**15,833**	**15,455**	**15,404**	15,381	15,490	**15,565**	15,381
Branches	**1,087**	**1,062**	**1,059**	1,058	1,063	**1,087**	1,063

(a) In April 2009, we decided to wind down the operations of Austin, an investment subsidiary that specialized in managing hedge fund investments for its institutional customer base. In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank.

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

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

(d) EPS may not foot due to rounding.

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Forward-looking Statements

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

Forward-looking statements by their nature are subject to assumptions, risks, and uncertainties, many of which are outside of our control. Our actual results may differ materially from those set forth in our forward-looking statements. Factors that could cause actual results to differ from those described in our forward-looking statements include, but are not limited to:

- the economic recovery could lose momentum or face challenges resulting in a further recession, and we, in turn, could face difficulties effectively dealing with an economic slowdown or uncertainty in the markets;
- the Dodd-Frank Act and other reforms will subject us to a variety of new and more stringent legal and regulatory requirements, including increased scrutiny from our regulators;
- changes in local, regional, and international business, economic or political conditions in the regions where we operate or have significant assets;
- changes in trade, monetary and fiscal policies of various governmental bodies and central banks could affect the economic environment in which we operate;
- adverse changes in credit quality trends;
- our ability to determine accurate values of certain assets and liabilities;
- adverse behaviors in foreign exchange rates, securities, public debt, and capital markets, including changes in market liquidity and volatility;
- our ability to anticipate interest rate changes correctly and manage interest rate risk presented through unanticipated changes in our interest rate risk position and/or short- and long-term interest rates;
- unanticipated changes in our liquidity position, including but not limited to our ability to enter the financial markets to manage and respond to any changes to our liquidity position;
- adequacy of our risk management program;

- reduction of the credit ratings assigned to KeyCorp and KeyBank;
- increased competitive pressure due to industry consolidation;
- our ability to timely and effectively implement our strategic initiatives;
- changes in investor sentiment, consumer spending, or saving behavior;
- unanticipated adverse affects of acquisitions and dispositions of assets, business units, or affiliates;
- our ability to attract and/or retain talented executives and employees;
- operational or risk management failures due to technological, cybersecurity threats, including any denial of service attacks, or our ability to effectively respond and mitigate such threats, or other factors;
- changes in accounting principles or in tax laws, rules, and regulations;
- adverse judicial proceedings;

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¿ occurrence of natural or man-made disasters or conflicts or terrorist attacks disrupting the economy or our ability to operate; and

¿ other risks and uncertainties summarized in Part 1, Item 1A: Risk Factors in our 2011 Annual Report on Form 10-K.

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

Economic overview

During the third quarter of 2012 a modest economic recovery continued in the United States. Job creation improved as employers added workers amid several economic uncertainties. Payrolls increased 437,000 in the third quarter of 2012, compared to the 200,000 increase in the second quarter of 2012 and the 677,000 increase in the first quarter of 2012. The average unemployment rate for the third quarter of 2012 fell to 8.1%, slightly better than the average 8.2% in the second quarter of 2012 but considerably higher than the 10-year average unemployment rate of 6.7%.

Inflationary pressures rose slightly in the third quarter of 2012 as consumer prices in September 2012 increased at an annual rate of 2%, up from the 1.7% annual increase in June 2012 but down from the 3.2% average increase for all of 2011. Gasoline prices also continued to be one of the major contributors to elevated prices as the national average price for a regular gallon of gasoline in the U.S. was approximately 13.7% higher at the end of September 2012 than in June 2012. However, U.S. consumers were resilient as the average monthly rate of consumer spending increased 0.6% for the third quarter of 2012 compared to a flat second quarter.

The improvement in the labor market coincided with a better housing market. September new home sales were up 27.1% from September 2011, while the median price of new homes increased by 11.7% over the same period. Building activity is at its highest levels since 2008 as housing starts at the end of the quarter increased 44.5% from a year earlier. Existing home sales also showed signs of improvement as low mortgage rates continue to encourage buyers back into the market. September 2012 existing home sales were up 11% from the same month one year ago while the median home values increased 11.3% from the same time period.

The weaker economic outlook from the second quarter of 2012 sparked a response from the Federal Reserve as it took further actions in the third quarter of 2012 to strengthen its commitment to accommodative monetary policy. As part of these actions, the Federal Reserve stated it would keep the federal funds rate at exceptionally low levels at least through mid-2015. Furthermore, in an attempt to lower longer-term borrowing rates applicable to consumers and businesses, the Federal Reserve decided to undertake a third round of quantitative easing. The Federal Reserve believes that a highly accommodative stance on monetary policy will remain appropriate for a considerable time after the economic recovery strengthens. The benchmark two-year U.S. Treasury yield declined from 0.30% at June 30, 2012 to 0.23% at September 30, 2012. The ten-year Treasury yield, which began the third quarter of 2012 at 1.65%, declined 0.02% to close the third quarter of 2012 at 1.63%.

Long-term financial goals

Our long-term financial goals are as follows:

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

¿ Return to a moderate risk profile by targeting a net charge-off ratio range of .40% to .50%;

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

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

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

Figure 2 shows the evaluation of our long-term financial goals for the third quarter of 2012.

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Figure 2. Evaluation of Our Long-Term Financial Goals

KEY Business Model	Key Metrics[a]	3Q12	Targets	Action Plans
Core funded	Loan to deposit ratio [b]	86 %	90-100 %	Leverage integrated model to grow relationships and loans Improve deposit mix
Returning to a moderate		.86 %	.40-.50 %	
risk profile	NCOs to average loans			Focus on relationship clients Exit noncore portfolios Limit concentrations Focus on risk-adjusted returns
Growing high quality,	Net interest margin	3.23 %	> 3.50 %	Improve funding mix
diverse revenue streams				
	Noninterest income	48 %	> 40 %	Focus on risk-adjusted returns
	to total revenue			Grow client relationships Leverage Key s total client solutions and cross-selling capabilities
Creating positive operating leverage				
	Efficiency ratio	65 %	60 - 65 %	Improve efficiency and effectiveness Leverage technology
Executing our strategies	Return on average assets	1.08 %	1.00-1.25 %	Change cost base to more variable from fixed Execute our client insight-driven relationship model Focus on operating leverage Improved funding mix with lower cost core deposits

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

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

Strategic developments

We initiated the following actions during the first nine months of 2012 to support our corporate strategy described in the Introduction section under the Corporate Strategy heading on page 39 of our 2011 Annual Report on Form 10-K.

t As previously announced, we committed $5 billion in lending capital to small- and medium-sized businesses by the end of 2014. We began this program in September of 2011, and we have already met this goal well ahead of our scheduled lending pledge.

t

We have made progress on our previously announced company-wide efficiency initiatives goal. We are committed to achieving an expense run rate reduction of $150 to $200 million by December 2013, of which $30 million to $50 million of run rate reductions are expected to occur by the end of 2012. Using our current levels of revenue and expense, these initiatives are intended to move us to our long-term efficiency ratio target range of 60% to 65%.

t As previously reported, on July 13, 2012, we completed our acquisition of 37 retail banking branches in Western New York. We added approximately $2 billion in assets and deposits. Additionally, as part of this acquisition, we added credit card receivables of approximately $69 million and assumed a related reward liability of $1 million on September 14, 2012. This acquisition provides us an opportunity to leverage our existing cost structure across a larger base. The liquidity provided by this acquisition was used to pay maturing debt and fund organic growth.

t On August 1, 2012, approximately $718 million (based on estimated fair value at acquisition date) in Key-branded credit card assets were acquired from Elan Financial Services as part of our strategy to diversify our revenue stream and to provide opportunities for future growth.

t During the third quarter of 2012, we continued to take advantage of the low interest rate environment and nontaxable treatment of gains pursuant to a previous settlement with the IRS through the early termination of leveraged leases. These terminations resulted in gains in noninterest income of $39 million, offset by $13 million in net interest income write-offs of fees and capitalized loan origination costs.

t During the third quarter of 2012, we continued our commitment to disciplined capital management. We completed repurchases of approximately $82 million of Common Shares, representing 9.6 million shares, pursuant to a repurchase program authorized by our Board of Directors. This program was also included in our 2012 capital plan submitted to the Federal Reserve as part of CCAR and not objected to by the Federal Reserve. With the repurchases completed through

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September 30, 2012, we have remaining authority to repurchase up to $177 million of our Common Shares. Our existing repurchase program does not have an expiration date. Common Share repurchases under the current authorization are expected to be executed through the first quarter of 2013. Additionally, at the regular July Board meeting, the Board declared a third quarter cash dividend of $.05 per share payable on September 14, 2012 to shareholders of record on August 28, 2012.

¿ As previously reported, we redeemed trust preferred securities issued by KeyCorp Capital VII and KeyCorp Capital X totaling approximately $707 million.

Demographics

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

Key Community Bank serves individuals and small to mid-sized businesses by offering a variety of deposit, investment, lending, and personalized wealth management products and business advisory services. These products and services are provided through our relationship managers and specialists working in our 14-state branch network, which is organized into three internally defined geographic regions: Rocky Mountains and Northwest, Great Lakes, and Northeast.

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

Figure 3. Key Community Bank Geographic Diversity

Three months ended September 30, 2012	Geographic Region				
dollars in millions	Rocky Mountains and Northwest	Great Lakes	Northeast	Nonregion (a)	Total
Average deposits	$ 15,963	$ 15,349	$ 15,744	$ 2,481	$ 49,537
Percent of total	32.2 %	31.0 %	31.8 %	5.0 %	100.0 %
Average commercial loans	$ 5,479	$ 3,887	$ 3,023	$ 2,540	$ 14,929
Percent of total	36.7 %	26.0 %	20.3 %	17.0 %	100.0 %
Average home equity loans	$ 4,576	$ 2,513	$ 2,536	$ 109	$ 9,734
Percent of total	47.0 %	25.8 %	26.1 %	1.1 %	100.0 %

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

Key Corporate Bank includes three lines of business that operate nationally, within and beyond our 14-state branch network: Real Estate Capital and Corporate Banking Services; Equipment Finance; and Institutional and Capital Markets.

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

¿ Real Estate Capital professionals who are located in select markets across the country provide financial services for public and private owners, investors, and developers of nonowner-occupied commercial real estate properties. In addition to direct loans, this business unit is a Fannie Mae Delegated Underwriter and Servicer, Freddie Mac Program Plus Seller/Servicer, and FHA-approved mortgagee. KeyBank Real Estate Capital is also one of the nation s largest and highest rated commercial mortgage servicers. Figure 9, which appears later in this report in the Loans and loans held for sale section, shows the diversity of our commercial real estate lending business based on industry type and location.

- Corporate Banking Services provides cash management, interest rate derivatives, and foreign exchange products and services to existing clients. 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 commercial payment products are provided through the Enterprise Commercial Payments Group.

Equipment Finance meets the equipment financing needs of companies domestically and in Europe by providing equipment manufacturers, distributors and resellers with funding options for their clients. Equipment Finance specializes in the technology, healthcare, and renewable energy markets as well as other capital assets.

The Institutional and Capital Markets business consists of two business units.

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- KeyBanc Capital Markets provides commercial lending, treasury management, investment banking, derivatives, foreign exchange, equity and debt underwriting and trading, and syndicated finance products and services, primarily to emerging and middle-market companies in the Industrial, Consumer, Real Estate, Energy, Technology, and Healthcare sectors. This business unit s focused industry expertise and its consistent, integrated team approach help our clients achieve their strategic objectives.

- Victory Capital Management is an investment advisory firm that manages or offers advice regarding investment portfolios. This business unit s national client base consists of both institutional and retail clients derived from four primary channels: public plans, Taft-Hartley plans, corporations, and endowments and foundations.

Additional information regarding the products and services offered by our Key Community Bank and Key Corporate Bank segments are described further in this report in Note 16 (Line of Business Results).

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Supervision and Regulation

Regulatory reform developments

On July 21, 2010, the Dodd-Frank Act was signed into law. This Act is intended to address perceived deficiencies and gaps in the regulatory framework for financial services in the United States, reduce the risks of bank failures, and better equip the nation s regulators to guard against or mitigate any future financial crises, and manage systemic risk through increased supervision of systemically important financial companies (including nonbank financial companies), such as KeyCorp and KeyBank. The Dodd-Frank Act implements numerous and far-reaching changes across the financial landscape affecting financial companies, including banks and BHCs such as Key. Further discussion concerning the Dodd-Frank Act and the risks that it presents to Key is available in our 2011 Annual Report on Form 10-K under the heading II. Compliance Risks beginning on page 15 in Item 1A Risk Factors. A number of proposed rules referenced in our prior reports continue to remain pending. The following provides a summary of pertinent regulatory developments relating to the Dodd-Frank Act or that relate to our results this quarter.

Stress Testing

The Dodd-Frank Act requires the Federal Reserve to conduct an annual stress test on certain banking organizations including Key to evaluate whether such organizations have sufficient capital, on a total consolidated basis, to absorb losses as a result of adverse economic conditions. On October 12, 2012, the Federal Reserve published its final rule on supervisory stress tests. The rule is effective on November 15, 2012, by which date the stress testing scenarios (including those describing hypothetical baseline, adverse, and severely adverse economic and financial conditions) are expected to be published. A summary of the results of the stress tests will be publicly disclosed by the Federal Reserve no later than March 31, 2013. Under the final rule, we are required to consider the results of the stress test as part of our capital planning process and must update our resolution plan as the Federal Reserve determines appropriate based on the results of the stress test.

Company-run stress tests are also required under the Dodd-Frank Act. On October 12, 2012, and October 9, 2012, the Federal Reserve and OCC published their final rules on company-run stress tests that apply to banking organizations such as KeyCorp and KeyBank. The Federal Reserve s rule is effective on November 15, 2012, and the OCC s rule became effective on October 9, 2012. Stress testing scenarios (including those describing hypothetical baseline, adverse, and severely adverse economic and financial conditions) are expected to be published by November 15, 2012. Results of these stress tests must be reported to the Federal Reserve and OCC (the first results reports are due by January 5, 2013), and publicly disclosed (the first public disclosure is required by the rules to be made between March 15 and 31, 2013).

Interchange fees

As previously reported, the Federal Reserve approved Regulation II, Debit Card Interchange Fees and Routing (Regulation II), which limits debit card issuer interchange fees for electronic debit transactions and implements provisions of the Dodd-Frank Act. The relevant portions of Regulation II became effective on October 1, 2011. Our debit interchange revenue for the nine months ended September 30, 2012 was $42 million, compared to $84 million for the same period in 2011, which is consistent with our expectations originally reported in our Form 10-Q for the period ended September 30, 2011.

Enhanced prudential standards and early remediation requirements

On January 5, 2012, the Federal Reserve published in the Federal Register its proposed rule on Enhanced Prudential Standards and Early Remediation Requirements for covered companies, as part of its efforts to implement a regulatory scheme pursuant to the Dodd-Frank Act applicable to systemically important financial companies. The proposed rule provides more specific requirements to complement the Federal Reserve s existing efforts to enhance the supervisory framework for covered companies. The proposed rule applies to U.S. BHCs with consolidated assets of $50 billion or more, like KeyCorp, and includes a wide range of measures addressing issues such as capital, liquidity, credit exposure limits, risk management and early remediation. Comments to this proposed rule were due by April 30, 2012. We continue to monitor implementation of this rule.

U.S. Implementation of Basel III

On August 30, 2012, the Federal Reserve, FDIC, and OCC jointly published three separate NPRs seeking comment on proposed rules that would revise and replace their current capital rules in a manner consistent both with relevant provisions of the Dodd-Frank Act as well as the implementation of Basel III. The comment period on these NPRs ended on October 22, 2012. Also on August 30, 2012, these agencies published their joint final market risk capital rule which applies to Key and KeyBank and becomes effective on January 1, 2013.

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One NPR (the Basel III NPR) proposes the majority of the revisions to international capital standards in Basel III, including a more restrictive definition of regulatory capital (such as providing for the phase-out of trust preferred securities by January 1, 2016), higher minimum regulatory capital requirements, and the imposition of capital conservation and countercyclical capital buffers. It also proposes limitations on certain distributions and discretionary bonuses as well as revisions to the agencies prompt corrective action regulations. Another NPR (the Standardized Approach NPR) proposes new methodologies for determining risk-weighted assets, such as by expanding the number and type of exposure categories, providing a more comprehensive recognition of collateral and guarantees, and introducing or applying more risk-sensitive treatment for certain exposures (including certain high-volatility commercial real estate, corporate, equity, foreign, securitization, derivative, residential mortgage, and 90 day or more past due exposures). It also proposes detailed qualitative and quantitative public disclosure requirements relating to capital adequacy. The final NPR (the Advanced Approaches NPR) proposes to revise the current advanced approaches risk-based capital rule to incorporate certain aspects of Basel III as well as certain other revisions to the Basel capital framework published by the Basel Committee between 2009-2011. While Key and KeyBank are subject to the Basel III and Standardized Approach NPRs, they are not subject to the Advanced Approaches NPR.

The NPRs are consistent with the discussion of the Basel III capital framework in our 2011 Annual Report on Form 10-K. Implementation of the Basel III final capital framework is proposed to begin on January 1, 2013, with minimum capital ratios and prompt corrective action requirements implemented by January 1, 2015, and the capital conservation buffer phased-in from January 1, 2016 through January 1, 2019.

New Minimum Capital Requirements

Beginning January 1, 2013, banking organizations subject to the Basel III and Standardized Approach NPRs, like Key, would be required to meet the minimum capital and leverage ratios set forth in Figure 4. At September 30, 2012, Key had a Tier 1 common equity ratio of 11.30%, under current Basel I. Also at September 30, 2012, based on the fully phased-in Basel III and Standardized Approach NPRs, Key estimates that its capital and leverage ratios, after required adjustment for market risk pursuant to the new final market risk rule effective January 1, 2013, would be as set forth in Figure 4.

Figure 4. Estimated Ratios vs. Proposed Minimum Capital Ratios Calculated Under the Fully Phased-In Basel III and Standardized Approach NPRs

Ratios (including Capital conservation buffer)	Key 9-30-2012 Estimated	Proposed Minimum 1-1-2013	Phase-in Period	Proposed Minimum 1-1-2019
Common Equity Tier 1	10.4 %	3.5 %	1/1/13 - 1/1/15	4.5 %
Capital conservation buffer [(a)]			1/1/16 - 1/1/19	2.5
Common Equity Tier 1 + Capital conservation buffer		3.5	1/1/13 - 1/1/19	7.0
Tier 1 Capital	10.8	4.5	1/1/13 - 1/1/15	6.0
Tier 1 Capital + Capital conservation buffer		4.5	1/1/13 - 1/1/19	8.5
Total Capital	13.6	8.0	None	8.0
Total Capital + Capital conservation buffer		8.0	1/1/16 - 1/1/19	10.5
Leverage [(b)]	10.4	4.0	None	4.0

(a) Capital conservation buffer must consist of Common Equity Tier 1 capital. Key is not subject to the proposed countercyclical capital buffer of up to 2.5% imposed under the Advanced Approaches NPR.

(b) Key is not subject to the proposed 3% supplemental leverage ratio requirement imposed under the Advanced Approaches NPR.

Revised Prompt Corrective Action Standards

Under the Basel III NPR, the prompt corrective action capital category threshold ratios applicable to FDIC-insured depository institutions, such as KeyBank, are proposed to be revised effective January 1, 2015. Figure 5 identifies the proposed capital category threshold ratios for a well capitalized and an adequately capitalized institution under current law and the Basel III and Standardized Approach NPRs.

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

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

We believe that, as of September 30, 2012, Key and KeyBank would meet all capital adequacy requirements under the Basel III and Standardized Approach NPRs on a fully phased-in basis if such requirements were currently effective. There can be no guarantee that the Basel III and Standardized Approach NPRs will be adopted in their current form, what changes may be made before adoption, or when ultimate adoption will occur.

Highlights of Our Performance

Financial performance

For the third quarter of 2012, we announced net income from continuing operations attributable to Key common shareholders of $214 million, or $.23 per Common Share. Our third quarter of 2012 results compare to net income from continuing operations attributable to Key common shareholders of $229 million, or $.24 per Common Share, for the third quarter of 2011. For the nine months ended September 30, 2012, net income from continuing operations attributable to Key common shareholders was $634 million, or $.67 per Common Share, compared to $656 million or $.71 per Common Share for the same period one year ago. The results for the nine months ended September 30, 2011, included a deemed dividend of $49 million, or $.06 per diluted Common Share, related to the accelerated amortization of the discount on the repurchased preferred shares from the U.S. Treasury.

Our taxable-equivalent net interest income was $578 million for the third quarter of 2012, and the net interest margin was 3.23%. These results compare to taxable-equivalent net interest income of $555 million and a net interest margin of 3.09% for the third quarter of 2011. The increase in net interest income and the net interest margin was primarily a result of a change in funding mix from the redemption of certain trust preferred securities and the continued maturity of higher-costing certificates of deposit and long-term debt during the third quarter of 2012. This funding was replaced with lower-cost deposits obtained through our branch acquisition, and an overall increase in demand deposits. The improvement in net interest income and the net interest margin was partially offset by a $13 million reduction to net interest income from the write-off of capitalized loan origination costs due to the early termination of leveraged leases, resulting in a seven basis point decline in the net interest margin for the third quarter of 2012.

Our noninterest income was $544 million for the third quarter of 2012, compared to $483 million for the year-ago quarter. Gains on leased equipment increased $39 million compared to the same period one year ago, primarily related to the early terminations of leveraged leases. Net gains from loan sales also increased $21 million from the year-ago quarter. Other income was $48 million higher due to a $54 million gain associated with the redemption of certain trust preferred securities in the third quarter of 2012. Investment banking and capital markets income also increased $13 million from one year ago. These increases in noninterest income were partially offset by a $23 million decrease in net gains from principal investing (including results attributable to noncontrolling interests), a $15 million decrease in electronic banking fees as a result of government pricing controls on debit transactions that went into effect October 1, 2011, and a $13 million decline in operating lease income.

Our noninterest expense was $734 million for the third quarter of 2012, compared to $692 million for the same period last year. Personnel expense increased $29 million due to increased salaries and incentive compensation expense resulting from the hiring of client-facing personnel and our acquisition of 37 branches in Western New York, which closed on July 13, 2012. Nonpersonnel expense increased $13 million from one year ago and included an increase of $8 million related to the amortization of the intangible assets associated with the third quarter 2012 acquisitions of the previously discussed credit card portfolio as well as the branches. Various other expenses also increased $14 million. These increases in noninterest expense were partially offset by a $10 million decrease in operating lease expense compared to the same period one year ago. The provision (credit) for losses on lending-related commitments was a credit of $8 million compared to a credit of $1 million for the

year-ago quarter.

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As previously announced, we are implementing a number of efficiency initiatives which are intended to enhance our competitive position by lowering our cost structure and aligning it with our current operating environment. We continue to make progress on our expense initiative goal of $150 to $200 million in annual reductions by the end of 2013. We expect to capture $30 million to $50 million of annual expense reductions by the end of 2012.

Average loans were $50.7 billion for the third quarter of 2012, an increase of $2.7 billion compared to the third quarter of 2011. Commercial, financial and agricultural loans grew by $4.1 billion over the year-ago quarter, with strong growth across Key s commercial and middle market segments. This growth was partially offset by decline in the commercial real estate portfolio, termination of certain leveraged leases in the equipment lease exit portfolio, and run-off of consumer loans in the designated exit portfolio.

Average deposits totaled $62.7 billion for the third quarter of 2012, an increase of $3.8 billion compared to the year-ago quarter. The growth reflects an increase in business demand deposits and the impact of Key s branch acquisition. The growth in non-time deposits more than offset the maturities in certificates of deposit.

Our provision for loan and lease losses was $109 million for the third quarter of 2012, compared to $10 million for the year-ago quarter. Our allowance for loan and lease losses was $888 million, or 1.73% of total period-end loans at September 30, 2012, compared to 2.35% at September 30, 2011. As a result of the acquisition of the credit card portfolio and the loans associated with the branch acquisition, Key established an allowance for loan and lease losses above the discount related to these acquired portfolios in accordance with the applicable accounting guidance. This provision for loan and lease losses was approximately $32 million during the third quarter.

At September 30, 2012, our nonperforming loans totaled $653 million and represented 1.27% of period-end portfolio loans, compared to 1.64% at September 30, 2011. Nonperforming assets at September 30, 2012, totaled $718 million and represented 1.39% of portfolio loans and OREO and other nonperforming assets, compared to 1.89% at September 30, 2011. Due to recently updated regulatory guidance, all performing secured loans that were discharged through Chapter 7 bankruptcy and not formally reaffirmed were designated as troubled-debt restructurings and written down to the collateral s fair market value less selling costs while unsecured loans were charged off. As a result of this guidance, the provision for loan and lease losses and the net loan charge-offs both increased $45 million for the third quarter of 2012. The net carrying amount of these secured loans, $38 million, was classified as TDRs and included in nonperforming loans at September 30, 2012.

Despite the Chapter 7 loans discussed above, nonperforming assets continued to decrease during the third quarter of 2012, representing the twelfth consecutive quarterly decline.

During the first nine months of 2012, we originated approximately $27.6 billion in new or renewed lending commitments to consumers and businesses, an increase of $1.5 billion from the same period one year ago.

Our capital ratios remain strong. Our tangible common equity, Tier 1 common equity and Tier 1 risk-based capital ratios at September 30, 2012, are 10.39%, 11.30%, and 12.10%, respectively, compared to 9.82%, 11.28%, and 13.49%, respectively, at September 30, 2011. In addition to leveraging our strong capital position through recent acquisitions, we have continued to return capital to our shareholders by repurchasing stock and by maintaining our dividend. In the third quarter, we repurchased 9.6 million common shares at an average cost of $8.36 per share and redeemed $707 million in trust preferred securities. Additionally, we estimate that our Basel III Tier 1 common equity ratio under the Federal Reserve s NPR as of September 30, 2012 at 10.41%, which we believe will place us in a strong capital position relative to our peers on this measure.

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

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Figure 6. Results of Operations

in millions, except per share amounts	Three months ended 9-30-12	6-30-12	9-30-11	Nine months ended 9-30-12	9-30-11
Summary of operations					
Income (loss) from continuing operations attributable to Key	**$ 219**	$ 226	$ 234	**$ 650**	$ 757
Income (loss) from discontinued operations, net of taxes [(a)]		10	(17)	**5**	(37)
Net income (loss) attributable to Key	**$ 219**	$ 236	$ 217	**$ 655**	$ 720
Income (loss) from continuing operations attributable to Key	**$ 219**	$ 226	$ 234	**$ 650**	$ 757
Less: Dividends on Series A Preferred Stock	**5**	5	5	**16**	17
Cash dividends on Series B Preferred Stock					31
Amortization of discount on Series B Preferred Stock [(b)]					53
Income (loss) from continuing operations attributable to Key common shareholders	**214**	221	229	**634**	656
Income (loss) from discontinued operations, net of taxes [(a)]		10	(17)	**5**	(37)
Net income (loss) attributable to Key common shareholders	**$ 214**	$ 231	$ 212	**$ 639**	$ 619
Per common share assuming dilution					
Income (loss) from continuing operations attributable to Key common shareholders	**$ .23**	$ .23	$ .24	**$ .67**	$ .71
Income (loss) from discontinued operations, net of taxes [(a)]		.01	(.02)	**.01**	(.04)
Net income (loss) attributable to Key common shareholders [(c)]	**$ .23**	$ .24	$ .22	**$ .67**	$ .67

(a) In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. As a result of these decisions, we have accounted for these businesses as discontinued operations. The income (loss) from discontinued operations for the periods presented was primarily attributable to fair value adjustments related to the education lending securitization trusts.

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

(c) EPS may not foot due to rounding.

Figure 7 presents certain non-GAAP financial measures related to tangible common equity, return on tangible common equity and Tier 1 common equity. 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 enable investors to assess our capital adequacy on these same bases. Figure 7 also reconciles the GAAP performance measures to the corresponding non-GAAP measures.

Traditionally, the banking regulators have assessed bank and BHC capital adequacy based on both the amount and the composition of capital, the calculation of which is prescribed in federal banking regulations. Beginning in early 2009, the Federal Reserve has focused its assessment of capital adequacy on a component of Tier 1 risk-based capital known as Tier 1 common equity, a non-GAAP financial measure. Because the Federal Reserve has long indicated that voting common shareholders equity (essentially Tier 1 risk-based capital less preferred stock, qualifying capital securities and noncontrolling interests in subsidiaries) generally should be the dominant element in Tier 1 risk-based capital, this focus on

Tier 1 common equity is consistent with existing capital adequacy categories. This increased focus on Tier 1 common equity is also present in the Basel Committee s final Basel III framework for strengthening international capital and liquidity regulation, which U.S. regulators have recently proposed to implement in the near future. The enactment of the Dodd-Frank Act also changes the regulatory capital standards that apply to BHCs by requiring regulators to create rules phasing out the treatment of capital securities and cumulative preferred securities as Tier 1 eligible capital. This three year phase-out period, which commences January 1, 2013, will ultimately result in our trust preferred securities being treated only as Tier 2 capital. The Supervision and Regulation section of this report contains information about the Basel III NPR, which provides for this three year phase-out period.

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

The cash efficiency ratio performance measure removes the impact of our intangible asset amortization from the calculation. Management believes this ratio provides greater consistency and comparability between our results and those of our peer banks. Additionally, this ratio is used by analysts and investors to assist in the development of their earnings forecasts and peer bank analysis.

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

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Figure 7. GAAP to Non-GAAP Reconciliations

dollars in millions	Three months ended 9-30-12	6-30-12	9-30-11
Tangible common equity to tangible assets at period end			
Key shareholders equity (GAAP)	**$ 10,251**	$ 10,155	$ 9,901
Less: Intangible assets [a]	**1,031**	932	935
Preferred Stock, Series A	**291**	291	291
Tangible common equity (non-GAAP)	**$ 8,929**	$ 8,932	$ 8,675
Total assets (GAAP)	**$ 86,950**	$ 86,523	$ 89,262
Less: Intangible assets	**1,031**	932	935
Tangible assets (non-GAAP)	**$ 85,919**	$ 85,591	$ 88,327
Tangible common equity to tangible assets ratio (non-GAAP)	**10.39 %**	10.44 %	9.82 %
Tier 1 common equity at period end			
Key shareholders equity (GAAP)	**$ 10,251**	$ 10,155	$ 9,901
Qualifying capital securities	**339**	339	1,377
Less: Goodwill	**979**	917	917
Accumulated other comprehensive income (loss) [b]	**(109)**	(109)	88
Other assets [c]	**121**	71	72
Total Tier 1 capital (regulatory)	**9,599**	9,615	10,201
Less: Qualifying capital securities	**339**	339	1,377
Preferred Stock, Series A	**291**	291	291
Total Tier 1 common equity (non-GAAP) [d]	**$ 8,969**	$ 8,985	$ 8,533
Net risk-weighted assets (regulatory) [c]	**$ 79,363**	$ 77,236	$ 75,643
Tier 1 common equity ratio (non-GAAP) [d]	**11.30 %**	11.63 %	11.28 %
Pre-provision net revenue			
Net interest income (GAAP)	**$ 572**	$ 538	$ 549
Plus: Taxable-equivalent adjustment	**6**	6	6
Noninterest income	**544**	485	483
Less: Noninterest expense	**734**	714	692
Pre-provision net revenue from continuing operations (non-GAAP)	**$ 388**	$ 315	$ 346
Average tangible common equity			
Average Key shareholders equity (GAAP)	**$ 10,222**	$ 10,100	$ 9,831
Less: Intangible assets (average) [a]	**1,026**	931	935
Preferred Stock, Series A (average)	**291**	291	291
Average tangible common equity (non-GAAP)	**$ 8,905**	$ 8,878	$ 8,605
Return on average tangible common equity from continuing operations			
Income (loss) from continuing operations attributable to Key common shareholder	**$ 214**	$ 221	$ 229
Average tangible common equity (non-GAAP)	**8,905**	8,878	8,605
Return on average tangible common equity from continuing operations (non-GAAP)	**9.56 %**	10.01 %	10.56 %
Return on average tangible common equity consolidated			
Net income (loss) attributable to Key common shareholders	**$ 214**	$ 231	$ 212

Average tangible common equity (non-GAAP)	**8,905**	8,878	8,605
Return on average tangible common equity consolidated (non-GAAP)	**9.56 %**	10.46 %	9.77 %
Cash efficiency ratio			
Noninterest expense (GAAP)	**$ 734**	$ 714	$ 692
Less: Intangible asset amortization on credit cards	**6**		
Other intangible asset amortization	**3**	1	1
Adjusted noninterest expense (non-GAAP)	**$ 725**	$ 713	$ 691
Net interest income (GAAP)	**$ 572**	$ 538	$ 549
Plus: Taxable-equivalent adjustment	**6**	6	6
Noninterest income	**544**	485	483
Total taxable-equivalent revenue (non-GAAP)	**$ 1,122**	$ 1,029	$ 1,038
Cash efficiency ratio (non-GAAP)	**64.62 %**	69.29 %	66.57 %

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Figure 7. GAAP to Non-GAAP Reconciliations, continued

dollars in millions	Three months ended 9-30-12	6-30-12
Tier 1 common equity under Basel III (estimates)		
Tier 1 common equity under Basel I	**$ 8,969**	$ 8,985
Adjustments from Basel I to Basel III:		
Cumulative other comprehensive income [e]	**(145)**	(119)
Deferred tax assets [f]	**(72)**	(100)
Tier 1 common equity anticipated under Basel III [d]	**$ 8,752**	$ 8,766
Total risk-weighted assets under Basel I	**$ 79,363**	$ 77,236
Adjustments from Basel I to Basel III:		
Market risk impact	**579**	477
Loan commitments less than one year	**1,127**	1,110
Residential mortgage and home equity loans	**1,855**	1,324
Other	**1,119**	
Total risk-weighted assets under Basel III [g]	**$ 84,043**	$ 80,147
Tier 1 common equity ratio under Basel III [d]	**10.41 %**	10.94 %

dollars in millions	Nine months ended 9-30-12	9-30-11
Average tangible common equity		
Average Key shareholders equity	**$ 10,105**	$ 10,197
Less: Intangible assets (average) [a]	**964**	936
Preferred Stock, Series B (average)		789
Preferred Stock, Series A (average)	**291**	291
Average tangible common equity (non-GAAP)	**$ 8,850**	$ 8,181
Return on average tangible common equity from continuing operations		
Income (loss) from continuing operations attributable to Key common shareholders	**$ 634**	$ 656
Average tangible common equity (non-GAAP)	**8,850**	8,181
Return on average tangible common equity from continuing operations (non-GAAP)	**9.57 %**	10.72 %
Return on average tangible common equity consolidated		
Net income (loss) attributable to Key common shareholders	**$ 639**	$ 619
Average tangible common equity (non-GAAP)	**8,850**	8,181
Return on average tangible common equity consolidated (non-GAAP)	**9.64 %**	10.12 %
Cash efficiency ratio		
Noninterest expense (GAAP)	**$ 2,151**	$ 2,073
Less: Intangible asset amortization on credit cards	**6**	
Other intangible asset amortization	**5**	3
Adjusted noninterest expense (non-GAAP)	**$ 2,140**	$ 2,070
Net interest income (GAAP)	**1,663**	1,710

Plus:	Taxable-equivalent adjustment		**18**		19
	Noninterest income		**1,501**		1,394
	Total taxable-equivalent revenue (non-GAAP)	**$**	**3,182**	$	3,123
Cash efficiency ratio (non-GAAP)			**67.25 %**		66.28 %

(a) Three months ended September 30, 2012 excludes $130 million of period end and $86 million of average ending purchased credit card receivable intangible assets that are not fully excludable for capital purposes. Nine months ended September 30, 2012 excludes $29 million of average ending purchased credit card receivable intangible assets that are not fully excludable for capital purposes.

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

(c) Other assets deducted from Tier 1 capital and risk-weighted assets consist of disallowed intangible assets (excluding goodwill) and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at September 30, 2012, June 30, 2012 and September 30, 2011.

(d) Tier 1 common equity is a non-generally accepted accounting principle (GAAP) financial measure that is used by investors, analysis and bank regulatory agencies to assess the capital position of financial services companies. Management reviews Tier 1 common equity along with other measures of capital as part of its financial analyses.

(e) Includes AFS mark-to-market, cash flow hedges on items recognized at fair value on the balance sheet, and defined benefit pension liability.

(f) Deferred tax asset subject to future taxable income for realization, primarily tax credit carryforwards.

(g) The amount of regulatory capital and risk-weighted assets estimated under Basel III (as fully phased-in on January 1, 2019) is based upon the federal banking agencies NPR, which implement Basel III and the Standardized Approach.

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Results of Operations

Net interest income

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

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

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

Figure 8 shows the various components of our balance sheet that affect interest income and expense, and their respective yields or rates over the past five quarters. This figure also presents a reconciliation of taxable-equivalent net interest income to net interest income reported in accordance with GAAP for each of those quarters. The net interest margin is calculated by dividing annualized taxable-equivalent net interest income by average earning assets.

Taxable-equivalent net interest income was $578 million for the third quarter of 2012, and the net interest margin was 3.23%. These results compare to taxable-equivalent net interest income of $555 million and a net interest margin of 3.09% for the third quarter of 2011. The increase in net interest income and the net interest margin was primarily a result of a change in funding mix from the redemption of certain trust preferred securities and the continued maturity of higher-costing certificates of deposit and long-term debt during the third quarter of 2012. This funding was replaced with lower-cost deposits obtained through our branch acquisition, and an overall increase in demand deposits. The improvement in net interest income and the net interest margin was partially offset by a $13 million reduction to net interest income from the write-off of capitalized loan origination costs due to the early termination of leveraged leases, resulting in a seven basis point decline in the net interest margin for the third quarter of 2012.

Compared to the second quarter of 2012, taxable-equivalent net interest income increased by $34 million, and the net interest margin improved by 17 basis points. The improvement was driven largely by lower funding costs, the redemption of trust preferred securities, the maturity of long-term debt in both the second and third quarters of 2012, and the maturity of higher rate certificates of deposit. The favorable impact of our credit card portfolio acquisition in the third quarter was largely offset by lower reinvestment yields on investment securities and other loans. The write-off of fees and capitalized loan origination costs from the early termination of leveraged leases was $13 million in both the second and third quarters of 2012.

Average earning assets for the third quarter of 2012, totaled $71.8 billion, compared to $72.3 billion for the third quarter of 2011. This slight decline was primarily due to decreases in our average available-for-sale securities, other investments and consumer other loans offset by increases in our average held-to-maturity securities, average commercial loans, home equity loans due and credit card loans.

As shown in Figure 8, the yield was impacted by the credit card acquisition and early termination of leveraged leases, which resulted in the write off of $13 million of capitalized loan origination costs.

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

dollars in millions	Third Quarter 2012 Average Balance		Interest	(a)	Yield/ Rate	(a)	Second Quarter 2012 Average Balance		Interest	(a)	Yield/ Rate	(a)
ASSETS												
Loans [b], [c]												
Commercial, financial and agricultural	$ 21,473	[h]	$ 203		3.76	%	$ 20,606		$ 196		3.82	%
Real estate commercial mortgage	7,463		83		4.40		7,613		85		4.50	
Real estate construction	1,116		12		4.55		1,216		14		4.64	
Commercial lease financing	5,026		39		3.13		5,226		45		3.45	
Total commercial loans	35,078		337		3.83		34,661		340		3.94	
Real estate residential mortgage	2,092		25		4.80		1,990		24		4.91	
Home equity:												
Key Community Bank	9,734		99		4.02		9,359		94		4.04	
Other	468		9		7.73		493		9		7.66	
Total home equity loans	10,202		108		4.19		9,852		103		4.23	
Consumer other Key Community Bank	1,297		32		9.65		1,247		29		9.20	
Credit Card	432		17		15.38							
Consumer other:												
Marine	1,493		22		6.28		1,595		26		6.29	
Other	101		3		8.02		101		2		8.49	
Total consumer other	1,594		25		6.39		1,696		28		6.42	
Total consumer loans	15,617		207		5.26		14,785		184		4.99	
Total loans	50,695		544		4.27		49,446		524		4.26	
Loans held for sale	532		5		3.28		585		5		3.43	
Securities available for sale [b], [e]	12,608		94		3.07		13,865		105		3.13	
Held-to-maturity securities [b]	4,251		21		1.94		3,493		17		1.98	
Trading account assets	693		4		2.10		768		5		3.01	
Short-term investments	1,868		1		.24		2,608		2		.29	
Other investments [e]	1,134		8		3.08		1,177		10		3.21	
Total earning assets	71,781		677		3.78		71,942		668		3.74	
Allowance for loan and lease losses	(883)						(928)					
Accrued income and other assets	9,957						9,906					
Discontinued assets education lending business	5,421						5,633					
Total assets	$ 86,276						$ 86,553					
LIABILITIES												
NOW and money market deposit accounts	$ 30,176		14		.19		$ 29,106		13		.18	
Savings deposits	2,378		1		.06		2,085				.03	
Certificates of deposit ($100,000 or more) [f]	3,420		22		2.53		3,858		27		2.85	
Other time deposits	5,158		23		1.76		5,645		30		2.13	
Deposits in foreign office	666				.21		759		1		.24	
Total interest-bearing deposits	41,798		60		.57		41,453		71		.69	
Federal funds purchased and securities sold under repurchase agreements	1,822		1		.17		1,880		1		.20	
Bank notes and other short-term borrowings	390		1		1.53		468		2		1.80	
Long-term debt [f], [g]	3,793		37		4.43		5,463		50		4.01	

Total interest-bearing liabilities	**47,803**	**99**	**0.83**		**49,264**	**124**	**1.02**	
Noninterest-bearing deposits	**20,878**				**19,610**			
Accrued expense and other liabilities	**1,928**				**1,927**			
Discontinued liabilities education lending business [(d), (g)]	**5,421**				**5,633**			
Total liabilities	**76,030**				**76,434**			
EQUITY								
Key shareholders equity	**10,222**				**10,100**			
Noncontrolling interests	**24**				**19**			
Total equity	**10,246**				**10,119**			
Total liabilities and equity	**$ 86,276**				**$ 86,553**			
Interest rate spread (TE)			**2.95**	**%**			**2.72**	**%**
Net interest income (TE) and net interest margin (TE)		**578**	**3.23**	**%**		**544**	**3.06**	**%**
TE adjustment [(b)]		**6**				**6**		
Net interest income, GAAP basis		**$ 572**				**$ 538**		

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

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

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

(d) Discontinued liabilities include the liabilities of the education lending business and the dollar amount of any additional liabilities assumed necessary to support the assets associated with this business.

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

First Quarter 2012			Fourth Quarter 2011			Third Quarter 2011		
Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance	Interest (a)	Yield/ Rate (a)
$ 20,031	**$ 198**	**3.99 %**	$ 18,590	$ 183	3.90 %	$ 17,381	$ 175	3.98 %
7,993	**89**	**4.48**	8,090	92	4.48	7,978	89	4.47
1,284	**16**	**4.86**	1,380	16	4.68	1,545	18	4.46
5,453	**54**	**3.94**	5,715	65	4.58	6,045	72	4.80
34,761	**357**	**4.12**	33,775	356	4.19	32,949	354	4.27
1,950	**25**	**5.04**	1,918	24	5.15	1,853	25	5.23
9,173	**93**	**4.08**	9,280	96	4.10	9,388	97	4.12
521	**10**	**7.68**	553	11	7.68	582	11	7.69
9,694	**103**	**4.27**	9,833	107	4.30	9,970	108	4.33
1,193	**28**	**9.61**	1,191	30	9.62	1,169	28	9.60
1,714	**27**	**6.28**	1,820	29	6.35	1,928	30	6.29
118	**2**	**7.79**	127	2	7.87	139	3	7.89
1,832	**29**	**6.38**	1,947	31	6.44	2,067	33	6.40
14,669	**185**	**5.07**	14,889	192	5.12	15,059	194	5.14
49,430	**542**	**4.41**	48,664	548	4.47	48,008	548	4.54
581	**5**	**3.62**	440	4	3.36	341	3	3.75
15,259	**116**	**3.15**	16,790	128	3.16	18,165	141	3.16
2,251	**12**	**2.08**	1,648	9	2.12	354	2	2.59
808	**6**	**2.72**	736	5	2.72	869	5	2.45
1,898	**1**	**.29**	2,929	1	.26	3,348	3	.25
1,169	**8**	**2.78**	1,181	9	2.98	1,190	9	2.94
71,396	**690**	**3.91**	72,388	704	3.90	72,275	711	3.93
(968)			(1,057)			(1,176)		
10,038			9,942			10,360		
5,757			5,912			6,079		
$ 86,223			$ 87,185			$ 87,538		
$ 28,328	**15**	**.21**	$ 27,722	15	.22	$ 26,917	18	.26
1,997		**.06**	1,964		.06	1,980		.06
4,036	**29**	**2.91**	4,275	32	2.97	4,762	36	3.03
6,035	**33**	**2.19**	6,505	37	2.24	6,942	40	2.28
769		**.25**	650	1	.25	675	1	.28
41,165	**77**	**.76**	41,116	85	.82	41,276	95	.91
1,850	**1**	**.21**	1,747	1	.25	1,724	1	.28
490	**2**	**1.53**	471	2	1.87	598	3	1.85
6,161	**51**	**3.61**	7,020	53	3.21	7,777	57	3.14
49,666	**131**	**1.07**	50,354	141	1.12	51,375	156	1.21
18,466			18,464			17,624		

2,325				2,496				2,612				
5,757				5,912				6,079				
76,214				77,226				77,690				
9,992				9,943				9,831				
17				16				17				
10,009				9,959				9,848				
$ 86,223				$ 87,185				$ 87,538				
		2.84	**%**			2.78	%			2.72	%	
	559	**3.16**	**%**		563	3.13	%		555	3.09	%	
	6				6				6			
	$ 553				$ 557				$ 549			

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

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

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

(h) Commercial, financial, and agricultural average balance includes $54 million of assets from commercial credit cards.

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

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

	From three months ended September 30, 2011 to three months ended September 30, 2012			From nine months ended September 30, 2011 to nine months ended September 30, 2012		
in millions	Average Volume	Yield/ Rate	Net Change (a)	Average Volume	Yield/ Rate	Net Change (a)
INTEREST INCOME						
Loans	$ 30	$ (34)	$ (4)	$ 43	$ (115)	$ (72)
Loans held for sale	2		2	5		5
Securities available for sale	(42)	(5)	(47)	(126)	(15)	(141)
Held-to-maturity securities	19		19	48	(1)	47
Trading account assets	(1)		(1)	(4)	(2)	(6)
Short-term investments	(1)	(1)	(2)	(1)		(1)
Other investments		(1)	(1)	(3)	(4)	(7)
Total interest income (TE)	7	(41)	(34)	(38)	(137)	(175)
INTEREST EXPENSE						
NOW and money market deposit accounts	2	(6)	(4)	5	(19)	(14)
Savings deposits		1	1			
Certificates of deposit ($100,000 or more)	(9)	(5)	(14)	(29)	(10)	(39)
Other time deposits	(9)	(8)	(17)	(29)	(14)	(43)
Deposits in foreign office		(1)	(1)		(1)	(1)
Total interest-bearing deposits	(16)	(19)	(35)	(53)	(44)	(97)
Federal funds purchased and securities sold under repurchase agreements					(1)	(1)
Bank notes and other short-term borrowings	(1)	(1)	(2)	(3)	(1)	(4)
Long-term debt	(35)	15	(20)	(56)	31	(25)
Total interest expense	(52)	(5)	(57)	(112)	(15)	(127)
Net interest income (TE)	$ 59	$ (36)	$ 23	$ 74	$ (122)	$ (48)

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

Noninterest income

Our noninterest income was $544 million for the third quarter of 2012, compared to $483 million for the year-ago quarter, an increase of $61 million, or 12.6%. Gains on leased equipment increased $39 million due primarily to early terminations in the leverage lease portfolio, net gains from loan sales increased by $21 million, investment banking and capital markets income increased by $13 million due primarily to increased equity originations income, other income increased $48 million due primarily to an increase in gains on the redemption of trust preferred securities as well as increases in various other items. These increases were partially offset by a $13 million decrease in operating lease income, a $15 million decline in electronic banking fees as a result of government pricing controls on debit transactions that went into effect on October 1, 2011, and a $23 million decrease from principal investing (including results attributable to noncontrolling interests).

For the nine months ended September 30, 2012, noninterest income increased $107 million, or 7.7%, from the same period one year ago. Gains on leased equipment increased $93 million due primarily to early terminations in the leveraged lease portfolio, net gains from loan sales

increased $45 million, and other income increased $71 million due primarily to an increase in gains on the redemption of trust preferred securities. These increases were partially offset by a $38 million decrease in operating lease income, and a $42 million decline in electronic banking fees as a result of government pricing controls on debit transactions that went into effect on October 1, 2011 as well as a $13 million decrease in trust and investment services income and a $16 million decrease from principal investing (including results attributable to noncontrolling interests).

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Figure 10. Noninterest Income

dollars in millions	Three months ended September 30, 2012	2011	Change Amount	Change Percent	Nine months ended September 30, 2012	2011	Change Amount	Change Percent
Trust and investment services income	**$ 106**	$ 107	$ (1)	(.9) %	**$ 317**	$ 330	$ (13)	(3.9) %
Service charges on deposit accounts	**74**	74			**212**	211	1	.5
Operating lease income	**17**	30	(13)	(43.3)	**59**	97	(38)	(39.2)
Letter of credit and loan fees	**52**	55	(3)	(5.5)	**162**	157	5	3.2
Corporate-owned life insurance income	**26**	31	(5)	(16.1)	**86**	86		
Net securities gains (losses)						1	(1)	N/M
Electronic banking fees	**18**	33	(15)	(45.5)	**54**	96	(42)	(43.8)
Gains on leased equipment	**46**	7	39	557.1	**109**	16	93	581.3
Insurance income	**13**	13			**36**	42	(6)	(14.3)
Net gains (losses) from loan sales	**39**	18	21	116.7	**93**	48	45	93.8
Net gains (losses) from principal investing	**11**	34	(23)	(67.6)	**70**	86	(16)	(18.6)
Investment banking and capital markets income	**38**	25	13	52.0	**118**	110	8	7.3
Other income	**104**	56	48	85.7	**185**	114	71	62.3
Total noninterest income	**$ 544**	$ 483	$ 61	12.6 %	**$ 1,501**	$ 1,394	$ 107	7.7 %

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

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Trust and investment services income

Trust and investment services are our largest source of noninterest income. The primary components of revenue generated by these services are shown in Figure 11. During the third quarter of 2012, income generated by these services remained essentially flat. For the nine months ended September 30, 2012, trust and investment services income decreased $13 million as compared to the same period one year ago due primarily to lower income from institutional asset management and custody fees.

Figure 11. Trust and Investment Services Income

	Three months ended				Nine months ended			
	September 30,		Change		September 30,		Change	
dollars in millions	**2012**	**2011**	**Amount**	**Percent**	**2012**	**2011**	**Amount**	**Percent**
Brokerage commissions and fee income	**$ 34**	$ 34			**$ 102**	$ 99	$ 3	3.0 %
Personal asset management and custody fees	**41**	37	$ 4	10.8 %	**119**	115	4	3.5
Institutional asset management and custody fees	**31**	36	(5)	(13.9)	**96**	116	(20)	(17.2)
Total trust and investment services income	**$ 106**	$ 107	$ (1)	(.9) %	**$ 317**	$ 330	$ (13)	(3.9) %

A significant portion of our trust and investment services income depends on the value and mix of assets under management. At September 30, 2012, our bank, trust and registered investment advisory subsidiaries had assets under management of $49.7 billion, compared to $51.6 billion at September 30, 2011. As shown in Figure 12, the decrease was primarily attributable to reductions in the securities lending and money market portfolios, partially offset from growth in equity and fixed income assets under management. The previously announced plan to liquidate the Victory Money Market Mutual Funds was completed in late April 2012. The assets in these funds were transferred back to Key in the form of non-time deposits, alternative investments, other Money Market Mutual Funds, or the assets were transferred back to the clients. Our securities lending business has been declining due to our de-emphasis of this business resulting in lower transaction volumes, client departures, and fewer assets under management. The liquidation of our portfolio of hedge funds is attributable to our second quarter 2009 decision to wind down the operations of Austin (results included in discontinued operations).

Figure 12. Assets Under Management

	2012			2011	
in millions	**Third**	**Second**	**First**	**Fourth**	**Third**
Assets under management by investment type:					
Equity	**$ 30,692**	**$ 30,366**	**$ 33,306**	$ 30,086	$ 29,176
Securities lending	**3,900**	**4,292**	**4,640**	4,950	5,622
Fixed income	**12,270**	**11,814**	**11,561**	10,684	10,359
Money market	**2,808**	**2,677**	**3,126**	5,850	6,231
Hedge funds[(a)]				162	196
Total	**$ 49,670**	**$ 49,149**	**$ 52,633**	$ 51,732	$ 51,584
Proprietary mutual funds included in assets under management:					
Money market			**$ 514**	$ 3,503	$ 3,936
Equity	**$ 5,848**	**$ 5,692**	**6,339**	6,014	5,870
Fixed income	**1,831**	**1,736**	**1,524**	1,096	1,219
Total	**$ 7,679**	**$ 7,428**	**$ 8,377**	$ 10,613	$ 11,025

(a) Hedge funds are related to the discontinued operations of Austin.

Operating lease income

Operating lease income decreased $13 million, or 43.3%, for the third quarter of 2012 and decreased $38 million, or 39.2%, for the nine months ended September 30, 2012 in our Equipment Finance line of business due to product run-off. Accordingly, as shown in Figure 14, operating lease expense also declined.

Investment banking and capital markets income (loss)

As shown in Figure 13, income from investment banking and capital markets activities increased $13 million, or 52.0%, from the year ago quarter and $8 million, or 7.3%, from the nine-month period ended one year ago.

Investment banking income doubled compared to the year ago quarter due primarily to equity origination income, while it increased $10 million, or 14.9%, when compared to the nine-month period ended one year ago, due primarily to advisory fees.

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Income from other investments decreased by $4 million from the year-ago quarter and decreased $7 million from the nine-month period ended one year ago due to fluctuations in asset sales made by our Funds Management Group.

Dealer trading and derivatives income increased $3 million from the year-ago quarter and increased $9 million from the nine-month period ended one year ago. The increase associated with proprietary activities is due primarily to volatility in fixed income sales, while the decrease in nonproprietary activities reflects volatility in fixed income trading as well as an increase in the provision for losses related to customer derivatives.

Foreign exchange income decreased by $2 million from the year-ago quarter and decreased $4 million from the nine-month period ended one year ago due to lower transaction volume.

Figure 13. Investment Banking and Capital Markets Income (Loss)

dollars in millions	Three months ended September 30, 2012	2011	Change Amount	Change Percent	Nine months ended September 30, 2012	2011	Change Amount	Change Percent
Investment banking income	**$ 32**	$ 16	$ 16	100.0 %	**$ 77**	$ 67	$ 10	14.9 %
Income (loss) from other investments	**2**	6	(4)	(66.7)	**11**	18	(7)	(38.9)
Dealer trading and derivatives income (loss), proprietary [a], [b]	**4**	(10)	14	N/M	**(1)**	(18)	17	N/M
Dealer trading and derivatives income (loss), nonproprietary [b]	**(9)**	2	(11)	N/M	**3**	11	(8)	(72.7)
Total dealer trading and derivatives income (loss)	**(5)**	(8)	3	N/M	**2**	(7)	9	N/M
Foreign exchange income (loss)	**9**	11	(2)	(18.2)	**28**	32	(4)	(12.5)
Total investment banking and capital markets income	**$ 38**	$ 25	$ 13	52.0 %	**$ 118**	$ 110	$ 8	7.3 %

(a) For the quarters ended September 30, 2012 and September 30, 2011, fixed income and equity securities trading comprised the vast majority of this amount. For the quarter ended September 30, 2012, income related to foreign exchange and interest rate derivative trading was less than $1 million and was offset by losses from Key s credit portfolio management activities. For the quarter ended September 30, 2011, income related to foreign exchange and interest rate derivative trading was less than $2 million and was offset by losses from Key s credit portfolio management activities.

(b) The allocation between proprietary and nonproprietary is made based upon whether the trade is conducted for the benefit of Key or Key s clients rather than based upon the proposed rulemaking under the Volcker Rule. The prohibitions and restrictions on proprietary trading activities contemplated by the Volcker Rule and the rules proposed thereunder are not yet final. Therefore, the ultimate impact of the rules proposed under the Volcker Rule is not yet known.

Other income

Other income increased $48 million, or 85.7%, from the year-ago quarter and increased $71 million, or 62.3%, from the nine-month period ended one year ago due primarily to a $41 million increase in gains during the third quarter 2012, from the redemption of trust preferred securities as well as increases in various other items.

Noninterest expense

As shown in Figure 14, noninterest expense was $734 million for the third quarter of 2012, compared to $692 million for the year-ago quarter representing an increase of $42 million or 6.1%. The amount of this increase attributable to our acquisition of 37 branches in Western New York and our acquired credit card portfolio is $26 million spread across several expense categories. Increases in personnel expense of $29 million and other expense of $14 million were partially offset by a $10 million decrease in operating lease expense and a $7 million decrease in the provision (credit) for losses on lending-related commitments. Included in the current quarter is amortization of the intangible assets related to the credit card portfolio acquisition of $6 million and acquisition of 37 branches in Western New York of $2 million.

For the nine months ended September 30, 2012 noninterest expense increased $78 million, or 3.8%, compared to the same period a year ago. The amount of this increase attributable to our acquisition of 37 branches in Western New York and our acquired credit card portfolio is $30 million spread across several expense categories. Increases in personnel expense of $52 million, the provision (credit) for losses on lending-related comments of $15 million, and other expense of $25 million were partially offset by a $31 million decline in operating lease expense and a $22 million decrease in FDIC assessments. Business services and professional fees also increased $9 million, partially related to the company-wide efficiency initiatives. Marketing expense was $12 million higher partially due to the spring home equity loan campaign and the branch acquisition. Included in the nine months ended September 30, 2012 is amortization of the intangible asset related to the credit card portfolio acquisition of $6 million and acquisition of 37 branches in Western New York of $2 million.

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Figure 14. Noninterest Expense

dollars in millions	Three months ended September 30, 2012	2011	Change Amount	Percent	Nine months ended September 30, 2012	2011	Change Amount	Percent
Personnel	**$ 411**	$ 382	$ 29	7.6 %	**$ 1,185**	$ 1,133	$ 52	4.6 %
Net occupancy	**65**	65			**191**	192	(1)	(.5)
Operating lease expense	**13**	23	(10)	(43.5)	**45**	76	(31)	(40.8)
Computer processing	**43**	40	3	7.5	**127**	124	3	2.4
Business services and professional fees	**49**	47	2	4.3	**138**	129	9	7.0
FDIC assessment	**7**	7			**23**	45	(22)	(48.9)
OREO expense, net	**1**	1			**14**	8	6	75.0
Equipment	**27**	26	1	3.8	**80**	78	2	2.6
Marketing	**18**	16	2	12.5	**48**	36	12	33.3
Provision (credit) for losses on lending-related commitments	**(8)**	(1)	(7)	N/M	**(2)**	(17)	15	N/M
Intangible asset amortization on credit cards	**6**		6	N/M	**6**		6	N/M
Other intangible asset amortization	**3**	1	2	200.0	**5**	3	2	66.7
Other expense	**99**	85	14	16.5	**291**	266	25	9.4
Total noninterest expense	**$ 734**	692	$ 42	6.1 %	**$ 2,151**	$ 2,073	$ 78	3.8 %
Average full-time equivalent employees[(a)]	**15,833**	15,490	343	2.2 %	**15,565**	15,381	184	1.2 %

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

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

Personnel

As shown in Figure 15, personnel expense, the largest category of our noninterest expense, increased by $29 million, or 7.6%, when compared to the year-ago quarter and increased $52 million, or 4.6%, for the nine months ended September 30, 2012, compared to the same period a year ago due primarily to increased hiring of client-facing personnel, annual merit increases, our acquisition of 37 branches in Western New York, and higher levels of contract labor on technology initiatives. Incentive compensation increased $11 million, or 14.1%, when compared to the year-ago quarter, yet remained essentially flat for the nine months ended September 30, 2012, compared to the same period a year ago. A $6 million increase in stock-based compensation essentially offset a $5 million decrease in severance for the nine months ended September 30, 2012, compared to the same period a year ago.

Figure 15. Personnel Expense

dollars in millions	Three months ended September 30, 2012	2011	Change Amount	Percent	Nine months ended September 30, 2012	2011	Change Amount	Percent
Salaries	**$ 251**	$ 233	$ 18	7.7 %	**$ 732**	$ 685	$ 47	6.9 %
Incentive compensation	**89**	78	11	14.1	**226**	224	2	.9
Employee benefits	**55**	54	1	1.9	**176**	174	2	1.1
Stock-based compensation	**11**	11			**38**	32	6	18.8
Severance	**5**	6	(1)	(16.7)	**13**	18	(5)	(27.8)

Total personnel expense	**$ 411**	$ 382	$ 29	7.6 %	**$ 1,185**	$ 1,133	$ 52	4.6 %		

Operating lease expense

The $10 million decrease in operating lease expense compared to the year-ago quarter and the $31 million decrease in the first nine months of 2012 compared to the same period a year ago is attributable to product run-off. Income related to the rental of leased equipment is presented in Figure 10 as operating lease income.

FDIC Assessment

FDIC insurance remained unchanged compared to the year-ago quarter and decreased $22 million in the first nine months of 2012 as compared to the same period a year ago, as a result of the change in the calculation method for deposit insurance assessments as discussed in the Deposits and other sources of funds section under the The Dodd-Frank Act reform of deposit insurance heading on page 70 of our 2011 Annual Report on Form 10-K.

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Other expense

Other expense is comprised of various miscellaneous expense items. The $14 million increase in the current quarter compared to the year-ago quarter and the $25 million increase in the nine months ended September 30, 2012, compared to the same period a year ago reflect fluctuations in several of those line items.

Income taxes

We recorded tax expense from continuing operations of $52 million for the third quarter of 2012, $57 million for the second quarter of 2012 and $95 million for the third quarter of 2011. For the first nine months of 2012, we recorded tax expense from continuing operations of $184 million, compared to tax expense of $300 million for the same period last year.

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

Additional information pertaining to how our tax expense (benefit) and the resulting effective tax rates were derived is included in Note 12 (Income Taxes) on page 165 of our 2011 Annual Report on Form 10-K, and in Note 10 (Income Taxes) of this report.

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Line of Business Results

This section summarizes the financial performance and related strategic developments of our two major business segments (operating segments), Key Community Bank and Key Corporate Bank. Note 16 (Line of Business Results) describes the products and services offered by each of these business segments, provides more detailed financial information pertaining to the segments and certain lines of business, and explains Other Segments and Reconciling Items.

Figure 16 summarizes the contribution made by each major business segment to our taxable-equivalent revenue from continuing operations and income (loss) from continuing operations attributable to Key for the three- and nine-month periods ended September 30, 2012 and 2011.

Figure 16. Major Business Segments - Taxable-Equivalent (TE) Revenue from Continuing Operations and Income (Loss) from Continuing Operations Attributable to Key

	Three months ended				Nine months ended			
	September 30,		Change		September 30,		Change	
dollars in millions	2012	2011	Amount	Percent	2012	2011	Amount	Percent
REVENUE FROM CONTINUING OPERATIONS (TE)								
Key Community Bank	**$ 576**	$ 565	$ 11	1.9 %	**$ 1,642**	$ 1,689	$ (47)	(2.8) %
Key Corporate Bank	**392**	369	23	6.2	**1,185**	1,165	20	1.7
Other Segments	**160**	103	57	55.3	**363**	264	99	37.5
Total Segments	**1,128**	1,037	91	8.8	**3,190**	3,118	72	2.3
Reconciling Items	**(6)**	1	(7)	N/M	**(8)**	5	(13)	N/M
Total	**$ 1,122**	$ 1,038	$ 84	8.1 %	**$ 3,182**	$ 3,123	$ 59	1.9 %
INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO KEY								
Key Community Bank	**$ (23)**	$ 57	$ (80)	N/M	**$ 75**	$ 172	$ (97)	(56.4) %
Key Corporate Bank	**118**	123	(5)	(4.1) %	**323**	412	(89)	(21.6)
Other Segments	**102**	52	50	96.2	**202**	151	51	33.8
Total Segments	**197**	232	(35)	(15.1)	**600**	735	(135)	(18.4)
Reconciling Items	**22**	2	20	N/M	**50**	22	28	127.3
Total	**$ 219**	$ 234	$ (15)	(6.4) %	**$ 650**	$ 757	$ (107)	(14.1) %

Key Community Bank summary of operations

- Five consecutive quarters of average loan growth
- Acquisition of 37 branches and credit card portfolio added $696 million to average loans during the third quarter
- Continued migration to lower-cost deposits
- Net loan charge-offs increased to 1.30% of average loans primarily due to the application of recently updated regulatory guidance related to the debts discharged through Chapter 7 bankruptcy

As shown in Figure 17, Key Community Bank recorded a net loss attributable to Key of $23 million for the third quarter of 2012, compared to net income attributable to Key of $57 million for the year-ago quarter. The net loss for the third quarter of 2012 is attributable to additional

provision expense for loan and lease losses related to the acquisitions completed and implementing the updated regulatory guidance on debts discharged through Chapter 7 bankruptcy.

Taxable-equivalent net interest income declined by $6 million, or 1.6%, from the third quarter of 2011. Average loans and leases grew 8.1% while average deposits increased 3.9% from one year ago. The branch and credit card portfolio acquisitions contributed $26 million to net interest income, $696 million to average loans and leases, and $1.6 billion to deposits. Given the prolonged low-rate environment, the value derived from deposits was less in the current period compared to the same period one year ago.

Noninterest income increased by $17 million, or 8.8%, from the year-ago quarter. Credit card fees and trust and investment services income each increased $6 million primarily due to the credit card portfolio and branch acquisitions. Miscellaneous income also increased $15 million primarily due to gains realized on the sale of certain tax credits. Net gains (losses) from loan sales were also $4 million higher. These increases in noninterest income were partially offset by a $15 million decline in electronic banking fees resulting from government pricing controls on debit transactions that went into effect October 1, 2011.

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The provision for loan and lease losses increased by $81 million, or 207.7%, compared to the third quarter of 2011. The application of recently updated regulatory guidance related to debts discharged through Chapter 7 bankruptcy increased the provision $45 million, and the acquisition of the credit card portfolio and the loans associated with the branch acquisition increased the provision $32 million. Net loan charge-offs were $93 million for the third quarter of 2012, up $33 million from the same period one year ago, primarily due to the application of recently updated regulatory guidance discussed above.

Noninterest expense increased by $55 million, or 12%, from the year-ago quarter. Key s third quarter 2012 branch and credit card portfolio acquisitions contributed $26 million to the increase in noninterest expense spread across several expense categories. Personnel expense was $13 million higher than one year ago. Amortization of the intangible assets associated with the third quarter 2012 acquisitions of the previously discussed credit card portfolio and the branches and internally-allocated support costs each increased $8 million, and other miscellaneous expenses also increased $21 million from the same period one year ago.

Figure 17. Key Community Bank

	Three months ended				Nine months ended			
			Change				Change	
dollars in millions	September 30, 2012	2011	Amount	Percent	September 30, 2012	2011	Amount	Percent
SUMMARY OF OPERATIONS								
Net interest income (TE)	**$ 365**	$ 371	$ (6)	(1.6) %	**$ 1,066**	$ 1,123	$ (57)	(5.1) %
Noninterest income	**211**	194	17	8.8	**576**	566	10	1.8
Total revenue (TE)	**576**	565	11	1.9	**1,642**	1,689	(47)	(2.8)
Provision (credit) for loan and lease losses	**120**	39	81	207.7	**133**	130	3	2.3
Noninterest expense	**512**	457	55	12.0	**1,446**	1,350	96	7.1
Income (loss) before income taxes (TE)	**(56)**	69	(125)	N/M	**63**	209	(146)	(69.9)
Allocated income taxes (benefit) and TE adjustments	**(33)**	12	(45)	N/M	**(12)**	37	(49)	N/M
Net income (loss) attributable to Key	**$ (23)**	$ 57	$ (80)	N/M	**$ 75**	$ 172	$ (97)	(56.4) %
AVERAGE BALANCES								
Loans and leases	**$ 28,386**	$ 26,270	$ 2,116	8.1 %	**$ 27,352**	$ 26,275	$ 1,077	4.1 %
Total assets	**32,136**	29,681	2,455	8.3	**30,993**	29,703	1,290	4.3
Deposits	**49,537**	47,672	1,865	3.9	**48,523**	47,831	692	1.4
Assets under management at period end	**$ 21,988**	$ 17,195	$ 4,793	27.9 %	**$ 21,988**	$ 17,195	$ 4,793	27.9 %

ADDITIONAL KEY COMMUNITY BANK DATA

	Three months ended				Nine months ended			
			Change				Change	
dollars in millions	September 30, 2012	2011	Amount	Percent	September 30, 2012	2011	Amount	Percent
NONINTEREST INCOME								
Trust and investment services income	**$ 51**	$ 45	$ 6	13.3 %	**$ 146**	$ 137	$ 9	6.6 %
Services charges on deposit accounts	**62**	62			**178**	175	3	1.7
Electronic banking fees	**18**	33	(15)	(45.5)	**54**	96	(42)	(43.8)
Other noninterest income	**80**	54	26	48.1	**198**	158	40	25.3
Total noninterest income	**$ 211**	$ 194	$ 17	8.8 %	**$ 576**	$ 566	$ 10	1.8 %

AVERAGE DEPOSITS OUTSTANDING										
NOW and money market deposit accounts	**$ 25,072**	$ 21,967	$ 3,105	14.1	%	**$ 24,055**	$ 21,773	$ 2,282	10.5	%
Savings deposits	**2,373**	1,971	402	20.4		**2,148**	1,949	199	10.2	
Certificates of deposits ($100,000 or more)	**2,941**	3,862	(921)	(23.8)		**3,220**	4,149	(929)	(22.4)	
Other time deposits	**5,137**	6,928	(1,791)	(25.9)		**5,595**	7,397	(1,802)	(24.4)	
Deposits in foreign office	**344**	336	8	2.4		**358**	382	(24)	(6.3)	
Noninterest-bearing deposits	**13,670**	12,608	1,062	8.4		**13,147**	12,181	966	7.9	
Total deposits	**$ 49,537**	$ 47,672	$ 1,865	3.9	%	**$ 48,523**	$ 47,831	$ 692	1.4	%
HOME EQUITY LOANS										
Average balance	**$ 9,734**	$ 9,388								
Weighted-average loan-to-value ratio (at date of origination)	**71**	**%**	70	%						
Percent first lien positions	**54**	53								
OTHER DATA										
Branches	**1,087**	1,063								
Automated teller machines	**1,620**	1,584								

Key Corporate Bank summary of operations

Investment banking and debt placement fees were $82 million, up 18.8% from the second quarter

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Average loans up 11.2% from the prior year and 1.9% from the prior quarter

Average deposits up 22.1% from the prior year and 3.7% from the prior quarter

As shown in Figure 18, Key Corporate Bank recorded net income attributable to Key of $118 million for the third quarter of 2012, compared to net income attributable to Key of $123 million for the same period one year ago.

Taxable-equivalent net interest income increased by $10 million, or 5.8%, compared to the third quarter of 2011. Average earning assets increased $1.8 billion, or 9.7%, from the year-ago quarter, resulting in an increase in earning asset spread of $4 million. Average deposit balances increased $2.3 billion, or 22.1%, from one year ago, resulting in an increase in deposit spread of $6 million.

Noninterest income increased by $13 million, or 6.6%, from the third quarter of 2011. Net gains (losses) from loan sales increased $20 million, and investment banking and capital markets income increased $16 million. These improvements in noninterest income were partially offset by a decrease in operating lease income of $8 million as that portfolio continues to run down. Trust and investment services income also declined $6 million, and other miscellaneous income items decreased $8 million compared to the year-ago quarter.

The provision for loan and lease losses in the third quarter of 2012 was a credit of $3 million compared to a credit of $40 million for the same period one year ago. The portfolio s asset quality continued to improve for the twelfth consecutive quarter. Net loan charge-offs in the third quarter of 2012 were $8 million compared to $22 million for the same period one year ago.

Noninterest expense decreased by $7 million, or 3.2%, from the third quarter of 2011. The provision (credit) for losses on lending-related commitments was a credit of $6 million compared to a charge of $1 million one year ago. Also contributing to the decline in noninterest expense were decreases in operating lease expense of $7 million and various other miscellaneous expenses of $6 million. These decreases in noninterest expense were partially offset by an increase in personnel expense of $13 million.

Figure 18. Key Corporate Bank

dollars in millions	Three months ended September 30, 2012	2011	Change Amount	Change Percent	Nine months ended September 30, 2012	2011	Change Amount	Change Percent
SUMMARY OF OPERATIONS								
Net interest income (TE)	**$ 182**	$ 172	$ 10	5.8 %	**$ 51**	$ 535	$ 16	3.0 %
Noninterest income	**210**	197	13	6.6	**634**	630	4	0.6
Total revenue (TE)	**392**	369	23	6.2	**1,185**	1,165	20	1.7
Provision (credit) for loan and lease losses	**(3)**	(40)	37	N/M	**14**	(137)	151	N/M
Noninterest expense	**209**	216	(7)	(3.2)	**657**	652	5	0.8
Income (loss) before income taxes (TE)	**186**	193	(7)	(3.6)	**514**	650	(136)	(20.9)
Allocated income taxes and TE adjustments	**68**	70	(2)	(2.9)	**188**	238	(50)	(21.0)
Net income (loss)	**118**	123	(5)	(4.1)	**326**	412	(86)	(20.9)
Less: Net income (loss) attributable to noncontrolling interests				N/M	**3**		3	N/M
	$ 118	$ 123	$ (5)	(4.1) %	**$ 323**	$ 412	$ (89)	(21.6) %

Net income (loss) attributable to Key												
AVERAGE BALANCES												
Loans and leases	**$**	**18,886**	$ 16,986	$	1,900	11.2	%	**$**	**18,668**	$ 17,275	$ 1,393	8.1 %
Loans held for sale		**441**	273		168	61.5			**487**	283	204	72.1
Total assets		**22,914**	21,168		1,746	8.2			**22,831**	21,459	1,372	6.4
Deposits		**12,873**	10,544		2,329	22.1			**12,281**	10,671	1,610	15.1
Assets under management at period end	**$**	**27,682**	$ 34,389	$	(6,707)	(19.5)	%	**$**	**27,682**	$ 34,389	$ (6,707)	(19.5) %

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ADDITIONAL KEY CORPORATE BANK DATA

dollars in millions	Three months ended September 30, 2012	2011	Change Amount	Percent	Nine months ended September 30, 2012	2011	Change Amount	Percent
NONINTEREST INCOME								
Trust and investment services income	**$ 56**	$ 62	$ (6)	(9.7) %	**$ 173**	$ 192	$ (19)	(9.9) %
Investment banking and debt placement fees	**82**	44	38	86.4	**210**	162	48	29.6
Operating lease income and other leasing gains	**20**	29	(9)	(31.0)	**63**	86	(23)	(26.7)
Corporate services income	**27**	31	(4)	(12.9)	**90**	98	(8)	(8.2)
Other noninterest income	**25**	31	(6)	(19.4)	**98**	92	6	6.5
Total noninterest income[(a)]	**$ 210**	$ 197	$ 13	6.6 %	**$ 634**	$ 630	$ 4	.6 %

(a) Included in Trust and investment services income, Service charges on deposit accounts, Operating lease income, Letter of credit and loan fees, Investment banking and capital markets income (loss), Net gains (losses) from loan sales, Gains on leased equipment, and Other income on the consolidated statements of income.

Other Segments

Other Segments consist of Corporate Treasury, Key s Principal Investing unit, and various exit portfolios. Other Segments generated net income attributable to Key of $102 million for the third quarter of 2012, compared to net income attributable to Key of $52 million for the same period last year. These results were primarily attributable to an increase in other income of $71 million due to a $54 million gain on the redemption of certain trust preferred securities and a $26 million net gain resulting from the early terminations of leveraged leases in the third quarter of 2012 (a $39 million gain on leased equipment less a $13 million charge for the write-off of capitalized loan origination costs). These results were partially offset by a decrease in net gains (losses) from principal investing of $23 million.

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Financial Condition

Loans and loans held for sale

At September 30, 2012, total loans outstanding from continuing operations were $51.4 billion, compared to 49.6 billion at December 31, 2011 and $48.2 billion at September 30, 2011. Loans related to the discontinued operations of the education lending business, which are excluded from total loans at September 30, 2012, December 31, 2011, and September 30, 2011, totaled $5.3 billion, $5.8 billion, and $6.0 billion, respectively. The increase in our outstanding loans from continuing operations over the past twelve months results primarily from increased lending activity in our commercial, financial and agricultural portfolio along with the previously discussed credit card portfolio and branch acquisition. For more information on balance sheet carrying value, see Note 1 (Summary of Significant Accounting Policies) under the headings Loans and Loans Held for Sale on pages 116 of our 2011 Annual Report on Form 10-K.

Commercial loan portfolio

Commercial loans outstanding were $35.5 billion at September 30, 2012, an increase of $2.3 billion, or 7.0%, compared to September 30, 2011.

Commercial, financial and agricultural. Our Commercial, Financial and Agricultural loans, also referred to as Commercial and Industrial, represent 42.7% of our total loan portfolio at September 30, 2012, 39.9% at December 31, 2011 and 37% at September 30, 2011 and are the largest component of our total loans. These loans are comprised of fixed and variable rate loans to our large, middle market and small business clients. These period end loans increased $4.1 billion or 23.1% from the same period one year ago. This growth in our commercial and industrial portfolio is primarily attributable to our clients in the manufacturing, technology and healthcare industries. We are experiencing growth in new high credit quality loan commitments, and utilization with clients in our middle market segment, and in our Institutional and Capital Markets business. Additionally, we are increasing loans to real estate investment trust (REIT) clients and Institutionally backed CRE Funds. REITs and Institutional CRE Funds effectively enable us to lend to entities that generally have more diverse cash flows, lower debt levels and better access to the capital markets than private owners or developers.

Commercial real estate loans. Our Commercial real estate (CRE) lending business is conducted through two primary sources: our 14-state banking franchise, and KeyBank Real Estate Capital, a national line of business that cultivates relationships with owners of CRE located both within and beyond the branch system. This line of business deals primarily with nonowner-occupied properties (generally properties for which at least 50% of the debt service is provided by rental income from nonaffiliated third parties) and accounted for approximately 54.3% of our average year-to-date commercial real estate loans, compared to 55.9% one year ago. KeyBank Real Estate Capital generally focuses on larger owners and operators of commercial real estate.

CRE loans represent 16.7% of our total loan portfolio at September 30, 2012 compared to 19.5% one year ago. These loans include both owner and nonowner occupied properties which at September 30, 2012 represented 24.2% of our commercial loan portfolio compared to 28.3% one year ago. These loans have decreased $818 million, or 8.7%, to $8.6 billion at September 30, 2012, from $9.4 billion at September 30, 2011. This decrease in our CRE portfolio has resulted from many of our clients taking advantage of historically low long-term interest rates to refinance their loans in the permanent loan market. We have also been de-risking the portfolio by changing our focus from developers to owners of completed and stabilized CRE.

Figure 19 includes commercial mortgage and construction loans in both Key Community Bank and Key Corporate Bank. As shown in Figure 19, this loan portfolio is diversified by both property type and geographic location of the underlying collateral.

As shown in Figure 19, at September 30, 2012, our CRE portfolio included mortgage loans of $7.5 billion and construction loans of $1.1 billion, representing 14.6% and 2.1%, respectively, of our total loans. Nonowner-occupied loans represented 10.7% of our total loans and owner-occupied loans represented 6.0% of our total loans. The average size of mortgage loans originated during the third quarter of 2012 was $2.9 million, and our largest mortgage loan at September 30, 2012, had a balance of $73 million. At September 30, 2012, our average construction loan commitment was $3.8 million. Our largest construction loan commitment was $56.2 million, and our largest construction loan amount outstanding was $41.1 million.

Also shown in Figure 19, at September 30, 2012, 64.2% of our commercial real estate loans were for nonowner-occupied properties compared to 63.8% at September 30, 2011. Approximately 16.3% and 20.9% of these loans were construction

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loans at September 30, 2012 and 2011, respectively. Typically, these properties are not fully leased at the origination of the loan. The borrower relies upon additional leasing through the life of the loan to provide the cash flow necessary to support debt service payments. A significant decline in economic growth, and in turn, rental rates and occupancy would adversely affect our portfolio of construction loans.

Figure 19. Commercial Real Estate Loans

September 30, 2012	**Geographic Region**							**Percent of**	**Commercial**	
dollars in millions	**West**	**Southwest**	**Central**	**Midwest**	**Southeast**	**Northeast**	**Total**	**Total**	**Construction**	**Mortgage**
Nonowner-occupied:										
Retail properties	$ 206	$ 145	$ 112	$ 205	$ 382	$ 185	$ 1,235	14.4 %	$ 181	$ 1,054
Multifamily properties	208	164	141	369	270	188	1,340	15.6	364	976
Health facilities	158	42	183	251	39	172	845	9.8	51	794
Office buildings	153	16	76	171	41	137	594	6.9	44	550
Warehouses	243	36	22	71	89	89	550	6.4	25	525
Manufacturing facilities	1		1	80	88	3	173	2.0	1	172
Hotels/Motels	84		23	4	48	14	173	2.0		173
Residential properties	16	13	21	51	23	29	153	1.8	100	53
Land and development	20	6	28	8	22	61	145	1.7	127	18
Other	106	1	42	14	85	61	309	3.6	6	303
Total nonowner-occupied	1,195	423	649	1,224	1,087	939	5,517	64.2	899	4,618
Owner-occupied	1,264	39	323	663	113	677	3,079	35.8	168	2,911
Total	$ 2,459	$ 462	$ 972	$ 1,887	$ 1,200	$ 1,616	$ 8,596	100.0 %	$ 1,067	$ 7,529
Nonowner-occupied:										
Nonperforming loans	$ 10	$ 48	$ 5	$ 10	$ 48	$ 10	$ 131	N/M	$ 50	$ 81
Accruing loans past due 90 days or more			1	1	12	11	25	N/M	25	
Accruing loans past due 30 through 89 days				5		8	13	N/M	1	12

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

In the first nine months of 2012, nonperforming loans related to nonowner-occupied properties decreased by $43 million at December 31, 2011 to $131 million at September 30, 2012 and decreased by $37 million in the period from June 30, 2012 to September 30, 2012.

Since September 30, 2011, our nonowner occupied commercial real estate portfolio has been reduced by approximately $494 million, or 8.2%, as many of our clients have taken advantage of opportunities to permanently refinance their loans at historically low interest rates.

If the economic recovery stalls, it may weaken the commercial real estate market fundamentals (i.e., vacancy rates, the stability of rental income and asset values), leading to reduced cash flow to support debt service payments. Reduced client cash flow would adversely affect our ability to

collect such payments. Accordingly, the value of our commercial real estate loan portfolio could be adversely affected.

Commercial lease financing. We conduct commercial lease financing arrangements through our Key Equipment Finance line of business and have both the scale and array of products to compete in the equipment lease financing business. Commercial lease financing receivables represented 14% of commercial loans at September 30, 2012, and 17.9% at September 30, 2011.

Commercial loan modification and restructuring

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

Modifications are negotiated to achieve mutually agreeable terms that maximize loan credit quality while at the same time meeting our clients financing needs. Modifications made to loans of creditworthy borrowers not experiencing financial

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difficulties and under circumstances where ultimate collection of all principal and interest is not in doubt are not classified as TDRs. In accordance with applicable accounting guidance, TDR classification occurs when the borrower is experiencing financial difficulties and a creditor concession has been granted.

Our concession types are primarily categorized as interest rate reductions, principal deferral, or forgiveness of principal. Loan extensions are sometimes coupled with these primary concession types. As a result of modestly improving economic conditions combined with the restructuring of these loans to provide the optimal opportunity for successful repayment by the borrower, we have seen certain of our restructured loans returning to accrual status and consistent performance under the restructured loan terms for each primary type of concession over the past year.

In cases where the loan terms were extended at less than normal market rates for similar lending arrangements, we have transferred these loans to the Asset Recovery Group for resolution. During the first nine months of 2012, there were $192 million of new restructured loans included in nonperforming loans, of which $33 million related to commercial real estate.

For more information on concession types for our commercial accruing and nonaccruing TDRs, see Note 4 (Asset Quality).

Figure 20 quantifies restructured loans and TDRs. As of September 30, 2012, $38 million of secured loans discharged through Chapter 7 bankruptcy and not reaffirmed by the borrower were reclassified as TDRs. Regardless of delinquency status, these loans were transferred at the collateral s fair market value less selling costs, classified as nonaccrual, and are included in nonperforming loans.

Figure 20. Commercial TDRs by Note Type and Accrual Status

in millions	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Commercial TDRs by Note Type					
Tranche A	$ 166	$ 188	$ 218	$ 206	$ 211
Tranche B				2	2
Total Commercial TDRs	$ 166	$ 188	$ 218	$ 208	$ 213
Commercial TDRs by Accrual Status					
Nonaccruing	$ 114	$ 133	$ 148	$ 150	$ 120
Accruing	52	55	70	58	93
Total Commercial TDRs	$ 166	$ 188	$ 218	$ 208	$ 213
Total Commercial and Consumer TDRs	$ 323	$ 274	$ 293	$ 276	$ 277

The benefits derived from A-B note TDRs are recognized when the underlying assets (predominantly commercial real estate) have been stabilized with a level of leverage supportable by ongoing cash flows. Right-sizing the A note to sustainable cash flow should ultimately allow for its return to accrual status and thereupon a resumption of interest income recognition. Similarly, appropriately-sized A notes will allow for upgraded credit classification based on rehabilitated credit metrics, including demonstrated payment performance. Other benefits include the borrower s retention of ownership and control of the asset, deleveraged and sustainable capital structure (often sufficient to attract fresh capital into the transaction) and rehabilitation of local markets by minimizing distressed/fire sales.

We use an A-B note structure for our TDRs, breaking the existing loan into two tranches. First, we create an A note. As the objective of this TDR note structure is to achieve a fully performing and well-rated A note, we focus on sizing that note to a level that is supported by cash flow

available to service debt at current market terms and consistent with our customary underwriting standards. This note structure will typically include a debt coverage ratio of 1.2 or better of cash flow to monthly payments of market interest, and principal amortization of generally not more than 25 years. (These metrics are adjusted from time to time based upon changes in long-term markets and take out underwriting standards of our various lines of business.) Appropriately sized A notes are more likely to return to accrual status, allowing us to resume recognizing interest income. As the borrower s payment performance improves, these restructured notes also typically allow for upgraded internal quality risk rating classification. Moreover, as noted above, the borrower retains ownership and control of the underlying collateral (typically, commercial real estate), the borrower s capital structure is strengthened (often to the point that fresh capital is attracted to the transaction), and local markets are spared distressed/fire sales.

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

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

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

Extensions. Certain commercial loans are modified and extended in the normal course of business for our clients. Project loans are typically refinanced into the permanent commercial loan market at maturity but are sometimes modified and extended, depending on the circumstances. Extension terms take into account the specific circumstances of the client relationship, the status of the project and near-term prospects for both the client and the collateral. In all cases, pricing and loan structure are reviewed and (where necessary) modified to ensure the loan has been priced to achieve a market rate of return and loan terms (i.e., amortization, covenants and term) that are appropriate for the risk. Typical enhancements include one or more of the following: principal paydown, increased amortization, additional collateral, increased guarantees, and/or a cash flow sweep. As previously mentioned, some maturing construction loans have automatic extension options built in and in those cases where the borrower qualifies for the extension option, pricing and loan terms cannot be altered. Most project loans by their nature are collateral-dependent as cash flow from the project loans or the sale of the real estate provides for repayment of the loan.

Pricing of a loan is determined based on the strength of the borrowing entity and the strength of the guarantor, if any. Therefore, pricing may remain the same (e.g., the loan is already priced at or above current market). We do not consider loan extensions in the normal course of business (under existing loan terms or at market rates) as TDRs, particularly when ultimate collection of all principal and interest is not in doubt and no concession has been made. In the case of loan extensions outside of the normal course of business where either collection of all principal and interest is uncertain or a concession has been made we would analyze such credit under the accounting guidance to determine whether it qualifies as a TDR. Extensions that qualify as TDRs are measured for impairment under the applicable accounting guidance.

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

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

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

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

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As of September 30, 2012, we had $54 million of mortgage and construction loans that had a loan to value ratio greater than 1.0, and were accounted for as performing loans. These loans were not considered impaired due to one or more of the following factors: (i) underlying cash flow adequate to service the debt at a market rate of return with adequate amortization; (ii) a satisfactory borrower payment history; and (iii) acceptable guarantor support.

Consumer loan portfolio

Consumer loans outstanding increased by $908 million, or 6.1%, from one year ago. The home equity portfolio is the largest segment of our consumer loan portfolio. Approximately 96% of this portfolio at September 30, 2012 is derived from our Key Community Bank. The remainder of the portfolio, which has been in an exit mode since the fourth quarter of 2007, was originated from the Consumer Finance line of business and is now included in Other Segments. Home equity loans from our Key Community Bank increased by $421 million, or 4.5%, over the past twelve months as a result of our 2012 spring home equity loan campaign.

As shown in Figure 17, we hold the first lien position for approximately 54% of the Key Community Bank home equity portfolio at September 30, 2012 and 53% at September 30, 2011. For consumer loans with real estate collateral, we track borrower performance monthly. Credit metrics are refreshed quarterly, including recent Fair Isaac Corporation scores as well as original and updated loan to value ratio regardless of lien position. This information is used in establishing the ALLL. Our methodology is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses on page 117 of our 2011 Annual Report on Form 10-K.

Regulatory guidance issued in January 2012 addressed specific risks and required actions within home equity portfolios associated with second lien loans. At September 30, 2012, 46% of our home equity portfolio is secured by second lien mortgages. Approximately $4.9 billion of second lien home equity loans were reviewed by a third party service to determine the payment status of the associated first lien. The resulting data identified approximately $36 million second lien home equity loans with an associated first lien that is 120 days or more past due; in foreclosure; or when the first mortgage delinquency timeframe is unknown. The classification of certain of these second liens as nonperforming loans did not have an impact on the ALLL in the third quarter of 2012 because, as noted above, we have previously considered the risk characteristics of this portfolio of loans in our loss estimation methodology. On at least a quarterly basis, we will continue to monitor the risk characteristics of these loans when determining the appropriateness of our loss estimation methods. This policy related to the classification of second lien home equity loans was implemented prospectively, and therefore prior periods were not presented.

In conjunction with this regulatory guidance, during the third quarter of 2012, home equity loans include $38 million of performing secured loans that were discharged through Chapter 7 bankruptcy and not formally re-affirmed.

Figure 21 summarizes our home equity loan portfolio by source at the end of each of the last five quarters, as well as certain asset quality statistics and yields on the portfolio as a whole.

Figure 21. Home Equity Loans

dollars in millions	2012 Third	2012 Second	2012 First	2011 Fourth	2011 Third
SOURCES OF PERIOD END LOANS					
Key Community Bank	**$ 9,768**	**$ 9,601**	$ 9,153	$ 9,229	$ 9,347
Other	**409**	**479**	507	535	565
Total	**$ 10,177**	**$ 10,080**	$ 9,660	$ 9,764	$ 9,912
Nonperforming loans at period end	**$ 189** [(a),(b)]	**$ 158** [(a)]	$ 121	$ 120	$ 11
Net loan charge-offs for the period	**67**	**28**	30	29	26
Yield for the period [(c)]	**4.19 %**	**4.23 %**	4.27 %	4.30 %	4.33 %

(a) Includes $36 million of performing home equity second liens at September 30, and June 30, 2012, that are subordinate to first liens that are 120 days or more past due; in foreclosure; or when the first mortgage delinquency timeframe is unknown. Such second liens are now being reported as nonperforming loans based upon regulatory guidance issued in January 2012.

(b) Includes $38 million of performing secured loans that were discharged through Chapter 7 bankruptcy and not formally re-affirmed as addressed in recently updated regulatory guidance. Such loans have been designated as nonperforming and TDRs.

(c) From continuing operations.

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Loans held for sale

As shown in Note 3 (Loans and Loans Held for Sale), our loans held for sale decreased to $628 million at September 30, 2012 from $728 million at December 31, 2011 and totaled $479 million at September 30, 2011. There were no loans held for sale related to the discontinued operations of the education lending business at September 30, 2012, December 31, 2011 and September 30, 2011.

At September 30, 2012, loans held for sale included $484 million of commercial mortgages, which increased by $159 million from September 30, 2011, and $117 million of residential mortgage loans, which increased $38 million from September 30, 2011.

Loan sales

As shown in Figure 22, during the first nine months of 2012, we sold $2.3 billion of commercial real estate loans, $1.3 billion of residential real estate loans, and $106 million of commercial loans. Most of these sales came from the held-for-sale portfolio.

Figure 22 summarizes our loan sales for the first nine months of 2012 and all of 2011.

Figure 22. Loans Sold (Including Loans Held for Sale)

in millions	**Commercial**	**Commercial Real Estate**	**Commercial Lease Financing**	**Residential Real Estate**	**Total**
2012					
Third quarter	**$ 46**	**787**	**47**	**503**	**1,383**
Second quarter	**24**	**$ 808**	**$ 26**	**$ 379**	**$ 1,237**
First quarter	**36**	**715**	**22**	**400**	**1,173**
Total	**$ 106**	**$ 2,310**	**$ 95**	**$ 1,282**	**$ 3,793**
2011					
Fourth quarter	$ 31	$ 500		$ 404	$ 935
Third quarter	23	355		303	681
Second quarter	18	761		250	1,029
First quarter	46	397		438	881
Total	$ 118	$ 2,013		$ 1,395	$ 3,526

Figure 23 shows loans that are either administered or serviced by us, but not recorded on the balance sheet. The table includes loans that have been sold.

Figure 23. Loans Administered or Serviced

in millions	**September 30, 2012**	**June 30, 2012**	**March 31, 2012**	**December 31, 2011**	**September 30, 2011**
Commercial real estate loans	**$ 98,309**	**$ 97,329**	$ 96,519	$ 99,608	$ 102,734

Commercial lease financing	**519**	**517**	538	521	573
Commercial loans	**333**	**325**	313	306	288
Total	**$ 99,161**	**$ 98,171**	$ 97,370	$ 100,435	$ 103,595

In the event of default by a borrower, we are subject to recourse with respect to approximately $1 billion of the $99.2 billion of loans administered or serviced at September 30, 2012. Additional information about this recourse arrangement is included in Note 12 (Contingent Liabilities and Guarantees) under the heading Recourse agreement with FNMA.

We derive income from several sources when retaining the right to administer or service loans that are sold. We earn noninterest income (recorded as other income) from fees for servicing or administering loans. This fee income is reduced by the amortization of related servicing assets. In addition, we earn interest income from investing funds generated by escrow deposits collected in connection with the servicing of commercial real estate loans.

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Securities

Our securities portfolio totaled $16.1 billion at September 30, 2012, compared to $18.1 billion at December 31, 2011, and $18.8 billion at September 30, 2011. Available-for-sale securities were $12 billion at September 30, 2012, compared to $16 billion at December 31, 2011, reflecting the liquidity needs arising from changes in our loan and deposit balances and investments in held-to-maturity securities. Held-to-maturity securities were $4.1 billion at September 30, 2012, compared to $2.1 billion at December 31, 2011, primarily reflecting increases in agency mortgage-backed securities as we continue to prepare for potential future changes in regulatory capital rules. Essentially all of our held-to-maturity securities portfolio was invested in CMOs at September 30, 2012.

As shown in Figure 24, all of our mortgage-backed securities, which include both securities available for sale and held-to-maturity securities, are issued by government-sponsored enterprises or GNMA, and are traded in highly liquid secondary markets. These securities are recorded on the balance sheet at fair value for the available-for-sale portfolio and at cost for the held-to-maturity portfolio. For more information about these securities, see Note 5 (Fair Value Measurements) under the heading Qualitative Disclosures of Valuation Techniques and Note 6 (Securities).

Figure 24. Mortgage-Backed Securities by Issuer

in millions	**September 30, 2012**	**December 31, 2011**	**September 30, 2011**
FHLMC	**$ 8,002**	$ 8,984	$ 8,885
FNMA	**5,314**	5,583	5,962
GNMA	**2,700**	3,464	3,843
Total [(a)]	**$ 16,016**	$ 18,031	$ 18,690

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

Securities available for sale

The majority of our securities available-for-sale portfolio consists of CMOs, which are debt securities secured by a pool of mortgages or mortgage-backed securities. CMOs generate interest income and serve as collateral to support certain pledging agreements. At September 30, 2012, we had $11.9 billion invested in CMOs and other mortgage-backed securities in the available-for-sale portfolio, compared to $15.9 billion at December 31, 2011, and $17.5 billion at September 30, 2011.

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

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

During the third quarter of 2012, our investing activities continued to complement other balance sheet developments and provide for our ongoing liquidity management needs. For most of the first half of 2011, we chose not to reinvest the monthly security cash flows and also sold approximately $1.6 billion of CMOs. These actions provided the liquidity necessary to address the funding requirements arising from the loss of certain escrow deposit balances related to commercial mortgage securitizations serviced by Key and rated by Moody s, and also contributed funds for our TARP repayment in March 2011.

Figure 25 shows the composition, yields and remaining maturities of our securities available for sale. For more information about these securities, including gross unrealized gains and losses by type of security and securities pledged, see Note 6 (Securities).

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Figure 25. Securities Available for Sale

dollars in millions	U.S. Treasury, Agencies and Corporations	States and Political Subdivisions	Collateralized Mortgage Obligations [a]	Other Mortgage-Backed Securities [a]	Other Securities [b]	Total	Weighted-Average Yield [c]
September 30, 2012							
Remaining maturity:							
One year or less	**$ 1**	**$ 849**	**$ 1**			**$ 851**	**3.26 %**
After one through five years	**17**	**10,434**	**580**	**$ 27**		**11,058**	**3.12**
After five through ten years	**36**		**11**			**47**	**6.02**
After ten years			**6**			**6**	**5.45**
Fair value	**$ 54**	**$ 11,283**	**$ 598**	**$ 27**	**$ 11,962**		
Amortized cost	**52**	**10,949**	**543**	**25**	**11,569**		**3.15 %**
Weighted-average yield [c]	**6.00 %**	**3.03 %**	**5.23 %**		**3.15 % (d)**		
Weighted-average maturity	**5.7 years**	**2.1 years**	**2.6 years**	**2.3 years**	**2.1 years**		
December 31, 2011							
Fair value	$ 63	$ 15,162	$ 778	$ 9	$ 16,012		
Amortized cost	60	14,707	715	8	15,490		3.19 %
September 30, 2011							
Fair value	$ 65	$ 16,683	$ 850	$ 14	$ 17,612		
Amortized cost	62	16,108	780	14	16,964		3.20 %

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

(b) Includes primarily marketable equity securities.

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

(d) Excludes $27 million of securities at September 30, 2012, that have no stated yield.

Held-to-maturity securities

Federal Agency CMOs comprise essentially all of our held-to-maturity securities. The remaining balance is comprised of foreign bonds and capital securities. Our held-to-maturity securities increased during the second half of 2011 and into the first nine months of 2012 due to purchases of Federal Agency CMOs as we increased this portfolio in response to potential future changes in regulatory capital rules. Figure 26 shows the composition, yields and remaining maturities of these securities.

Figure 26. Held-to-Maturity Securities

dollars in millions	Collateralized Mortgage Obligations	States and Political Subdivisions	Other Securities	Total	Weighted-Average Yield [a]
September 30, 2012					
Remaining maturity:					
One year or less			**$ 9**	**$ 9**	**3.78 %**
After one through five years	**$ 4,135**		**9**	**4,144**	**1.92**
Amortized cost	**$ 4,135**		**$ 18**	**$ 4,153**	**1.92 %**
Fair value	**4,194**		**18**	**4,212**	
Weighted-average yield	**1.92 %**		**3.05 % [b]**	**1.92 % [b]**	
Weighted-average maturity	**2.8 years**		**1.7 years**	**2.8 years**	
December 31, 2011					
Amortized cost	$ 2,091		$ 18	$ 2,109	2.06 %
Fair value	2,115		18	2,133	
September 30, 2011					
Amortized cost	$ 1,157	$ 1	$ 18	$ 1,176	2.15 %
Fair value	1,167	1	18	1,186	

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

(b) Excludes $5 million of securities at September 30, 2012, that have no stated yield.

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Other investments

Principal investments investments in equity and mezzanine instruments made by our Principal Investing unit represented 60% of other investments at September 30, 2012. They include direct investments (investments made in a particular company) as well as indirect investments (investments made through funds that include other investors). Principal investments are predominantly made in privately held companies and are carried at fair value ($669 million at September 30, 2012, $709 million at December 31, 2011, and $759 million at September 30, 2011). During the first half of 2011, employees who managed our various principal investments formed two independent entities that now serve as investment managers of these investments. Under this arrangement, which was mutually agreeable to both parties, these individuals are no longer employees of Key. As a result of these changes, which were made during the second quarter of 2011, we deconsolidated certain of these direct and indirect investments, totaling $234 million.

In addition to principal investments, other investments include other equity and mezzanine instruments, such as certain real estate-related investments that are carried at fair value, as well as other types of investments that generally are carried at cost.

Most of our other investments are not traded on an active market. We determine the fair value at which these investments should be recorded based on the nature of the specific investment and all available relevant information. This review may encompass such factors as the issuer s past financial performance and future potential, the values of public companies in comparable businesses, the risks associated with the particular business or investment type, current market conditions, the nature and duration of resale restrictions, the issuer s payment history, our knowledge of the industry, third party data and other relevant factors. During the first nine months of 2012, net gains from our principal investing activities (including results attributable to noncontrolling interests) totaled $70 million, which includes $21 million of net unrealized gains. These net gains are recorded as net gains (losses) from principal investing on the income statement. Additional information regarding these investments is provided in Note 5 (Fair Value Measurements).

Deposits and other sources of funds

Domestic deposits are our primary source of funding. During the third quarter of 2012, average domestic deposits were $62 billion and represented 86% of the funds we used to support loans and other earning assets, compared to $58.2 billion and 81% during the same quarter of 2011. The composition of our average deposits is shown in Figure 8 in the section entitled Net interest income.

The increase in average domestic deposits in the third quarter of 2012, compared to the third quarter of 2011, was due to the growth from demand deposits, as increases in interest-bearing liquid deposits were largely offset by declines in certificates of deposit ($100,000 or more) and other time deposits. The Western New York branch acquisition added approximately $1.6 billion of mostly non-time consumer deposits to the third quarter 2012 average balances.

Approximately $2.1 billion of our certificates of deposit outstanding at September 30, 2012, mature over the next quarter at a 1.50% average cost. Re-pricing opportunities will continue to benefit our net interest margin. Improved funding mix and previous maturities of our certificates of deposit have reduced the cost of total deposits, which is down from the third quarter of 2011.

Wholesale funds, consisting of deposits in our foreign office and short-term borrowings, averaged $2.9 billion during the third quarter of 2012, compared to $3 billion during the year-ago quarter. The change from the third quarter of 2011 resulted from a $9 million decrease in foreign office deposits and a $208 million decrease in bank notes and other short-term borrowings, which was partially offset by a $98 million increase in federal funds purchased and securities sold under agreements to repurchase.

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Capital

At September 30, 2012, our shareholders equity was $10.3 billion, up $346 million from December 31, 2011. The following sections discuss certain factors that contributed to this change. For other factors that contributed to the change, see the Consolidated Statements of Changes in Equity.

As previously reported, on January 1, 2010, we adopted new consolidation accounting guidance which required us to consolidate our education loan securitization trusts (classified as discontinued assets and liabilities). As a result, we consolidated our education loan securitization trusts and made a corresponding $45 million cumulative effect adjustment. That consolidation added $2.8 billion in discontinued assets, and the same amount of liabilities and equity to our balance sheet; loans constituted $2.6 billion of the assets. During the third quarter of 2011, we determined that the $45 million cumulative effect adjustment made related to the consolidation of these trusts on January 1, 2010 was incorrect. Further information regarding this error and its correction is provided in Note 11 (Acquisitions and Discontinued Operations).

CCAR and capital actions

As part of its ongoing supervisory process, the Federal Reserve requires a BHC to submit an annual comprehensive capital plan as well as to update such plan to reflect material changes in a firm s risk profile, business strategies, or corporate structure, including but not limited to changes in planned capital actions. As previously reported, as authorized by our Board and pursuant to our 2012 capital plan submitted to the Federal Reserve as part of CCAR and not objected to by the Federal Reserve, beginning in the second quarter of 2012, KeyCorp had authority to repurchase up to $344 million of our Common Shares for general repurchase and repurchases in connection with employee elections under our compensation and benefit programs.

During the third quarter of 2012, we completed $82 million of Common Share repurchases. Following completion of these repurchases (as well as our Common Share repurchases during the second quarter of 2012), we have remaining authority to repurchase up to $177 million of our Common Shares for general repurchase and repurchases in connection with employee elections under our compensation and benefit programs. Our existing repurchase program does not have an expiration date. Common Share repurchases under the current authorization are expected to be executed through the first quarter of 2013.

As previously reported, our 2012 capital plan also included an increase in our quarterly Common Share dividend from $.03 to $.05 per share. At the regular July Board of Directors meeting, the Board declared a third-quarter cash dividend of $.05 per Common Share payable on September 14, 2012, to shareholders of record on August 28, 2012. Future dividends will be evaluated by the Board of Directors based upon our earnings, financial condition, and other factors, including regulatory review. Further information regarding the capital plan process and CCAR is included in the Supervision and Regulation section under the heading Capital Assessment and Review of Capital Actions beginning on page 8 of our 2011 Annual Report on Form 10-K.

Provisions of the Dodd-Frank Act and the Basel III NPR provide for the phase-out of Tier 1 capital treatment for capital securities beginning in 2013. As a result, our outstanding trust preferred securities will eventually become Tier 2 capital. The Supervision and Regulation section of this report contains more detailed information about the Basel III NPR.

On July 12, 2012, KeyCorp redeemed all of the enhanced trust preferred securities of KeyCorp Capital X in the amount of $568 million and all of the trust preferred securities of KeyCorp Capital VII in the amount of $139 million.

Repurchase of TARP CPP preferred stock, warrant and completion of equity and debt offerings

As previously reported during 2011, we completed the repurchase of the $2.5 billion of Series B Preferred Stock and corresponding warrant issued to the U.S. Treasury Department. As a result of the repurchase, we recorded a $49 million one-time deemed dividend in the first quarter of 2011 related to the remaining difference between the repurchase price and the carrying value of the preferred shares at the time of repurchase. On April 20, 2011 we repurchased the warrant directly from the U.S. Treasury for $70 million. Beginning with the second quarter of 2011, the repurchase resulted in the elimination of quarterly dividends of $31 million and discount amortization of $4 million, or $140 million on an annual basis, related to these preferred shares. In total, we paid $2.867 billion to the U.S. Treasury during the investment period in the form of dividends, principal and repurchase of the warrant, resulting in a return to the U.S. Treasury of $367 million above the initial investment of $2.5 billion on November 14, 2008.

Dividends

During the third quarter of 2012, we made a dividend payment of $.05 per share, or $47 million, on our Common Shares.

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Also during the third quarter of 2012, we made a dividend payment of $1.9375 per share, or $5 million, on our Series A Preferred Stock.

Common shares outstanding

Our Common Shares are traded on the NYSE under the symbol KEY with 32,484 holders of record at September 30, 2012. At September 30, 2012 our book value per Common Share was $10.64 based on 936.2 million shares outstanding at September 30, 2012, compared to $10.09 based on 953.0 million shares outstanding at December 31, 2011, and $10.09 based on 952.8 million shares outstanding at September 30, 2011. At September 30, 2012 our tangible book value per Common Share was $9.54 compared to $9.11 at December 31, 2011, and $9.10 at September 30, 2011.

Figure 27 shows activities that caused the change in outstanding Common Shares over the past five quarters.

Figure 27. Changes in Common Shares Outstanding

	2012			2011	
in thousands	**Third**	**Second**	**First**	**Fourth**	**Third**
Shares outstanding at beginning of period	**945,473**	**956,102**	**953,008**	952,808	953,822
Common shares issued (repurchased)	**(9,639)**	**(10,468)**			
Shares reissued (returned) under employee benefit plans	**361**	**(161)**	**3,094**	200	(1,014)
Shares outstanding at end of period	**936,195**	**945,473**	**956,102**	953,008	952,808

As shown above, Common Shares outstanding decreased by 9.3 million shares during the third quarter of 2012 from our share repurchase program and the net activity in our employee benefit plans.

At September 30, 2012, we had 80.8 million treasury shares, compared to 64.0 million treasury shares at December 31, 2011 and 64.2 million treasury shares at September 30, 2011. Going forward we expect to reissue treasury shares as needed in connection with stock-based compensation awards and for other corporate purposes.

Information on KeyCorp s Common Share repurchase program is included in Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds of this report.

Capital adequacy

Capital adequacy is an important indicator of financial stability and performance. All of our capital ratios remain in excess of regulatory requirements at September 30, 2012. Our capital and liquidity are intended to position us well to weather an adverse credit cycle while continuing to serve our clients needs, as well as to adjust to the regulations currently being proposed by the federal banking agencies to implement Basel III and provisions of the Dodd-Frank Act. Our shareholders equity to assets ratio was 11.79% at September 30, 2012, compared to 11.16% at December 31, 2011 and 11.09% at September 30, 2011. Our tangible common equity to tangible assets ratio was 10.39% at September 30, 2012, compared to 9.88% at December 31, 2011 and 9.82% at September 30, 2011.

Banking industry regulators prescribe minimum capital ratios for BHCs and their banking subsidiaries. Risk-based capital guidelines require a minimum level of capital as a percent of risk-weighted assets. Risk-weighted assets consist of total assets plus certain off-balance sheet and market risk items, subject to adjustment for predefined credit risk factors. Currently, banks and BHCs must maintain, at a minimum, Tier 1 capital as a percent of risk-weighted assets of 4.00% and total capital as a percent of risk-weighted assets of 8.00%. As of September 30, 2012, our Tier 1 risk-based capital ratio and our total risk-based capital ratios were 12.10% and 15.17%, respectively, compared to 12.99% and 16.51%, respectively, at December 31, 2011 and 13.49% and 17.05%, respectively at September 30, 2011.

Another indicator of capital adequacy, the leverage ratio, is defined as Tier 1 capital as a percentage of average quarterly tangible assets. BHCs that either have the highest supervisory rating or have implemented the Federal Reserve s risk-adjusted measure for market risk as we have must maintain a minimum leverage ratio of 3.00%. All other bank holding companies must maintain a minimum ratio of 4.00%. As of September 30, 2012, our leverage ratio was 11.37% compared to 11.79% at December 31, 2011 and 11.93% at September 30, 2011.

The enactment of the Dodd-Frank Act changes the regulatory capital standards that apply to BHCs by requiring regulators to create rules phasing out the treatment of capital securities and cumulative preferred securities as eligible Tier 1 risk-based

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capital. Under the Basel III NPR, this three year phase-out period, which commences January 1, 2013, will ultimately result in our trust preferred securities issued by the KeyCorp capital trusts 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 BHCs, savings and loan holding companies, and nonbank financial companies identified as systemically important. The Supervision and Regulation section of this report contains more detailed information about the Basel III NPR.

As of September 30, 2012, our Tier 1 risk-based capital ratio, leverage ratio, and total risk-based capital ratio were 12.10%, 11.37%, and 15.17%, respectively. The trust preferred securities issued by the KeyCorp capital trusts contribute $339 million or 43, 40, and 43 basis points to our Tier 1 risk-based capital ratio, Tier 1 leverage ratio, and total risk-based capital ratio, respectively, as of September 30, 2012. Figure 4 set forth under the New Minimum Capital Requirements heading of the Supervision and Regulation section of this report discloses the proposed new minimum capital ratios together with the estimated capital ratios of Key at September 30, 2012, calculated on a fully phased-in basis under the Basel III and Standardized Approach NPRs.

Federal bank regulators group FDIC-insured depository institutions into five categories, ranging from well-capitalized to critically undercapitalized. A well-capitalized institution must meet or exceed the prescribed threshold ratios of 6.00% for Tier 1 risk-based capital, 5.00% for Tier 1 leverage capital, and 10.00% for total risk-based capital and must not be subject to any written agreement, order or directive to meet and maintain a specific capital level for any capital measure. If these provisions applied to BHCs, we believe we would qualify as well-capitalized S September 30, 2012, and since that date, we believe there has not been any change in condition or event that would cause a change in capital category. Analysis on an estimated basis, accounting for the phase-out of our trust preferred securities as Tier 1 eligible (and therefore as Tier 2 instead) as of September 30, 2012, also determines that we would qualify as well-capitalized under current regulatory guidelines (Basel I), with the estimated Tier 1 risk-based capital ratio, estimated leverage ratio, and estimated total risk-based capital ratio being 11.67%, 10.97%, and 15.17%, respectively. Figure 5 set forth under the Revised Prompt Corrective Action Standards heading of the Supervision and Regulation section of this report discloses the proposed new threshold capital ratios for a well capitalized and an adequately capitalized institution. The regulatory defined capital categories serve a limited supervisory function. Investors should not use our estimated ratios as a representation of our overall financial condition or prospects of KeyCorp. A discussion of the regulatory capital standards and other related capital adequacy regulatory standards is included in Item 1. Business in the Supervision and Regulation section under the heading Capital beginning on page 7 of our Annual Report on Form 10-K.

Traditionally, the banking regulators have assessed bank and BHC capital adequacy based on both the amount and composition of capital, the calculation of which is prescribed in federal banking regulations. As a result of the financial crisis, the Federal Reserve has intensified its assessment of capital adequacy on a component of Tier 1 risk-based capital, known as Tier 1 common equity, and its review of the consolidated capitalization of systemically important financial companies, including KeyCorp. The capital modifications mandated by the Dodd-Frank Act and set forth in Basel III, which the Federal banking agencies have recently proposed to implement, are consistent with the renewed focus on Tier 1 common equity and the consolidated capitalization of banks, BHCs, and covered nonbank financial companies, which resulted from the financial crisis. Tier 1 common equity is neither formally defined by GAAP nor prescribed in amount by federal banking regulations, this measure is considered to be a non-GAAP financial measure. Figure 7 in the Highlights of Our Performance section reconciles Key shareholders equity, the GAAP performance measure, to Tier 1 common equity, the corresponding non-GAAP measure. Our Tier 1 common equity ratio was 11.30% at September 30, 2012, compared to 11.26% at December 31, 2011 and 11.28% at September 30, 2011.

Generally, for risk-based capital purposes, deferred tax assets that are dependent upon future taxable income are limited to the lesser of: (i) the amount of deferred tax assets that a financial institution expects to realize within one year of the calendar quarter-end date, based on its projected future taxable income for the year, or (ii) 10% of the amount of an institution s Tier 1 capital. As we anticipated, at September 30, 2012, December 31, 2011, and September 30, 2011, we had no net deferred tax assets deducted from Tier 1 capital and risk-weighted assets. At September 30, 2012, on all Key s consolidated operations we had a federal net deferred tax asset of $41 million and a state deferred tax liability of $29 million compared to a federal deferred tax asset of $60 million and a state deferred tax liability of $24 million at December 31, 2011, and federal net deferred tax asset of $62 million and a state deferred tax liability of $29 million at September 30, 2011.

Basel III

A detailed discussion of current rulemaking underway in the U.S. to implement Basel III is in the Supervision and Regulation discussion of this report. Figure 4 set forth under the New Minimum Capital Requirements heading of the Supervision and Regulation section of this report discloses the proposed new minimum capital ratios together with the

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estimated capital ratios of Key at September 30, 2012, calculated on a fully phased-in basis under the Basel III and Standardized Approach NPRs. Given our strong capital position, we expect to be able to satisfy the Basel III capital framework when U.S. capital regulations corresponding to it are finalized. While we also have a strong liquidity position, the Basel III liquidity framework could require us and other U.S. banks to initiate additional liquidity management initiatives, including adding additional liquid assets, issuing term debt, and modifying our product pricing for loans, commitments, and deposits.

Figure 28 represents the details of our regulatory capital position at September 30, 2012, December 31, 2011, and September 30, 2011 under the existing Basel I standards.

Figure 28. Capital Components and Risk-Weighted Assets

dollars in millions	**September 30, 2012**	**December 31, 2011**	**September 30, 2011**
TIER 1 CAPITAL			
Key shareholders equity	**$ 10,251**	$ 9,905	$ 9,901
Qualifying capital securities	**339**	1,046	1,377
Less: Goodwill	**979**	917	917
Accumulated other comprehensive income [a]	**(109)**	(72)	88
Other assets [b]	**121**	72	72
Total Tier 1 capital	**9,599**	10,034	10,201
TIER 2 CAPITAL			
Allowance for losses on loans and liability for losses on lending-related commitments [c]	**995**	970	953
Qualifying long-term debt	**1,444**	1,744	1,743
Total Tier 2 capital	**2,439**	2,714	2,696
Total risk-based capital	**$ 12,038**	$ 12,748	$ 12,897
TIER 1 COMMON EQUITY			
Tier 1 capital	**$ 9,599**	$ 10,034	$ 10,201
Less: Qualifying capital securities	**339**	1,046	1,377
Series A Preferred Stock	**291**	291	291
Total Tier 1 common equity	**$ 8,969**	$ 8,697	$ 8,533
RISK-WEIGHTED ASSETS			
Risk-weighted assets on balance sheet	**$ 63,012**	$ 61,900	$ 60,731
Risk-weighted off-balance sheet exposure	**16,687**	15,901	15,743
Less: Goodwill	**979**	917	917
Other assets [b]	**470**	560	536
Plus: Market risk-equivalent assets	**1,115**	1,073	971
Gross risk-weighted assets	**79,365**	77,397	75,992
Less: Excess allowance for loan and lease losses [c]	**2**	183	349
Net risk-weighted assets	**$ 79,363**	$ 77,214	$ 75,643
AVERAGE QUARTERLY TOTAL ASSETS	**$ 85,856**	$ 86,594	$ 86,929

CAPITAL RATIOS			
Tier 1 risk-based capital	**12.10 %**	12.99 %	13.49 %
Total risk-based capital	**15.17**	16.51	17.05
Leverage [(d)]	**11.37**	11.79	11.93
Tier 1 common equity	**11.30**	11.26	11.28

(a) Includes net unrealized gains or losses on securities available for sale (except for net unrealized losses on marketable equity securities), net gains or losses on cash flow hedges, and amounts resulting from our December 31, 2006, adoption and subsequent application of the applicable accounting guidance for defined benefit and other postretirement plans.

(b) Other assets deducted from Tier 1 capital and risk-weighted assets consist of disallowed deferred tax assets, disallowed intangible assets (excluding goodwill) and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at September 30, 2012, December 31, 2011, and September 30, 2011.

(c) The allowance for loan and lease losses included in Tier 2 capital is limited by regulation to 1.25% of the sum of gross risk-weighted assets plus low level exposures and residual interests calculated under the direct reduction method, as defined by the Federal Reserve. The excess allowance for loan and lease losses includes $66 million, $104 million, and $115 million at September 30, 2012, December 31, 2011, and September 30, 2011, respectively, of allowance classified as discontinued assets on the balance sheet.

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

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Risk Management

Overview

Like all financial services companies, we engage in business activities and assume the related risks. The most significant risks we face are credit, liquidity, market, compliance, operational, strategic, and reputation risks. We must properly and effectively identify, assess, measure, monitor, control, and report such risks across the entire enterprise to maintain safety and soundness, and maximize profitability. Certain of these risks are defined and discussed in greater detail in the remainder of this section.

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

Our Board of Directors serves in an oversight capacity with the objective of managing our enterprise-wide risks in a manner that is effective, balanced, and adds value for the shareholders. The Board inquires about risk practices, reviews the portfolio of risks, compares actual risks to the risk appetite and tolerances, and receives regular reports about significant risks both actual and emerging. To assist in these efforts, the Board has delegated primary oversight responsibility for risk to the Audit Committee and the Risk Committee.

The Audit Committee has oversight responsibility for internal audit; financial reporting; compliance risk and legal matters; the implementation, management and evaluation of operational risk and controls; information security; and fraud risk. The Audit Committee also is responsible for evaluating the qualifications and independence of the independent auditors. The Audit Committee discusses policies related to risk assessment and risk management and the processes related to risk review and compliance.

The Risk Committee has responsibility for overseeing the management of credit risk, market risk, interest rate risk, and liquidity risk, including the actions taken to mitigate these risks, as well as reputational and strategic risks. The Risk Committee also oversees the maintenance of appropriate regulatory and economic capital, reviews the ERM reports, and approves any material changes to the charter of the ERM Committee.

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

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

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Market risk management

The cash flows and values of financial instruments change as a function of changes in market interest rates, foreign exchange rates, equity prices, commodity prices, and other market factors that influence prospective yields, values, or prices associated with the instrument. For example, the value of a fixed-rate bond will decline if market interest rates increase, while the cash flows associated with a variable rate loan will increase when interest rates increase. The holder of a financial instrument is exposed to market risk when the cash flows or value of the instrument is tied to such external factors. Most of our market risk is derived from interest rate fluctuations.

Interest rate risk management

Interest rate risk, which is inherent in the banking industry, is measured by the potential for fluctuations in net interest income and the EVE. Such fluctuations may result from changes in interest rates, and differences in the repricing and maturity characteristics of interest-earning assets and interest-bearing liabilities. We manage the exposure to changes in net interest income and the EVE in accordance with our risk appetite, and within policy limits established by the ERM Committee.

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

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

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

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

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

Net interest income simulation analysis. The primary tool we use to measure our interest rate risk is simulation analysis. For purposes of this analysis, we estimate our net interest income based on the current and projected composition of our on- and off-balance sheet positions accounting for recent and anticipated trends in customer activity. The analysis also incorporates assumptions for the current and projected interest rate environments, including a most likely macro economic scenario. Simulation modeling assumes that residual risk exposures will be managed to within the risk appetite.

Typically, the amount of net interest income at risk is measured by simulating the change in net interest income that would occur if the federal funds target rate were to gradually increase or decrease by 200 basis points over the next twelve months, and term rates were to move in a similar fashion. In light of the low interest rate environment, beginning in the fourth quarter of 2008, we modified the standard rate scenario of a gradual decrease of 200 basis points over twelve months to a gradual decrease of 25 basis points over two months with no change over the following ten months. After calculating the amount of net interest income at risk to interest rate changes, we compare that amount with the base case of an unchanged interest rate environment. We also perform regular stress tests and sensitivities on the model inputs that could materially change the resulting risk assessments. One set of stress tests and sensitivities assesses the effect of interest rate inputs on simulated exposures. Assessments are performed using different shapes of the yield curve, including a sustained flat yield curve, an inverted slope yield curve, changes in credit spreads, an immediate parallel change in market interest rates and changes in the relationship of money market interest rates. Another set of stress tests and sensitivities assesses the effect of loan and deposit assumptions and assumed discretionary strategies on simulated

exposures. Assessments are performed on changes to the following assumptions: the pricing of deposits without contractual maturities, changes in lending spreads, prepayments on loans and securities, other loan and deposit balance shifts, investment, funding and hedging activities, and liquidity and capital management strategies.

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

Figure 29 presents the results of the simulation analysis at September 30, 2012 and 2011. At September 30, 2012, our simulated exposure to a change in short-term interest rates was moderately asset sensitive. ALCO policy limits for risk management require the development of remediation plans to maintain residual risk within tolerance if simulation modeling demonstrates that a gradual increase or decrease in short-term interest rates over the next twelve months would adversely affect net interest income over the same period by more than 4%. As shown in Figure 29, we are operating within these limits.

Figure 29. Simulated Change in Net Interest Income

September 30, 2012

Basis point change assumption (short-term rates)	**-25**	**+200**
ALCO policy limits	**-4.00 %**	**-4.00 %**
Interest rate risk assessment	**-.85 %**	**1.39 %**

September 30, 2011

Basis point change assumption (short-term rates)	-25	+200
ALCO policy limits	-4.00 %	-4.00 %
Interest rate risk assessment	-.65 %	2.67 %

The Federal Reserve s Open Market Committee has indicated it anticipates that economic conditions are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2015. We continued to execute investment and hedging activities to migrate toward a more modest asset-sensitive position. Hedging activities reflect the changes in the growth, mix, and maturity of customer deposits. Our current interest rate risk position could fluctuate to higher or lower levels of risk depending on the competitive environment and client behavior that may affect the actual volume, mix, maturity and re-pricing characteristics of loan and deposit flows. As changes occur to both the configuration of the balance sheet and the outlook for the economy, management proactively evaluates hedging opportunities that may change our interest rate risk profile.

The results of additional simulation analyses that make use of alternative interest rate paths and customer behavior assumptions indicate that net interest income improvement in a rising rate environment could be diminished, and actual results may be different than the policy simulation results in Figure 29. Net interest income improvements are highly dependent on the timing, magnitude, frequency and path of interest rate increases and assumption inputs for deposit repricing relationships, lending spreads and the balance behavior of transaction accounts.

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

Economic value of equity modeling. EVE complements net interest income simulation analysis as it estimates risk exposure beyond twelve-, twenty-four and thirty-six month horizons. EVE modeling measures the extent to which the economic values of assets, liabilities and off-balance sheet instruments may change in response to fluctuations in interest rates. EVE is calculated by subjecting the balance sheet to an immediate 200 basis point increase or decrease in interest rates, and measuring the resulting change in the values of assets, liabilities and off-balance sheet instruments and comparing those amounts with the base case of an unchanged interest rate environment. Because the calculation of EVE under an immediate 200 basis point decrease in interest rates in the current low rate environment results in certain interest rates declining to zero and a less than 200 basis point decrease in certain yield curve term points, we have modified the standard declining rate scenario to an immediate 100

basis point decrease. This analysis is highly dependent upon assumptions applied to assets and liabilities with noncontractual maturities. Those assumptions are based on historical behaviors, as well as our expectations. We develop remediation plans that would maintain residual risk within tolerance if this analysis indicates that our EVE will decrease by more than 15% in response to an immediate increase or decrease in interest rates. We are operating within these guidelines.

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

Figure 30 shows all swap positions that we hold for A/LM purposes. These positions are used to convert the contractual interest rate index of agreed-upon amounts of assets and liabilities (i.e., notional amounts) to another interest rate index. For example, fixed-rate debt is converted to a floating rate through a receive fixed/pay variable interest rate swap. The volume, maturity and mix of portfolio swaps change frequently as we adjust our broader A/LM objectives and the balance sheet positions to be hedged. For more information about how we use interest rate swaps to manage our risk profile, see Note 7 (Derivatives and Hedging Activities).

Figure 30. Portfolio Swaps by Interest Rate Risk Management Strategy

	September 30, 2012					September 30, 2011	
			Weighted-Average				
dollars in millions	Notional Amount	Fair Value	Maturity (Years)	Receive Rate	Pay Rate	Notional Amount	Fair Value
Receive fixed/pay variable conventional A/LM [(a)]	**$ 12,740**	**$ 101**	**2.6**	**.7 %**	**.2 %**	$ 5,715	$ 30
Receive fixed/pay variable conventional debt	**3,519**	**463**	**4.8**	**3.9**	**.3**	5,960	539
Pay fixed/receive variable conventional debt	**281**	**(29)**	**9.3**	**.4**	**2.6**	464	(25)
Foreign currency conventional debt						1,098	(240)
Total portfolio swaps	**$ 16,540**	**$ 535** [(b)]	**3.1**	**1.4 %**	**.3 %**	$ 13,237	$ 304 [(b)]

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

(b) Excludes accrued interest of $38 million and $42 million for September 30, 2012 and 2011, respectively.

Derivatives not designated in hedge relationships

Our derivatives that are not designated in hedge relationships are described in Note 7 (Derivatives and Hedging Activities). We use a VAR simulation model to measure the potential adverse effect of changes in interest rates, foreign exchange rates, equity prices, and credit spreads on the fair value of this portfolio. Using two years of historical information, the model estimates the maximum potential one-day loss with a 95% confidence level. Statistically, this means that losses will exceed VAR, on average, five out of 100 trading days, or three to four times each quarter.

We manage exposure to market risk in accordance with VAR limits for trading activity that have been approved by our Market Risk Committee as part of our ERM Program. At September 30, 2012, the aggregate one-day trading limit set by the committee was $6.2 million. We are operating within these constraints. During the first nine months of 2012, our aggregate daily average, minimum and maximum VAR amounts were $1.1 million, $.9 million and $1.4 million, respectively. During the same period one year ago, our aggregate daily average, minimum and maximum VAR amounts were $1.4 million, $1 million and $2 million, respectively.

In addition to comparing VAR exposure against limits on a daily basis, we monitor loss limits, use sensitivity measures and conduct stress tests. We report our market risk exposure to the Risk Committee of the Board of Directors.

Liquidity risk management

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

Governance structure

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

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Oversight of the liquidity risk management process is governed by the Risk Committee of the KeyCorp Board of Directors, the KeyBank Board of Directors, the ERM Committee and the ALCO. These groups regularly review various liquidity reports, including liquidity and funding summaries, liquidity trends, peer comparisons, variance analyses, liquidity projections, hypothetical funding erosion stress tests and goal tracking reports. The reviews generate a discussion of positions, trends and directives on liquidity risk and shape a number of the decisions that we make. When liquidity pressure is elevated, positions are monitored more closely and reporting is more intensive. We communicate with individuals within and outside of the company on a daily basis to discuss emerging issues. In addition, we use a variety of daily liquidity reports to monitor the flow of funds.

Factors affecting liquidity

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

On March 8, 2012, Fitch (a credit rating agency that rates KeyCorp and KeyBank debt securities) downgraded KeyCorp s Series A Preferred Stock to BB and KeyCorp s trust preferred securities to BB+. These rating downgrades were a result of Fitch s change in its rating criteria applicable to these types of securities issued by bank and BHCs. A variety of financial institutions securities ratings have been similarly affected by Fitch s ratings criteria change.

During the first quarter of 2011, Moody s (a credit rating agency that rates KeyCorp and KeyBank debt securities) indicated to KeyBank that certain escrow deposits associated with our mortgage servicing operations had to be moved to another financial institution that meets Moody s minimum ratings threshold. As a result of this decision by Moody s, on March 7, 2011, KeyBank transferred approximately $1.5 billion of these escrow deposit balances to an acceptably-rated institution, which resulted in an immaterial impairment of the related mortgage servicing assets. KeyBank had ample liquidity reserves to offset the loss of these deposits.

Our credit ratings at September 30, 2012, are shown in Figure 31. We believe that these credit ratings, under normal conditions in the capital markets, will enable the parent company or KeyBank to issue fixed income securities to investors.

Figure 31. Credit Ratings

September 30, 2012	Short-Term Borrowings	Senior Long-Term Debt	Subordinated Long-Term Debt	Capital Securities	Series A Preferred Stock
KEYCORP (THE PARENT COMPANY)					
Standard & Poor s	A-2	BBB+	BBB	BBB-	BBB-
Moody s	P-2	Baa1	Baa2	Baa3	Ba1
Fitch	F1	A-	BBB+	BB+	BB
DBRS	R-2(high)	BBB(high)	BBB	BBB	BB(low)
KEYBANK					
Standard & Poor s	A-2	A-	BBB+	N/A	N/A
Moody s	P-2	A3	Baa1	N/A	N/A
Fitch	F1	A-	BBB+	N/A	N/A
DBRS	R-1(low)	A(low)	BBB(high)	N/A	N/A

Managing liquidity risk

We regularly monitor our funding sources and measure our capacity to obtain funds in a variety of scenarios in an effort to maintain an appropriate mix of available and affordable funding. In the normal course of business, we perform a monthly hypothetical funding erosion stress test for both KeyCorp and KeyBank. In a heightened monitoring mode, we may conduct the hypothetical funding erosion stress tests more frequently, and use assumptions so the stress tests are more strenuous and reflect the changed market environment. Our testing incorporates estimates for loan and deposit lives based on our historical studies. Erosion stress tests analyze potential liquidity scenarios under various

funding constraints and time periods. Ultimately, they determine the periodic effects that major direct and indirect events would have on our access to funding markets and our ability to fund our normal operations. To compensate for the effect of these assumed liquidity pressures, we consider alternative sources of liquidity and maturities over different time periods to project how funding needs would be managed.

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At September 30, 2012, we have no secured borrowings outstanding. However, we retain the capacity to utilize secured borrowings as a contingent funding source.

We maintain a Contingency Funding Plan that outlines the process for addressing a liquidity crisis. The Plan provides for an evaluation of funding sources under various market conditions. It also assigns specific roles and responsibilities for managing liquidity through a problem period. As part of the Plan, we maintain a liquidity reserve through balances in our liquid asset portfolio. During a problem period, that reserve could be used as a source of funding to provide time to develop and execute a longer-term strategy. The liquid asset portfolio at September 30, 2012, totaled $8.6 billion, consisting of $5.6 billion of unpledged securities, $1.5 billion of securities available for secured funding at the Federal Home Loan Bank of Cincinnati and $1.5 billion of net balances of federal funds sold and balances in our Federal Reserve account. The liquid asset portfolio can fluctuate over time due to excess liquidity, heightened risk, or prefunding of expected outflows, such as debt maturities. Additionally, as of September 30, 2012, our unused borrowing capacity secured by loan collateral was $13.6 billion at the Federal Reserve Bank of Cleveland and $5.3 billion at the Federal Home Loan Bank of Cincinnati.

Long-term liquidity strategy

Our long-term liquidity strategy is to be predominantly funded by core deposits. However, wholesale funds may be used to sustain an adequate liquid asset portfolio, meet daily cash demands, and allow management flexibility to execute business initiatives. Key s client-based relationship strategy provides for a strong core deposit base which, in conjunction with intermediate and long-term wholesale funds managed to a diversified maturity structure and investor base, supports our liquidity risk management strategy. We use the loan to deposit ratio as a metric to monitor these strategies. Our target loan to deposit ratio is 90-100% (at September 30, 2012 our loan to deposit ratio was 86%), which we calculate as total loans, loans held for sale, and nonsecuritized discontinued loans divided by domestic deposits.

Sources of liquidity

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

Liquidity programs

We have several liquidity programs, which are described in Note 15 (Long-Term Debt) on page 173 of our 2011 Annual Report on Form 10-K, that enable the parent company and KeyBank to raise funds in the public and private markets when the capital markets are functioning normally. The proceeds from most of these programs can be used for general corporate purposes, including acquisitions. Each of the programs is replaced or renewed as needed. There are no restrictive financial covenants in any of these programs.

In August 2012, KeyBank updated its $20 billion Global Bank Note Program. This program is similar to other existing KeyBank debt programs and allows KeyBank to issue notes with original maturities of seven days or more for senior notes or five years or more for subordinated notes. Each note will be the sole obligation of KeyBank.

During the third quarter of 2012, Key reduced its debt by $1.4 billion. Maturities of $350 million in medium term notes and $300 million in subordinated notes occurred for KeyBank, while KeyCorp undertook an early pay off of subordinated debt totaling $712 million, whereby $707 million represented redeemed trust preferred securities.

Liquidity for KeyCorp

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

Our primary tools for assessing parent company liquidity are the net cash position, which measures the ability to fund debt maturing in 24 months or less with existing liquid assets, and a cash coverage metric, which measures the ability to meet all projected obligations. Another key measure of parent company liquidity is the liquidity gap, which represents the difference between projected liquid assets and anticipated financial obligations over several time horizons. We generally rely upon the issuance of term debt to manage our liquidity position within targeted ranges. The parent company generally maintains cash and short-term investments in an amount sufficient to meet projected debt maturities over the next 24 months.

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At September 30, 2012, KeyCorp held $2 billion in short-term investments, which we projected to be sufficient to meet our projected obligations, including the repayment of our maturing debt obligations for the periods prescribed by our policies.

Typically, the parent company meets its liquidity requirements through regular dividends from KeyBank. Federal banking law limits the amount of capital distributions that a bank can make to its holding company without prior regulatory approval. A national bank s dividend-paying capacity is affected by several factors, including net profits (as defined by statute) for the two previous calendar years and for the current year, up to the date of dividend declaration. During the first nine months of 2012, KeyBank paid the parent $1.4 billion in dividends, while nonbank subsidiaries did not make any dividend payments to the parent. During the first nine months of 2012, the parent did not make any capital infusions to KeyBank. Based upon existing regulatory guidance, KeyBank has capacity to pay $628 million in dividends to KeyCorp at September 30, 2012.

During the first quarter of 2011, KeyCorp completed a $625 million equity offering at a price of $8.85 per Common Share. In conjunction with the equity offering, KeyCorp issued $1 billion, 5.1% Senior Medium-Term Notes, Series I, during the first quarter of 2011. The proceeds from the sale of Common Shares and medium-term notes were used, along with other available funds, to repurchase the Series B Preferred Stock issued to the U.S. Treasury. The repurchase eliminated future quarterly dividends of $31 million and discount amortization (non-cash) of $4 million, or $140 million on an annual basis, related to these preferred shares.

Our liquidity position and recent activity

Over the past twelve months our liquid asset portfolio, which includes overnight and short-term investments, as well as unencumbered, high quality liquid securities held as protection against a range of potential liquidity stress scenarios, has decreased as a result of trust preferred securities redemptions and net customer loan and deposit flows. However, the liquid asset portfolio still continues to exceed the amount we estimate would be necessary to manage through a liquidity event. Liquidity stress scenarios include the loss of access to either unsecured or secured funding sources, as well as draws on unfunded commitments and significant deposit withdrawals.

From time to time, KeyCorp or its principal subsidiary, KeyBank, may seek to retire, repurchase or exchange outstanding debt, capital securities, preferred shares or Common Shares through cash purchase, privately negotiated transactions or other means. We have periodically repurchased Common Shares in the open market or through privately negotiated transactions under a repurchase program authorized by our Board of Directors. Additional information on KeyCorp s Common Share repurchase program is included in Part II, Item 2. Unregistered Sales of Equity Securities or Use of Proceeds of this report. Such transactions depend on prevailing market conditions, our liquidity and capital requirements, contractual restrictions, regulatory requirements and other factors. The amounts involved may be material, individually or collectively.

We generate cash flows from operations, and from investing and financing activities. We have approximately $241 million of cash and cash equivalents and short-term investments in international tax jurisdictions as of September 30, 2012. As we consider alternative long-term strategic and liquidity plans, opportunities to repatriate these amounts would result in approximately $29 million in taxes to be paid. If we were to cease operations in all international tax jurisdictions, the total amount of taxes to be paid would increase to approximately $52 million. Accordingly, we have included the total amount as a deferred tax liability at September 30, 2012.

The consolidated statements of cash flows summarize our sources and uses of cash by type of activity for the nine month periods ended September 30, 2012, and 2011.

Credit risk management

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

Credit policy, approval and evaluation

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

Our credit risk management team is responsible for credit approval, is independent of our lines of business, and consists of senior officers who have extensive experience in structuring and approving loans. Only credit risk management members are

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authorized to grant significant exceptions to credit policies. It is not unusual to make exceptions to established policies when mitigating circumstances dictate but most major lending units have been assigned specific thresholds to keep exceptions at a manageable level.

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

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

We maintain an active concentration management program to encourage diversification in our credit portfolios. For individual obligors, we employ a sliding scale of exposure, known as hold limits, which is dictated by the strength of the borrower. Our legal lending limit is approximately $2 billion for any individual borrower. However, internal hold limits generally restrict the largest exposures to less than 20% of that amount. As of September 30, 2012, we had five client relationships with loan commitments net of credit default swaps of more than $200 million. The average amount outstanding on these five individual net obligor commitments was $68 million at September 30, 2012. In general, our philosophy is to maintain a diverse portfolio with regard to credit exposures.

We actively manage the overall loan portfolio in a manner consistent with asset quality objectives, including the use of credit derivatives primarily credit default swaps to mitigate 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. At September 30, 2012, we used credit default swaps with a notional amount of $701 million to manage the credit risk associated with specific commercial lending obligations. We also sell credit derivatives primarily index credit default swaps to diversify and manage portfolio concentration and correlation risks. At September 30, 2012, the notional amount of credit default swaps sold by us for the purpose of diversifying our credit exposure was $466 million.

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

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

Allowance for loan and lease losses

At September 30, 2012, the ALLL was $888 million, or 1.73% of loans, compared to $1.1 billion, or 2.35%, at September 30, 2011. The allowance includes $39 million that was specifically allocated for impaired loans of $428 million at September 30, 2012, compared to $44 million that was allocated for impaired loans of $441 million one year ago. For more information about impaired loans, see Note 4 (Asset Quality). At September 30, 2012, the allowance for loan and lease losses was 135.99% of nonperforming loans, compared to 143.53% at September 30, 2011.

Selected asset quality statistics for each of the past five years are presented in Figure 32. The factors that drive these statistics are discussed in the remainder of this section.

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Figure 32. Selected Asset Quality Statistics from Continuing Operations

dollars in millions	2012 Third	2012 Second	2012 First	2011 Fourth	2011 Third
Net loan charge-offs	**$ 109**	**$ 77**	**$ 101**	$ 105	$ 109
Net loan charge-offs to average loans	**.86 %**	**.63 %**	**.82 %**	.86 %	.90 %
Allowance for loan and lease losses to annualized net loan charge-offs	**204.78**	**286.74**	**232.39**	241.01	261.54
Allowance for loan and lease losses	**$ 888**	**$ 888**	**$ 944**	$ 1,004	$ 1,131
Allowance for credit losses [(a)]	**931**	**939**	**989**	1,049	1,187
Allowance for loan and lease losses to period-end loans	**1.73 %**	**1.79 %**	**1.92 %**	2.03 %	2.35 %
Allowance for credit losses to period-end loans	**1.81**	**1.89**	**2.01**	2.12	2.46
Allowance for loan and lease losses to nonperforming loans	**135.99**	**135.16**	**141.74**	138.10	143.53
Allowance for credit losses to nonperforming loans	**142.57**	**142.92**	**148.50**	144.29	150.63
Nonperforming loans at period end [(b)]	**$ 653**	**$ 657**	**$ 666**	$ 727	$ 788
Nonperforming assets at period end	**718**	**751**	**767**	859	914
Nonperforming loans to period-end portfolio loans	**1.27 %**	**1.32 %**	**1.35 %**	1.47 %	1.64 %
Nonperforming assets to period-end portfolio loans plus OREO and other nonperforming assets	**1.39**	**1.51**	**1.55**	1.73	1.89

(a) Includes the allowance for loan and lease losses plus the liability for credit losses on lending-related commitments.

(b) September 30, 2012 excludes $25 million of PCI loans acquired in July 2012.

We estimate the appropriate level of the ALLL on at least a quarterly basis. The methodology used is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses on page 117 of our 2011 Annual Report on Form 10-K. Briefly, we apply expected loss rates to existing loans with similar risk characteristics and exercise judgment to assess the impact of factors such as changes in economic conditions, changes in credit policies or underwriting standards, and changes in the level of credit risk associated with specific industries and markets.

For all commercial and consumer TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance greater than $2.5 million, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. We estimate the extent of impairment by comparing the recorded investment of the loan with the estimated present value of its expected cash flows, the fair value of its underlying collateral or the loan s observable market price. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses. The ALLL at September 30, 2012, represents our best estimate of the probable credit losses inherent in the loan portfolio at that date.

As shown in Figure 33, our ALLL decreased by $243 million, or 21.5%, during the past twelve months. This contraction was associated with the improvement in credit quality of the loan portfolio, which has trended more favorably over the past twelve months. Asset quality is improving and has resulted in favorable risk rating migration and a reduction in our general allowance. Our delinquency trends continue to decline while our roll rates keep improving. We attribute this improvement to a more moderate level of economic activity, more favorable conditions in the capital markets, improvement in client income statements and continued run off in our exit loan portfolio. Our liability for credit losses on lending-related commitments decreased by $13 million to $43 million at September 30, 2012, compared to the same period one year ago. When combined with our allowance for loan and lease losses, our total allowance for credit losses represented 1.81% of loans at the end of the third quarter of 2012 compared to 2.46% at the end of the third quarter of 2011. We expect the allowance to decrease as a percent of total loans during the fourth quarter of 2012 as a result of the continued improvement in credit quality that is anticipated.

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Figure 33. Allocation of the Allowance for Loan and Lease Losses

	September 30, 2012			December 31, 2011			September 30, 2011		
dollars in millions	**Amount**	**Percent of Total Allowance**	**Percent of Loan Type to Total Loans**	Amount	Percent of Total Allowance	Percent of Loan Type to Total Loans	Amount	Percent of Total Allowance	Percent of Loan Type to Total Loans
Commercial, financial and agricultural	**$ 318**	**35.8 %**	**42.7 %**	$ 334	33.2 %	39.1 %	$ 370	32.7 %	37.0 %
Commercial real estate:									
Commercial mortgage	**221**	**24.9**	**14.6**	272	27.1	16.2	305	27.0	16.5
Construction	**47**	**5.3**	**2.1**	63	6.3	2.7	87	7.7	3.0
Total commercial real estate loans	**268**	**30.2**	**16.7**	335	33.4	18.9	392	34.7	19.5
Commercial lease financing	**66**	**7.4**	**9.6**	78	7.8	12.2	96	8.5	12.4
Total commercial loans	**652**	**73.4**	**69.0**	747	74.4	70.2	858	75.9	68.9
Real estate residential mortgage	**25**	**2.8**	**4.2**	37	3.7	3.9	34	3.0	3.9
Home equity:									
Community Banking	**89**	**10.0**	**19.0**	103	10.2	18.6	110	9.7	19.4
Other	**24**	**2.7**	**.8**	29	2.9	1.1	35	3.1	1.2
Total home equity loans	**113**	**12.7**	**19.8**	132	13.1	19.7	145	12.8	20.6
Consumer other Community Banking	**32**	**3.6**	**2.6**	41	4.1	2.4	41	3.6	2.5
Credit cards	**26**	**2.9**	**1.4**						
Consumer other:									
Marine	**36**	**4.1**	**2.8**	46	4.6	3.5	51	4.5	3.9
Other	**4**	**.5**	**.2**	1	.1	.3	2	.2	.3
Total consumer other	**40**	**4.6**	**3.0**	47	4.7	3.8	53	4.7	4.2
Total consumer loans	**236**	**26.6**	**31.0**	257	25.6	29.8	273	24.1	31.1
Total loans [(a)]	**$ 888**	**100.0 %**	**100.0 %**	$ 1,004	100.0 %	100.0 %	$ 1,131	100.0 %	100.0 %

(a) Excludes allocations of the allowance for loan and lease losses in the amount of $65 million, $104 million, and $115 million at September 30, 2012, December 31, 2011, and September 30, 2011, respectively, related to the discontinued operations of the education lending business.

Our provision for loan and lease losses was a provision of $109 million for the third quarter of 2012, compared to a provision of $10 million for the year-ago quarter. Our net loan and lease charge-offs were $109 million for the third quarter of 2012 which was the same amount as the net charge-offs in the same quarter one year ago. Our net charge-offs for the third quarter of 2012 included $45 million of charge-offs reported in accordance with updated regulatory guidance requiring loans discharged through Chapter 7 bankruptcy and not reaffirmed by the borrower to be charged-off to the collateral s fair market value less selling costs and classified and leases as nonaccrual regardless of their delinquency. Additionally, we continue to work our exit loans and leases, and reduce exposure in our higher-risk businesses including the residential properties portion of our construction loan portfolio, Marine/RV financing, and other selected leasing portfolios through the sale of certain loans, payments from borrowers or net charge-offs.

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Net loan charge-offs

Net loan charge-offs for the third quarter of 2012 totaled $109 million, or .86% of average loans, including $45 million (.35% of average loans) of incremental net loan charge-offs reported in accordance with updated regulatory guidance requiring loans discharged through Chapter 7 bankruptcy and not reaffirmed by the borrower to be charged off to the collateral s fair market value less selling costs and classified as nonaccrual regardless of their delinquency status. The current period net loan charge-offs compare to $109 million, or .90% net charge-offs to average loans for the same period last year. Figure 34 shows the trend in our net loan charge-offs by loan type, while the composition of loan charge-offs and recoveries by type of loan is presented in Figure 35.

Compared to the second quarter of 2012, net loan charge-offs increased $32 million. As shown in Figure 37, our exit loan portfolio accounted for $6 million, or 5.5%, of total net loan charge-offs for the third quarter of 2012. Net charge-offs in the exit loan portfolio decreased by $13 million from the second quarter of 2012 due to decreases in the commercial and consumer loan portfolios.

Figure 34. Net Loan Charge-offs from Continuing Operations

	2012			2011	
dollars in millions	**Third**	**Second**	**First**	**Fourth**	**Third**
Commercial, financial and agricultural	**$ 7**	$ 3	$ 15	$ 28	$ 23
Real estate Commercial mortgage	**21**	9	21	23	25
Real estate Construction[a]	**2**	4	10	(6)	8
Commercial lease financing [a]	**(8)**	10			2
Total commercial loans	**22**	26	46	45	58
Home equity Key Community Bank	**62**	21	23	20	18
Home equity Other	**5**	7	7	9	8
Credit cards	**2**				
Marine	**6**	7	10	14	11
Other	**12**	16	15	17	14
Total consumer loans	**87**	51	55	60	51
Total net loan charge-offs	**$ 109**	$ 77	$ 101	$ 105	$ 109
Net loan charge-offs to average loans	**.86 %**	.63 %	.82 %	.86 %	.90 %
Net loan charge-offs from discontinued operations education lending business	**$ 12**	$ 12	$ 19	$ 25	$ 31

(a) Credit amount indicates recoveries exceeded charge-offs.

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Figure 35. Summary of Loan and Lease Loss Experience from Continuing Operations

dollars in millions	Three months ended September 30, 2012	2011	Nine months ended September 30, 2012	2011
Average loans outstanding	**$ 50,695**	$ 48,008	**$ 49,860**	$ 48,586
Allowance for loan and lease losses at beginning of period	**$ 888**	$ 1,230	**$ 1,004**	$ 1,604
Charge-offs:				
Commercial, financial and agricultural	**16**	31	**65**	124
Real estate commercial mortgage	**23**	27	**69**	89
Real estate construction	**3**	19	**19**	81
Total commercial real estate loans [a]	**26**	46	**88**	170
Commercial lease financing		10	**20**	36
Total commercial loans	**42**	87	**173**	330
Real estate residential mortgage	**6**	5	**19**	22
Home equity:				
Key Community Bank	**65**	25	**113**	78
Other	**6**	9	**23**	35
Total home equity loans	**71**	34	**136**	113
Consumer other Key Community Bank	**9**	11	**29**	34
Credit cards	**2**		**2**	
Consumer other:				
Marine	**11**	18	**41**	60
Other		2	**4**	7
Total consumer other	**11**	20	**45**	67
Total consumer loans	**99**	70	**231**	236
Total loans charged off	**141**	157	**404**	566
Recoveries:				
Commercial, financial and agricultural	**9**	8	**40**	33
Real estate commercial mortgage	**2**	2	**18**	9
Real estate construction	**1**	11	**3**	19
Total commercial real estate loans [a]	**3**	13	**21**	28
Commercial lease financing	**8**	8	**18**	19
Total commercial loans	**20**	29	**79**	80
Real estate residential mortgage		1	**2**	3
Home equity:				
Key Community Bank	**3**	7	**7**	9
Other	**1**	1	**4**	3
Total home equity loans	**4**	8	**11**	12
Consumer other Key Community Bank	**2**	2	**5**	6

Consumer other:				
Marine	**5**	7	**18**	26
Other	**1**	1	**2**	3
Total consumer other	**6**	8	**20**	29
Total consumer loans	**12**	19	**38**	50
Total recoveries	**32**	48	**117**	130
Net loans and leases charged off	**(109)**	(109)	**(287)**	(436)
Provision (credit) for loan and lease losses	**109**	10	**172**	(38)
Foreign currency translation adjustment			**(1)**	1
Allowance for loan and lease losses at end of period	**$ 888**	$ 1,131	**$ 888**	$ 1,131
Liability for credit losses on lending-related commitments at beginning of period	**$ 51**	$ 57	**$ 45**	$ 73
Provision (credit) for losses on lending-related commitments	**(8)**	(1)	**(2)**	(17)
Liability for credit losses on lending-related commitments at end of period [b]	**$ 43**	$ 56	**$ 43**	$ 56
Total allowance for credit losses at end of period	**$ 931**	$ 1,187	**$ 931**	$ 1,187
Net loan charge-offs to average loans	**.86%**	.90%	**.77%**	1.20%
Allowance for loan and lease losses to annualized net loan charge-offs	**204.78**	261.54	**231.63**	194.02
Allowance for loan and lease losses to period-end loans	**1.73**	2.35	**1.73**	2.35
Allowance for credit losses to period-end loans	**1.81**	2.46	**1.81**	2.46
Allowance for loan and lease losses to nonperforming loans	**135.99**	143.53	**135.99**	143.53
Allowance for credit losses to nonperforming loans	**142.57**	150.63	**142.57**	150.63
Discontinued operations education lending business:				
Charge-offs:	**$ 17**	$ 34	**$ 56**	$ 107
Recoveries	**5**	3	**13**	9
Net loan and lease charge-offs	**$ (12)**	$ (31)	**$ (43)**	$ (98)

(a) See Figure 19 and the accompanying discussion in the Loans and loans held for sale section for more information related to our commercial real estate portfolio.

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

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Nonperforming assets

Figure 36 shows the composition of our nonperforming assets. These assets totaled $718 million at September 30, 2012, and represented 1.39% of portfolio loans, OREO and other nonperforming assets, compared to $859 million, or 1.73%, at December 31, 2011, and $914 million, or 1.89%, at September 30, 2011. See Note 1 under the headings Nonperforming Loans, Impaired Loans, and Allowance for Loan and Lease Losses beginning on page 117of our 2011 Annual Report on Form 10-K for a summary of our nonaccrual and charge-off policies.

Figure 36. Summary of Nonperforming Assets and Past Due Loans from Continuing Operations

dollars in millions	**September 30, 2012**	**June 30, 2012**	March 31, 2012	December 31, 2011	September 30, 2011
Commercial, financial and agricultural	**$ 132**	**$ 141**	$ 168	$ 188	$ 188
Real estate commercial mortgage	**134**	**172**	175	218	237
Real estate construction	**53**	**68**	66	54	93
Total commercial real estate loans	**187**	**240**	241	272	330
Commercial lease financing	**18**	**18**	22	27	31
Total commercial loans	**337**	**399**	431	487	549
Real estate residential mortgage	**83**	**78**	82	87	88
Home equity:					
Key Community Bank	**171**	**141**	109	108	102
Other	**18**	**17**	12	12	12
Total home equity loans	**189**	**158**	121	120	114
Consumer other Key Community Bank	**3**	**2**	1	1	4
Credit card	**8**				
Consumer other:					
Marine	**31**	**19**	30	31	32
Other	**2**	**1**	1	1	1
Total consumer other	**33**	**20**	31	32	33
Total consumer loans	**316**	**258**	235	240	239
Total nonperforming loans	**653**	**657**	666	727	788
Nonperforming loans held for sale	**19**	**38**	24	46	42
OREO	**29**	**28**	61	65	63
Other nonperforming assets	**17**	**28**	16	21	21
Total nonperforming assets [a]	**$ 718**	**$ 751**	$ 767	$ 859	$ 914
Accruing loans past due 90 days or more	**$ 89**	**$ 131**	$ 169	$ 164	$ 118
Accruing loans past due 30 through 89 days	**354**	**362**	420	441	478
Restructured loans accruing and nonaccruing [b]	**323**	**274**	293	276	277
Restructured loans included in nonperforming loans [b]	**217**	**163**	184	191	178
Nonperforming assets from discontinued operations education lending business	**22**	**18**	19	23	22
Nonperforming loans to period-end portfolio loans	**1.27 %**	**1.32 %**	1.35 %	1.47 %	1.64 %
Nonperforming assets to period-end portfolio loans plus OREO and other nonperforming assets	**1.39**	**1.51**	1.55	1.73	1.89

(a) September 30, 2012 amount excludes $25 million of purchased impaired loans acquired in July 2012.

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

As shown in Figure 36, nonperforming assets decreased during the third quarter of 2012, which represents the twelfth consecutive quarterly decline. Most of the reduction came from nonperforming loans held for sale and OREO sales in the Real Estate Capital line of business. As shown in Figure 37, our exit loan portfolio accounted for $77 million, or 10.7%, of our total nonperforming assets at September 30, 2012, compared to $75 million, or 10%, at June 30, 2012.

At September 30, 2012, the carrying amount of our commercial nonperforming loans outstanding represented 59% of their contractual amount owed, and total nonperforming loans outstanding represented 70% of their contractual amount owed and nonperforming assets in total were carried at 67% of their original contractual amount.

At September 30, 2012, our 20 largest nonperforming loans totaled $202 million, representing 31% of total nonperforming loans.

Figure 37 shows the composition of our exit loan portfolio at September 30, 2012 and June 30, 2012, the net charge-offs recorded on this portfolio for the third quarter of 2012 and the second quarter of 2012, and the nonperforming status of these loans at September 30, 2012 and June 30, 2012. The exit loan portfolio represented 5.9% of total loans and loans held for sale at September 30, 2012. Additional information about loan sales is included in this report under the heading Loans held for sale and Loan sales.

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Figure 37. Exit Loan Portfolio from Continuing Operations

in millions	Balance Outstanding 9-30-12	6-30-12	Change 9-30-12 vs. 6-30-12	Net Loan Charge-offs 3Q12 (c)	2Q12	Balance on Nonperforming Status 9-30-12	6-30-12
Residential properties homebuilder	**$ 31**	$ 33	$ (2)			**$ 6**	$ 14
Marine and RV floor plan	**35**	39	(4)	**$ (1)**	$ 2	**12**	15
Commercial lease financing (a)	**1,035**	1,237	(202)	**(3)**	1	**8**	9
Total commercial loans	**1,101**	1,309	(208)	**(4)**	3	**26**	38
Home equity Other	**409**	479	(70)	**5**	7	**18**	17
Marine	**1,448**	1,542	(94)	**6**	7	**31**	19
RV and other consumer	**98**	101	(3)	**(1)**	2	**2**	1
Total consumer loans	**1,955**	2,122	(167)	**10**	16	**51**	37
Total exit loans in loan portfolio	**$ 3,056**	$ 3,431	$ (375)	**$ 6**	$ 19	**$ 77**	$ 75
Discontinued operations education lending business (not included in exit loans above)(b)	**$ 5,328**	$ 5,483	$ (155)	**$ 12**	$ 12	**$ 22**	$ 18

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

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

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

Figure 38 shows credit exposure by industry classification in the largest sector of our loan portfolio, commercial, financial and agricultural loans. Since December 31, 2011, total commitments and loans outstanding in this sector have increased by $3.6 billion and $2.6 billion, respectively, and have increased by $5.2 billion and $4.1 billion, respectively, from September 30, 2011.

Figure 38. Commercial, Financial and Agricultural Loans

September 30, 2012 *dollars in millions*	Total Commitments (a)	Loans Outstanding	Nonperforming Loans Amount	Nonperforming Loans Percent of Loans Outstanding
Industry classification:				
Services	$ 10,042	$ 5,302	$ 24	.5 %
Manufacturing	8,962	3,961	34	.9
Public utilities	5,207	1,223		
Financial services	4,169	2,176	2	.1
Wholesale trade	3,441	1,680	11	.7

Retail trade	1,970	818	3	.4
Mining	1,832	833	6	.7
Dealer floor plan	1,468	1,035	8	.8
Property management	1,276	761	15	2.0
Transportation	1,216	774	9	1.2
Building contractors	1,133	448	11	2.5
Agriculture/forestry/fishing	992	555	6	1.1
Public administration	652	439		
Insurance	608	113		
Communications	376	239		
Individuals	4	2		
Other	2,045	1,620	3	.2
Total	$ 45,393	$ 21,979	$ 132	.6 %

(a) Total commitments include unfunded loan commitments, unfunded letters of credit (net of amounts conveyed to others) and loans outstanding.

The types of activity that caused the change in our nonperforming loans during each of the last five quarters are summarized in Figure 39. Loans placed on nonaccrual declined $16 million during the third quarter of 2012 as compared to the third quarter of 2011, as market liquidity continued to improve.

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Figure 39. Summary of Changes in Nonperforming Loans from Continuing Operations

in millions	2012 Third	2012 Second	2012 First	2011 Fourth	2011 Third
Balance at beginning of period	**$ 657**	**$ 666**	**$ 727**	$ 788	$ 842
Loans placed on nonaccrual status	**276**	**350**	**214**	230	292
Charge-offs	**(141)**	**(131)**	**(132)**	(149)	(157)
Loans sold	**(43)**	**(49)**	**(27)**	(28)	(16)
Payments	**(74)**	**(110)**	**(65)**	(70)	(125)
Transfers to OREO	**(10)**	**(6)**	**(15)**	(12)	(11)
Transfers to nonperforming loans held for sale		**(16)**		(19)	(24)
Transfers to other nonperforming assets		**(14)**		(4)	(3)
Loans returned to accrual status	**(12)**	**(33)**	**(36)**	(9)	(10)
Balance at end of period [(a)]	**$ 653**	**$ 657**	**$ 666**	$ 727	$ 788

(a) September 30, 2012 amount excludes $25 million of PCI loans acquired in July 2012.

The types of activity that caused the change in our nonperforming loans held for sale during each of the last five quarters are summarized in Figure 40.

Figure 40. Summary of Changes in Nonperforming Loans Held for Sale from Continuing Operations

in millions	2012 Third	2012 Second	2012 First	2011 Fourth	2011 Third
Balance at beginning of period	**$ 38**	**$ 24**	**$ 46**	$ 42	$ 42
Transfers in		**16**		19	24
Net advances / (payments)	**(1)**		**(1)**	(3)	(5)
Loans sold	**(17)**	**(1)**	**(1)**	(11)	(5)
Transfers to OREO	**(1)**			(1)	(19)
Valuation adjustments		**(1)**	**(1)**		(1)
Loans returned to accrual status / other			**(19)**		6
Balance at end of period	**$ 19**	**$ 38**	**$ 24**	$ 46	$ 42

The types of activity that contributed to the change in our OREO during each of the last five quarters are summarized in Figure 41.

Figure 41. Summary of Changes in Other Real Estate Owned, Net of Allowance, from Continuing Operations

in millions	2012 Third	2012 Second	2012 First	2011 Fourth	2011 Third
Balance at beginning of period	**$ 28**	**$ 61**	**$ 65**	$ 63	$ 52
Properties acquired nonperforming loans	**11**	**6**	**15**	13	30

Valuation adjustments	**(2)**	**(7)**	**(7)**	(4)	(3)
Properties sold	**(8)**	**(32)**	**(12)**	(7)	(16)
Balance at end of period	**$ 29**	**$ 28**	**$ 61**	$ 65	$ 63

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Operational risk management

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

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

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

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

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) beginning on page 113 of our 2011 Annual Report on Form 10-K should be reviewed for a greater understanding of how we record and report our financial performance.

In our opinion, some accounting policies are more likely than others to have a critical effect on our financial results and to expose those results to potentially greater volatility. These policies apply to areas of 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 prove to be inaccurate, or we may find it necessary to change them.

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 and lease losses; contingent liabilities, guarantees and income taxes; derivatives and related hedging activities; and assets and liabilities that involve valuation methodologies. In addition, we may employ outside valuation experts to assist us in determining fair values of certain assets and liabilities. A brief discussion of each of these areas appears on pages 122 through 124 of our 2011 Annual Report on Form 10-K.

At September 30, 2012, $14.5 billion, or 16.7%, of our total assets were measured at fair value on a recurring basis. Approximately 95.0% of these assets, before netting adjustments, were classified as Level 1 or Level 2 within the fair value hierarchy. At September 30, 2012, $1.4 billion, or 1.9%, 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.

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During the third quarter of 2012, $99 million, or .1%, of our total assets were measured at fair value on a nonrecurring basis. Approximately 15.2% of these assets were classified as Level 1 or Level 2. At September 30, 2012, there were no liabilities measured at fair value on a nonrecurring basis.

In addition, the education lending securitization trusts assets and liabilities were included on the balance sheet at September 30, 2012 at fair value, in the amount of $2.5 billion and $2.3 billion, respectively, as a result of their consolidation on January 1, 2010. During the third quarter of 2011, we determined that the $45 million cumulative effect adjustment made related to the consolidation of these trusts on January 1, 2010, was incorrect. Further information regarding this error and its correction is provided in Note 11 (Acquisitions and Discontinued Operations).

During the first nine months of 2012, we did not significantly alter the manner in which we applied our critical accounting policies or developed related assumptions and estimates.

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European Sovereign Debt Exposures

Our total European sovereign and non-sovereign debt exposure is presented in Figure 42.

Figure 42. European Sovereign and Non-sovereign Debt Exposures

September 30, 2012 *in millions*	Short- and Long-Term Commercial Total [a]	Foreign Exchange and Derivatives with Collateral [b]	Net Exposure
France:			
Sovereigns			
Non-sovereign financial institutions		$ (11)	$ (11)
Non-sovereign non-financial institutions	$ 79		79
Total	79	(11)	68
Germany:			
Sovereigns			
Non-sovereign financial institutions		(8)	(8)
Non-sovereign non-financial institutions	343		343
Total	343	(8)	335
Greece:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions			
Total			
Iceland:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions			
Total			
Ireland:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions	10		10
Total	10		10
Italy:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions	57		57
Total	57		57
Netherlands:			
Sovereigns			
Non-sovereign financial institutions		9	9
Non-sovereign non-financial institutions	278		278
Total	278	9	287
Portugal:			
Sovereigns			
Non-sovereign financial institutions			

Non-sovereign non-financial institutions				
Total				
Spain:				
Sovereigns				
Non-sovereign financial institutions				
Non-sovereign non-financial institutions	44			44
Total	44			44
Switzerland:				
Sovereigns				
Non-sovereign financial institutions		2		2
Non-sovereign non-financial institutions	97			97
Total	97	2		99
United Kingdom:				
Sovereigns				
Non-sovereign financial institutions		1		1
Non-sovereign non-financial institutions	204			204
Total	204	1		205
Other Europe: [c]				
Sovereigns				
Non-sovereign financial institutions				
Non-sovereign non-financial institutions	61			61
Total	61			61
Total Europe:				
Sovereigns				
Non-sovereign financial institutions		(7)		(7)
Non-sovereign non-financial institutions	1,173			1,173
Total	$ 1,173	$ (7)	$	1,166

(a) This column represents our outstanding leases.

(b) These represent contracts to hedge our balance sheet asset and liability needs, and to accommodate our clients trading and/or hedging needs. Our derivative mark-to-market exposures are calculated and reported on a daily basis. These exposures are largely covered by cash or highly marketable securities collateral with daily collateral calls.

(c) Other Europe consists of the following countries: Austria, Belarus, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Finland, Hungary, Lithuania, Luxembourg, Malta, Norway, Poland, Romania, Russia, Slovakia, Slovenia, Sweden, and Ukraine. Approximately 82% of our exposure in other Europe is in Belgium, Finland, and Sweden.

Our credit risk exposure is largely concentrated in developed countries with emerging market exposure essentially limited to commercial facilities. At-risk exposures in the rest of the world, which are actively monitored by management total less than $1 million.

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Item 3. Quantitative and Qualitative Disclosure about Market Risk

The information presented in the Market risk management section of the Management s Discussion & Analysis of Financial Condition & Results of Operations is incorporated herein by reference.

Item 4. Controls and Procedures

As of the end of the period covered by this report, KeyCorp carried out an evaluation, under the supervision and with the participation of KeyCorp s management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of KeyCorp s disclosure controls and procedures. Based upon that evaluation, KeyCorp s Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective, in all material respects, as of the end of the period covered by this report, in ensuring that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. No changes were made to KeyCorp s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, KeyCorp s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As of September 30, 2012, KeyCorp and its subsidiaries are defendants or putative defendants in a variety of legal proceedings, in the form of regulatory/government investigations as well as private, civil litigation and arbitration proceedings. The private, civil litigations range from individual actions involving a single plaintiff to class action lawsuits. Investigations involve both formal and informal proceedings, by both government agencies and self-regulatory bodies. These legal proceedings are at varying stages of adjudication, arbitration or investigation and involve a variety of claims (including common law tort, contract claims, securities, ERISA, and consumer protection claims). At times, these legal proceedings may present novel claims or legal theories.

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

The information presented in the Legal Proceedings section of Note 12 (Contingent Liabilities and Guarantees) of the Notes to our Consolidated Financial Statements is incorporated herein by reference.

Item 1A. Risk Factors

For a discussion of certain risk factors affecting us, see Part 1, Item 1A: Risk Factors, on pages 13-29 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, and our disclosure regarding the Forward-looking Statements in this Form 10-Q.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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

As previously reported, as authorized by our Board and pursuant to our 2012 capital plan submitted to the Federal Reserve as part of CCAR and not objected to by the Federal Reserve, beginning in the second quarter of 2012, KeyCorp had authority to repurchase up to $344 million of our Common Shares for general repurchase and repurchases in connection with employee elections under our compensation and benefit programs.

During the third quarter of 2012, we completed $82 million of Common Share repurchases. Following completion of these repurchases (as well as our Common Share repurchases during the second quarter of 2012), we have remaining authority to repurchase up to $177 million of our Common Shares for general repurchase and repurchases in connection with employee elections under our compensation and benefit programs. Our existing repurchase program does not have an expiration date. Common Share repurchases under the current authorization are expected to be executed through the first quarter of 2013.

The following table summarizes Key s repurchases of its Common Shares for the three months ended September 30, 2012.

Calendar month	Total number of shares repurchased	Average price paid per share [(a)]	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased as part of publicly announced plans or programs [(b)]
July 1 - 31	2,120,385	$ 7.98	2,118,050	40,626,254
August 1 - 31	4,787,981	8.29	4,784,000	34,497,789
September 1 - 30	2,747,916	8.77	2,737,071	31,020,843
Total	9,656,282	$ 8.36	9,639,121	

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

(b) Calculated using the remaining general repurchase amount divided by the closing price of KeyCorp Common Shares on July 31, 2012 at $7.98, August 31, 2012 at $8.43, and September 30, 2012 at $8.74, plus our previously existing program shares available of 13,922,496.

Item 6. Exhibits

15 Acknowledgment of Independent Registered Public Accounting Firm.

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following materials from KeyCorp s Form 10-Q Report for the quarterly period ended September 30, 2012, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income and Consolidated Statements of Comprehensive Income, (iii) the Consolidated Statements of Changes in Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements.

Information Available on Website

KeyCorp makes available free of charge on its website, www.key.com, its Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports as soon as reasonably practicable after KeyCorp electronically files such material with, or furnishes it to, the SEC.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KEYCORP
(Registrant)

Date: November 1, 2012

By: Robert L. Morris
Chief Accounting Officer