FINANCIAL **REVIEW**

Introduction

This Management's Discussion and Analysis reviews the financial condition and results of operations of KeyCorp and its subsidiaries for each of the past three years. Some tables may cover more than three years to comply with Securities and Exchange Commission disclosure requirements or to illustrate trends over a longer period of time. When you read this discussion, you should also look at the consolidated financial statements and related notes that appear on pages 53 through 76.

Terminology

This annual report contains some shortened names and some industry-specific terms. We want to explain some of these terms at the outset so you can better understand the discussion that follows.

- ***KeyCorp*** refers solely to the parent company.
- ***Key*** refers to the consolidated entity consisting of KeyCorp and its subsidiaries.
- ***McDonald*** is McDonald & Company Investments, Inc., a full-service investment banking and securities brokerage company that Key acquired in October 1998.
- A ***KeyCenter*** is one of Key's full-service retail banking facilities or branches.
- **Key** engages in ***capital markets activities***, primarily through the Key Capital Partners line of business. These activities encompass a variety of services. Among other things, we trade securities as a dealer, enter into derivative contracts (both to accommodate clients' financing needs and for proprietary trading purposes), invest in new or growing ventures and conduct transactions in foreign currencies (both to accommodate clients' needs and to benefit from fluctuations in exchange rates).
- When we want to draw your attention to a particular item in Key's Notes to Consolidated Financial Statements, we refer to ***Note*** ____ , giving the particular number, name, and starting page number.
- All earnings per share data included in this discussion are presented on a ***diluted*** basis, which takes into account all common shares outstanding and potential common shares that could result from the exercise of outstanding stock options. Some of the financial information tables also include ***basic*** earnings per share, which takes into account only common shares outstanding.
- For regulatory purposes, capital is divided into several classes. Federal regulations prescribe that at least half of a bank or bank holding company's ***total risk-adjusted capital*** must qualify as ***Tier 1***. Both total and Tier 1 capital serve as bases for several measures of capital adequacy, which is an important indicator of financial stability and performance. You will find a more detailed explanation of total and Tier 1 capital and how they are calculated in the section entitled "Capital and dividends," which begins on page 49.

Our projections are not foolproof

This annual report contains "forward-looking statements" about issues like anticipated improvement in earnings, expected expense reductions and revenue growth, and related objectives (such as the anticipated reduction in Key's employment base). Forward-looking statements by their nature are subject to assumptions, risks and uncertainties. For a variety of reasons, actual results could differ materially from those contained in or implied by the forward-looking statements:

- Interest rates could change more quickly or more significantly than we expect.
- If the economy changes significantly in an unexpected way, the demand for new loans and the ability of borrowers to repay outstanding loans may change in ways that our models do not anticipate.
- The stock and bond markets could suffer a significant disruption, which may have a negative effect on our financial condition and that of our borrowers, and on our ability to raise money by issuing new securities.
- It could take us longer than we anticipate to implement strategic initiatives designed to increase revenues or manage expenses, or we may be unable to implement those initiatives at all.
- Acquisitions and dispositions of assets, business units or affiliates could affect us in ways that management has not anticipated.
- We may become subject to new legal obligations or the resolution of existing litigation may have a negative effect on our financial condition.
- We may become subject to new and unanticipated accounting, tax, or regulatory practices or requirements.

Highlights of Key's 1999 Performance

Financial performance

Key's financial performance in 1999 was strong. Some of the 1999 highlights are discussed below.

- We achieved record earnings for the third consecutive year, breaking the $1.0 billion mark in net income for the first time in our history. Net income was $1.107 billion, or $2.45 per common share, up 11% from $996 million, or $2.23 per common share, in 1998, and $919 million, or $2.07 per common share, in 1997.
- Key's return on average total equity was 17.68%, compared with 17.97% in 1998 and 18.89% in 1997.
- Key's return on average total assets rose to 1.37% from 1.32% in 1998 and 1.33% in 1997.

Figure 2, which appears on page 28, summarizes Key's financial performance for each of the last six years

In each of the past three years, Key's financial results have been affected by various nonrecurring items. The most significant of these items and their impact on both earnings and primary financial ratios are summarized in Figure 1. Each of these items is discussed in greater detail elsewhere in this report.

Figure 1 Significant Nonrecurring Items

Year ended December 31, *dollars in millions, except per share amounts*	1999	1998	1997
Net income as reported	**$1,107**	$996	$919
Nonrecurring items (net of tax):			
Gains from branch divestitures	**(122)**	(22)	(97)
Gain from sale of Electronic Payment Services, Inc.	**(85)**	—	—
Gain from sale of Concord EFS, Inc. common shares	**(9)**	—	—
Gains from sale of Key Merchant Services, LLC	**(9)**	(31)	—
Gain from sale of Compaq Capital Europe LLC and Compaq Capital Asia Pacific LLC	**(8)**	—	—
Restructuring and other special charges	**96**	—	—
Merger and integration charges	**—**	5	—
Real estate disposition charge	**—**	—	33
Other nonrecurring charges	**81**	—	—
Net income — core	**$1,051**	$948	$855
Net income per diluted common share	**$2.45**	$2.23	$2.07
Net income per diluted common share — core	**2.33**	2.12	1.92
Return on average total assets	**1.37%**	1.32%	1.33%
Return on average total assets — core	**1.30**	1.26	1.24
Return on average total equity	**17.68**	17.97	18.89
Return on average total equity — core	**16.79**	17.10	17.57

Key's earnings for 1999 reflect increases from our fee-generating businesses, particularly investment banking, dealer trading services, asset management and brokerage. These businesses have contributed greater amounts to Key's financial results since Key acquired McDonald in October 1998. We are also seeing the positive results of recent efforts to increase profitability in the retail banking unit.

Key's fee income is included in "core noninterest income," which is noninterest income excluding certain nonrecurring items. Core noninterest income was up 31% from last year, and accounted for 41% of Key's total core revenue (which is net interest income plus core noninterest income). In comparison, core noninterest income accounted for 36% of Key's total core revenue in 1998. One of management's long-term goals is for Key to derive 50% of its revenue from activities that generate core noninterest income. For detailed information about noninterest income, see the section entitled "Noninterest income," which begins on page 37.

Key's lending activity has also been strong — particularly in the home equity, consumer lease financing, equipment leasing and other commercial loan portfolios. Excluding the impact of loan sales, home equity loans were up 28% from 1998, while consumer lease financing rose by 24%; commercial loan growth exceeded 10% for the third consecutive year. Although we are continuously extending more loans, both nonperforming loans and net charge-offs experienced only modest increases during 1999.

Corporate strategy

Key's corporate strategy for the past several years has focused on an active program of selling portfolios and business units that have low anticipated growth rates or do not have a competitive advantage or significant market share, and acquiring or growing businesses that management believes are capable of achieving double-digit earnings growth rates.

This long-standing strategy was supplemented in the fourth quarter of 1999 by a new three-year initiative to improve profitability by reducing the costs of doing business, sharpening the focus on the most profitable growth businesses and enhancing revenues. The expected pre-tax earnings improvement of more than $370 million per year when fully implemented, when combined with Key's transformation into an integrated, multiline financial services company, should enable us to capitalize on additional opportunities.

Principal strategic actions during 1999

During the first quarter, Key introduced an initiative designed to strengthen the profitability of the retail banking unit within the Key Retail Banking line of business. This initiative and the guiding strategies are discussed in more detail under the heading "Key Retail Banking" on page 30. Management's long-term goal is to increase the annual pre-tax earnings growth rate of the retail banking unit to at least 10%. Our plan to achieve that goal focuses on improving sales-generating capabilities and reducing operating costs. During 1999, the retail banking unit achieved a 9% pre-tax earnings growth rate (exceeding the target for the year of 8%) and contributed to the increase in Key's total revenue.

Key took three significant actions during the fourth quarter of 1999. First, Key sold its Long Island, New York business, including 28 KeyCenters with $1.3 billion of deposits and $505 million of loans. The Long Island business was profitable, but we held a very small share of the market for deposits and loans in the greater New York City-Long Island area. That region has long been dominated by major New York City-based financial institutions and our competitive position was not strong.

The positive effect on capital resulting from the sale of Key's Long Island business should enable Key to allocate more capital to higher growth opportunities and geographic markets. For example, Key intends to open KeyCenters offering a broad range of financial services products in 25 high-growth markets in the western United States. The first two centers opened during 1999 in Sandy, Utah (a suburb of Salt Lake City) and in Vancouver, Washington. Since then, plans have been put in place to open 20 to 30 new sites — primarily in the markets of Vancouver and Seattle, Washington and in various markets in Utah.

Second, Key reached an agreement to sell its credit card portfolio as part of an overall effort to direct financial resources and free up capital to support faster growing businesses. The relatively small size of the portfolio ($1.4 billion, or 2% of total loans outstanding at December 31, 1999) did not provide the scale necessary to allow Key to compete effectively in credit card lending with other larger credit card issuers. This transaction was completed in January 2000.

Figure 2 Selected Financial Data

dollars in millions, except per share amounts	1999	1998	1997	1996	1995	1994	Compound Annual Rate of Change (1994-1999)
YEAR ENDED DECEMBER 31,							
Interest income	**$5,695**	$5,525	$5,262	$4,951	$5,121	$4,490	4.9%
Interest expense	**2,908**	2,841	2,517	2,237	2,485	1,797	10.1
Net interest income	**2,787**	2,684	2,745	2,714	2,636	2,693	.7
Provision for loan losses	**348**	297	320	197	100	125	22.7
Noninterest income	**2,294**	1,575	1,306	1,087	933	883	21.0
Noninterest expense	**3,049**	2,483	2,386	2,461	2,312	2,168	7.1
Income before income taxes and extraordinary item	**1,684**	1,479	1,345	1,143	1,157	1,283	5.6
Income before extraordinary item	**1,107**	996	919	783	789	853	5.4
Net income	**1,107**	996	919	783	825	853	5.4
Net income applicable to common shares	**1,107**	996	919	775	809	837	5.8
PER COMMON SHARE							
Income before extraordinary item	**$ 2.47**	$ 2.25	$ 2.09	$ 1.69	$ 1.65	$ 1.72	7.5%
Income before extraordinary item — assuming dilution	**2.45**	2.23	2.07	1.67	1.63	1.70	7.6
Net income	**2.47**	2.25	2.09	1.69	1.73	1.72	7.5
Net income — assuming dilution	**2.45**	2.23	2.07	1.67	1.71	1.70	7.6
Cash dividends	**1.04**	.94	.84	.76	.72	.64	10.2
Book value at year end	**14.41**	13.63	11.83	10.92	10.68	9.44	8.8
Market price at year end	**22.13**	32.00	35.41	25.25	18.13	12.50	12.1
Dividend payout ratio	**42.11%**	41.78%	40.19%	45.10%	41.74%	37.10%	2.6
Weighted average common shares (000)	**448,168**	441,895	439,042	459,810	469,574	486,134	(1.6)
Weighted avg. common shares and potential common shares (000)	**452,363**	447,437	444,544	464,282	472,882	490,932	(1.6)
AT DECEMBER 31,							
Loans	**$64,222**	$62,012	$53,380	$49,235	$48,332	$46,579	6.6%
Earning assets	**73,733**	70,240	64,246	59,260	58,762	60,047	4.2
Total assets	**83,395**	80,020	73,699	67,621	66,339	66,801	4.5
Deposits	**43,233**	42,583	45,073	45,317	47,282	48,564	(2.3)
Long-term debt	**15,881**	12,967	7,446	4,213	4,003	3,570	34.8
Common shareholders' equity	**6,389**	6,167	5,181	4,881	4,993	4,530	7.1
Total shareholders' equity	**6,389**	6,167	5,181	4,881	5,153	4,690	6.4
Full-time equivalent employees	**24,568**	25,862	24,595	27,689	29,563	29,211	(3.4)
Branches	**936**	968	1,015	1,205	1,284	1,272	(6.0)
PERFORMANCE RATIOS							
Return on average total assets	**1.37%**	1.32%	1.33%	1.21%	1.24%	1.36%	N/A
Return on average common equity	**17.68**	17.97	18.89	15.73	17.35	18.87	N/A
Return on average total equity	**17.68**	17.97	18.89	15.64	17.10	18.56	N/A
Efficiency[a]	**59.43**	58.49	58.21	60.88	63.03	59.39	N/A
Overhead[b]	**31.52**	35.17	40.34	45.51	49.66	46.14	N/A
Net interest margin (taxable equivalent)	**3.93**	4.08	4.54	4.78	4.47	4.83	N/A
CAPITAL RATIOS AT DECEMBER 31,							
Equity to assets	**7.66%**	7.71%	7.03%	7.22%	7.77%	7.03%	N/A
Tangible equity to tangible assets	**6.03**	5.93	5.52	5.88	6.25	6.19	N/A
Tier 1 risk-adjusted capital	**7.68**	7.21	6.65	7.98	7.53	8.48	N/A
Total risk-adjusted capital	**11.66**	11.69	10.83	13.01	10.85	11.62	N/A
Leverage	**7.77**	6.95	6.40	6.93	6.20	6.63	N/A

Key has completed several mergers, acquisitions and divestitures during the six-year period shown in this table. One or more of these transactions may have had a significant effect on Key's results, making it difficult to compare results from one year to the next. Note 3 ("Mergers, Acquisitions and Divestitures"), which begins on page 60, has specific information about the business combinations and divestitures that Key completed in the past three years to help you understand how those transactions may have impacted Key's financial condition and results of operations.

[a] *This ratio, which measures the extent to which recurring revenues are absorbed by operating expenses, is calculated as follows: noninterest expense (excluding certain nonrecurring charges) divided by the sum of taxable-equivalent net interest income and noninterest income (excluding net securities transactions, gains from certain divestitures and certain nonrecurring charges).*

[b] *This ratio is the difference between noninterest expense (excluding certain nonrecurring charges) and noninterest income (excluding net securities transactions, gains from certain divestitures and certain nonrecurring charges) divided by taxable-equivalent net interest income.*

N/A = Not Applicable

Third, Key announced strategic actions being taken over the next three years that are expected to result in pre-tax cost reductions. Our goal is to achieve more than $170 million of expense reductions per year upon completion. These actions include outsourcing certain non-strategic support functions (which resulted in the write-off of selected assets, including certain software), site consolidations in a number of Key's businesses and reducing the number of management layers. The actions are expected to reduce Key's employment base by approximately 3,000 positions, or 11%, by year-end 2000 and to contribute to an improvement in Key's efficiency ratio. In connection with these actions, we recorded $145 million of restructuring and other special charges during the fourth quarter.

The sales of the Long Island business and the credit card portfolio are described in Note 3 ("Mergers, Acquisitions and Divestitures"), which begins on page 60. The section entitled "Noninterest expense," which begins on page 40, and Note 13 ("Restructuring Charges"), on page 69, provide more information about Key's restructuring charges.

Cash Basis Financial Data

The selected financial data presented in Figure 3 highlight Key's performance on a cash basis for each of the past three years. We provide cash basis financial data because we believe it offers a useful tool for evaluating liquidity and measuring a bank holding company's ability to support future growth, pay dividends and repurchase shares.

"Cash basis" accounting can mean different things. When we apply "cash basis" accounting, the only adjustments that we make to get from the information in Figure 2 (which is presented on an accrual basis) to the comparable line items in Figure 3 are to exclude goodwill and other intangibles that do not qualify as Tier 1 capital, and to exclude the amortization of those assets. Figure 3 does not exclude the impact of other noncash items such as depreciation and deferred taxes.

Goodwill and other intangibles that do not qualify as Tier 1 capital are the result of business combinations that Key recorded using the "purchase" method of accounting. Under the purchase method, assets and liabilities of acquired companies are recorded at their fair values and any amount paid in excess of the fair value of the net assets acquired is recorded as goodwill. If the same transactions had qualified for accounting using the "pooling of interests" method, the acquired company's financial statements would simply have been combined with Key's. After a combination using purchase accounting, Key must amortize goodwill and other intangibles by taking periodic charges against income, but those charges are only accounting entries, not actual cash expenses. Thus, from an investor's perspective, the economic effect of a transaction is the same whether we account for it as a purchase or a pooling. For the same reason, the amortization of intangibles does not impact Key's liquidity and funds management activities.

This is the only section of this Financial Review that discusses Key's financial results on a cash basis.

Line of Business Results

Key has four primary lines of business:

Key Retail Banking offers branch-based financial products and services, and services our small business clients.

Key Specialty Finance offers non-branch-based consumer loan products, such as education loans, home equity loans, automobile loans and leases, and marine and recreational vehicle loans.

Key Corporate Capital offers financing, transaction processing, financial advisory services, equipment leasing and a number of other specialized services.

Figure 3 Cash Basis Selected Financial Data

dollars in millions, except per share amounts	**1999**	**1998**	**1997**
YEAR ENDED DECEMBER 31,			
Noninterest expense	**$2,947**	$2,397	$2,309
Income before income taxes	**1,786**	1,565	1,422
Net income	**1,199**	1,072	989
PER COMMON SHARE			
Net income	**$2.68**	$2.43	$2.25
Net income — assuming dilution	**2.65**	2.40	2.22
Weighted average common shares (000)	**448,168**	441,895	439,042
Weighted average common shares and potential common shares (000)	**452,363**	447,437	444,544
PERFORMANCE RATIOS			
Return on average total assets	**1.51%**	1.45%	1.46%
Return on average total equity	**25.14**	24.71	25.78
Efficiency[a]	**57.32**	56.47	56.28
GOODWILL AND NON-QUALIFYING INTANGIBLES			
Goodwill average balance	**$1,424**	$1,113	$921
Non-qualifying intangibles average balance	**68**	91	108
Goodwill amortization (after tax)	**81**	65	58
Non-qualifying intangibles amortization (after tax)	**11**	11	12

Key has completed several mergers, acquisitions and divestitures during the three-year period shown in this table. One or more of these transactions may have had a significant effect on Key's results, making it difficult to compare results from one year to the next. Note 3 ("Mergers, Acquisitions and Divestitures"), which begins on page 60, has specific information about the business combinations and divestitures that Key completed in the past three years to help you understand how those transactions may have impacted Key's financial condition and results of operations.

[a] *This ratio, which measures the extent to which recurring revenues are absorbed by operating expenses, is calculated as follows: noninterest expense (excluding certain nonrecurring charges and the amortization of goodwill and non-qualifying intangibles) divided by the sum of taxable-equivalent net interest income and noninterest income (excluding net securities transactions, gains from certain divestitures and certain nonrecurring charges).*

Key Capital Partners offers asset management, wealth management, private banking, brokerage, investment banking, capital markets, and insurance products and services.

This section summarizes the financial performance of each line of business and its most recent strategic developments. To better understand the discussion below concerning each line of business, see Note 4 ("Line of Business Results"), which begins on page 61 and describes the activities and financial results of each line of business in greater detail.

Figure 4 shows Key's net income (loss) by line of business for each of the past three years.

Figure 4 Net Income (Loss) by Line of Business

Year ended December 31,				Change 1999 vs 1998	
dollars in millions	1999	1998	1997	Amount	Percent
Key Retail Banking	$ 344	$319	$374	$ 25	7.8%
Key Specialty Finance	165	126	84	39	31.0
Key Corporate Capital	434	378	318	56	14.8
Key Capital Partners[a]	107	102	55	5	4.9
Treasury and Other	(29)	38	53	(67)	N/M
Total segments	1,021	963	884	58	6.0
Reconciling items	86	33	35	53	160.6
Total net income	$1,107	$996	$919	$111	11.1%

[a] *Noninterest income and expense attributable to Key Capital Partners may be assigned to either Key Corporate Capital or Key Retail Banking if one of those lines is principally responsible for maintaining the relationship with the client that used Key Capital Partners' products and services. Key Capital Partners had net income of $157 million in 1999, $149 million in 1998, and $88 million in 1997 before it assigned some of its income and expense.*

N/M = Not Meaningful

Key Retail Banking

Key Retail Banking's primary operating units are retail banking and small business lending. During 1999, strategic efforts focused on strengthening sales-generating capabilities and managing costs by making branch-based services more efficient. In particular, our efforts centered on cross-selling, streamlining deposit product offerings and improving the deposit pricing structure.

Management's long-term goal is to achieve annual pre-tax earnings growth of at least 10% in the retail banking unit. Pre-tax earnings for the unit rose 9% in 1999, exceeding the 8% target set for the year.

Net income for Key Retail Banking as a whole was $344 million in 1999, or approximately 31% of Key's consolidated earnings. In comparison, net income was $319 million in 1998, or approximately 32% of consolidated earnings. The increase in net income reflects growth in net interest income and a decline in noninterest expense. These factors were partially offset by a decrease in noninterest income and a slightly higher provision for loan losses. In 1998, net income increased principally because of higher noninterest income related to various investment banking and capital markets activities and reduced noninterest expense.

Net interest income rose by $25 million from 1998, primarily because of a moderate increase in loans and higher interest rate spreads used in determining the credit for deposits generated by Key Retail Banking. These factors more than offset the impact of a lower deposit base. In particular, core deposits (which are a fairly inexpensive source of funding) have declined, in part because Key continues to divest branch offices such as the Long Island franchise sold in 1999 and the 46 branch offices sold in 1998. Key has compensated for the growing disparity between the demand for loans and the availability of deposits to fund those loans by using funding alternatives such as borrowing in the capital markets or securitizing and selling loans. However, we initiate securitizations selectively since they are more expensive than collecting and maintaining deposits and are dependent on favorable market conditions.

Noninterest expense decreased by $25 million from 1998, primarily due to lower personnel expense. This reflects a decrease in the number of employees and a lower level of incentive compensation.

Noninterest income was down $6 million from 1998. Increases in service charges on deposit accounts, trust and asset management income, and loan fees were more than offset by the reduced amount of income we derived from various investment banking and capital markets products and services provided by the Key Capital Partners line of business in 1999.

The provision for loan losses increased by $1 million in response to a slightly higher level of net charge-offs in the small business lending unit of Key Retail Banking.

Key Specialty Finance

Net income for Key Specialty Finance was $165 million in 1999, or approximately 15% of Key's consolidated earnings. In comparison, net income was $126 million in 1998, or approximately 13% of consolidated earnings. Financial performance improved primarily because net interest income and noninterest income increased while the provision for loan losses was slightly reduced. These positive factors were partially offset by an increase in noninterest expense. Net income in 1998 increased as a result of strong loan growth and higher noninterest income. A primary source of the 1998 increase in revenue was the acquisition of Champion Mortgage Co., Inc. in August 1997. Because the acquisition of Champion was accounted for as a purchase, 1997 results include only four months of Champion's activity, while 1998 results reflect a full year.

Net interest income increased by $61 million in 1999, primarily because average loans outstanding rose 7% from 1998. The increase in loans (which occurred despite the securitizations discussed below) reflects continued strong growth in the home equity and automobile lease financing portfolios. Another factor contributing to loan growth was Key's April 1998 acquisition of an $805 million marine/recreational vehicle installment loan portfolio. Although loans increased, Key was able to make a slight reduction in the provision for loan losses because of improvement in consumer credit quality.

Virtually all of the $52 million increase in noninterest income from 1998 to 1999 is attributable to gains resulting from securitizations. During 1999, Key securitized and sold an aggregate $3.4 billion of education, home equity

and automobile loans. Starting in 2000, we intend to de-emphasize our practice of securitizing and selling home equity loans originated by Champion Mortgage Co., Inc., our home equity finance affiliate. We may continue to securitize these loans without then selling them. By retaining these loans on the balance sheet, we intend to replace over time the earnings capacity previously provided by the credit card portfolio, which was sold in January 2000. In 1999, net income attributable to the credit card portfolio was approximately $39 million. For more information about the sale of the credit card portfolio, see Note 3 ("Mergers, Acquisitions and Divestitures"), which begins on page 60. We expect that the change in our home equity loan securitization practice will reduce Key's 2000 diluted earnings per common share by approximately $.08. For more information about Key's loan securitization activities, see the section entitled "Loans," which begins on page 42.

Noninterest expense rose $52 million from 1998, due in large part to increases in personnel expense, depreciation and amortization expense associated with loan servicing, and marketing costs incurred to expand the home equity business.

Key Corporate Capital

Net income for Key Corporate Capital was $434 million in 1999, or approximately 39% of Key's consolidated earnings. In comparison, net income was $378 million in 1998, or approximately 38% of consolidated earnings. The 1999 increase in net income derived primarily from two sources. First, total average loans increased by 16%, generating higher net interest income. This includes strong increases in the real estate construction, lease financing, structured finance, healthcare and media portfolios. Second, noninterest income increased by $92 million, primarily due to higher income from loan fees, service charges on deposit accounts, various investment banking and capital markets activities and a $13 million gain from the sale of Key's interest in a joint venture with Compaq Capital Corporation. In 1998, net income increased because of a 24% increase in total average loans and growth in noninterest income, led by various investment banking and capital markets activities, and trust and asset management.

The $182 million increase in total revenue in 1999 was partially offset by a $37 million increase in the provision for loan losses. Revenue was also offset by a $54 million increase in noninterest expense, primarily because of higher personnel expense, depreciation and amortization expense, and costs associated with investment banking and capital markets activities.

Key Capital Partners

Net income for Key Capital Partners was $107 million in 1999, compared with $102 million in 1998. In each of these years, Key Capital Partners' net income represents approximately 10% of Key's consolidated earnings.

If personnel in another line of business are responsible for maintaining a relationship with a client that uses the products and services offered by Key Capital Partners, that line of business is assigned the income and expense arising from our work for the client. As a result, a significant amount of Key Capital Partners' noninterest income and expense is reported under either Key Corporate Capital or Key Retail Banking. If Key Capital Partners had not assigned income and expense items to other lines of business, net income for this line would have been $157 million in 1999 (representing approximately 14% of Key's consolidated earnings) and $149 million in 1998 (representing approximately 15% of Key's consolidated earnings).

Total revenue for Key Capital Partners rose by $342 million ($352 million prior to revenue sharing) from 1998. The main source of this improvement is the October 1998 acquisition of McDonald. Because McDonald was accounted for as a purchase, 1998 results include only two months of McDonald's activity, while 1999 results reflect a full year. Revenue also increased because we expanded our base of trust and asset management clients, repriced certain services and earned higher fees from existing accounts that grew while the securities markets were particularly strong. In 1998, the largest contributions to the increase in net income came from investment banking and capital markets activities, and trust and asset management. The growth of these revenue components was bolstered by the McDonald acquisition.

Noninterest expense was up $332 million from 1998. The principal components of this increase were increased personnel, depreciation and goodwill amortization expense resulting from the first full-year impact of the McDonald acquisition.

Treasury and Other

Treasury and Other includes the Treasury, Electronic Commerce and Deposit Marketing business units, as well as the net effect of funds transfer pricing. In 1999, this segment generated a net loss of $29 million, compared with net income of $38 million in 1998. The $67 million decline is primarily due to a $75 million ($47 million after tax) decrease in the net effect of funds transfer pricing. During the latter part of 1998 and continuing through 1999, the cost of maintaining sufficient liquidity was higher than normal. Since this incremental increase in the cost of funds was not indicative of the normal funding costs for Key's major lines of business, it was not allocated to those lines, but instead was retained in the Treasury unit. Net income declined by $15 million from 1997 to 1998 primarily because net interest income fell due to a prolonged period of flatness in the yield curve and greater reliance placed on higher-cost funds.

Reconciling items

The "reconciling items" shown in Figure 4 reflect certain nonrecurring items and charges related to unallocated nonearning assets of corporate support functions. These items generally are included in noninterest income or noninterest expense.

In 1999, noninterest income includes a $194 million ($122 million after tax) gain from branch divestitures, a $134 million ($85 million after tax) gain from the sale of Key's 20% interest in Electronic Payment Services, Inc., a $15 million ($9 million after tax) gain from the sale of Key's interest in Concord EFS, Inc. and a final $14 million ($9 million after tax) gain from the sale of Key's 51% interest in Key Merchant Services, LLC. In 1998, noninterest income includes a $50 million ($31 million after tax) gain from the sale of Key's 51% interest in Key Merchant Services and branch divestiture gains of $39 million ($22 million after tax). In 1997, noninterest income includes branch divestiture gains of $151 million ($97 million after tax).

Noninterest expense in 1999 includes restructuring and other special charges of $152 million ($96 million after tax) related to Key's profitability enhancement initiative, special contributions of $23 million ($15 million after tax) made to the charitable foundation that Key sponsors and $42 million ($26 million after tax) of various other nonrecurring charges. In 1997, noninterest expense includes a charge of $50 million ($33 million after tax) related to the disposal of excess real estate.

Figure 5 Average Balance Sheets, Net Interest Income and Yields/Rates

Year ended December 31,

dollars in millions	1999 Average Balance	1999 Interest	1999 Yield/ Rate	1998 Average Balance	1998 Interest	1998 Yield/ Rate	1997 Average Balance	1997 Interest	1997 Yield/ Rate
ASSETS									
Loans[a,b]									
Commercial, financial and agricultural	**$17,695**	**$1,350**	**7.63%**	$15,413	$1,251	8.12%	$12,911	$1,126	8.72%
Real estate — commercial mortgage	**6,946**	**580**	**8.34**	7,080	627	8.86	7,101	663	9.34
Real estate — construction	**4,076**	**343**	**8.41**	2,866	254	8.86	1,945	188	9.67
Commercial lease financing	**6,092**	**445**	**7.31**	4,822	359	7.45	3,310	228	6.89
Total commercial loans	**34,809**	**2,718**	**7.81**	30,181	2,491	8.25	25,267	2,205	8.73
Real estate — residential	**4,479**	**338**	**7.54**	5,440	422	7.76	6,192	524	8.46
Home equity	**7,548**	**645**	**8.54**	6,353	557	8.77	5,180	469	9.05
Credit card	**997**	**152**	**15.28**	1,438	212	14.74	1,710	256	14.97
Consumer — direct	**2,457**	**238**	**9.69**	2,139	228	10.66	2,238	246	10.99
Consumer — indirect lease financing	**2,922**	**236**	**8.07**	2,024	171	8.45	1,156	99	8.56
Consumer — indirect other	**6,584**	**608**	**9.24**	6,647	603	9.07	7,023	633	9.01
Total consumer loans	**24,987**	**2,217**	**8.87**	24,041	2,193	9.12	23,499	2,227	9.48
Loans held for sale	**2,605**	**228**	**8.74**	3,200	262	8.19	2,649	198	7.47
Total loans	**62,401**	**5,163**	**8.27**	57,422	4,946	8.61	51,415	4,630	9.02
Taxable investment securities	**444**	**15**	**3.33**	282	12	4.26	247	12	4.83
Tax-exempt investment securities[a]	**535**	**46**	**8.60**	801	67	8.36	1,227	97	7.91
Total investment securities	**979**	**61**	**6.21**	1,083	79	7.29	1,474	109	7.39
Securities available for sale[a,c]	**6,403**	**425**	**6.58**	6,610	450	6.85	7,629	527	6.93
Short-term investments	**1,873**	**78**	**4.19**	1,563	84	5.37	782	40	5.12
Total earning assets	**71,656**	**5,727**	**7.99**	66,678	5,559	8.34	61,300	5,306	8.66
Allowance for loan losses	**(911)**			(888)			(875)		
Other assets	**10,201**			9,491			8,525		
	$80,946			$75,281			$68,950		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Money market deposit accounts	**$12,950**	**390**	**3.01**	$11,650	382	3.28	$10,897	333	3.06
Savings deposits	**2,716**	**44**	**1.63**	3,225	59	1.83	4,319	94	2.18
NOW accounts	**791**	**12**	**1.45**	1,215	20	1.65	1,560	32	2.05
Certificates of deposit ($100,000 or more)	**4,257**	**223**	**5.24**	3,520	194	5.51	3,376	190	5.63
Other time deposits	**11,969**	**595**	**4.97**	12,240	654	5.34	13,273	715	5.39
Deposits in foreign office	**823**	**41**	**5.00**	913	50	5.48	1,812	98	5.41
Total interest-bearing deposits	**33,506**	**1,305**	**3.90**	32,763	1,359	4.15	35,237	1,462	4.15
Federal funds purchased and securities sold under repurchase agreements	**4,856**	**220**	**4.53**	6,635	342	5.15	6,942	359	5.17
Bank notes and other short-term borrowings	**7,912**	**426**	**5.38**	7,975	459	5.76	4,741	283	5.97
Long-term debt, including capital securities[d]	**16,473**	**957**	**5.82**	11,175	681	6.09	6,554	413	6.30
Total interest-bearing liabilities	**62,747**	**2,908**	**4.63**	58,548	2,841	4.85	53,474	2,517	4.71
Noninterest-bearing deposits	**8,474**			8,509			8,536		
Other liabilities	**3,464**			2,681			2,074		
Preferred stock	**—**			—			—		
Common shareholders' equity	**6,261**			5,543			4,866		
	$80,946			$75,281			$68,950		
Interest rate spread (TE)			**3.36**			3.49			3.95
Net interest income (TE) and net interest margin (TE)		**$2,819**	**3.93%**		$2,718	4.08%		$2,789	4.54%
Taxable-equivalent adjustment[a]		**$32**			$34			$44	

[a] *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%.*

[b] *For purposes of these computations, nonaccrual loans are included in average loan balances.*

[c] *Yield is calculated on the basis of amortized cost.*

[d] *Rate calculation excludes ESOP debt.*

[e] *For 1994, consumer-direct and consumer-indirect lease financing are included in consumer-indirect other.*

TE = Taxable Equivalent

N/M = Not Meaningful

1996			1995			1994			Compound Annual Rate of Change (1994-1999)	
Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest
$11,970	$1,070	8.94%	$11,252	$1,027	9.13%	$ 9,762	$ 856	8.77%	12.6%	9.5%
7,039	648	9.21	7,115	678	9.53	6,396	553	8.65	1.7	1.0
1,631	166	10.18	1,416	148	10.45	1,207	107	8.86	27.6	26.2
2,372	148	6.24	1,876	125	6.66	1,384	94	6.79	34.5	36.5
23,012	2,032	8.83	21,659	1,978	9.13	18,749	1,610	8.59	13.2	11.0
7,224	593	8.21	9,554	762	7.98	8,699	653	7.51	(12.4)	(12.3)
4,214	378	8.97	3,600	333	9.25	2,144	170	7.93	28.6	30.6
1,665	243	14.59	1,386	210	15.15	1,361	194	14.25	(6.0)	(4.8)
2,183	246	11.27	2,381	253	10.63	See note[e]	See note[e]	See note[e]	See note[e]	See note[e]
671	56	8.35	582	44	7.56	See note[e]	See note[e]	See note[e]	See note[e]	See note[e]
6,819	604	8.86	6,479	567	8.75	10,239	884	8.63	N/M	N/M
22,776	2,120	9.31	23,982	2,169	9.04	22,443	1,901	8.47	2.2	3.1
2,428	198	8.15	2,371	201	8.48	2,271	160	7.05	2.8	7.3
48,216	4,350	9.02	48,012	4,348	9.06	43,463	3,671	8.45	7.5	7.1
246	14	5.69	7,807	521	6.67	7,664	507	6.61	(43.4)	(50.5)
1,425	114	8.00	1,482	126	8.47	1,579	136	8.63	(19.5)	(19.5)
1,671	128	7.66	9,289	647	6.96	9,243	643	6.96	(36.2)	(37.6)
7,423	495	6.69	2,103	136	6.40	4,066	228	5.50	9.5	13.3
535	28	5.23	799	47	5.91	144	7	4.53	67.0	62.0
57,845	5,001	8.65	60,203	5,178	8.60	56,916	4,549	7.99	4.7	4.7
(872)			(868)			(821)			2.1	
7,846			7,307			6,466			9.5	
$64,819			$66,642			$62,561			5.3	
$10,211	311	3.05	$ 7,161	261	3.64	$ 7,197	197	2.74	12.5	14.6
5,604	138	2.46	6,506	174	2.68	7,697	205	2.66	(18.8)	(26.5)
2,438	48	1.97	5,444	110	2.02	5,559	106	1.91	(32.3)	(35.3)
3,377	199	5.89	3,677	222	6.03	2,992	146	4.88	7.3	8.8
13,723	720	5.25	14,466	783	5.41	12,338	544	4.41	(.6)	1.8
996	53	5.32	2,182	155	7.12	3,015	127	4.21	(22.9)	(20.2)
36,349	1,469	4.04	39,436	1,705	4.32	38,798	1,325	3.41	(2.9)	(.3)
5,843	295	5.05	5,623	315	5.60	5,850	243	4.16	(3.7)	(2.0)
3,279	197	6.01	3,362	204	6.05	1,930	91	4.71	32.6	36.2
4,324	276	6.38	3,895	261	6.84	2,234	138	6.35	49.1	47.3
49,795	2,237	4.49	52,316	2,485	4.75	48,812	1,797	3.69	5.2	10.1
8,374			8,129			8,046			1.0	
1,644			1,373			1,104			25.7	
79			160			160			N/M	
4,927			4,664			4,439			7.1	
$64,819			$66,642			$62,561			5.3	
		4.16			3.85			4.30		
	$2,764	4.78%		$2,693	4.47%		$2,752	4.83%		.5%
	$50			$57			$59			(11.5)%

Results of Operations

Net interest income

Key's principal source of earnings is net interest income, which comprises interest and loan-related fee income less interest expense. There are several factors that affect net interest income:

- the volume, pricing, mix, and maturity of earning assets and interest-bearing liabilities;
- the use of off-balance sheet instruments to manage interest rate risk;
- interest rate fluctuations; and
- asset quality.

To make it easier to compare results from one period to the next, as well as the yields on various types of earning assets, we present all net interest income on a "taxable-equivalent basis." In other words, if we earn $100 of tax-exempt income, we present those earnings at a higher amount (specifically, $154) that — if taxed at the statutory Federal income tax rate of 35% — would amount to $100.

Figure 5 shows various components of the balance sheet that affect interest income and expense, and their respective yields or rates over the past six years. In the first quarter of 1999, management reclassified Key's tax-advantaged preferred securities from "mezzanine equity" to "long-term debt." The related distributions were also reclassified from "noninterest expense" to "interest expense." This action was taken in order to allow these instruments to continue to qualify for hedge accounting in accordance with guidelines issued by the Securities and Exchange Commission in December 1998. We restated prior years to conform to that presentation. As a result, the net interest margin (which is net interest income divided by average earning assets) for 1998 is now 10 basis points less than the net interest margin previously reported for that year. The net interest margin for 1997 is 8 basis points less.

Net interest income for 1999 was $2.8 billion, representing a $101 million, or 4% increase, from 1998. This improvement reflected a 7% increase in average earning assets (primarily commercial loans) to $71.7 billion, which more than offset a 15 basis point reduction in the net interest margin to 3.93%. In 1998, net interest income was $2.7 billion, down $71 million, or 3%, from the prior year. Average earning assets increased by 9% in 1998, but this growth did not compensate for a decrease of 46 basis points in the net interest margin.

Net interest margin. There are several reasons that the net interest margin has been declining in recent years:

- increased competition impacts the rates that we can charge for loans and the rates that we must pay for deposits;
- we are relying more on higher-cost funds to support the increased demand for loans;
- core deposit growth has not kept pace with loan growth due in part to branch divestitures and client preferences for other investment alternatives;
- we have intensified our efforts to grow higher-priced deposits, such as money market deposit accounts and time deposits, to maintain our competitive position and to increase our core deposit base; and
- we have increased our trading portfolio assets with relatively low interest rate spreads in connection with various capital markets activities.

In 1998, the effects of these factors were pronounced during an unusually (by historical standards) prolonged period of flatness in the yield curve. In other words, starting in the third quarter of 1997, a graph plotting the yield on various fixed-rate securities against their respective terms to maturity would have generated an almost horizontal line. Typically, the yield curve slopes upward because investors demand higher yields to entice them to buy long-term securities. The yields and rates on many of our earning assets and funding sources are based on the yields on fixed-rate securities with similar terms to maturity. Since most of our earning assets typically have longer maturities than the liabilities that support them, a flat yield curve will result in lower spreads between their respective yields.

Interest earning assets. Average earning assets for 1999 totaled $71.7 billion, which was $5.0 billion, or 7%, higher than the 1998 level. This increase came principally from a $5.0 billion, or 9%, increase in loans. The largest growth occurred in the commercial loan portfolio. The fourth quarter of 1999 marked the eleventh consecutive quarter in which the commercial loan portfolio has achieved annualized growth exceeding 10%.

During 1999, we securitized and sold loans aggregating $3.4 billion as part of our strategy to diversify Key's funding sources, but that strategy moderated the growth of the consumer loan portfolio. Starting in 2000, less emphasis will be placed on the securitization and sale of the home equity loans generated by our home equity finance affiliate. We may continue to securitize these loans without selling them. By retaining these loans on Key's balance sheet, we intend to replace over time the earnings capacity lost with the divestiture of our $1.4 billion credit card portfolio.

Average earning assets in 1998 totaled $66.7 billion, which was $5.4 billion, or 9%, higher than the prior year. This increase came principally from a $6.0 billion, or 12%, increase in loans. More than 80% of that increase came from the commercial portfolio, but the home equity and indirect consumer loan portfolios also grew. In particular, Key acquired an $805 million marine/recreational vehicle installment loan portfolio in April 1998. The increase in loans relative to the prior year also reflects the fact that, in 1998, we relied less on loan securitizations as a funding option. Total loans securitized and sold in 1998 amounted to $300 million, compared with $2.7 billion in 1997.

Interest rate swaps and caps. As discussed in the following section entitled "Market risk management," Key uses portfolio interest rate swaps and caps to help manage its interest rate sensitivity position. Interest rate swaps and caps are complicated instruments, but briefly:

- ***Interest rate swaps*** are contracts under which two parties agree to exchange interest payment streams that are calculated on agreed-upon amounts (known as "notional amounts"). For example, party A will pay interest at a fixed rate and receive interest at a variable rate from party B. Key generally uses interest rate swaps to mitigate its exposure to interest rate risk on certain loans, securities, deposits, short-term borrowings and long-term debt.
- ***Interest rate caps*** are contracts that provide for the holder to be compensated based on an agreed-upon notional amount when a benchmark interest rate exceeds a specified level (known as the "strike rate"). Key uses interest rate caps to manage the risk of adverse movements in interest rates on certain of our long-term debt and short-term borrowings. A cap limits Key's exposure to interest rate increases; caps do not have any impact if market rates decline.

The notional amount — or face value — of interest rate swaps increased to $18.7 billion at the end of 1999, compared with $12.4 billion at year-end 1998. At the same time, the notional amount of interest rate caps decreased by $1.6 billion to $2.3 billion. Interest rate swaps (including the impact of both the spread on the swap portfolio and the amortization of deferred gains and losses resulting from terminated swaps) and interest rate caps contributed $16 million to net interest income in 1999 and $23 million in 1998.

For more information about how Key uses interest rate swaps and caps to manage its balance sheet, please see the next section, entitled "Market risk management." Figure 6 shows how changes in yields or rates and average balances in 1999 and 1998 affected net interest income. You can find more discussion of the changes in earning assets and funding sources in the section entitled "Financial Condition," which begins on page 42.

Figure 6 Components of Net Interest Income Changes

	1999 vs 1998			1998 vs 1997		
in millions	Average Volume	Yield/ Rate	Net Change	Average Volume	Yield/ Rate	Net Change
INTEREST INCOME						
Loans	$417	$(200)	$217	$524	$(208)	$316
Taxable investment securities	6	(3)	3	2	(2)	—
Tax-exempt investment securities	(23)	2	(21)	(35)	5	(30)
Securities available for sale	(14)	(11)	(25)	(69)	(8)	(77)
Short-term investments	15	(21)	(6)	42	2	44
Total interest income (taxable equivalent)	401	(233)	168	464	(211)	253
INTEREST EXPENSE						
Money market deposit accounts	41	(33)	8	24	25	49
Savings deposits	(9)	(6)	(15)	(21)	(14)	(35)
NOW accounts	(7)	(1)	(8)	(6)	(6)	(12)
Certificates of deposit ($100,000 or more)	39	(10)	29	8	(4)	4
Other time deposits	(14)	(45)	(59)	(55)	(6)	(61)
Deposits in foreign office	(5)	(4)	(9)	(49)	1	(48)
Total interest-bearing deposits	45	(99)	(54)	(99)	(4)	(103)
Federal funds purchased and securities sold under repurchase agreements	(84)	(38)	(122)	(16)	(1)	(17)
Bank notes and other short-term borrowings	(4)	(29)	(33)	186	(10)	176
Long-term debt, including capital securities	309	(33)	276	282	(14)	268
Total interest expense	266	(199)	67	353	(29)	324
Net interest income (taxable equivalent)	$135	$ (34)	$101	$111	$(182)	$ (71)

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.

Market risk management

"Market risk" is the exposure to economic loss that arises when the value of a financial instrument adversely changes due to variations in interest rates, foreign exchange rates, equity prices (the value of equity securities held as assets), or other market-driven rates or prices. For example, the value of a fixed-rate bond will decline if market interest rates increase because the bond will become a less attractive investment. Similarly, the value of the U.S. dollar regularly fluctuates in relation to other currencies. Key is not affected in any material way by changes in foreign exchange rates or the prices of various equity securities held as assets.

Asset and liability management

Key's Asset/Liability Management Policy Committee has established guidelines for a program to measure and manage interest rate risk. This committee is also responsible for approving Key's asset/liability management policies, overseeing the formulation and implementation of strategies to improve balance sheet positioning and earnings, and reviewing Key's interest rate sensitivity position.

Measurement of short-term interest rate exposure. The primary tool that management uses to measure and manage interest rate risk is a net interest income simulation model. These simulations estimate the impact that various changes in the overall level of interest rates over one and two-year time horizons would have on net interest income. The results help Key develop strategies for managing exposure to interest rate risk.

Like any forecasting technique, interest rate simulation modeling is based on a large number of assumptions. In this case, the assumptions relate primarily to loan and deposit growth, asset and liability prepayments, interest rates and on- and off-balance sheet management strategies. Management believes that both individually and in the aggregate the assumptions we make are reasonable. Nevertheless, the simulation modeling process only produces a sophisticated estimate, not a precise calculation of exposure.

Key's guidelines for risk management require management to take preventive measures if a gradual 200 basis point increase or decrease in short-term rates over the next twelve months would affect net interest income over the same period by more than 2%. Key has been operating well within these guidelines. As of December 31, 1999, based on the results of our simulation model, Key would expect net interest income to increase by approximately $25 million if short-term interest rates gradually decrease. Conversely, if short-term interest rates gradually increase, net interest income would be expected to decrease by approximately $22 million.

Measurement of long-term interest rate exposure. Key uses an economic value of equity model to complement short-term interest rate risk analysis. The benefit of this model is that it measures exposure to interest rate changes over time frames that are longer than two years. The economic value of Key's equity is determined by aggregating the present value of projected future cash flows for asset, liability, and off-balance sheet positions based on the current yield curve.

Economic value analysis has several limitations. For example, the economic values of asset, liability, and off-balance sheet positions do not represent the true fair values of the positions, since economic values do not consider factors such as credit risk and liquidity. In addition, we must estimate cash flow for assets and liabilities with indeterminate maturities. Moreover, the future structure of the balance sheet derived from

ongoing loan and deposit activity by Key's core businesses is not factored into present value calculations. Finally, the analysis requires assumptions about events that span several years. Despite its limitations, the economic value of equity model does provide management with a relatively sophisticated tool for evaluating the longer-term effect of possible interest rate movements.

Key's guidelines for risk management require management to take preventive measures if an immediate 200 basis point increase or decrease in interest rates would decrease the economic value of equity by more than 20%. Key has been operating well within these guidelines.

Other sources of interest rate exposure. Management uses the results of short-term and long-term interest rate exposure models to formulate strategies to improve balance sheet positioning, earnings, or both within the bounds of Key's interest rate risk, liquidity, and capital guidelines. We also periodically measure the risk to earnings and economic value arising from various other *pro forma* changes in the overall level of interest rates. The variety of interest rate scenarios modeled, and their potential impact on earnings and economic value, quantify the level of interest rate exposure arising from option risk, basis risk and gap risk.

- A financial instrument presents ***"option risk"*** when one party can take advantage of changes in interest rates without penalty. For example, when interest rates decline, borrowers may choose to prepay fixed rate loans by refinancing at a lower rate. Such a prepayment gives the lender a return on its investment (the principal plus some interest), but unless there is a prepayment penalty, that return will not be as much as the loan would have generated had payments been received as originally scheduled. Floating rate loans that are capped against potential interest rate increases and deposits that can be withdrawn on demand also present option risk.
- One approach that Key uses to manage interest rate risk is to offset floating rate liabilities (such as deposits) with floating rate assets (such as loans). That way, as our interest expense increases, so will our interest income. We face ***"basis risk"*** when our floating-rate assets and floating-rate liabilities reprice in response to different market factors or indices. Under those circumstances, even if the assets and liabilities are all repricing at the same time, interest expense and interest income may not change by the same amount.
- We often use an interest-bearing liability to provide funding for an interest-earning asset. For example, Key may sell certificates of deposit and use the proceeds to make loans. That strategy presents ***"gap risk"*** if the related liabilities and assets do not mature or reprice at the same time.

Management of interest rate exposure. Key manages interest rate risk by using portfolio swaps and caps which modify the repricing or maturity characteristics of some of our assets and liabilities. The decision to use these instruments rather than securities, debt, or other on-balance sheet alternatives depends on many factors, including the mix and cost of funding sources, liquidity and capital requirements. In addition, management considers interest rate implications when adding to Key's securities portfolio, issuing new debt and packaging loans for securitization.

Portfolio swaps and caps. The estimated fair value of Key's portfolio swaps and caps decreased to a negative fair value of $42 million during 1999 from a positive fair value of $156 million at December 31, 1998. Fair value decreased over the past year because of the combined impact of a number of factors: interest rates increased, the implied forward yield curve steepened, and Key's "receive" fixed interest rate swap portfolio has a slightly longer average remaining maturity than the "pay" fixed portfolio.

Key terminated swaps with a notional amount of $4.5 billion during 1999, resulting in a deferred gain of $18 million. Each swap termination was made in response to a unique set of circumstances. Generally speaking, though, the decision to terminate any swap contract is integrated strategically with asset and liability management and takes many factors into account.

During 1999, management also used portfolio rate locks and futures from time to time since Key relied more heavily on variable rate funding to support earning asset growth.

Figure 7 summarizes Key's activity in portfolio swaps and caps for each of the last three years. For more information about these instruments, including the balance and remaining amortization period of Key's deferred swap gains and losses, see Note 18 ("Financial Instruments with Off-Balance Sheet Risk"), which begins on page 72.

Figure 7 Portfolio Swaps and Caps Activity

	Receive Fixed		Pay Fixed					
in millions	Indexed Amortizing	Conventional	Conventional	Forward-Starting	Basis Swaps	Total Portfolio Swaps	Caps	Total
BALANCE AT DECEMBER 31, 1996	$5,078	$ 3,505	$ 3,312	—	$ 400	$ 12,295	$ 973	$ 13,268
Additions	—	376	1,578	—	1,110	3,064	2,625	5,689
Maturities	—	255	1,700	—	400	2,355	203	2,558
Terminations	20	—	200	—	—	220	—	220
Amortization	1,609	—	—	—	—	1,609	—	1,609
BALANCE AT DECEMBER 31, 1997	3,449	3,626	2,990	—	1,110	11,175	3,395	14,570
Additions	—	1,341	3,226	$ 616	2,592	7,775	1,050	8,825
Maturities	—	342	1,876	—	830	3,048	570	3,618
Terminations	268	300	68	6	—	642	—	642
Forward-starting becoming effective	—	—	600	(600)	—	—	—	—
Amortization	2,870	—	—	—	—	2,870	—	2,870
BALANCE AT DECEMBER 31, 1998	311	4,325	4,872	10	2,872	12,390	3,875	$ 16,265
Additions	**—**	**3,821**	**2,886**	**1,160**	**7,337**	**15,204**	**115**	**15,319**
Maturities	**—**	**1,289**	**1,631**	**24**	**1,300**	**4,244**	**1,725**	**5,969**
Terminations	**—**	**895**	**814**	**636**	**2,126**	**4,471**	**15**	**4,486**
Forward-starting becoming effective	**—**	**—**	**232**	**(232)**	**—**	**—**	**—**	**—**
Amortization	**207**	**—**	**—**	**—**	**—**	**207**	**—**	**207**
BALANCE AT DECEMBER 31, 1999	**$ 104**	**$5,962**	**$5,545**	**$ 278**	**$6,783**	**$18,672**	**$2,250**	**$20,922**

Figure 8 shows the notional amount and fair values of portfolio swaps and caps by interest rate management strategy. The fair value of an instrument at any given date represents the estimated income (if positive) or cost (if negative) that would be recognized if the instrument was sold at that date. However, because these instruments are used to alter the repricing or maturity characteristics of other assets and liabilities, the net unrealized gains and losses are not recognized separately in earnings. Rather, interest from swaps and caps is recognized on an accrual basis as an adjustment of the interest income or expense from the asset or liability being managed.

Figure 8 Portfolio Swaps and Caps by Interest Rate Management Strategy

December 31,	1999		1998	
in millions	Notional Amount	Fair Value	Notional Amount	Fair Value
Convert variable-rate loans to fixed	$ 1,254	$ (24)	$ 1,526	$ 58
Convert fixed-rate loans to variable	587	14	909	(38)
Convert fixed-rate securities to variable	316	18	—	—
Convert variable-rate deposits and short-term borrowings to fixed	1,100	14	2,378	(24)
Convert fixed-rate deposits and short-term borrowings to variable	226	(6)	200	—
Convert variable-rate long-term debt to fixed	3,820	59	1,595	(6)
Convert fixed-rate long-term debt to variable	4,586	(104)	2,910	169
Basis swaps — foreign currency denominated debt	321	(23)	304	19
Basis swaps — interest rate indices	6,462	3	2,568	—
Total portfolio swaps	18,672	(49)	12,390	178
Modify characteristics of variable-rate short-term borrowings	2,050	6	3,060	2
Modify characteristics of variable-rate long-term debt	200	1	565	—
Modify characteristics of capital securities remarketing	—	—	250	(24)
Total portfolio caps, collars and corridors	2,250	7	3,875	(22)
Total portfolio swaps, caps, collars and corridors	$20,922	$ (42)	$16,265	$156

Figure 9 summarizes the expected average maturities of Key's portfolio swaps and caps at December 31, 1999.

Figure 9 Expected Average Maturities of Portfolio Swaps and Caps

December 31, 1999	Receive Fixed		Pay Fixed					
in millions	Indexed Amortizing	Conventional	Conventional	Forward-Starting	Basis Swaps	Total Portfolio Swaps	Caps and Collars	Total
Mature in one year or less	$104	$1,990	$ 729	—	$3,128	$ 5,951	$1,650	$ 7,601
Mature after one through five years	—	2,390	4,110	$240	3,655	10,395	600	10,995
Mature after five through ten years	—	982	350	—	—	1,332	—	1,332
Mature after ten years	—	600	356	38	—	994	—	994
Total portfolio swaps, caps and collars	$104	$5,962	$5,545	$278	$6,783	$18,672	$2,250	$20,922

Trading portfolio risk management

Key's trading portfolio includes interest rate swap contracts entered into to accommodate the needs of clients, other positions with third parties that are intended to mitigate the interest rate risk of client positions, foreign exchange contracts entered into to accommodate the needs of clients and financial assets and liabilities (trading positions) included in "other assets" and "other liabilities," respectively, on the balance sheet. For more information about off-balance sheet contracts, see Note 18 ("Financial Instruments with Off-Balance Sheet Risk"), which begins on page 72.

Since the second half of 1997, management has been using a value at risk ("VAR") model to estimate the adverse effect of changes in interest and foreign exchange rates on the fair value of Key's trading portfolio. Using statistical methods, this model estimates the maximum potential one-day loss with 95% certainty. At year end, Key's aggregate daily VAR was $1.4 million compared with $1.6 million at year-end 1998. Aggregate daily VAR averaged less than $1.6 million for 1999, compared with an average of less than $.7 million during 1998. VAR modeling augments other controls that Key uses to mitigate the market risk exposure of the trading portfolio. These controls include loss and portfolio size limits that are based on market liquidity and the level of activity and volatility of trading products.

Noninterest income

Noninterest income for 1999 totaled $2.3 billion, up $719 million, or 46%, from 1998. In each of the past three years, noninterest income has been affected by various nonrecurring items. The most significant of these items are shown in Figure 10 and include gains from branch divestitures, gains from other divestitures, net securities gains (including $15 million from the sale of Concord EFS, Inc. securities received in connection with the sale of Electronic Payment Services, Inc.) and certain nonrecurring charges. For more information on the divestitures, see Note 3 ("Mergers, Acquisitions and Divestitures"), which begins on page 60.

Excluding nonrecurring items, core noninterest income in 1999 increased by $463 million, or 31%, from the prior year. On the same basis, core noninterest income in 1998 rose by $323 million, or 28%. Core noninterest income represented 41% of total core revenue in 1999, up from 36% in 1998, and 29% in 1997. One of management's long-term objectives is to increase core noninterest income as a percentage of total core revenue to 50%.

The primary reason that core noninterest income improved so significantly in 1999 is that we achieved growth in all major fee-based product categories, with the exception of credit card fees. The strongest contributions came from investment banking and capital markets activities (up $115 million), trust and asset management (up $108 million) and brokerage income (up $85 million). These three revenue components grew primarily as a result of the October 1998 acquisition of McDonald, but the overall strength of the securities markets, new business and the repricing of certain services were also instrumental. In addition, 1999 results benefited from net gains of $83 million recognized when Key securitized and sold an aggregate $3.4 billion of education, home equity and automobile loans. Other factors made less substantial contributions to noninterest income, including a $27 million increase in letter of credit and loan fees and a $24 million increase in service charges on deposit accounts. In 1998, the increase in Key's core noninterest income was also bolstered by the McDonald acquisition, as significant contributions came from the same three product categories that showed the strongest growth in 1999.

Figure 10 shows the major components of Key's noninterest income. For some of these components, the discussion that follows provides additional information, such as the composition of the component and the factors that may have caused it to change in 1999 and 1998. For detailed information about investment banking and capital markets income, and trust income and assets, see Figures 11 and 12, respectively.

Figure 10 Noninterest Income

Year ended December 31,				Change 1999 vs 1998	
dollars in millions	**1999**	**1998**	**1997**	**Amount**	**Percent**
Trust and asset management income	**$ 443**	$ 335	$ 266	$108	32.2%
Investment banking and capital markets income	**354**	239	119	115	48.1
Service charges on deposit accounts	**330**	306	299	24	7.8
Brokerage income	**156**	71	54	85	119.7
Corporate owned life insurance income	**107**	104	85	3	2.9
Credit card fees	**63**	68	96	(5)	(7.4)
Net loan securitization gains (losses)	**83**	4	(28)	79	1,975.0
Other income:					
Letter of credit and loan fees	**98**	71	48	27	38.0
Electronic banking fees	**58**	47	38	11	23.4
Insurance income	**52**	40	34	12	30.0
Loan securitization servicing fees	**28**	31	16	(3)	(9.7)
Gains from sales of loans	**32**	50	23	(18)	(36.0)
Miscellaneous income	**136**	111	104	25	22.5
Total other income	**404**	350	263	54	15.4
Total core noninterest income	**1,940**	1,477	1,154	463	31.3
Gains from branch divestitures	**194**	39	151	155	397.4
Gain from sale of Electronic Payment Services, Inc.	**134**	—	—	134	N/M
Gains from sale of Key Merchant Services, LLC	**14**	50	—	(36)	(72.0)
Gain from sale of Compaq Capital Europe LLC and Compaq Capital Asia Pacific LLC	**13**	—	—	13	N/M
Net securities gains	**29**	9	1	20	222.2
Nonrecurring charges	**(30)**	—	—	(30)	N/M
Total significant nonrecurring items	**354**	98	152	256	261.2
Total noninterest income	**$2,294**	$1,575	$1,306	$719	45.7%

N/M = Not Meaningful

Figure 11 Investment Banking and Capital Markets Income

Year ended December 31,				Change 1999 vs 1998	
dollars in millions	**1999**	**1998**	**1997**	**Amount**	**Percent**
Dealer trading and derivatives income	**$140**	$ 93	$ 40	$ 47	50.5%
Investment banking income	**140**	79	43	61	77.2
Equity capital income	**44**	45	19	(1)	(2.2)
Foreign exchange income	**30**	22	17	8	36.4
Total investment banking and capital markets income	**$354**	$239	$119	$115	48.1%

Figure 12 Trust and Asset Management

dollars in millions	1999	1998	1997	Change 1999 vs 1998 Amount	Change 1999 vs 1998 Percent
YEAR ENDED DECEMBER 31,					
Personal asset management and custody fees	**$188**	$166	$145	$ 22	13.3%
Institutional asset management and custody fees	**93**	90	75	3	3.3
Bond services	**26**	2	6	24	1,200.0
All other fees	**136**	77	40	59	76.6
Total trust and asset management income	**$443**	$335	$266	$108	32.2%
dollars in billions					
DECEMBER 31,					
Discretionary assets	**$ 72**	$ 69	$ 60	$3	4.3%
Non-discretionary assets	**49**	47	48	2	4.3
Total trust assets	**$121**	$116	$108	$5	4.3%

Trust and asset management. Trust and asset management activities provide Key's largest source of noninterest income. At December 31, 1999, Key's bank, trust, and registered investment advisory subsidiaries had assets under discretionary management (excluding corporate trust assets) of $72 billion, compared with $69 billion at the end of 1998. Fees from investment advisory services accounted for approximately 41% of Key's total trust and asset management income in 1999, and 34% in 1998.

Brokerage. Brokerage income was $156 million in 1999, compared with $71 million in 1998, and $54 million in 1997. Substantially all of the increase in 1999 came from commissions related to the trading of stocks and mutual funds.

Corporate owned life insurance. Income from corporate owned life insurance, representing a tax-deferred increase in cash surrender values and tax-exempt death benefits, increased in 1999 primarily due to claims. In 1998, the increase was principally due to improved investment performance and expanded coverage.

Credit card fees. Credit card fees declined by $5 million in 1999, primarily as a result of Key's decision to de-emphasize this source of revenue. As previously mentioned, Key sold its credit card portfolio in January 2000. For more information about this transaction, see the section entitled "Highlights of Key's 1999 Performance," which begins on page 26, and Note 3 ("Mergers, Acquisitions and Divestitures"), which begins on page 60.

In 1998, credit card fees declined by $28 million, primarily because Key sold $365 million of out-of-franchise credit card receivables in 1997. In addition, merchant credit card processing services revenue declined after Key sold 51% of Key Merchant Services, LLC (a credit card processing subsidiary) in the first quarter of 1998.

Loan securitizations. Key often securitizes and sells loans to generate funds. The extent to which we use securitizations is dependent upon whether conditions in the capital markets make them more attractive than other funding alternatives. Typically we securitize education, home equity, and automobile loans. We decide which loans to securitize based upon a number of specific factors as discussed in the section entitled "Loans," which begins on page 42.

During 1999, we securitized and sold $3.4 billion of consumer loans, resulting in net gains of $83 million. On occasion Key's securitization strategy will cause us to recognize a loss in connection with removing assets (the package of securitized loans) from the balance sheet.

The level of securitizations rose in 1999 because management wanted to diversify Key's funding sources and because we completed a securitization originally planned for the 1998 fourth quarter and then postponed. We securitized fewer loans in 1998 than we had in prior years because of instability in the capital markets in the second half of the year and the fact that other funding alternatives, such as issuing debt, were more cost-effective. For information about the type and volume of securitized loans that are either administered or serviced by Key and not recorded on the balance sheet, see the section entitled "Loans," which begins on page 42.

Gains from branch divestitures. These gains were the result of the sale of branches in geographic areas where Key either did not hold a large enough market share to be competitive and to grow the business, or determined that growth opportunities were limited despite our good market share. Included are gains of $194 million from the sale of 28 offices in 1999, $39 million from the sale of 46 offices in 1998, and $151 million from the sale of 104 offices (including the Wyoming bank subsidiary) in 1997.

Gains from other divestitures. In 1999, results include nonrecurring gains of $134 million from the sale of Key's interest in Electronic Payment Services, Inc. and $13 million from the sale of Key's interest in a joint venture with Compaq Capital Corporation. Also included is a final gain of $14 million that was recorded in connection with the 1998 sale of a 51% interest in Key Merchant Services, LLC.

Key's 1998 results include $50 million of gains recognized in connection with the sale of a 51% interest in Key Merchant Services, LLC to NOVA Information Systems, Inc. The gains were recognized in two stages: $23 million was recognized in the first quarter at the time of closing, and $27 million was recognized in the fourth quarter after the transferred business achieved certain revenue-related performance targets. These gains were accompanied by related reductions in both merchant credit card processing services revenue and noninterest expense (primarily personnel).

Other income. The increase in other income in both 1999 and 1998 was largely due to higher loan fees resulting from Key's strong growth in loans in each of those years. In 1999, this growth was partially offset by an $18 million decline in gains from loan sales, due in part to the increase in interest rates. Loan sale gains increased by $27 million in 1998.

Noninterest expense

Noninterest expense for 1999 totaled $3.0 billion, compared with $2.5 billion for 1998. Significant nonrecurring items that affect the comparability of results over the past three years are shown in Figure 13. In 1999, these items include restructuring and other special charges of $152 million recorded in connection with strategic actions that Key is taking to improve operating efficiency and profitability. You can find more information about these charges under the heading "Restructuring and other special charges" on page 41.

Also included in 1999 expense are other nonrecurring charges of $68 million. Among these charges are $23 million of charitable contributions made in light of the gains realized from the sales of Key's interest in Electronic Payment Services, Inc. and the Concord EFS, Inc. securities obtained in connection with that transaction. In 1998, Key recorded merger and integration charges of $8 million related to the acquisition of McDonald.

Excluding nonrecurring charges, core noninterest expense for 1999 grew by $354 million, or 14%, from 1998. The increase in core noninterest expense came largely from personnel expense (up $218 million, due primarily to the October 1998 acquisition of McDonald), higher costs associated with computer processing (up $60 million), equipment (up $13 million) and intangibles amortization (up $13 million). The increase in personnel expense was moderated by a $41 million reduction in stock-based compensation.

In 1997, noninterest expense includes a $50 million charge recorded in connection with actions taken to vacate, or in some cases dispose of, certain properties or to alter leasing arrangements in tandem with the national banking and related centralization efforts Key had in effect at the time.

Excluding nonrecurring charges, core noninterest expense in 1998 rose by $139 million, or 6%, from 1997. The increase in Key's core noninterest expense reflects higher personnel costs (up $75 million) as well as increases in computer processing expense (up $45 million), professional fees (up $15 million) and marketing expense (up $14 million). The higher level of personnel expense was primarily due to the acquisition of McDonald and the acquisitions of Leasetec Corporation and Champion Mortgage Co., Inc. during the third quarter of 1997. For more information about these acquisitions, see Note 3 ("Mergers, Acquisitions and Divestitures") which begins on page 60.

One action that served to reduce noninterest expense for each of the past three years was the recent reclassification of distributions on Key's tax-advantaged preferred securities from "noninterest expense" to "interest expense." Key effected the reclassification in the first quarter of 1999, and restated prior years to conform to the current presentation. Distributions on Key's tax-advantaged preferred securities totaled $85 million in 1999, $65 million in 1998 and $49 million in 1997. The securities are described in Note 10 ("Capital Securities") on page 67. Information pertaining to the basis for the reclassification can be found in the section entitled "Net interest income," which begins on page 34.

Figure 13 shows the components of Key's noninterest expense. The discussion that follows explains the composition of some of these components and the factors that may have caused some components to change in 1999 and 1998.

Figure 13 Noninterest Expense

Year ended December 31,				Change 1999 vs 1998	
dollars in millions	**1999**	**1998**	**1997**	**Amount**	**Percent**
Personnel	**$1,474**	$1,256	$1,181	$218	17.4%
Net occupancy	**231**	226	222	5	2.2
Computer processing	**236**	176	131	60	34.1
Equipment	**198**	185	177	13	7.0
Marketing	**106**	100	86	6	6.0
Amortization of intangibles	**104**	91	87	13	14.3
Professional fees	**70**	62	47	8	12.9
Other expense:					
Postage and delivery	**73**	73	75	—	—
Telecommunications	**56**	53	50	3	5.7
Equity- and gross receipts-based taxes	**35**	39	36	(4)	(10.3)
OREO expense, net	**13**	6	(1)	7	116.7
Miscellaneous expense	**233**	208	245	25	12.0
Total other expense	**410**	379	405	31	8.2
Total core noninterest expense	**2,829**	2,475	2,336	354	14.3
Restructuring and other special charges	**152**	—	—	152	N/M
Merger and integration charges	**—**	8	—	(8)	(100.0)
Real estate disposition charge	**—**	—	50	—	—
Other nonrecurring charges	**68**	—	—	68	N/M
Total significant nonrecurring items	**220**	8	50	212	2,650.0
Total noninterest expense	**$3,049**	$2,483	$2,386	$566	22.8%
Full-time equivalent employees at year end	**24,568**	25,862	24,595		
Efficiency ratio[a]	**59.43%**	58.49%	58.21%		
Overhead ratio[b]	**31.52**	35.17	40.34		

[a] *This ratio, which measures the extent to which recurring revenues are absorbed by operating expenses, is calculated as follows: noninterest expense (excluding certain nonrecurring charges) divided by the sum of taxable-equivalent net interest income and noninterest income (excluding net securities transactions, gains from certain divestitures and certain nonrecurring charges).*

[b] *This ratio is the difference between noninterest expense (excluding certain nonrecurring charges) and noninterest income (excluding net securities transactions, gains from certain divestitures and certain nonrecurring charges) divided by taxable-equivalent net interest income.*

N/M = Not Meaningful

Personnel. Personnel expense, the largest category of Key's noninterest expense, accounted for more than half of the total increase in core noninterest expense for both 1999 and 1998. The increases are primarily due to higher costs associated with various incentive programs (including those related to investment banking and capital markets activities), the impact of annual merit increases and the impact of acquisitions (which also contributed to the higher number of full-time equivalent employees in 1998). At December 31, 1999, the number of full-time equivalent employees was 24,568, compared with 25,862 at the end of 1998 and 24,595 at the end of 1997. The number of full-time equivalent employees decreased in 1999, primarily because of branch divestitures.

Personnel expense includes costs incurred for technical staff required in connection with efforts to modify Key's computer information systems to be Year 2000 compliant. These costs comprise most of Key's Year 2000 expenses, which totaled $11 million in 1999, $20 million in 1998 and $17 million in 1997. For more information about the Year 2000 issue and Key's efforts to address it, see the following section entitled "Year 2000."

Computer processing. The increase in computer processing expense in both 1999 and 1998 is primarily due to a higher level of computer software amortization, but also includes increases related to software rental and maintenance.

Marketing. In 1999, the level of marketing expense rose only slightly from the prior year, and includes additional advertising costs incurred to promote businesses like home equity lending that management has targeted for growth. The increase in marketing expense in 1998 is more substantial due to the impact of acquisitions, additional costs incurred in connection with Key's efforts to strengthen brand identity and expenses related to the promotion of selected product lines.

Amortization of intangibles. The 1999 and 1998 increases in intangibles amortization are primarily due to additional goodwill amortization recorded as a result of acquisitions. These acquisitions include the October 1998 acquisition of McDonald and the acquisitions of Leasetec Corporation and Champion Mortgage Co., Inc. during the third quarter of 1997.

Professional fees. Professional fees comprise expenses incurred for legal, audit, consulting and certain other business services. In 1999, the level of professional fees was up 13% from the prior year. In comparison, professional fees increased by 32% in 1998, primarily due to additional costs incurred to implement strategic initiatives designed to grow Key's fee-generating businesses.

Restructuring and other special charges. As stated previously, during 1999 Key recorded nonrecurring charges of $152 million (including restructuring charges of $98 million) in connection with strategic actions that are being taken over the next three years. Our goal is to achieve more than $170 million of expense reductions per year upon completion. These actions include the outsourcing of certain nonstrategic support functions (which resulted in the write-off of selected assets, including certain software), site consolidations in a number of Key's businesses and a reduction in the number of management layers.

Management expects the planned strategic actions to reduce Key's employment base by approximately 3,000 positions, or 11%, by year-end 2000 and to improve Key's efficiency ratio. As these actions are implemented during 2000, we anticipate that additional charges will be recorded. For additional information, including the specific components of the restructuring charges and the related liability for payment remaining as of December 31, 1999, see Note 13 ("Restructuring Charges") on page 69. The severance portion of the restructuring charge liability will be funded by cash generated by Key's operations. None of the charges will have a material impact on Key's liquidity.

Efficiency ratio. The efficiency ratio, which provides a measure of the extent to which recurring revenues are used to pay operating expenses, was 59.43%, compared with 58.49% for 1998, and 58.21% for 1997. The increase in the ratio over the past year is primarily due to the impact of the McDonald acquisition. This ratio improved during the year, however, as the growth of Key's core revenue was complemented by the more effective management of noninterest expense.

"Other expense" includes equity- and gross receipts-based taxes that are assessed in lieu of an income tax in certain states in which Key operates. These taxes represent 74 basis points of Key's efficiency ratio for 1999, compared with 92 basis points for 1998 and 90 basis points for 1997. The extent to which such taxes impact noninterest expense will vary among companies based on the geographic locations in which they conduct their business.

Year 2000

During 1999, we continued to modify Key's computer systems to operate properly in the Year 2000 and beyond. If left unchecked, the so-called Year 2000 problem could have affected anything from complex computer systems to telephone systems, ATMs, and elevators. To address this issue, Key developed an extensive plan in 1995 and formed an implementation team comprising internal personnel and third-party experts.

Key completed all phases of the plan by the end of 1999, and at the turn of the millennium did not experience any operational problems. However, we will continue to monitor our systems to ensure they continue to operate properly. Appropriate modifications will be made, if necessary.

Key has not detected any meaningful credit quality issues arising from client difficulties with Year 2000 conversions. Nonetheless, it is possible that such issues may arise over an extended period of time. Key will continue to monitor its loan portfolio for potential situations in need of special attention.

Further, Key did not experience a significant increase in consumer withdrawals of deposits in anticipation of the millennium. As a result, there was no material impact on Key's funding costs.

Management was prepared for the possibility that some of the third parties that Key deals with (such as foreign banks, governmental agencies, clearing houses, telephone companies, and other service providers) would suffer from Year 2000 computer problems. We have not been advised that any third party that provides material products or services to Key has had significant problems with its systems.

The cumulative cost of implementing Key's Year 2000 plan and mitigating the adverse effects of potential Year 2000 problems was $50 million as of December 31, 1999; no additional costs are anticipated. The total cost of the project was funded through operating cash flows and includes expenses of $11 million in 1999, $20 million in 1998 and $17 million in 1997.

Income taxes

The provision for income taxes is $577 million for 1999, up from $483 million for 1998 and $426 million for 1997. The effective tax rate (which is the provision for income taxes as a percentage of income before income taxes) for 1999 is 34.3%, compared with 32.7% for 1998 and 31.7% for 1997. The effective tax rate increased in 1999 primarily because Key had

higher state taxes, a higher level of non-deductible goodwill amortization and lower tax-exempt income. In 1998, the increase in the effective tax rate is principally the result of lower tax-exempt income and lower tax credits. The effective income tax rate remains below the statutory Federal rate of 35%, primarily because Key continues to invest in tax-advantaged assets (such as tax-exempt securities and corporate owned life insurance) and to recognize credits associated with investments in low-income housing projects.

Financial Condition

Loans

At December 31, 1999, total loans outstanding were $64.2 billion, compared with $62.0 billion at the end of 1998 and $53.4 billion at the end of 1997. Key achieved a 4% increase in loans during 1999, primarily as a result of our targeted efforts to increase the commercial and home equity portfolios. These efforts were supported by the overall strength of the economy, improving consumer credit conditions, and additional leverage provided by Key's acquisition of Leasetec Corporation in 1997.

Key's success in generating new loan volume has resulted in loan growth that has outpaced the growth of Key's deposits. As a result, we have used alternative funding sources such as securitizations to continue to capitalize on our lending opportunities. Loans outstanding (excluding loans held for sale) would have grown by $6.4 billion, or 11%, in 1999, if we had not securitized and/or sold $5.2 billion of loans during the year. This includes the divestiture of branches with loan portfolios aggregating $505 million.

Excluding the impact of loan sales, commercial loans rose by $3.9 billion, or 12%, due primarily to strong growth in the structured finance, healthcare and media portfolios, a $1.1 billion increase in real estate-construction loans and a $1.1 billion increase in the lease financing portfolio. On the same basis, consumer loans rose by $2.5 billion, or 10%, including increases of $2.0 billion in the home equity portfolio and $615 million in the lease financing portfolio.

Figure 14 shows the composition of Key's loan portfolio at December 31, for each of the past five years.

Figure 14 Composition of Loans

December 31,	1999		1998		1997	
dollars in millions	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
COMMERCIAL						
Commercial, financial and agricultural	**$18,497**	**28.8%**	$17,038	27.5%	$14,023	26.3%
Real estate — commercial mortgage	**6,836**	**10.6**	7,309	11.8	6,952	13.0
Real estate — construction	**4,528**	**7.1**	3,450	5.6	2,231	4.2
Commercial lease financing	**6,665**	**10.4**	5,613	9.0	4,439	8.3
Total commercial loans	**36,526**	**56.9**	33,410	53.9	27,645	51.8
CONSUMER						
Real estate — residential mortgage	**4,333**	**6.7**	5,083	8.2	6,204	11.6
Home equity	**7,602**	**11.8**	7,301	11.8	5,421	10.2
Credit card	**—**	**—**	1,425	2.3	1,521	2.8
Consumer — direct	**2,565**	**4.0**	2,342	3.8	2,188	4.1
Consumer — indirect lease financing	**3,195**	**5.0**	2,580	4.2	1,576	2.9
Consumer — indirect other	**6,398**	**10.0**	7,009	11.2	5,964	11.2
Total consumer loans	**24,093**	**37.5**	25,740	41.5	22,874	42.8
LOANS HELD FOR SALE	**3,603**	**5.6**	2,862	4.6	2,861	5.4
Total	**$64,222**	**100.0%**	$62,012	100.0%	$53,380	100.0%

	1996		1995	
	Amount	**% of Total**	**Amount**	**% of Total**
COMMERCIAL				
Commercial, financial and agricultural	$12,309	25.0%	$11,655	24.1%
Real estate — commercial mortgage	7,151	14.5	7,254	15.0
Real estate — construction	1,666	3.4	1,520	3.1
Commercial lease financing	2,671	5.4	2,248	4.7
Total commercial loans	23,797	48.3	22,677	46.9
CONSUMER				
Real estate — residential mortgage	6,229	12.7	8,291	17.2
Home equity	4,793	9.7	3,886	8.0
Credit card	1,799	3.7	1,564	3.2
Consumer — direct	2,245	4.6	1,934	4.0
Consumer — indirect lease financing	839	1.7	639	1.4
Consumer — indirect other	7,223	14.7	6,619	13.7
Total consumer loans	23,128	47.1	22,933	47.5
LOANS HELD FOR SALE	2,310	4.6	2,722	5.6
Total	$49,235	100.0%	$48,332	100.0%

Sales, securitizations, and divestitures. Among the factors that Key considers in determining which loans to securitize are:

- the extent to which the characteristics of a specific loan portfolio make it conducive to securitization;
- the relative cost of funds;
- the level of credit risk; and
- capital requirements.

In addition to balancing the above factors, we may securitize loans when conditions in the capital markets make that strategy more attractive than conventional funding sources like debt.

During 1999, in addition to selling loans in connection with branch divestitures, Key sold $2.0 billion of education loans ($1.7 billion through securitizations), $1.3 billion of home equity loans ($1.1 billion through securitizations), $555 million of automobile loans (all through securitizations), $339 million of commercial real estate loans and $500 million of residential real estate loans. One of the reasons that securitizations increased in 1999 was that we completed a securitization originally planned for the 1998 fourth quarter, but postponed due to market volatility.

Management will continue to explore opportunities to sell certain loan portfolios, consistent with prudent asset/liability management practices. However, we intend to securitize and sell fewer of the home equity loans originated by our home equity finance affiliate. By retaining these loans, we intend to replace over time the revenue generated by our former credit card business.

Figure 15 summarizes Key's loan sales (including securitizations) and branch divestitures for 1999 and 1998.

Figure 15 Loans Sold and Divested

in millions	Education	Automobile	Home Equity	Commercial Real Estate	Residential Real Estate	Branch Divestitures	Total
1999							
Fourth quarter	$ 299	—	$ 32	$ 92	—	$505	$ 928
Third quarter	786	—	359	100	—	—	1,245
Second quarter	132	—	442	63	$292	—	929
First quarter	818	$555	428	84	208	—	2,093
Total	$2,035	$555	$1,261	$339	$500	$505	$5,195
1998							
Fourth quarter	$ 29	—	$ 48	—	—	—	$ 77
Third quarter	201	—	374	—	—	—	575
Second quarter	45	—	53	$167	—	$124	389
First quarter	71	—	—	—	—	20	91
Total	$346	—	$475	$167	—	$144	$1,132

Figure 16 shows loans that have been either securitized and sold, or simply sold outright, and are either administered or serviced by Key, but are not recorded on the balance sheet. Key derives income from two sources as a result of such transactions. We earn noninterest income (recorded as "other income") from servicing or administering the loans, and we earn interest income from assets retained in connection with securitizations and accounted for like debt securities that are classified as available for sale or trading account assets. Income from both of these sources increased in 1999 because we completed more securitizations this year than last year and the amount of loans administered or serviced has grown substantially.

Figure 16 Loans Securitized/Sold and Administered or Serviced

December 31, *in millions*	1999	1998	1997
Education loans	$3,475	$2,312	$2,611
Automobile loans	855	946	1,601
Home equity loans	1,542	744	735
Total	$5,872	$4,002	$4,947

Figure 17 shows the maturities of certain commercial and real estate loans, and the sensitivity of those loans to changes in interest rates. As indicated, at December 31, 1999, approximately 48% of these outstanding loans were scheduled to mature within one year. Loans with maturities greater than one year include $9.8 billion with floating or adjustable rates and $8.0 billion with predetermined rates.

Figure 17 Maturities and Sensitivity of Certain Loans to Changes in Interest Rates

December 31, 1999 *in millions*	Within 1 Year	1-5 Years	Over 5 Years	Total
Commercial, financial and agricultural	$11,063	$4,539	$2,895	$18,497
Real estate — construction	2,426	1,982	120	4,528
Real estate — residential and commercial mortgage	2,914	2,451	5,804	11,169
	$16,403	$8,972	$8,819	$34,194
Loans with floating or adjustable interest rates[a]		$5,924	$3,891	
Loans with predetermined interest rates[b]		3,048	4,928	
		$8,972	$8,819	

[a] *"Floating" and "adjustable" rates vary in relation to some other interest rate (such as the base lending rate) or a variable index that may change during the term of the loan.*

[b] *"Predetermined" interest rates either are fixed or will change during the term of the loan according to a specific formula or schedule.*

Securities

At December 31, 1999, the securities portfolio totaled $7.7 billion and comprised $6.7 billion of securities available for sale and $986 million of investment securities. In comparison, the total portfolio at December 31, 1998, was $6.3 billion, including $5.3 billion of securities available for sale and $976 million of investment securities.

Securities available for sale increased during 1999 because management actively increased Key's investment in collateralized mortgage obligations by reinvesting funds previously held in lower-yielding securities purchased under resale agreements, reclassifying approximately $374 million of collateralized mortgage obligations from the commercial loan portfolio and purchasing additional securities to be held as collateral in connection with client pledging requirements. A collateralized mortgage obligation (sometimes called a "CMO") is a debt security that is secured by a pool of mortgages, mortgage-backed securities, U.S. government securities, corporate debt obligations or other bonds. At December 31, 1999, Key had $5.9 billion invested in collateralized mortgage obligations and other mortgage-backed securities in the available-for-sale portfolio, compared with $4.4 billion at December 31, 1998. Substantially all of these securities were issued or backed by Federal agencies.

Figure 18 shows the composition, yields and remaining maturities of Key's securities available for sale. Figure 19 provides the same information about Key's investment securities. For more information about retained interests in securitizations, gross unrealized gains and losses by type of security and securities pledged, please see Note 5 ("Securities"), which begins on page 63.

Figure 18 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]	Retained Interests in Securitizations[a]	Other Securities	Total	Weighted Average Yield[b]
DECEMBER 31, 1999								
Remaining maturity:								
One year or less	$ 98	$ 1	$ 659	$ 1	—	$ 10	$ 769	6.56%
After one through five years	1	19	3,266	998	$119	13	4,416	6.46
After five through ten years	6	33	153	624	224	5	1,045	8.05
After ten years	22	—	159	55	—	199[c]	435	7.30
Fair value	$127	$53	$4,237	$1,678	$343	$227	$6,665	—
Amortized cost	128	53	4,426	1,705	340	223	6,875	6.77%
Weighted average yield	5.28%	6.68%	6.53%	7.06%	10.06%	5.29%	6.77%	—
Weighted average maturity	4.5 years	5.5 years	3.6 years	5.9 years	3.4 years	9.7 years	4.4 years	—
DECEMBER 31, 1998								
Fair value	$422	$67	$2,211	$2,151	$328	$99	$5,278	—
Amortized cost	420	65	2,191	2,123	345	84	5,228	6.69%
DECEMBER 31, 1997								
Fair value	$204	$52	$4,051	$2,951	$374	$76	$7,708	—
Amortized cost	202	52	4,045	2,908	418	75	7,700	7.19%

[a] *Maturity is based upon expected average lives rather than contractual terms.*

[b] *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%.*

[c] *Includes equity securities with no stated maturity.*

Figure 19 Investment Securities

dollars in millions	States and Political Subdivisions	Other Securities	Total	Weighted Average Yield[a]
DECEMBER 31, 1999				
Remaining maturity:				
One year or less	$126	$ 1	$127	8.24%
After one through five years	213	—	213	9.29
After five through ten years	93	—	93	9.46
After ten years	15	538[b]	553	3.90
Amortized cost	$447	$539	$986	6.15%
Fair value	459	539	998	—
Weighted average yield	7.86%	3.73%	6.15%	—
Weighted average maturity	3.2 years	10.0 years	6.9 years	—
DECEMBER 31, 1998				
Amortized cost	$631	$345	$976	7.13%
Fair value	659	345	1,004	—
DECEMBER 31, 1997				
Amortized cost	$ 973	$257	$1,230	7.59%
Fair value	1,005	257	1,262	—

[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] *Includes equity securities with no stated maturity.*

Asset quality

Key maintains asset quality by following procedures that address the issue from many perspectives. Specifically, Key has groups of professionals that:

- evaluate and monitor the level of risk in credit-related assets;
- formulate underwriting standards and guidelines for line management;
- develop commercial and consumer credit policies and systems;
- establish credit-related concentration limits;
- review loans, leases, and other corporate assets to evaluate credit quality; and
- review the adequacy of the allowance for loan losses.

Allowance for loan losses. The allowance for loan losses at December 31, 1999, was $930 million, or 1.45% of loans. This compares with $900 million, or 1.45% of loans, at December 31, 1998. The allowance includes $63 million (for 1999) and $42 million (for 1998) that is specifically allocated for impaired loans. For more information about impaired loans, see Note 7 ("Impaired Loans and Other Nonperforming Assets") on page 65. At December 31, 1999, the allowance for loan losses was 228.50% of nonperforming loans, compared with 246.58% at December 31, 1998.

Management relies on an iterative methodology to estimate the level of the allowance for loan losses on a quarterly (and at times more frequent) basis. This methodology is described in Note 1 ("Summary of Significant Accounting Policies") under the heading "Allowance for Loan Losses," on page 58. With the advent of enhanced credit scoring capabilities, management continues to review and refine Key's methodology for estimating the allowance for loan losses. As these methodology enhancements are implemented, they may cause us to alter Key's provision for loan losses.

In February 1999, the Federal banking agencies published revised guidelines which, among other things, require that consumer loans be charged off when payments are past due by a prescribed number of days. Management anticipates implementing these new guidelines prior to the required date of December 31, 2000, and perhaps as early as the first quarter of 2000. Based upon current estimates, management expects that the implementation will accelerate up to $60 million of Key's consumer loan charge-offs which might otherwise have occurred at later dates. Key's allowance already includes an allocation for these potential losses.

Figure 20 shows the allocation of Key's allowance for loan losses by loan type at December 31. The amount of allowance allocated to Key's credit card portfolio at December 31, 1999, is included in the held for sale category. This allocation is based on the level of net credit card charge-offs that Key expected to record in the first quarter of 2000. Since the sale of the credit card portfolio closed in January 2000, Key was able to estimate the amount of net credit card charge-offs with a relatively high level of precision.

Figure 20 Allocation of the Allowance for Loan Losses

December 31,	1999		1998		1997	
dollars in millions	**Amount**	**Percent of Loan Type to Total Loans**	**Amount**	**Percent of Loan Type to Total Loans**	**Amount**	**Percent of Loan Type to Total Loans**
Commercial, financial and agricultural	**$509**	**28.8%**	$357	27.5%	$224	26.3%
Real estate — commercial mortgage	**34**	**10.6**	32	11.8	104	13.0
Real estate — construction	**16**	**7.1**	15	5.6	33	4.2
Commercial lease financing	**39**	**10.4**	49	9.0	26	8.3
Total commercial loans	**598**	**56.9**	453	53.9	387	51.8
Real estate — residential mortgage	**1**	**6.7**	7	8.2	8	11.6
Home equity	**7**	**11.8**	5	11.8	4	10.2
Credit card	**—**	**—**	44	2.3	45	2.8
Consumer — direct	**8**	**4.0**	15	3.8	15	4.1
Consumer — indirect lease financing	**6**	**5.0**	5	4.2	3	2.9
Consumer — indirect other	**55**	**10.0**	77	11.2	63	11.2
Total consumer loans	**77**	**37.5**	153	41.5	138	42.8
Loans held for sale	**18**	**5.6**	1	4.6	1	5.4
Unallocated	**237**	**—**	293	—	374	—
Total	**$930**	**100.0%**	$900	100.0%	$900	100.0%

	1996		1995	
	Amount	**Percent of Loan Type to Total Loans**	**Amount**	**Percent of Loan Type to Total Loans**
Commercial, financial and agricultural	$177	25.0%	$205	24.1%
Real estate — commercial mortgage	97	14.5	100	15.0
Real estate — construction	22	3.4	21	3.1
Commercial lease financing	16	5.4	23	4.7
Total commercial loans	312	48.3	349	46.9
Real estate — residential mortgage	10	12.7	9	17.2
Home equity	5	9.7	5	8.0
Credit card	44	3.7	25	3.2
Consumer — direct	15	4.6	5	4.1
Consumer — indirect lease financing	2	1.7	1	1.3
Consumer — indirect other	76	14.7	46	13.7
Total consumer loans	152	47.1	91	47.5
Loans held for sale	3	4.6	3	5.6
Unallocated	403	—	433	—
Total	$870	100.0%	$876	100.0%

Net loan charge-offs. As shown in Figure 21, net loan charge-offs for 1999 were $318 million, or .51% of average loans, compared with $297 million, or .52% of average loans, for 1998, and $293 million, or .57% of average loans, in 1997. In 1999, net charge-offs in the commercial loan portfolio rose by $32 million, including increases of $43 million in the commercial, financial and agricultural sector, and $6 million in the commercial lease financing sector. Charge-offs of commercial loans increased not only due to a modest increase in the proportion of troubled credits within the portfolio, but also because this portfolio has grown significantly. The overall increase in commercial loan net charge-offs was moderated by improved performance in the commercial real estate sector.

The increase in commercial loan net charge-offs was partially offset by an $11 million decline in the level of net charge-offs in the consumer loan portfolio. Net charge-offs in the credit card sector decreased by $19 million because of higher recoveries and a lower volume of credit card receivables. At the same time, net charge-offs in the installment portfolios increased by $7 million as a result of the growth in outstanding balances.

Figure 21 Summary of Loan Loss Experience

Year ended December 31, *dollars in millions*	1999	1998	1997	1996	1995
Average loans outstanding during the year	**$62,401**	$57,422	$51,415	$48,216	$48,012
Allowance for loan losses at beginning of year	**$900**	$900	$870	$876	$830
Loans charged off:					
Commercial, financial and agricultural	**112**	66	55	71	42
Real estate — commercial mortgage	**2**	20	16	16	22
Real estate — construction	**—**	2	3	2	2
Commercial lease financing	**20**	12	9	8	5
Total commercial loans	**134**	100	83	97	71
Real estate — residential mortgage	**8**	11	11	9	11
Home equity	**10**	6	4	2	2
Credit card	**89**	104	113	83	50
Consumer — direct	**41**	44	41	29	21
Consumer — indirect lease financing	**13**	8	4	3	2
Consumer — indirect other	**125**	111	122	80	51
Total consumer loans	**286**	284	295	206	137
	420	384	378	303	208
Recoveries:					
Commercial, financial and agricultural	**28**	25	28	45	53
Real estate — commercial mortgage	**4**	6	10	8	5
Real estate — construction	**1**	2	2	1	3
Commercial lease financing	**3**	1	1	2	2
Total commercial loans	**36**	34	41	56	63
Real estate — residential mortgage	**4**	4	3	3	8
Home equity	**1**	1	—	—	1
Credit card	**14**	10	9	15	11
Consumer — direct	**8**	6	7	7	7
Consumer — indirect lease financing	**3**	1	1	1	1
Consumer — indirect other	**36**	31	24	26	18
Total consumer loans	**66**	53	44	52	46
	102	87	85	108	109
Net loans charged off	**(318)**	(297)	(293)	(195)	(99)
Provision for loan losses	**348**	297	320	197	100
Allowance acquired (sold), net	**—**	—	3	(8)	44
Transfer of other real estate owned ("OREO") allowance	**—**	—	—	—	1
Allowance for loan losses at end of year	**$930**	$900	$900	$870	$876
Net loan charge-offs to average loans	**.51%**	.52%	.57%	.40%	.21%
Allowance for loan losses to year-end loans	**1.45**	1.45	1.69	1.77	1.81
Allowance for loan losses to nonperforming loans	**228.50**	246.58	236.22	249.28	263.15

Nonperforming assets. Figure 22 shows the composition of Key's nonperforming assets. These assets totaled $433 million at December 31, 1999, and represented .67% of loans, other real estate owned (known as "OREO") and other nonperforming assets, compared with $404 million, or .65%, at December 31, 1998. The $29 million increase in the level of nonperforming assets since the end of 1998 is due primarily to a $42 million increase in nonperforming loans, offset in part by a $14 million decrease in OREO. Over the past two years, Key's nonperforming assets have ranged from a quarterly high of $431 million at December 31, 1997, to a low of $402 million at September 30, 1998.

Deposits and other sources of funds

"Core deposits" are Key's primary source of funding. These deposits consist of domestic deposits other than certificates of deposit of $100,000 or more. During 1999, core deposits averaged $36.9 billion, and represented 51% of the funds Key used to support earning assets, compared with $36.8 billion and 55%, respectively, during 1998, and $38.6 billion and 63%, respectively, in 1997. Total core deposits did not change much during 1999, following a decrease of $1.8 billion in 1998. However, as shown in Figure 5 (which spans pages 32 and 33), Key experienced a change in the mix of core deposits in each of the past two years. The levels of savings deposits, NOW accounts and time deposits declined, primarily because, since mid-1997, Key has sold 178 branches with deposits of approximately $4.3 billion. In addition, client preferences for higher returns and the strength of the securities markets have also caused a shift from traditional bank products to nonbank financial investments, such as equity securities. At the same time, Key's money market deposit accounts grew substantially as a result of client preferences for investments that offer higher returns.

Purchased funds, which comprise large certificates of deposit, deposits in the foreign office, and short-term borrowings, averaged $17.8 billion during 1999, compared with $19.0 billion during 1998, and $16.9 billion in 1997. As shown in Figure 5, Key relied more on long-term debt, including capital securities, to fund earning assets in 1999. In addition, Key continues to consider loan securitizations as a funding alternative when market conditions are favorable. During 1999, Key securitized and sold $4.3 billion of consumer loans.

Figure 22 Summary of Nonperforming Assets and Past Due Loans

Year ended December 31, *dollars in millions*	1999	1998	1997	1996	1995
Commercial, financial and agricultural	**$175**	$144	$162	$121	$148
Real estate — commercial mortgage	**102**	79	88	84	90
Real estate — construction	**7**	6	21	19	10
Commercial lease financing	**28**	29	5	8	3
Total commercial loans	**312**	258	276	232	251
Real estate — residential mortgage	**44**	60	58	80	62
Home equity	**13**	10	11	10	5
Consumer — direct	**6**	6	8	9	3
Consumer — indirect other	**32**	31	28	18	12
Total consumer loans	**95**	107	105	117	82
Total nonperforming loans	**407**	365	381	349	333
OREO	**27**	56	66	56	56
Allowance for OREO losses	**(3)**	(18)	(21)	(8)	(14)
OREO, net of allowance	**24**	38	45	48	42
Other nonperforming assets	**2**	1	5	3	4
Total nonperforming assets	**$433**	$404	$431	$400	$379
Accruing loans past due 90 days or more	**$259**	$178	$132	$103	$97
Nonperforming loans to year-end loans	**.63%**	.59%	.71%	.71%	.69%
Nonperforming assets to year-end loans plus OREO and other nonperforming assets	**.67**	.65	.81	.81	.78

At December 31, 1999, Key had $6.5 billion in time deposits of $100,000 or more. Figure 23 shows the maturity distribution of these deposits.

Figure 23 Maturity Distribution of Time Deposits of $100,000 or More

December 31, 1999 *in millions*	Domestic Offices	Foreign Office	Total
Remaining maturity:			
Three months or less	$3,101	$1,236	$4,337
After three through twelve months	1,119	—	1,119
After twelve months	1,001	—	1,001
Total	$5,221	$1,236	$6,457

Liquidity

"Liquidity" measures whether an entity has sufficient cash flow to meet its financial obligations when due. Key has sufficient liquidity when it can meet the needs of depositors, borrowers, and creditors at a reasonable cost, on a timely basis, and without adverse consequences. KeyCorp, the parent company, has sufficient liquidity when it can pay dividends to shareholders, service its debt, and support customary corporate operations and activities, including acquisitions.

Liquidity for Key. Management actively analyzes and manages Key's liquidity. In particular, Key's Funding and Investment Management Group monitors the overall mix of funding sources to ensure that the mix is appropriate in light of the structure of the asset portfolios. We use several tools to maintain sufficient liquidity.

- We maintain portfolios of short-term money market investments and securities available for sale, substantially all of which could be converted to cash quickly at a small expense.
- Key's portfolio of investment securities generates prepayments (often at a premium) and payments at maturity.
- We try to structure the maturities of our loans so we receive a relatively consistent stream of payments from borrowers. We also selectively securitize and package loans for sale.
- Our 936 full-service KeyCenters in 13 states generate a sizable volume of core deposits. Key's Funding and Investment Management Group monitors deposit flows and considers alternate pricing structures to attract deposits when necessary. For more information about core deposits, see the previous section entitled "Deposits and other sources of funds."
- Key has access to various sources of money market funding (such as Federal funds purchased, securities sold under repurchase agreements, and bank notes) and also can borrow from the Federal Reserve Bank to meet short-term liquidity requirements. During 1999, KeyBank National Association, one of KeyCorp's bank affiliates, increased its overnight borrowing capacity at the Federal Reserve Bank discount window from approximately $975 million at December 31, 1998, to approximately $17.2 billion at December 31, 1999, by pledging approximately $23.3 billion of loans (primarily commercial) as additional collateral. This action, which was purely precautionary, was part of Key's Year 2000 contingency plan. Another bank affiliate, KeyBank USA National Association, had overnight borrowing capacity at the Federal Reserve Bank discount window of up to $1.0 billion at December 31, 1999, which was secured by approximately $1.3 billion of credit card receivables. Neither bank had borrowings outstanding under these facilities as of the end of 1999.

Liquidity for the parent company. KeyCorp meets its liquidity requirements principally through regular dividends from affiliate banks. In 1999, affiliates paid KeyCorp a total of $946 million in dividends. As of December 31, 1999, the affiliate banks had an additional $697 million available to pay dividends without prior regulatory approval. These excess funds are generally maintained in short-term investments.

Additional sources of liquidity. Management has implemented several programs that enable Key and KeyCorp to raise money in the public and private markets when necessary. The proceeds from all of these programs can be used for general corporate purposes, including acquisitions.

Bank note program. During 1999, Key's affiliate banks raised $10.1 billion under Key's Bank Note Program. Of the notes issued during 1999, $3.7 billion have original maturities in excess of one year and are included in long-term debt; the remaining $6.4 billion have original maturities of one year or less and are included in short-term borrowings. On January 21, 2000, Key commenced a new Bank Note Program which provides for the issuance of both long- and short-term debt of up to $20.0 billion ($19.0 billion by KeyBank National Association and $1.0 billion by Key Bank USA, National Association).

Euronote program. Under Key's Euronote program, KeyCorp, KeyBank National Association and Key Bank USA, National Association may issue both long- and short-term debt of up to $7.0 billion in the aggregate. The borrowing capacity under this program was increased from $5.0 billion during the second quarter of 1999. The notes are offered exclusively to non-U.S. investors and can be denominated in dollars and most European currencies. There were $2.4 billion of borrowings outstanding under this facility as of December 31, 1999, $972 million of which were issued during 1999.

Commercial paper and revolving credit. KeyCorp has a commercial paper program and a three-year revolving credit agreement. Each of these facilities provides funding availability of up to $500 million. As of December 31, 1999, $215 million of borrowings were outstanding under the commercial paper program; no amount was outstanding under the revolving credit agreement.

Publicly issued securities. KeyCorp has a universal shelf registration statement on file with the Securities and Exchange Commission that provides for the possible issuance of up to $1.3 billion of debt and equity securities. At December 31, 1999, unused capacity under the shelf registration totaled $1.0 billion, including $450 million reserved for issuance as medium-term notes. If KeyCorp maintains its favorable debt ratings, shown below as of December 31, 1999, management believes that, under normal conditions in the capital markets, any eventual offering of securities should be well-received by investors.

	Commercial Paper	Senior Long-Term Debt	Subordinated Long-Term Debt
Duff & Phelps	D-1	A+	A
Standard & Poor's	A-2	A–	BBB+
Moody's	P-1	A1	A2

For more information about Key's sources and uses of cash for the years ended December 31, 1999, 1998, and 1997, see the Consolidated Statements of Cash Flow on page 56.

Capital and dividends

Shareholders' equity. Total shareholders' equity at December 31, 1999, was $6.4 billion, up $222 million from the balance at December 31, 1998. Retained net income increased during the year, but the increase was largely offset by a net increase in treasury stock due to share repurchases, and net unrealized losses on securities available for sale. In contrast, total shareholders' equity increased by $986 million, or 19%, from the end of 1997 to the end of 1998. During 1998, retained net income increased, and treasury stock decreased because KeyCorp issued shares to acquire McDonald. Other factors contributing to the change in shareholders' equity during 1999 and 1998 are shown in the Consolidated Statements of Changes in Shareholders' Equity presented on page 55.

Share repurchases. During 1999, Key repurchased 11,906,424 of its common shares at an average price per share of $28.85. Authority to repurchase these shares came from two sources. First, when Key acquired McDonald, the Board of Directors authorized the repurchase of up to 60% of the 19,337,159 shares issued to complete the transaction. With the repurchase of 3,869,761 of these shares in 1999, we have now repurchased all of the shares covered by that authorization. Second, Key had a program that authorized management to repurchase up to 10,000,000 shares in open market or through negotiated transactions. During 1999, 8,036,663 shares were repurchased under this program, leaving a remaining balance of 1,963,337 shares that may be repurchased. In January 2000, the Board authorized the repurchase of up to 20,000,000 shares (including the shares remaining from the prior authority).

At December 31, 1999, Key had 48,462,243 treasury shares. Management expects to reissue those shares over time to support the employee stock purchase, 401(k), stock option, and dividend reinvestment plans, and for other corporate purposes. During 1999, Key reissued 2,249,181 treasury shares for employee benefit and dividend reinvestment plans.

Capital adequacy. Capital adequacy is an important indicator of financial stability and performance. Overall, Key's capital position remains strong: the ratio of total shareholders' equity to total assets was 7.66% at December 31, 1999, and 7.71% at December 31, 1998.

Banking industry regulators prescribe minimum capital ratios for bank holding companies and their banking subsidiaries. Risk-based capital guidelines require a minimum level of capital as a percent of "risk-adjusted assets," which is total assets plus certain off-balance sheet items that are adjusted for predefined credit risk factors. Currently, banks and bank holding companies must maintain, at a minimum, Tier 1 capital as a percent of risk-adjusted assets of 4.0%, and total capital as a percent of risk-adjusted assets of 8.0%. As of December 31, 1999, Key's Tier 1 capital ratio was 7.68%, and its total capital ratio was 11.66%.

The leverage ratio is Tier 1 capital as a percentage of tangible assets. Leverage ratio requirements vary with the condition of the financial institution. Bank holding companies that either have the highest supervisory rating or have implemented the Federal Reserve's risk-adjusted measure for market risk — as KeyCorp has — must maintain a minimum leverage ratio of 3.0%. All other bank holding companies must maintain a minimum ratio of 4%. As of December 31, 1999, KeyCorp had a leverage ratio of 7.77%, which is substantially higher than the minimum requirement.

Federal bank regulators group FDIC-insured depository institutions into the following five categories based on certain capital ratios: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." Both of Key's affiliate banks qualified as "well capitalized" at December 31, 1999, since each exceeded the prescribed thresholds of 10% for total capital, 6% for Tier 1 capital, and 5% for the leverage ratio. If these provisions applied to bank holding companies, KeyCorp would also qualify as "well capitalized" at December 31, 1999. The FDIC-defined capital categories serve a limited regulatory function. Investors should not treat them as a representation of the overall financial condition or prospects of Key or its affiliates.

Figure 24 presents the details of Key's regulatory capital position at December 31, 1999 and 1998. Note 11 ("Shareholders' Equity"), which begins on page 67, explains the implications of failing to meet specific capital requirements imposed by the banking regulators.

Figure 24 Capital Components and Risk-Adjusted Assets

December 31, *dollars in millions*	**1999**	**1998**
TIER 1 CAPITAL		
Common shareholders' equity[a]	**$ 6,508**	$ 6,137
Qualifying capital securities	**1,243**	747
Less: Goodwill	**(1,389)**	(1,430)
Other intangible assets[b]	**(56)**	(71)
Total Tier 1 capital	**6,306**	5,383
TIER 2 CAPITAL		
Allowance for loan losses[c]	**930**	900
Net unrealized holding gains[d]	**3**	3
Qualifying long-term debt	**2,330**	2,445
Total Tier 2 capital	**3,263**	3,348
Total capital	**$ 9,569**	$ 8,731
RISK-ADJUSTED ASSETS		
Risk-adjusted assets on balance sheet	**$68,619**	$63,721
Risk-adjusted off-balance sheet exposure	**14,513**	12,198
Less: Goodwill	**(1,389)**	(1,430)
Other intangible assets[b]	**(56)**	(71)
Plus: Market risk-equivalent assets	**391**	242
Net unrealized holding gains[d]	**3**	3
Gross risk-adjusted assets	**82,081**	74,663
Less: Excess allowance for loan losses[c]	**—**	—
Net risk-adjusted assets	**$82,081**	$74,663
AVERAGE QUARTERLY TOTAL ASSETS	**$82,574**	$78,968
CAPITAL RATIOS		
Tier 1 risk-adjusted capital ratio	**7.68%**	7.21%
Total risk-adjusted capital ratio	**11.66**	11.69
Leverage ratio[e]	**7.77**	6.95

[a] *Common shareholders' equity excludes the impact of net unrealized gains or losses on securities, except for net unrealized losses on marketable equity securities.*

[b] *Intangible assets (excluding goodwill) recorded after February 19, 1992, and deductible portions of purchased mortgage servicing rights.*

[c] *The allowance for loan losses included in Tier 2 capital is limited to 1.25% of gross risk-adjusted assets.*

[d] *Net unrealized holding gains included in Tier 2 capital are limited to 45% of net unrealized holding gains on available for sale equity securities with readily determinable fair values.*

[e] *Tier 1 capital as a percentage of average quarterly total assets, less goodwill and other non-qualifying intangible assets as defined in footnote (b).*

KeyCorp's common shares are traded on the New York Stock Exchange under the symbol KEY. At December 31, 1999:

- Book value per common share was $14.41, based on 443,426,537 shares outstanding, compared with $13.63 based on 452,451,597 shares outstanding at December 31, 1998.
- The closing sales price of a KeyCorp common share on the New York Stock Exchange was $22.13. This price was 154% of year-end book value per share, and would produce a dividend yield of 4.70% based on the amount of the dividend at that time.
- In 1999, the quarterly dividend was $.26 per common share, up from $.235 per common share in 1998. On January 19, 2000, the quarterly dividend per common share was increased by 7.7% to $.28.
- There were 58,600 holders of record of KeyCorp common shares.

Figure 25 shows the sales price ranges of the common shares and per common share net income and dividends by quarter for each of the last two years.

Fourth Quarter Results

Key completed 1999 with a strong financial performance in the fourth quarter. Some of the fourth quarter highlights are summarized below. Key's financial performance for each of the past eight quarters is summarized in Figure 25.

Net income. As shown in Figure 25, net income for the fourth quarter of 1999 totaled $264 million, or $.59 per common share, up from $260 million, or $.57, for the same period in 1998. This improvement resulted from a $223 million, or 50%, increase in noninterest income and a moderate $18 million increase in net interest income. The growth of these revenue components more than offset increases of $216 million, or 32%, in noninterest expense and $6 million, or 8%, in the provision for loan losses.

On an annualized basis, the return on average total assets for the fourth quarter of 1999 was 1.27%, compared with 1.31% for the fourth quarter of 1998. The annualized returns on average equity for the fourth quarters of 1999 and 1998 were 16.18% and 17.12%, respectively.

Net interest income. Net interest income rose to $705 million for the fourth quarter of 1999 from $687 million for the fourth quarter of 1998. The improvement resulted from a 5% increase in average earning assets to $73.1 billion, due primarily to continued momentum in commercial and consumer lending. This growth more than compensated for an 11 basis point reduction in the net interest margin to 3.88%.

Noninterest income. Noninterest income of $670 million for the fourth quarter of 1999 was significantly higher than the $447 of a year ago, and includes a $194 million gain from the sale of Key's Long Island branches and $30 million of nonrecurring charges. Of the nonrecurring charges, which reduced noninterest income, the most significant was a $19 million charge that resulted from a more conservative valuation of assets related to securitizations completed in prior periods. In 1998, Key's results include a $27 million gain recorded in connection with the sale of a 51% interest in Key Merchant Services, LLC, a merchant credit card processing subsidiary. Excluding nonrecurring items, core noninterest income in the fourth quarter of 1999 increased by $86 million, or 20%, from the prior year.

The strongest contributions to the growth in core noninterest income came from investment banking and capital markets activities (up $31 million), and trust and asset management (up $19 million). These revenue components grew primarily as a result of the October 1998 acquisition of McDonald, but the overall strength of the securities markets, new business and the repricing of certain services were also instrumental.

For more information on the sales of the Long Island branches and the interest in Key Merchant Services, LLC, see Note 3 ("Mergers, Acquisitions and Divestitures") which begins on page 60.

Noninterest expense. Noninterest expense for the fourth quarter of 1999 totaled $883 million, compared with $667 million in the fourth quarter of 1998. In 1999, results include restructuring and other special charges of $145 million recorded in connection with strategic actions that Key is taking to improve operating efficiency and profitability. For more information about these charges, see the section entitled

"Restructuring and other special charges" on page 41. Also included in 1999 expense are $18 million of other one-time charges, the largest of which was $7 million. Excluding nonrecurring charges in 1999 and $8 million of merger and integration charges recorded a year ago, core noninterest expense increased by $61 million, or 9%, from the fourth quarter of 1998.

The rise in core noninterest expense came largely from personnel expense (up $31 million, due primarily to the October 1998 acquisition of McDonald) and higher costs associated with computer processing (up $14 million). The increase in personnel expense was moderated by a $12 million reduction in stock-based compensation.

Provision for loan losses. The provision for loan losses was $83 million for the fourth quarter of 1999, representing a $6 million increase from the same period a year ago. Net loan charge-offs totaled $83 million and were .52% of average loans outstanding for the quarter, compared with $77 million and .50%, respectively, for the fourth quarter of 1998.

Figure 25 Selected Quarterly Financial Data

	1999				1998			
dollars in millions, except per share amounts	**Fourth**	**Third**	**Second**	**First**	**Fourth**	**Third**	**Second**	**First**
FOR THE QUARTER								
Interest income	**$1,489**	**$1,433**	**$1,392**	**$1,381**	$1,411	$1,415	$1,372	$1,327
Interest expense	**784**	**733**	**695**	**696**	724	734	706	677
Net interest income	**705**	**700**	**697**	**685**	687	681	666	650
Provision for loan losses	**83**	**78**	**76**	**111**	77	71	72	77
Noninterest income before net securities gains	**667**	**487**	**506**	**605**	442	392	378	354
Net securities gains	**3**	**2**	**20**	**4**	5	—	2	2
Noninterest expense	**883**	**701**	**717**	**748**	667	628	602	586
Income before income taxes	**409**	**410**	**430**	**435**	390	374	372	343
Net income	**264**	**270**	**280**	**293**	260	252	249	235
PER COMMON SHARE								
Net income	**$ .59**	**$ .60**	**$ .63**	**$ .65**	$ .58	$ .57	$ .57	$ .53
Net income — assuming dilution	**.59**	**.60**	**.62**	**.65**	.57	.57	.56	.53
Cash dividends	**.26**	**.26**	**.26**	**.26**	.235	.235	.235	.235
Book value at period end	**14.41**	**14.25**	**13.90**	**13.63**	13.63	12.73	12.55	12.15
Market price:								
High	**29.75**	**33.50**	**38.13**	**34.19**	34.06	39.50	44.88	39.25
Low	**21.00**	**25.19**	**29.13**	**29.69**	23.38	24.75	34.44	31.56
Close	**22.13**	**25.81**	**32.13**	**30.31**	32.00	28.88	35.63	37.81
Weighted average common shares (000)	**446,402**	**448,742**	**448,037**	**449,520**	449,949	438,856	440,092	438,589
Weighted average common shares and potential common shares (000)	**449,678**	**452,886**	**452,733**	**454,197**	454,527	443,750	446,568	444,836
AT PERIOD END								
Loans	**$64,222**	**$63,181**	**$61,971**	**$61,045**	$62,012	$59,444	$57,769	$54,900
Earning assets	**73,733**	**72,831**	**71,097**	**70,458**	70,240	68,568	66,941	64,368
Total assets	**83,395**	**82,577**	**80,889**	**79,992**	80,020	77,691	75,778	73,198
Deposits	**43,233**	**43,466**	**43,016**	**41,323**	42,583	42,597	41,794	41,661
Long-term debt	**15,881**	**15,815**	**15,168**	**15,457**	12,967	11,353	10,196	9,041
Shareholders' equity	**6,389**	**6,397**	**6,235**	**6,105**	6,167	5,553	5,525	5,338
Full-time equivalent employees	**24,568**	**25,523**	**25,758**	**25,650**	25,862	24,586	24,711	24,650
Branches	**936**	**963**	**965**	**969**	968	961	962	1,006
PERFORMANCE RATIOS								
Return on average total assets	**1.27%**	**1.32%**	**1.40%**	**1.49%**	1.31%	1.32%	1.35%	1.32%
Return on average equity	**16.18**	**17.06**	**18.16**	**19.48**	17.12	18.14	18.47	18.25
Efficiency[a]	**59.16**	**58.61**	**59.26**	**60.22**	58.66	58.09	59.02	58.19
Overhead[b]	**30.39**	**30.18**	**29.97**	**33.19**	32.37	34.25	38.07	36.12
Net interest margin (taxable equivalent)	**3.88**	**3.92**	**3.97**	**3.95**	3.99	4.08	4.10	4.14
CAPITAL RATIOS AT PERIOD END								
Equity to assets	**7.66%**	**7.75%**	**7.71%**	**7.63%**	7.71%	7.15%	7.29%	7.29%
Tangible equity to tangible assets	**6.03**	**6.06**	**5.95**	**5.86**	5.93	5.79	5.91	5.81
Tier 1 risk-adjusted capital	**7.68**	**7.84**	**7.48**	**7.44**	7.21	7.01	7.15	6.81
Total risk-adjusted capital	**11.66**	**11.94**	**11.74**	**11.92**	11.69	11.61	11.86	11.38
Leverage	**7.77**	**7.85**	**7.41**	**7.21**	6.95	6.88	7.04	6.61

Key has completed several mergers, acquisitions and divestitures during the two-year period shown in this table. One or more of these transactions may have had a significant effect on Key's results, making it difficult to compare results from one year to the next. Note 3 ("Mergers, Acquisitions and Divestitures"), which begins on page 60, has specific information about the business combinations and divestitures that Key completed in the past three years to help you understand how those transactions may have impacted Key's financial condition and results of operations.

[a] *This ratio, which measures the extent to which recurring revenues are absorbed by operating expenses, is calculated as follows: noninterest expense (excluding certain nonrecurring charges) divided by the sum of taxable-equivalent net interest income and noninterest income (excluding net securities transactions, gains from certain divestitures and certain nonrecurring charges).*

[b] *This ratio is the difference between noninterest expense (excluding certain nonrecurring charges) and noninterest income (excluding net securities transactions, gains from certain divestitures and certain nonrecurring charges) divided by taxable-equivalent net interest income.*

Report of Management

Key's management is responsible for the preparation, content and integrity of the financial statements and other statistical data and analyses compiled for this annual report. The financial statements and related notes have been prepared in conformity with generally accepted accounting principles and reflect management's best estimates and judgments. Management believes that the financial statements and notes present fairly Key's financial position, results of operations, and cash flows, and that the financial information presented elsewhere in this annual report is consistent with the financial statements.

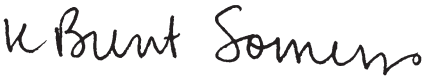
Management is responsible for establishing and maintaining a system of internal control to ensure the protection of assets and the integrity of the financial statements. This corporate-wide system of controls includes self-monitoring mechanisms, written policies and procedures, proper delegation of authority and organizational division of responsibility, and the careful selection and training of qualified personnel. Management also maintains a code of ethics that addresses conflicts of interest, compliance with laws and regulations, and prompt reporting of any failure or circumvention of controls, among other things.

We generally certify compliance with Key's code of ethics annually. We have established an effective risk management function to periodically test the other internal controls, and we endeavor to correct control deficiencies as they are identified. Although any system of internal control can be compromised by human error or intentional circumvention of required procedures, management believes that Key's system provides reasonable assurances that financial transactions are recorded properly, providing an adequate basis for reliable financial statements.

The Board of Directors discharges its responsibility for Key's financial statements through its Audit and Risk Review Committee. Key's Audit and Risk Review Committee, which draws its members exclusively from the outside directors, also recommends the independent auditors. The Audit and Risk Review Committee meets regularly with the independent auditors to review the scope of their audits and audit reports and to discuss necessary action. Both the independent and internal auditors have direct access to and interaction with the Audit and Risk Review Committee.

Management has assessed Key's internal control and procedures over financial reporting using criteria described in "Internal Control — Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management believes that Key maintained an effective system of internal control for financial reporting as of December 31, 1999.

Robert W. Gillespie
Chairman and Chief Executive Officer



K. Brent Somers
Senior Executive Vice President and Chief Financial Officer

Report of Ernst & Young LLP, Independent Auditors

Shareholders and Board of Directors
KeyCorp

We have audited the accompanying consolidated balance sheets of KeyCorp and subsidiaries ("Key") as of December 31, 1999 and 1998, and the related consolidated statements of income, changes in shareholders' equity, and cash flow for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of Key's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Key at December 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Cleveland, Ohio
January 14, 2000

Consolidated Balance Sheets

December 31, *dollars in millions*	1999	1998
ASSETS		
Cash and due from banks	$ 2,816	$ 3,296
Short-term investments	1,860	1,974
Securities available for sale	6,665	5,278
Investment securities (fair value: $998 and $1,004)	986	976
Loans, net of unearned income of $1,621 and $1,533	64,222	62,012
Less: Allowance for loan losses	930	900
Net loans	63,292	61,112
Premises and equipment	797	902
Goodwill	1,389	1,430
Other intangible assets	60	79
Corporate owned life insurance	2,110	2,008
Other assets	3,420	2,965
Total assets	$83,395	$80,020
LIABILITIES		
Deposits in domestic offices:		
Noninterest-bearing	$ 8,607	$ 9,540
Interest-bearing	33,390	32,091
Deposits in foreign office — interest-bearing	1,236	952
Total deposits	43,233	42,583
Federal funds purchased and securities sold under repurchase agreements	4,177	4,468
Bank notes and other short-term borrowings	8,439	9,728
Other liabilities	4,033	3,110
Long-term debt	15,881	12,967
Corporation-obligated mandatorily redeemable preferred capital securities of subsidiary trusts holding solely subordinated debentures of the Corporation (See Note 10)	1,243	997
Total liabilities	77,006	73,853
SHAREHOLDERS' EQUITY		
Preferred stock, $1 par value; authorized 25,000,000 shares, none issued	—	—
Common shares, $1 par value; authorized 1,400,000,000 shares; issued 491,888,780 shares	492	492
Capital surplus	1,412	1,412
Retained earnings	5,833	5,192
Loans to ESOP trustee	(24)	(34)
Treasury stock, at cost (48,462,243 and 39,437,183 shares)	(1,197)	(923)
Accumulated other comprehensive (loss) income	(127)	28
Total shareholders' equity	6,389	6,167
Total liabilities and shareholders' equity	$83,395	$80,020

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income

Year ended December 31, *dollars in millions, except per share amounts*	1999	1998	1997
INTEREST INCOME			
Loans	**$5,146**	$4,935	$4,618
Taxable investment securities	**15**	12	12
Tax-exempt investment securities	**31**	45	66
Securities available for sale	**424**	449	526
Short-term investments	**79**	84	40
Total interest income	**5,695**	5,525	5,262
INTEREST EXPENSE			
Deposits	**1,305**	1,359	1,462
Federal funds purchased and securities sold under repurchase agreements	**220**	342	359
Bank notes and other short-term borrowings	**426**	459	283
Long-term debt, including capital securities	**957**	681	413
Total interest expense	**2,908**	2,841	2,517
NET INTEREST INCOME	**2,787**	2,684	2,745
Provision for loan losses	**348**	297	320
Net interest income after provision for loan losses	**2,439**	2,387	2,425
NONINTEREST INCOME			
Trust and asset management income	**443**	335	266
Investment banking and capital markets income	**354**	239	119
Service charges on deposit accounts	**330**	306	299
Brokerage income	**156**	71	54
Corporate owned life insurance income	**107**	104	85
Credit card fees	**63**	68	96
Net loan securitization gains (losses)	**64**	4	(28)
Net securities gains	**29**	9	1
Gains from branch divestitures	**194**	39	151
Gains from other divestitures	**161**	50	—
Other income	**393**	350	263
Total noninterest income	**2,294**	1,575	1,306
NONINTEREST EXPENSE			
Personnel	**1,482**	1,256	1,181
Net occupancy	**239**	226	222
Computer processing	**236**	176	131
Equipment	**203**	185	177
Marketing	**106**	100	86
Amortization of intangibles	**104**	91	87
Professional fees	**70**	62	47
Restructuring charges	**98**	—	—
Other expense	**511**	387	455
Total noninterest expense	**3,049**	2,483	2,386
INCOME BEFORE INCOME TAXES	**1,684**	1,479	1,345
Income taxes	**577**	483	426
NET INCOME	**$1,107**	$ 996	$ 919
Per common share:			
Net income	**$2.47**	$2.25	$2.09
Net income — assuming dilution	**2.45**	2.23	2.07
Weighted average common shares outstanding (000)	**448,168**	441,895	439,042
Weighted average common shares and potential common shares outstanding (000)	**452,363**	447,437	444,544

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Shareholders' Equity

dollars in millions, except per share amounts	Common Shares	Capital Surplus	Retained Earnings	Loans to ESOP Trustee	Treasury Stock, at Cost	Accumulated Other Comprehensive (Loss) Income	Comprehensive Income
BALANCE AT DECEMBER 31, 1996	$246	$1,484	$4,060	$(49)	$ (854)	$ (6)	
Net income			919				$919
Other comprehensive income:							
Adjustment related to change in accounting for transfers of financial assets, net of deferred tax benefit of $(25)						(43)	(43)
Net unrealized gains on securities available for sale, net of income taxes of $24[a]						60	60
Total comprehensive income							$936
Cash dividends on common shares ($.84 per share)			(369)				
Issuance of common shares:							
Acquisition — 3,336,118 shares		56			143		
Employee benefit and dividend reinvestment plans — 2,287,478 net shares		(11)			100		
Repurchase of common shares — 10,045,718 shares					(563)		
ESOP transactions			1	7			
Two-for-one stock split effected by means of a 100% stock dividend	246	(246)					
BALANCE AT DECEMBER 31, 1997	492	1,283	4,611	(42)	(1,174)	11	
Net income			996				$ 996
Other comprehensive income:							
Net unrealized gains on securities available for sale, net of income taxes of $9[a]						17	17
Total comprehensive income							$1,013
Cash dividends on common shares ($.94 per share)			(416)				
Issuance of common shares:							
Acquisition — 19,337,159 shares		129			440		
Employee benefit and dividend reinvestment plans — 3,050,008 net shares					67		
Repurchase of common shares — 7,999,400 shares					(256)		
ESOP transactions			1	8			
BALANCE AT DECEMBER 31, 1998	492	1,412	5,192	(34)	(923)	28	
Net income			**1,107**				**$1,107**
Other comprehensive losses:							
Net unrealized losses on securities available for sale, net of income taxes of $(94)[a]						**(148)**	**(148)**
Foreign currency translation adjustments						**(7)**	**(7)**
Total comprehensive income							**$ 952**
Cash dividends on common shares ($1.04 per share)			**(467)**				
Issuance of common shares:							
Acquisition — 632,183 shares		**6**			**15**		
Employee benefit and dividend reinvestment plans — 2,249,181 net shares		**(6)**			**55**		
Repurchase of common shares — 11,906,424 shares					**(344)**		
ESOP transactions			**1**	**10**			
BALANCE AT DECEMBER 31, 1999	**$492**	**$1,412**	**$5,833**	**$(24)**	**$(1,197)**	**$(127)**	

[a] *Net of reclassification adjustments. Reclassification adjustments represent net unrealized gains or losses as of December 31 of the prior year on securities available for sale that were sold during the current year. In 1999 and 1998, the reclassification adjustments were $3 million ($2 million after tax) and $9 million ($6 million after tax), respectively.*

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flow

Year ended December 31, *in millions*	1999	1998	1997
OPERATING ACTIVITIES			
Net income	**$ 1,107**	$ 996	$ 919
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**348**	297	320
Depreciation expense and software amortization	**292**	237	197
Amortization of intangibles	**104**	91	87
Net gains from divestitures	**(355)**	(89)	(151)
Net securities gains	**(29)**	(9)	(1)
Net (gains) losses from loan securitizations and sales	**(86)**	(56)	2
Deferred income taxes	**466**	325	139
Net (increase) decrease in mortgage loans held for sale	**3**	156	(54)
Net (increase) decrease in trading account assets	**109**	(34)	(498)
Net increase (decrease) in accrued restructuring charges	**88**	(22)	(75)
Other operating activities, net	**(193)**	(89)	(640)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**1,854**	1,803	245
INVESTING ACTIVITIES			
Net increase in loans, excluding acquisitions, sales and divestitures	**(8,110)**	(9,081)	(6,936)
Purchases of loans	**(7)**	(859)	—
Proceeds from loan securitizations and sales	**4,776**	987	3,144
Purchases of investment securities	**(294)**	(145)	(497)
Proceeds from sales of investment securities	**17**	69	12
Proceeds from prepayments and maturities of investment securities	**292**	401	823
Purchases of securities available for sale	**(4,750)**	(1,837)	(3,378)
Proceeds from sales of securities available for sale	**419**	215	735
Proceeds from prepayments and maturities of securities available for sale	**3,176**	4,013	2,770
Net (increase) decrease in other short-term investments	**5**	296	(905)
Purchases of premises and equipment	**(94)**	(126)	(156)
Proceeds from sales of premises and equipment	**27**	50	71
Proceeds from sales of other real estate owned	**10**	11	28
Purchases of corporate owned life insurance	**—**	—	(300)
Net cash paid in connection with divestitures	**(576)**	(433)	(918)
Cash used in acquisitions, net of cash acquired	**—**	(34)	(1)
NET CASH USED IN INVESTING ACTIVITIES	**(5,109)**	(6,473)	(5,508)
FINANCING ACTIVITIES			
Net increase (decrease) in deposits	**1,985**	(1,832)	2,011
Net increase (decrease) in short-term borrowings	**(1,560)**	984	2,031
Net proceeds from issuance of long-term debt, including capital securities	**5,220**	6,732	3,691
Payments on long-term debt, including capital securities	**(2,102)**	(949)	(1,403)
Loan payment received from ESOP trustee	**10**	8	7
Purchases of treasury shares	**(344)**	(256)	(563)
Net proceeds from issuance of common stock	**33**	44	65
Cash dividends	**(467)**	(416)	(369)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**2,775**	4,315	5,470
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	**(480)**	(355)	207
CASH AND DUE FROM BANKS AT BEGINNING OF YEAR	**3,296**	3,651	3,444
CASH AND DUE FROM BANKS AT END OF YEAR	**$ 2,816**	$ 3,296	$ 3,651
Additional disclosures relative to cash flow:			
Interest paid	**$2,749**	$2,679	$2,427
Income taxes paid	**185**	148	253
Net amount received on portfolio swaps	**18**	2	61
Noncash items:			
Transfer of credit card receivables to loans held for sale	**$1,299**	—	—
Reclassification of financial instruments from loans to securities available for sale	**374**	—	—
Fair value of Concord EFS, Inc. shares received	**170**	—	—
Carrying amount of Electronic Payment Services, Inc. shares divested	**36**	—	—
Assets sold	**523**	$165	$1,196
Liabilities sold	**1,335**	660	2,265
Assets purchased	**—**	742	1,397
Liabilities assumed	**—**	593	1,301
Transfer of other assets to securities available for sale	**—**	—	280

See Notes to Consolidated Financial Statements.

1. Summary of Significant Accounting Policies

Organization

KeyCorp, an Ohio corporation and bank holding company headquartered in Cleveland, Ohio, is one of the nation's largest integrated multiline financial services companies. KeyCorp's subsidiaries provide investment management, retail and commercial banking, consumer finance, and investment banking products and services to corporate, individual and institutional clients through four lines of business: Key Retail Banking, Key Specialty Finance, Key Corporate Capital and Key Capital Partners. As of December 31, 1999, KeyCorp's banking subsidiaries operated 936 full-service branches, a 24-hour telephone banking call center services group and 2,516 ATMs in 15 states.

As used in these Notes, *KeyCorp* refers solely to the parent company and *Key* refers to the consolidated entity consisting of KeyCorp and its subsidiaries.

Use of Estimates

Key's accounting policies conform to generally accepted accounting principles and prevailing practices within the financial services industry. In order to prepare Key's consolidated financial statements and the related notes, management must make certain estimates and judgments in determining the amounts presented. If these estimates prove to be inaccurate, actual results could differ from those reported.

Basis of Presentation

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 results have been reclassified to conform to current reporting practices.

Business Combinations

In a business combination accounted for as a pooling of interests, the assets, liabilities and shareholders' equity of Key and the combined company are carried forward at historical amounts. The results of operations are combined and financial statements from prior periods are restated to give effect to the combination.

When Key accounts for a business combination as a purchase, the results of operations of the acquired company are combined with Key's results only from the date of acquisition. The acquired company's net assets are recorded at fair value at the date of acquisition. Purchase premiums and discounts are amortized over the remaining lives of the related assets or liabilities. The difference between the purchase price and the fair value of the net assets acquired is recorded as goodwill.

Statement of Cash Flow

Cash and due from banks are considered "cash and cash equivalents" for financial reporting purposes.

Securities and Trading Account Assets

Key classifies its securities into three categories: held to maturity, trading account assets and available for sale.

Securities held to maturity. Key has the intent and ability to hold these debt securities until maturity. These securities are carried at cost, adjusted for amortization of premiums and accretion of discounts using the level-yield method. Securities held to maturity and equity securities that do not have readily determinable fair values are presented as "investment securities" on the balance sheet.

Trading account assets. These are debt and equity securities that are purchased and held by Key with the intent of selling them in the near term. These securities are reported at fair value ($768 million at December 31, 1999, and $877 million at December 31, 1998) and included in "short-term investments" on the balance sheet. Realized and unrealized gains and losses on trading account assets are reported in "other income" on the income statement.

Securities available for sale. These are debt and equity securities that Key has not classified as investment securities or trading account assets. Securities available for sale are reported at fair value; unrealized gains and losses (net of income taxes) are recorded in shareholders' equity as a component of "accumulated other comprehensive (loss) income." Actual gains and losses on the sales of these securities are computed using the specific identification method and included in "net securities gains (losses)" on the income statement.

Loans

Loans are carried at the principal amount outstanding, net of unearned income, including net deferred loan fees and costs. Key defers certain nonrefundable loan origination and commitment fees and the direct costs of originating or acquiring loans. The net deferred amount is amortized over the estimated lives of the related loans as an adjustment to the yield.

At December 31, 1999, loans held for sale include credit card receivables, as well as mortgage, home equity and education loans. These loans are carried at the lower of aggregate cost or fair value. Fair value is determined based on prices observed in the market for loans with similar characteristics. When a loan is placed in the held for sale category, the amortization of deferred fees and costs is discontinued. The remaining unamortized fees and costs are recognized at the time the loan is sold.

Direct financing leases are carried at the aggregate of lease payments receivable plus estimated residual values, less unearned income. Unearned income on direct financing leases is amortized over the lease terms using methods that approximate the interest method, which amortizes unearned income to produce a level yield on the lease. Net gains on sales of lease residuals are included in "other income" on the income statement.

Impaired and Other Nonaccrual Loans

Key will generally stop accruing interest on a loan (i.e., designate the loan "nonaccrual") when payment is 90 days or more past due, unless the loan is well-secured and in the process of collection. Once a loan is designated as nonaccrual, the interest accrued but not collected is charged against the allowance for loan losses, and payments subsequently received are applied to principal. However, if management believes that all principal and interest on a nonaccrual loan ultimately are collectible, interest income may be recognized as received.

Nonaccrual loans, other than smaller-balance homogeneous loans (i.e., loans to finance residential mortgages, automobiles, etc.), are designated "impaired." Impaired loans and other nonaccrual loans are returned to accrual status when management determines that the borrower's performance has improved and that both principal and interest are collectible. This generally requires a sustained period (typically six months or more) of timely repayment performance.

Loan Securitizations

On January 1, 1997, Key adopted Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 125"). SFAS 125 provides that certain assets that are subject to prepayment and retained in connection with a securitization must be accounted for like debt securities that are classified as available for sale or as trading account assets, which are carried at fair value. To satisfy this requirement, Key reclassified approximately $280 million of retained interests in securitizations from "other assets" to "securities available for sale." At the time of the transfer, the carrying amount of these assets exceeded their fair value by approximately $68 million. This difference was recorded as a reduction to the carrying amount of the transferred assets, and a matching reduction of $43 million (after-tax) was made to "accumulated other comprehensive (loss) income" in shareholders' equity.

Key realizes gains from loan securitizations when loans are sold for more than their allocated carrying amount. In some cases, Key retains an interest in securitized loans (also known as an "interest-only strip"). These retained interests are subject to the rules prescribed by SFAS 125. Therefore, they initially are recorded at an allocated carrying amount based on fair value. Fair value is determined by computing the present value of estimated cash flows using a discount rate considered commensurate with the risks associated with the cash flows and the dates that Key expects to receive such cash flows. Key records net gains and losses in "net loan securitization gains (losses)" on the income statement. Income earned under servicing or administration arrangements is recorded in "other income" on the income statement.

Key has a valuation committee that meets quarterly to ensure that all retained interest-only strips are valued appropriately in the financial statements. The committee reviews the historical performance of each strip and the assumptions used to project future cash flows. Assumptions are revised if past performance and future expectations dictate, and cash flows are recalculated based on the revised assumptions.

The present value of these cash flows is referred to as the "interest-only strip fair value." For strips classified as trading account assets, any increase or decrease in the asset's fair value is recognized immediately in "net loan securitization gains (losses)." For interest-only strips classified as securities available for sale, impairment is indicated if the carrying amount of the interest-only strip exceeds its fair value. A determination is made as to whether this difference represents permanent or temporary impairment. Permanent impairment is recognized in income. Temporary impairment is recorded in equity as a component of "accumulated other comprehensive (loss) income." If the interest-only strip fair value exceeds the carrying amount of the strip, the write-up to fair value is similarly recorded in equity.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of the amount that is necessary to absorb potential credit losses in the loan portfolio. Key determines and maintains an appropriate allowance for loan losses based on a comprehensive and consistently applied analysis of the loan portfolio, which is conducted at least quarterly, and more often, if deemed necessary.

Allowance for impaired loans. When appropriate, an impaired loan is assigned a specific allowance. Management calculates the extent of the impairment, which is the carrying amount of the loan less the fair value of any existing collateral (for a secured loan) or the estimated present value of future cash flows (for an unsecured loan). When collateral value or expected cash flow does not justify the carrying amount of a loan, the amount that management deems uncollectible (the impaired amount) is charged against the allowance for loan losses. When collateral value or other sources of repayment appear sufficient, but management remains uncertain about whether the loan will be repaid in full, an amount is specifically allocated in the allowance for loan losses.

Allowance for nonimpaired loans and binding commitments. Management establishes an allowance for nonimpaired loans and legally binding commitments by applying Key's historical loss rates to existing loans with similar risk characteristics. The results of this analysis are then adjusted based on management's review of factors that may skew such rates, including:

- changes in national and local economic and business conditions;
- changes in experience, ability and depth of lending management and staff or in lending policies or in the mix and volume of the loan portfolio;
- the trend of the volume of past due, nonaccrual and other loans; and
- the effect of external factors, such as competition, legal developments and regulatory guidelines.

In addition, management generally maintains an unallocated allowance in light of the subjectivity inherent in estimating potential credit losses.

As of December 31, 1999, Key has not detected any meaningful credit quality issues arising from client difficulties with Year 2000 conversions that would result in an adjustment to the allowance for loan losses. Nonetheless, it is possible that such issues may arise over an extended period of time. Key will continue to monitor its loan portfolio for situations that might require special attention.

Premises and Equipment

Premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation and amortization. Management determines depreciation of premises and equipment using the straight-line method over the estimated useful lives of the particular assets. Leasehold improvements are amortized using the straight-line method over the terms of the leases. Accumulated depreciation and amortization on premises and equipment totaled $922 million at December 31, 1999, and $905 million at December 31, 1998.

Intangible Assets

"Goodwill" represents the amount by which the cost of net assets acquired exceeds their fair value. Goodwill is amortized using the straight-line method over the period (up to 25 years) that management expects the acquired assets to have value.

"Other intangibles" primarily represent the net present value of the future economic benefits to be derived from the purchase of core deposits. Other intangibles are amortized on either an accelerated or straight-line basis over periods ranging from 5 to 15 years.

Accumulated amortization on goodwill and other intangible assets was $566 million at December 31, 1999, and $467 million at December 31, 1998. Key reviews goodwill and other intangibles for impairment when impairment indicators, such as significant changes in market conditions, changes in product mix or management focus, and a potential sale or disposition, arise. In most instances, Key will use the undiscounted cash flow method, but the market value method is used if Key is considering a sale or disposition.

Internally Developed Software

Key relies on both company personnel and independent contractors to plan, develop, install, customize and enhance computer systems applications that

support corporate and administrative operations. Software development costs, such as those related to program coding, testing, configuration and installation are capitalized and included in "other assets" on the balance sheet. The resulting asset ($286 million at December 31, 1999, and $368 million at December 31, 1998) is amortized using the straight-line method over its expected useful life (not to exceed five years). Costs incurred during the planning and post-development phase of an internal software project are expensed as incurred.

Key's Internally Developed Software Valuation Committee reviews internally developed software for impairment quarterly, and more often if deemed necessary. The committee reviews all significant projects to evaluate software performance and usage relative to expectations. Software that is considered impaired is written down to its fair value. When management decides to replace unimpaired software, amortization of such software is accelerated to the expected replacement date.

Derivatives Used for Asset and Liability Management Purposes

Key uses derivatives known as interest rate swaps and caps to manage interest rate risk. These instruments modify the repricing or maturity characteristics of specified on-balance sheet assets and liabilities. For example, an interest rate cap tied to variable rate debt would effectively prevent the interest rate on that debt from rising above a specified point. To qualify for hedge accounting treatment, a derivative must be effective at reducing the risk associated with the exposure being managed and must be designated as a risk management transaction at the inception of the derivative contract. The test for whether an instrument effectively reduces risk is whether there is a high degree of interest rate correlation between the derivative and the asset or liability being managed, both at inception and over the life of the derivative contract.

There are several rules that govern the hedge accounting treatment of derivatives:

- Changes in fair value of a derivative are not included in the financial statements.
- The net interest income or expense associated with a derivative is accrued and recognized as an adjustment to the interest income or interest expense of the asset or liability being managed.
- The interest receivable or payable from a derivative contract is recorded in "other assets" or "other liabilities" on the balance sheet.
- Premiums paid for a derivative are amortized as an adjustment to the interest income or expense of the asset or liability being managed.
- Realized gains and losses resulting from the early termination of a derivative contract are deferred as an adjustment to the carrying amount of the related asset or liability.
- Deferred gains or losses from early terminations are amortized using the straight-line method over the shorter of the projected remaining life of the derivative contract on the date of termination or the projected remaining life of the underlying asset or liability on such date.

Derivatives Used for Trading Purposes

Derivatives that are not used for asset and liability management purposes are used for trading purposes. Key enters into contracts for such derivatives either to make a market for clients or for proprietary trading purposes. Derivatives used for trading purposes typically include financial futures, foreign exchange forward and spot contracts, written and purchased options (including currency options), and interest rate swaps, caps and floors.

All derivatives used for trading purposes are recorded at fair value. Fair value is determined by estimating the present value of future cash flows. Derivatives with a positive fair value are included in "other assets" on the balance sheet, and derivatives with a negative fair value are included in "other liabilities." Changes in fair value (including payments and receipts) are recorded in "investment banking and capital markets income" on the income statement.

Employee Stock Options

Key accounts for stock options issued to employees using the intrinsic value method. This method requires that compensation expense be recognized to the extent the fair value of the stock exceeds the exercise price of the option at the grant date. Employee stock options generally have exercise prices that are equal to or greater than the fair value of Key's common shares at the grant date. Therefore, Key does not recognize compensation expense when options are granted. In the case of options with features tied to Key's financial performance, Key recognizes compensation expense after the grant date when the fair value of the stock exceeds the exercise price and it is highly probable that the financial performance measures will be met.

Marketing Costs

Key expenses all marketing-related costs, including advertising costs, as incurred.

Restructuring Charges

Restructuring charges may be recorded by Key in connection with certain events or transactions including business combinations, changes in Key's strategic plan, changing business conditions that may result in a decrease or exit from affected businesses, or other factors. Such charges typically result from the consolidation or relocation of operations, or the disposition or abandonment of operations or productive assets. Any of these events could result in a significant downsizing of the workforce.

To qualify as restructuring charges, costs must be incremental and incurred as a direct result of the restructuring event or transaction. Restructuring charges do not include costs that are associated with or incurred to benefit future periods. Among the costs typically included in restructuring charges and often associated with the term "restructuring" are those related to:

- employee severance and termination benefits;
- the consolidation of operations facilities; and
- losses resulting from the impairment or disposal of assets.

Accounting Pronouncements Adopted in 1999

Retained interests from securitizations. As of January 1, 1999, Key adopted Statement of Financial Accounting Standards No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise" ("SFAS 134"). SFAS 134 requires Key to classify mortgage-backed securities or other retained interests resulting from mortgage loan securitizations according to Key's ability and intent to sell or hold those assets. The statement conforms the accounting for securities and uncertificated interests retained after the securitization of mortgage loans to the accounting for securities and uncertificated interests retained after the securitization of other types of assets by non-mortgage banking enterprises.

Key has reclassified retained interests from mortgage loan securitizations as either "available for sale" or "trading securities." Because Key was

following the procedures prescribed by SFAS 134 before formally adopting the standard, the accounting change had minimal impact on Key's financial condition and results of operations.

Costs of computer software. As of January 1, 1999, Key adopted Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). This statement provides guidance on matters including the characteristics to be considered in identifying internal-use software and the circumstances under which related costs should be expensed or capitalized. The provisions of SOP 98-1 are substantially consistent with the accounting policy that Key already followed for internally developed software. As a result, adoption did not have a material impact on Key's financial condition or results of operations.

Accounting Pronouncements Pending Adoption

Derivatives and hedging activities. In July 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 137, "Deferral of the Effective Date of SFAS 133." This new statement delays the effective date of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," until fiscal years beginning after June 15, 2000.

SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively called "derivatives") and for hedging activities. SFAS 133 requires that all derivatives be recognized on the balance sheet at fair value. Depending on the nature of the hedge, and the extent to which it is effective, the changes in fair value of the derivative will either be offset against the change in fair value of the hedged item (which also is recognized in earnings) or recorded in comprehensive income and subsequently recognized in earnings in the period the hedged item affects earnings. The portion of a hedge that is deemed ineffective and all changes in the fair value of derivatives not designated as hedges will be recognized immediately in earnings.

Key will adopt the provisions of SFAS 133 as of January 1, 2001. Management is currently reviewing SFAS 133 to determine the extent to which the statement will alter Key's use of certain derivatives in the future and the impact on Key's financial condition and results of operations.

2. Earnings Per Common Share

The computation of Key's basic and diluted earnings per common share is as follows:

Year ended December 31, *dollars in millions, except per share amounts*	**1999**	**1998**	**1997**
NET INCOME	**$1,107**	$996	$919
WEIGHTED AVERAGE COMMON SHARES			
Weighted average common shares outstanding (000)	**448,168**	441,895	439,042
Potential addition to common shares (000)[a]	**4,195**	5,542	5,502
Weighted average common shares and potential common shares outstanding (000)	**452,363**	447,437	444,544
EARNINGS PER COMMON SHARE			
Net income per common share	**$2.47**	$2.25	$2.09
Net income per common share — assuming dilution	**2.45**	2.23	2.07

[a] *Represents the effect of dilutive common stock options.*

3. Mergers, Acquisitions and Divestitures

Completed Mergers and Acquisitions

McDonald & Company Investments, Inc.

On October 23, 1998, Key acquired McDonald & Company Investments, Inc., a full-service investment banking and securities brokerage company headquartered in Cleveland, Ohio. McDonald had assets of approximately $776 million at the time of the transaction.

To acquire McDonald, Key issued 19,337,159 common shares, with a value of approximately $581 million. The transaction was structured as a tax-free merger and was accounted for as a purchase. Key recorded goodwill of $444 million, which is being amortized using the straight-line method over a period of 25 years.

Key established a retention program under which certain McDonald employees received stock options for approximately 3.3 million Key common shares. The options will vest over a three-year period. In addition, approximately $30 million in cash may be paid to certain McDonald employees over a three-year period.

Champion Mortgage Co., Inc.

On August 29, 1997, Key acquired Champion Mortgage Co., Inc., a home equity finance company headquartered in Parsippany, New Jersey. Champion is now a wholly owned subsidiary of Key Bank USA, National Association, which is a wholly owned subsidiary of KeyCorp.

To acquire Champion, Key exchanged 3,336,118 pre-split common shares, with a value of approximately $200 million, for all of the outstanding shares of Champion common stock. If Champion achieves certain volume and profitability performance targets over the three-year period following the acquisition date, Champion's former shareholders may receive up to an additional $100 million in Key common shares.

The transaction was structured as a tax-free exchange and was accounted for as a purchase. Key recorded goodwill of $195 million, which is being amortized using the straight-line method over a period of 25 years.

Leasetec Corporation

On July 1, 1997, Key acquired an 80% interest (with an option to purchase the remaining 20%) in Leasetec Corporation, an equipment leasing company headquartered in Boulder, Colorado. At the time of the transaction,

Leastec had assets of approximately $1.1 billion and maintained operations in the United States and overseas. The transaction was accounted for as a purchase. Key recorded goodwill of $126 million, which is being amortized using the straight-line method over a period of 25 years.

Key acquired the remaining 20% interest in Leasetec on June 26, 1998. This transaction created additional goodwill of $26 million, which is being amortized over the remainder of the 25-year period that began July 1, 1997. Due to a confidentiality clause in the purchase agreement, the terms, which are not material, have not been disclosed publicly.

Completed Divestitures

Compaq Capital Europe LLC and Compaq Capital Asia Pacific LLC

On July 28, 1999, Key sold its 50% interests in Compaq Capital Europe LLC and Compaq Capital Asia Pacific LLC to Compaq Capital Corporation. Key and Compaq formed these companies in 1998 to provide customized equipment leasing and financing programs to Compaq's clients in the United Kingdom, Europe and Asia. Key recognized a gain of $13 million ($8 million after tax), which is included in "gains from other divestitures" on the income statement.

Electronic Payment Services, Inc.

On February 28, 1999, Electronic Payment Services, Inc., an electronic funds transfer processor in which Key held a 20% interest, merged with a wholly owned subsidiary of Concord EFS, Inc. Key received 5,931,825 shares of Concord EFS in exchange for its Electronic Payment Services stock, and recognized a gain of $134 million ($85 million after tax), which is included in "gains from other divestitures" on the income statement. On June 17, 1999, Key sold the Concord EFS shares and recognized a gain of $15 million ($9 million after tax), which is included in "net securities gains" on the income statement.

Key Merchant Services, LLC

On January 21, 1998, Key sold a 51% interest in Key Merchant Services, LLC, a wholly owned subsidiary formed to provide merchant credit card processing services, to NOVA Information Systems, Inc. Key recognized a $23 million gain ($14 million after tax) at the time of closing.

Under the terms of the agreement with NOVA, Key was entitled to receive additional payments if Key Merchant Services achieved certain revenue-related performance targets. These additional payments created a gain of $27 million ($17 million after tax) in the fourth quarter of 1998 and a final gain of $14 million ($9 million after tax) during the first quarter of 1999. These gains are included in "gains from other divestitures" on the income statement. Due to a confidentiality clause in the agreement, the terms, which are not material, have not been disclosed.

Branch divestitures

On October 18, 1999, Key sold its Long Island franchise, which included 28 KeyCenters with $1.3 billion in deposits and $505 million in loans. This transaction resulted in a gain of $194 million ($122 million after tax). During 1998, Key sold 46 KeyCenters with deposits of $658 million, and recorded aggregate gains of $39 million ($22 million after tax). During 1997, Key sold 76 KeyCenters (not including those involved in the sale of KeyBank Wyoming) with deposits of $1.3 billion, and recorded aggregate gains of $98 million ($62 million after tax). All of the above gains are included in "gains from branch divestitures" on the income statement.

On July 14, 1997, Key sold KeyBank National Association (Wyoming), its Wyoming bank subsidiary, which had 28 branches (also known as KeyCenters). KeyBank Wyoming had assets of $1.1 billion and deposits of $931 million at the time of the transaction. Key recognized a gain of $53 million ($35 million after tax), which is included in "gains from branch divestitures" on the income statement.

Transaction Pending at December 31, 1999 (Unaudited)

On January 31, 2000, Key sold its credit card portfolio of $1.3 billion in receivables and nearly 600,000 active VISA and MasterCard accounts to Associates National Bank (Delaware). Key recognized a gain of $332 million ($209 million after tax).

4. Line of Business Results

Key's four major lines of business are Key Retail Banking, Key Specialty Finance, Key Corporate Capital and Key Capital Partners.

Key Retail Banking

Key Retail Banking delivers a complete line of branch-based financial products and services to small businesses and consumers. These products and services are delivered through 936 KeyCenters, a 24-hour telephone banking call center services group, 2,516 ATMs that access 13 different networks (resulting in one of the largest ATM networks in the United States) and a core team of relationship management professionals.

Key Specialty Finance

Key Specialty Finance provides indirect, non-branch-based consumer loan products, including automobile loans and leases, home equity loans, education loans, and marine and recreational vehicle loans. As of December 31, 1999, based on the volume of loans generated, Key Specialty Finance was one of the nation's leading providers of financing for education loans, automobile loans and leases, and purchases of marine and recreational vehicles.

Key Corporate Capital

Key Corporate Capital offers a complete range of financing, transaction processing and financial advisory services to corporations nationwide, and operates one of the largest bank-affiliated equipment leasing companies in the world, with operations in the United States, Europe and Asia. Based on total transaction volume, Key Corporate Capital is also one of the leading cash management providers in the country.

Key Corporate Capital's business units are organized around six specialized industry client segments: commercial banking, commercial real estate, lease financing, structured finance, healthcare and media/telecommunications. These targeted client segments can receive a number of specialized services, including international banking, cash management and corporate finance advisory services. Key Corporate Capital also offers investment banking, capital markets, 401(k) and trust custody products in cooperation with Key Capital Partners.

Key Capital Partners

Key Capital Partners provides asset management, wealth management, private banking, brokerage, investment banking, capital markets and insurance expertise. This line of business, which generates a substantial

Year ended December 31,	Key Retail Banking			Key Specialty Finance			Key Corporate Capital		
dollars in millions	1999	1998	1997	1999	1998	1997	1999	1998	1997
SUMMARY OF OPERATIONS									
Net interest income (taxable equivalent)	**$1,227**	$1,202	$1,373	**$662**	$601	$557	**$1,027**	$ 937	$ 850
Noninterest income	**327**	313	310	**190**	139	87	**208**	145	113
Revenue sharing[a]	**64**	84	51	**4**	3	4	**143**	114	80
Total revenue[b]	**1,618**	1,599	1,734	**856**	743	648	**1,378**	1,196	1,043
Provision for loan losses	**61**	60	61	**182**	183	207	**112**	75	67
Depreciation and amortization expense	**140**	131	164	**62**	53	40	**64**	53	25
Other noninterest expense	**825**	848	847	**338**	295	271	**426**	399	402
Expense sharing[a]	**46**	57	38	**—**	—	—	**80**	64	46
Income before income taxes (taxable equivalent)	**546**	503	624	**274**	212	130	**696**	605	503
Allocated income taxes and taxable equivalent adjustments	**202**	184	250	**109**	86	46	**262**	227	185
Net income (loss)	**$ 344**	$ 319	$ 374	**$165**	$126	$ 84	**$ 434**	$ 378	$ 318
Percent of consolidated net income (loss)	**31%**	32%	41%	**15%**	13%	9%	**39%**	38%	35%
AVERAGE BALANCES									
Loans	**$10,006**	$ 9,771	$10,012	**$15,688**	$14,605	$13,170	**$29,206**	$25,224	$20,390
Total assets[b]	**11,310**	11,094	11,146	**16,774**	15,623	13,925	**30,576**	26,225	21,462
Deposits	**32,046**	33,357	35,283	**130**	123	124	**2,866**	2,765	2,832
OTHER FINANCIAL DATA									
Expenditures for additions to long-lived assets[b]	**$15**	$71	$111	**$24**	$18	$208	**$20**	$51	$144
Efficiency ratio[f]	**62.48%**	64.79%	60.50%	**46.73%**	46.84%	45.47%	**41.76%**	43.14%	45.35%

[a] *Represents the assignment of Key Capital Partners' revenue and expense to the lines of business principally responsible for maintaining the relationships with the clients that used Key Capital Partners' products and services.*

[b] *Substantially all revenue generated by Key's major lines of business is derived from clients resident in the United States. Substantially all long-lived assets, including premises and equipment, capitalized software and goodwill, held by Key's major lines of business are located in the United States.*

[c] *"Reconciling items" reflect certain nonrecurring items (which are included in noninterest income) and charges related to unallocated nonearning assets of corporate support functions (which are included in net interest income and allocated to the business segments through noninterest expense). Noninterest income includes gains of $357 million ($225 million after tax) in 1999, $89 million ($53 million after tax) in 1998, and $151 million ($97 million after tax) in 1997 from certain divestitures. Noninterest income in 1999 also includes a nonrecurring charge of $11 million ($7 million after tax).*

amount of Key's fee income, comprises three major business groups. One group, operating under the name McDonald Investments Inc., includes retail and institutional brokerage, equity and fixed income trading and underwriting, investment banking, capital markets products, loan syndication and trading, public finance and clearing operations. The second group, referred to as Key Asset Management, includes asset management, mutual funds, institutional asset services, wealth management and insurance. The third group, known as Key Principal Partners, includes equity capital, mezzanine finance and alliance funds. The future growth and success of Key Capital Partners depend heavily on its ability to capitalize on the corporate and retail banking distribution channels and client relationships that other Key lines of business have already developed.

The table which spans pages 62 and 63 shows selected financial data for each major line of business for the years ended December 31, 1999, 1998 and 1997. The financial information was derived from the internal profitability reporting system that management uses to monitor and manage Key's financial performance. The selected financial data are based on internal accounting policies designed to ensure that results are compiled on a consistent basis and reflect the underlying economics of Key's four major businesses. In accordance with these policies:

- Funds transfer pricing was used in the determination of net interest income by assigning a standard cost for funds used (or a standard credit for funds provided) to assets and liabilities based on their maturity, prepayment and/or repricing characteristics. The net effect of funds transfer pricing is included in the "Treasury and Other" columns of the table.
- Indirect expenses, such as computer servicing costs and corporate overhead, were allocated based on the extent to which each line of business actually used the service.
- The provision for loan losses was allocated among the lines of business based primarily upon their actual net charge-offs, adjusted for loan growth and changes in risk profile. The level of the consolidated provision is based upon the methodology that Key uses to estimate its consolidated allowance for loan losses. This methodology is described in Note 1 ("Summary of significant accounting policies") under the heading "Allowance for loan losses" on page 58.
- Income taxes were allocated based on the statutory Federal income tax rate of 35% (adjusted for tax-exempt income from corporate owned life insurance, nondeductible goodwill amortization 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% for the periods presented.
- Capital was assigned to each line of business based on management's assessment of economic risk factors (primarily credit, operating and market risk).

Developing and applying the methodologies that management follows to allocate items among Key's 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 segment of Key's business or changes in Key's structure. In fact, the financial data for all three years presented in the above table reflects revisions in Key's organizational structure and funds transfer pricing methodology that occurred during 1999. Primary among the structural changes were the reclassification of five businesses (public sector, retail brokerage, wealth management, private banking and franchise trust) from Key Retail Banking to Key Capital Partners; the reclassification of commercial banking from Key Retail Banking to Key Corporate Capital; and the reclassification of institutional asset services from Key Corporate Capital to Key Capital Partners. Management also enhanced funds transfer

Key Capital Partners			Treasury and Other			Total Segments			Reconciling Items			KeyCorp Consolidated		
1999	1998	1997	1999	1998	1997	1999	1998	1997	1999	1998	1997	1999	1998	1997
$ 202	$ 159	$ 155	$(123)	$(23)	$ 26	$2,995	$2,876	$2,961	$(176)	$(158)	$(172)	$2,819	$2,718	$2,789
1,033	724	493	169	158	161	1,927	1,479	1,164	367	96	142	2,294	1,575	1,306
(211)	(201)	(135)	—	—	—	—	—	—	—	—	—	—	—	—
1,024	682	513	46	135	187	4,922	4,355	4,125	191[c]	(62)[c]	(30)[c]	5,113	4,293	4,095
4	3	2	5	3	8	364	324	345	(16)	(27)	(25)	348	297	320
100	65	32	24	13	10	390	315	271	6	13	13	396	328	284
863	561	477	127	121	132	2,579	2,224	2,129	74[d]	(69)	(27)[d]	2,653	2,155	2,102
(126)	(121)	(84)	—	—	—	—	—	—	—	—	—	—	—	—
183	174	86	(110)	(2)	37	1,589	1,492	1,380	127	21	9	1,716	1,513	1,389
76	72	31	(81)	(40)	(16)	568	529	496	41	(12)	(26)	609	517	470
$ 107	$ 102	$ 55	$ (29)	$ 38	$ 53	$1,021	$ 963	$ 884	$ 86	$ 33	$ 35	$1,107	$ 996	$ 919
10%	10%	6%	(3)%	4%	6%	92%	97%	97%	8%	3%	3%	100%	100%	100%
$4,449	$3,557	$2,487	$ 2,839	$ 4,010	$ 5,168	$62,188	$57,167	$51,227	$ 213	$ 255	$ 188	$62,401	$57,422	$51,415
8,443	6,376	4,277	11,618	13,520	15,595	78,721	72,838	66,405	2,225[e]	2,443[e]	2,545[e]	80,946	75,281	68,950
3,222	2,783	2,466	3,748	2,196	2,563	42,012	41,224	43,268	(32)	48	505	41,980	41,272	43,773
$72	$420	$1	$21	$2	—	$152	$562	$464	$87	$138	$171	$239	$700	$635
81.74%	74.05%	82.46%	N/M	N/M	N/M	60.65%	58.42%	57.64%	N/M	N/M	N/M	59.43%	58.49%	58.21%

[d] *Noninterest expense in 1999 includes $152 million ($96 million after tax) of nonrecurring charges recorded in connection with strategic actions being taken to improve Key's operating efficiency and profitability, including restructuring charges of $98 million ($62 million after tax). Noninterest expense for 1999 also includes special contributions of $23 million ($15 million after tax) made to the charitable foundation that Key sponsors, and $42 million ($26 million after tax) of various other nonrecurring charges. Noninterest expense for 1997 includes a charge of $50 million ($33 million after tax) related to the disposal of excess real estate.*

[e] *Total assets represents primarily the unallocated portion of nonearning assets of corporate support functions.*

[f] *This ratio, which measures the extent to which recurring revenues are absorbed by operating expenses, is calculated as follows: noninterest expense (excluding certain nonrecurring charges) divided by the sum of taxable-equivalent net interest income and noninterest income (excluding net securities transactions, gains from certain divestitures and certain nonrecurring charges).*

TE = Taxable Equivalent

N/M = Not Meaningful

pricing by refining the methodology applied to residential mortgage loans, certain fixed rate commercial loans, leases, certain deposit products with indeterminate maturities and medium-term notes. In addition, charges related to unallocated nonearning assets of corporate support functions are now allocated to the business segments through noninterest expense. Also, the financial impact of the Treasury function is now included under the column entitled, "Treasury and Other," as opposed to being allocated to the major business lines.

There is no authoritative guidance for "management accounting" — the way that management uses its judgment and experience to guide reporting decisions — similar to generally accepted accounting principles for financial accounting. Consequently, the results that Key reports cannot necessarily be compared with those presented by other companies.

5. Securities

The amortized cost, unrealized gains and losses, and approximate fair value of Key's securities were as follows:

December 31,	1999				1998			
in millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE								
U.S. Treasury, agencies and corporations	$ 128	—	$ 1	$ 127	$ 420	$ 2	—	$ 422
States and political subdivisions	53	—	—	53	65	2	—	67
Collateralized mortgage obligations	4,426	—	189	4,237	2,191	21	$ 1	2,211
Other mortgage-backed securities	1,705	$ 6	33	1,678	2,123	34	6	2,151
Retained interests in securitizations	340	3	—	343	345	—	17	328
Other securities	223	4	—	227	84	16	1	99
Total securities available for sale	$6,875	$13	$223	$6,665	$5,228	$75	$25	$5,278
INVESTMENT SECURITIES								
States and political subdivisions	$447	$12	—	$459	$631	$28	—	$ 659
Other securities	539	—	—	539	345	—	—	345
Total investment securities	$986	$12	—	$998	$976	$28	—	$1,004

When Key retains an interest in securitized loans, Key bears the risk that the loans will be prepaid (which results in less interest income) or not paid at all. Key's retained interests (which include both certificated and uncertificated interests) are accounted for like debt securities that are classified as available for sale or as trading account assets.

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

Year ended December 31, *in millions*	**1999**	**1998**	**1997**
Realized gains	**$42**	$18	$20
Realized losses	**13**	9	19
Net securities gains	**$29**	$ 9	$ 1

At December 31, 1999, securities available for sale and investment securities with an aggregate amortized cost of approximately $6 billion were pledged to secure public and trust deposits, securities sold under repurchase agreements, and for other purposes required or permitted by law.

The following table shows securities available for sale and investment securities by remaining contractual maturity. Collateralized mortgage obligations, other mortgage-backed securities and retained interests in securitizations are presented based on their expected average lives.

	Securities Available for Sale		**Investment Securities**	
December 31, 1999 *in millions*	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 777	$ 769	$127	$126
Due after one through five years	4,522	4,416	213	220
Due after five through ten years	1,096	1,045	93	98
Due after ten years	480	435	553	554
Total	$6,875	$6,665	$986	$998

6. Loans

Key's loans by category are summarized as follows:

December 31, *in millions*	**1999**	**1998**
Commercial, financial and agricultural	**$18,497**	$17,038
Real estate — commercial mortgage	**6,836**	7,309
Real estate — construction	**4,528**	3,450
Commercial lease financing	**6,665**	5,613
Total commercial loans	**36,526**	33,410
Real estate — residential mortgage	**4,333**	5,083
Home equity	**7,602**	7,301
Credit card	**—**	1,425
Consumer — direct	**2,565**	2,342
Consumer — indirect lease financing	**3,195**	2,580
Consumer — indirect other	**6,398**	7,009
Total consumer loans	**24,093**	25,740
Real estate — commercial mortgage	**146**	87
Real estate — residential mortgage	**48**	110
Home equity	**371**	—
Credit card	**1,362**	—
Education	**1,676**	2,665
Total loans held for sale	**3,603**	2,862
Total loans	**$64,222**	$62,012

Key uses portfolio interest rate swaps to manage interest rate risk; these swaps modify the repricing and maturity characteristics of certain loans. For more information about the notional amount, fair value, and weighted average rate of such swaps at December 31, 1999, see Note 18 ("Financial Instruments with Off-Balance Sheet Risk"), which begins on page 72.

Commercial and consumer lease financing in the preceding table include contracts that represent more than one type of leasing arrangement. The predominant form is direct financing leases. The composition of the net investment in direct financing leases included in loans is as follows:

December 31, *in millions*	**1999**	**1998**
Direct financing lease receivable	**$ 8,025**	$ 5,293
Unearned income	**(1,130)**	(1,020)
Unguaranteed residual value	**776**	2,085
Deferred fees and costs	**83**	76
Net investment in direct financing leases	**$ 7,754**	$ 6,434

Minimum future lease payments to be received are as follows: 2000 — $1,718 million; 2001 — $1,833 million; 2002 — $1,741 million; 2003 — $910 million; 2004 — $596 million; and all subsequent years — $1,227 million.

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

Year ended December 31, *in millions*	**1999**	**1998**	**1997**
Balance at beginning of year	**$ 900**	$ 900	$ 870
Charge-offs	**(420)**	(384)	(378)
Recoveries	**102**	87	85
Net charge-offs	**(318)**	(297)	(293)
Provision for loan losses	**348**	297	320
Allowance acquired, net	**—**	—	3
Balance at end of year	**$ 930**	$ 900	$ 900

7. Impaired Loans and Other Nonperforming Assets

Key's nonperforming assets were as follows:

December 31, *in millions*	1999	1998
Impaired loans	$246	$193
Other nonaccrual loans	161	172
Total nonperforming loans	407	365
OREO	27	56
Allowance for OREO losses	(3)	(18)
OREO, net of allowance	24	38
Other nonperforming assets	2	1
Total nonperforming assets	$433	$404

At December 31, 1999, impaired loans totaled $246 million. This amount includes $153 million of impaired loans with a specifically allocated allowance for loan losses of $63 million and $93 million of impaired loans that are carried at their estimated fair value without a specifically allocated allowance. At the end of 1998, impaired loans totaled $193 million; $95 million of those loans had a specifically allocated allowance of $42 million and $98 million were carried at their estimated fair value. The average investment in impaired loans for 1999 was $216 million, and for 1998 was $194 million.

At December 31, 1999, Key did not have any significant commitments to lend additional funds to borrowers with restructured loans or loans on nonaccrual status.

Key evaluates most impaired loans individually using the process described under the heading "Allowance for Loan Losses," on page 58. However, Key does not perform a specific impairment valuation for smaller-balance, homogeneous, nonaccrual loans (shown in the preceding table as "Other nonaccrual loans"). Generally, this portfolio includes loans to finance residential mortgages, automobiles, recreational vehicles, boats and mobile homes. Management applies historical loss experience rates to these loans, adjusted based on assessments of emerging credit trends and other factors, and then allocates a portion of the allowance for loan losses to each loan type.

The following table shows the amount by which loans classified as nonperforming at December 31 reduced Key's expected interest income.

Year ended December 31, *in millions*	1999	1998	1997
Interest income receivable under original terms	$ 38	$ 32	$ 36
Less: Interest income recorded during the year	(15)	(12)	(13)
Net reduction to interest income	$ 23	$ 20	$ 23

8. Short-Term Borrowings

dollars in millions	1999	1998	1997
FEDERAL FUNDS PURCHASED			
Balance at year end	$1,883	$1,910	$4,058
Average during the year	2,254	4,022	4,036
Maximum month-end balance	3,712	5,678	5,079
Weighted average rate during the year	5.01%	5.52%	5.57%
Weighted average rate at December 31	5.54	4.99	5.65
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS			
Balance at year end	$2,294	$2,558	$2,921
Average during the year	2,602	2,613	2,906
Maximum month-end balance	2,969	2,813	3,191
Weighted average rate during the year	4.11%	4.59%	4.61%
Weighted average rate at December 31	4.45	3.76	4.48
SHORT-TERM BANK NOTES			
Balance at year end	$6,379	$7,290	$4,730
Average during the year	5,633	6,705	4,090
Maximum month-end balance	7,174	7,790	4,730
Weighted average rate during the year	5.54%	5.41%	5.50%
Weighted average rate at December 31	6.46	5.17	5.85
OTHER SHORT-TERM BORROWINGS			
Balance at year end	$2,060	$2,438	$1,237
Average during the year	2,279	1,269	651
Maximum month-end balance	3,452	3,105	1,517
Weighted average rate during the year	4.04%	5.99%	6.30%
Weighted average rate at December 31	3.43	5.54	5.40

Key uses portfolio interest rate swaps and caps to manage interest rate risk; these instruments modify the repricing and maturity characteristics of certain short-term borrowings. For more information, see Note 18 ("Financial Instruments with Off-Balance Sheet Risk"), which begins on page 72.

Key has several programs that support short-term financing needs.

Bank note program. This program provides for the issuance of up to $20.0 billion ($19.0 billion by KeyBank National Association and $1.0 billion by Key Bank USA, National Association) of bank notes with original maturities of 30 days to 30 years. At December 31, 1999, the amount of bank notes available for issuance under the program was $8.4 billion.

Euronote program. KeyCorp, KeyBank National Association and Key Bank USA, National Association may issue both long- and short-term debt of up to $7.0 billion to non-U.S. investors. This facility had $2.4 billion of long-term borrowings outstanding as of December 31, 1999.

Commercial paper and revolving credit. KeyCorp's commercial paper program and three-year revolving credit agreement each provide funding availability of up to $500 million. Borrowings outstanding under the commercial paper program totaled $215 million at December 31, 1999, and $92 million at December 31, 1998.

Lines of credit. Key Bank USA, National Association has a line of credit with the Federal Reserve Bank that provides for overnight borrowings of up to $928 million. This line is secured by $1.3 billion of Key Bank USA, National Association's credit card receivables at December 31, 1999. KeyBank National Association has overnight borrowing capacity at the Federal Reserve Bank of approximately $17.2 billion, which is secured by approximately $23.3 billion of primarily commercial loans at December 31, 1999. Neither bank had borrowings outstanding under these facilities at December 31, 1999 and 1998.

9. Long-Term Debt

The components of Key's long-term debt, presented net of unamortized discount where applicable, were as follows:

December 31, *dollars in millions*	**1999**	**1998**
Senior medium-term notes due through 2005[a]	**$ 396**	$ 419
Subordinated medium-term notes due through 2005[a]	**133**	133
7.50% Subordinated notes due 2006[b]	**250**	250
6.75% Subordinated notes due 2006[b]	**200**	200
8.125% Subordinated notes due 2002[b]	**199**	199
8.00% Subordinated notes due 2004[b]	**125**	125
8.404% Notes due through 2001	**24**	34
8.40% Subordinated capital notes due 1999	**—**	75
All other long-term debt[h]	**4**	5
Total parent company[i]	**1,331**	1,440
Senior medium-term bank notes due through 2039[c]	**9,396**	7,426
Senior euro medium-term bank notes due through 2007[d]	**2,413**	1,441
6.50% Subordinated remarketable securities due 2027[e]	**312**	313
6.95% Subordinated notes due 2028[e]	**300**	300
7.125% Subordinated notes due 2006[e]	**250**	250
7.25% Subordinated notes due 2005[e]	**200**	200
6.75% Subordinated notes due 2003[e]	**200**	200
7.50% Subordinated notes due 2008[e]	**165**	165
7.30% Subordinated notes due 2011[e]	**107**	—
7.85% Subordinated notes due 2002[e]	**93**	200
7.55% Subordinated notes due 2006[e]	**75**	75
7.375% Subordinated notes due 2008[e]	**70**	70
Lease financing debt due through 2006[f]	**613**	574
Federal Home Loan Bank advances due through 2029[g]	**242**	289
All other long-term debt[h]	**114**	24
Total subsidiaries	**14,550**	11,527
Total long-term debt	**$15,881**	$12,967

Key uses portfolio interest rate swaps and caps to manage interest rate risk; these instruments modify the repricing and maturity characteristics of certain long-term debt. For more information about the notional amount, fair value and weighted average rate of such financial instruments at December 31, 1999, see Note 18 ("Financial Instruments with Off-Balance Sheet Risk"), which begins on page 72.

[a] *At December 31, 1999, the senior medium-term notes had a weighted average interest rate of 6.83%, and the subordinated medium-term notes had a weighted average interest rate of 7.09%. At December 31, 1998, the senior medium-term notes had a weighted average interest rate of 6.55%, and the subordinated medium-term notes had a weighted average interest rate of 7.09%. These notes had a combination of fixed and floating interest rates.*

[b] *The 7.50%, 6.75%, 8.125%, and 8.00% subordinated notes may not be redeemed or prepaid prior to maturity.*

[c] *Subsidiaries' senior medium-term bank notes had weighted average interest rates of 5.98% at December 31, 1999, and 5.30% at December 31, 1998. These notes had a combination of fixed and floating interest rates.*

[d] *The senior euro medium-term notes had weighted average interest rates of 6.26% at December 31, 1999, and 5.52% at December 31, 1998. These notes, which are obligations of KeyBank National Association, had fixed and floating interest rates based on the three-month London Interbank Offered Rate (known as "LIBOR").*

[e] *The subordinated notes and securities are all obligations of KeyBank National Association, with the exception of the 7.55% notes, which are obligations of Key Bank USA, National Association. These notes may not be redeemed prior to their maturity dates. The 7.30% notes were issued in exchange for a portion of the 7.85% notes during the first quarter of 1999.*

[f] *Lease financing debt had weighted average interest rates of 7.64% at December 31, 1999, and 6.56% at December 31, 1998. This category of debt primarily comprises nonrecourse debt collateralized by leased equipment under operating, direct financing and sales type leases.*

[g] *Long-term advances from the Federal Home Loan Bank had weighted average interest rates of 6.27% at December 31, 1999, and 5.39% at December 31, 1998. These advances, which had a combination of fixed and floating interest rates, were secured by $363 million of real estate loans and securities at December 31, 1999, and $409 million of such loans and securities at December 31, 1998.*

[h] *Other long-term debt, comprising industrial revenue bonds, capital lease obligations, and various secured and unsecured obligations of corporate subsidiaries, had weighted average interest rates of 6.76% at December 31, 1999, and 7.17% at December 31, 1998.*

[i] *At December 31, 1999, unused capacity under KeyCorp's shelf registration totaled $1.0 billion, including $450 million reserved for future issuance as medium-term notes.*

Scheduled principal payments on long-term debt are as follows:

in millions	**Parent**	**Subsidiaries**	**Total**
2000	$287	$5,842	$6,129
2001	113	2,755	2,868
2002	240	1,546	1,786
2003	45	1,196	1,241
2004	125	1,600	1,725

10. Capital Securities

KeyCorp guarantees the corporation-obligated mandatorily redeemable preferred capital securities of subsidiary trusts holding solely subordinated debentures of the Corporation ("capital securities"). These securities were issued by five business trusts: KeyCorp Institutional Capital A, KeyCorp Institutional Capital B, KeyCorp Capital I, KeyCorp Capital II and KeyCorp Capital III. As guarantor, KeyCorp unconditionally guarantees payment of:

- accrued and unpaid distributions required to be paid on the capital securities;
- the redemption price when a capital security is called for redemption; and
- amounts due if a trust is liquidated or terminated.

KeyCorp owns all of the outstanding common stock of each of the five trusts. The trusts used the proceeds from the issuance of their capital securities and common stock to buy debentures issued by KeyCorp. These debentures are the trusts' only assets and the interest payments from the debentures finance the distributions paid on the capital securities. Key's financial statements do not reflect the debentures or the related income statement effects because they are eliminated in consolidation.

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

dollars in millions	Capital Securities, Net of Discount[a]	Common Securities	Principal Amount of Debentures, Net of Discount[b]	Interest Rate of Capital Securities and Debentures[c]	Maturity of Capital Securities and Debentures
December 31, 1999					
KeyCorp Institutional Capital A	$ 350	$11	$ 361	7.826%	2026
KeyCorp Institutional Capital B	150	4	154	8.250	2026
KeyCorp Capital I	247	8	255	6.819	2028
KeyCorp Capital II	247	8	255	6.875	2029
KeyCorp Capital III	249	8	257	7.750	2029
Total	$1,243	$39	$1,282	7.473%	—
December 31, 1998	$997	$31	$1,028	7.149%	—

[a] *The capital securities are mandatorily redeemable when the related debentures mature, or earlier if provided in the governing indenture. Each issue of capital securities carries an interest rate identical to that of the related debenture. The capital securities constitute minority interests in the equity accounts of KeyCorp's consolidated subsidiaries and, therefore, qualify as Tier 1 capital under Federal Reserve Board guidelines.*

[b] *KeyCorp has the right to redeem its debentures: (i) in whole or in part, on or after December 1, 2006 (for debentures owned by Capital A), December 15, 2006 (for debentures owned by Capital B), July 1, 2008 (for debentures owned by Capital I), March 18, 1999 (for debentures owned by Capital II), and July 16, 1999 (for debentures owned by Capital III); and (ii) in whole at any time within 90 days after and during the continuation of a "tax event" or a "capital treatment event" (as defined in the applicable offering circular). If the debentures purchased by Capital A or Capital B are redeemed before they mature, the redemption price will be the principal amount, plus a premium, plus any accrued but unpaid interest. If the debentures purchased by 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 Capital II or Capital III are redeemed before they mature, the redemption price will the greater of: (i) the principal amount, plus any accrued but unpaid interest or (ii) the sum of the present values of principal and interest payments discounted at the Treasury Rate (as defined in the applicable offering circular), plus 20 basis points (25 basis points for Capital III), plus any accrued but unpaid interest. When debentures are redeemed in response to tax or capital treatment events, the redemption price is generally slightly more favorable to Key.*

[c] *The interest rates for Capital A, Capital B, Capital II, and Capital III are fixed. Capital I has a floating interest rate (which reprices quarterly) equal to three-month LIBOR plus 74 basis points. The rates shown as the total at December 31, 1999 and 1998, are weighted average rates.*

11. Shareholders' Equity

Shareholder Rights Plan

KeyCorp has a shareholder rights plan which was first adopted in 1989 and has since been amended. Under the plan, each shareholder received one Right — representing the right to purchase a common share for $82.50 — for each KeyCorp common share owned. All of the Rights expire on May 14, 2007, but KeyCorp may redeem Rights earlier for $.005 per Right, subject to certain limitations.

Rights will become exercisable if a person or group acquires 15% or more of KeyCorp's outstanding shares. Until that time, the Rights will trade with the common shares; any transfer of a common share will also constitute a transfer of the associated Right. If the Rights become exercisable, they will begin to trade apart from the common shares. If one of a number of "flip-in events" occurs, each Right will entitle the holder to purchase a KeyCorp common share for $1.00 (the par value per share), and the Rights held by a 15% or more shareholder will become void.

Capital Adequacy

KeyCorp and its banking subsidiaries must meet specific capital requirements imposed by banking industry regulators. Sanctions for failure to meet applicable capital requirements may include regulatory enforcement actions that restrict dividend payments, require increased capital, terminate Federal Deposit Insurance Corporation ("FDIC") deposit insurance, and mandate the appointment of a conservator or receiver, in severe cases. Management believes that as of December 31, 1999, KeyCorp and its banking subsidiaries met all necessary capital requirements.

Federal bank regulators apply certain capital ratios to group FDIC-insured depository institutions into five categories: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." At December 31, 1999 and 1998, the most recent regulatory notification categorized each of KeyCorp's subsidiary banks as "well capitalized." Management believes there have not been any changes in condition or events since those notifications which would cause the banks' categorizations to change.

Bank holding companies are not categorized by capital adequacy as are their bank subsidiaries. However, Key satisfied the criteria for a "well capitalized" institution at December 31, 1999 and 1998. The FDIC-defined capital categories may not accurately represent the overall financial condition or prospects of Key or its affiliates.

The following table presents Key and KeyBank National Association's actual capital amounts and ratios, minimum capital amounts and ratios prescribed by regulatory guidelines, and capital amounts and ratios required to qualify as "well capitalized" under the Federal Deposit Insurance Act.

	Actual		To Meet Minimum Capital Adequacy Requirements		To Qualify as Well Capitalized Under Prompt Corrective Action Provisions	
dollars in millions	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 1999						
TOTAL CAPITAL TO NET RISK-ADJUSTED ASSETS						
Key	**$9,569**	**11.66%**	**$6,567**	**8.00%**	**N/A**	**N/A**
KeyBank National Association	**7,907**	**10.72**	**5,902**	**8.00**	**$7,377**	**10.00%**
TIER 1 CAPITAL TO NET RISK-ADJUSTED ASSETS						
Key	**$6,306**	**7.68%**	**$3,283**	**4.00%**	**N/A**	**N/A**
KeyBank National Association	**5,458**	**7.40**	**2,951**	**4.00**	**$4,426**	**6.00%**
TIER 1 CAPITAL TO AVERAGE ASSETS						
Key	**$6,306**	**7.77%**	**$2,434**	**3.00%**	**N/A**	**N/A**
KeyBank National Association	**5,458**	**7.39**	**2,954**	**4.00**	**$3,692**	**5.00%**
December 31, 1998						
TOTAL CAPITAL TO NET RISK-ADJUSTED ASSETS						
Key	$8,731	11.69%	$5,973	8.00%	N/A	N/A
KeyBank National Association	7,746	11.39	5,439	8.00	$6,799	10.00%
TIER 1 CAPITAL TO NET RISK-ADJUSTED ASSETS						
Key	$5,383	7.21%	$2,987	4.00%	N/A	N/A
KeyBank National Association	5,291	7.78	2,720	4.00	$4,079	6.00%
TIER 1 CAPITAL TO AVERAGE ASSETS						
Key	$5,383	6.95%	$3,099	4.00%	N/A	N/A
KeyBank National Association	5,291	7.22	2,932	4.00	$3,665	5.00%

N/A = Not Applicable

12. Stock Options

Key's compensation plans allow for the granting of stock options, stock appreciation rights, limited stock appreciation rights, restricted stock and performance shares to eligible employees and directors. Under all of the option plans, exercise prices cannot be less than the fair value of Key's common stock on the grant date. Generally, options expire no later than 10 years from their grant date.

At December 31, 1999, KeyCorp had 8,868,531 common shares available for future grant, compared with 9,049,032 at December 31, 1998. Of the options outstanding at December 31, 1999, 3,211,200 are "performance shares," which will only vest if certain performance targets are met. Key did not grant performance shares in 1999 and granted 363,200 performance shares in 1998.

The following table summarizes activity, pricing and other information about Key's stock options.

	1999		1998	
	Options	**Weighted Average Price Per Option**	**Options**	**Weighted Average Price Per Option**
Outstanding at beginning of year	**27,068,012**	**$22.84**	22,296,568	$18.33
Granted	**6,151,189**	**30.68**	8,512,716	32.31
Assumed in acquisition	**—**	**—**	416,652	16.61
Exercised	**2,160,786**	**15.20**	3,049,295	14.53
Lapsed or canceled	**1,577,118**	**28.74**	1,108,629	25.12
Outstanding at end of year	**29,481,297**	**$24.72**	27,068,012	$22.84
Exercisable at end of year	**13,885,015**	**$19.19**	11,993,163	$15.89

The following table summarizes the range of exercise prices for Key's stock options at December 31, 1999.

Range of Exercise Prices	Options Outstanding	Weighted Average Price Per Option	Weighted Average Remaining Life (Years)	Options Exercisable	Weighted Average Price Per Option
$4.13-$14.99	6,494,147	$13.63	3.8	6,199,792	$13.64
15.00-19.99	3,834,304	17.15	5.2	3,834,304	17.15
20.00-24.99	286,495	22.31	7.7	234,095	22.52
25.00-29.99	6,017,561	26.16	7.4	1,671,275	26.12
30.00-34.99	12,047,256	31.43	8.6	1,603,437	32.66
35.00-50.00	801,534	39.90	8.4	342,112	43.43
Total	29,481,297	$24.72	6.9	13,885,015	$19.19

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," requires companies such as Key which use the "intrinsic value method" to account for employee stock options, to provide pro forma disclosures of the net income and earnings per share effect of stock options using the "fair value method." Under the intrinsic value method, the excess of the fair value of the stock over the exercise price is recorded as expense on the date at which both the number of shares the recipient is entitled to receive and the exercise price are known. Management estimated the fair value of options granted using the Black-Scholes option pricing model. This model was originally developed to estimate the fair value of exchange-traded equity options, which (unlike employee stock options) have no vesting period or transferability restrictions. As a result, the Black Scholes model is not a perfect indicator of the value of an option.

The Black-Scholes model requires several assumptions, which management developed based on historical trends and current market observations. These assumptions include:

- an average option life of 4.3 years in 1999, 4.3 years in 1998 and 5.5 years in 1997;
- a future dividend yield of 3.4% in 1999, 2.9% in 1998 and 3.2% in 1997;
- share price volatility of .256 in 1999, .240 in 1998 and .240 in 1997; and
- a weighted average risk-free interest rate of 4.9% in 1999, 5.1% in 1998 and 6.4% in 1997.

If these assumptions are not accurate, the estimated fair values used to derive the information shown in the following table also will be incorrect. Moreover, the model assumes that the estimated fair value of an option is amortized over the option's vesting period and would be included in personnel expense on the income statement. The pro forma impact of applying the fair value method of accounting for the years shown below may not be indicative of the pro forma impact in future years.

Year ended December 31, *in millions, except per share amounts*	**1999**	**1998**	**1997**
Net income	**$1,107**	$996	$919
Net income — pro forma	**1,085**	981	913
Per common share:			
Net income	**$2.47**	$2.25	$2.09
Net income — pro forma	**2.42**	2.22	2.08
Net income assuming dilution	**2.45**	2.23	2.07
Net income assuming dilution — pro forma	**2.39**	2.19	2.05

13. Restructuring Charges

During 1999, KeyCorp recorded restructuring charges of $98 million ($62 million after tax) in connection with strategic actions being taken to improve operating efficiency and profitability. The largest portion of these charges ($91 million pre-tax) was recorded in the fourth quarter.

The primary strategic actions being taken include the outsourcing of certain technology and other corporate support functions, the consolidation of sites in a number of Key's businesses and a reduction in the number of management layers. These actions are expected to reduce Key's workforce by approximately 3,000 positions, or 11%, by the end of 2000. Approximately 25% of the reduction, which will take place throughout the organization, will occur at the management level. As of December 31, 1999, approximately 438 positions had been eliminated.

The components of the restructuring charge include accruals for severance payments ($67 million), costs related to site consolidations ($24 million) and costs related to the acceleration of depreciation/amortization or write-off of equipment and certain other assets ($7 million). During 1999, cash payments of $5 million and a non-cash charge of $2 million were taken against the severance accrual. The liability for restructuring charges remaining at December 31, 1999, was $91 million. Key expects to record additional restructuring charges (primarily for severance) during 2000 in connection with this productivity initiative.

14. Employee Benefits

Pension Plans

Net pension cost (income) for all funded and unfunded plans includes the following components.

Year ended December 31, *in millions*	**1999**	**1998**	**1997**
Service cost of benefits earned	**$ 28**	$ 29	$ 29
Interest cost on projected benefit obligation	**47**	51	53
Expected return on plan assets	**(82)**	(80)	(69)
Amortization of unrecognized net transition assets	**(5)**	(5)	(5)
Amortization of prior service cost	**2**	2	3
Amortization of losses	**3**	2	5
Net pension cost (income)	**$ (7)**	$ (1)	$ 16

Changes in the projected benefit obligation ("PBO") are summarized as follows:

Year ended December 31, *in millions*	**1999**	**1998**
PBO at beginning of year	**$751**	$733
Service cost	**28**	29
Interest cost	**47**	51
Actuarial (gains) losses	**(28)**	25
Benefit payments	**(73)**	(87)
PBO at end of year	**$725**	$751

Changes in the fair value of plan assets ("FVA") are summarized as follows:

Year ended December 31, *in millions*	**1999**	**1998**
FVA at beginning of year[a]	**$ 933**	$931
Actual return on plan assets	**140**	33
Employer contributions	**7**	56
Benefit payments	**(73)**	(87)
FVA at end of year[a]	**$1,007**	$933

[a] *Consists primarily of listed stocks and fixed income securities.*

The funded status of the plans at September 30 (the actuarial measurement date), reconciled to the amounts recognized in the consolidated balance sheets at December 31, 1999 and 1998, is as follows:

December 31, *in millions*	**1999**	**1998**
Funded status[a]	**$282**	$182
Unrecognized net (gain) loss	**(58)**	32
Unrecognized prior service benefit	**(2)**	(1)
Unrecognized net transition asset	**(7)**	(12)
Benefits paid subsequent to measurement date	**2**	2
Prepaid pension cost	**$217**	$203

[a] *The excess of the fair value of plan assets over the pension benefit obligation.*

Key provides certain non-qualified supplemental executive retirement programs that are unfunded. At December 31, 1999, the projected benefit obligation for these unfunded plans was $107 million (compared with $116 million at the end of 1998), and the accumulated benefit obligation was $100 million (compared with $103 million at the end of 1998).

In order to determine the actuarial present value of benefit obligations and net pension cost (income), management assumed the following weighted average rates.

Year ended December 31,	**1999**	**1998**	**1997**
Discount rate	**7.50%**	6.50%	7.25%
Compensation increase rate	**4.00**	4.22	4.20
Expected return on plan assets	**9.75**	9.75	9.50

Other Postretirement Benefit Plans

Key sponsors a postretirement healthcare plan, which is contributory. Retirees' contributions are adjusted annually to reflect certain cost-sharing provisions and benefit limitations. Key also sponsors life insurance plans covering certain grandfathered employees. These plans are principally noncontributory.

Net postretirement benefits cost includes the following components.

Year ended December 31, *in millions*	**1999**	**1998**	**1997**
Service cost of benefits earned	**$ 3**	$ 3	$ 3
Interest cost on accumulated postretirement benefit obligation	**7**	7	8
Expected return on plan assets	**(1)**	(1)	—
Amortization of transition obligation	**5**	5	5
Net postretirement benefits cost	**$14**	$14	$16

Changes in the accumulated postretirement benefit obligation ("APBO") are summarized as follows:

Year ended December 31, *in millions*	**1999**	**1998**
APBO at beginning of year	**$114**	$108
Service cost	**3**	3
Interest cost	**7**	7
Plan participants' contributions	**3**	2
Actuarial (gains) losses	**(8)**	6
Benefit payments	**(13)**	(12)
APBO at end of year	**$106**	$114

Changes in the fair value of plan assets are summarized as follows:

Year ended December 31, *in millions*	**1999**	**1998**
FVA at beginning of year	**$20**	$10
Employer contributions	**14**	9
Plan participants' contributions	**3**	—
Benefit payments	**(7)**	—
Actual return on plan assets	**1**	1
FVA at end of year	**$31**	$20

The funded status of the plans at September 30 (the actuarial measurement date), reconciled to the amounts recognized in the consolidated balance sheets at December 31, 1999 and 1998, is as follows:

Year ended December 31, *in millions*	**1999**	**1998**
Funded status[a]	**$(75)**	$(94)
Unrecognized net (gain) loss	**(7)**	1
Unrecognized prior service cost	**1**	1
Unrecognized transition obligation	**61**	65
Contributions/benefits paid subsequent to measurement date	**10**	13
Impact of curtailment subsequent to measurement date	**(2)**	—
Net amount recognized	**$(12)**	$(14)

[a] *The excess of the accumulated postretirement benefit obligation over the fair value of plan assets.*

The assumed weighted average healthcare cost trend rate for 2000 is 6.4% for both Medicare-eligible retirees and non-Medicare eligible retirees. The rate is assumed to decrease gradually to 5.5% by the year 2003 and remain constant thereafter. Increasing or decreasing the assumed healthcare cost trend rate by one percentage point each future year would not have a material impact on net postretirement benefits cost or obligations since the postretirement plans have cost-sharing provisions and benefit limitations.

To determine the accumulated postretirement benefit obligation and the net postretirement benefits cost, management assumed the following weighted average rates:

Year ended December 31,	**1999**	**1998**	**1997**
Discount rate	**7.50%**	6.50%	7.25%
Expected return on plan assets	**5.73**	9.50	9.50

Employee 401(k) Savings Plan

A substantial majority of Key's employees are covered under a savings plan that is qualified under Section 401(k) of the Internal Revenue Code. Key's plan permits employees to contribute 1% to 10% of eligible compensation, with up to 6% being eligible for matching contributions in the form of Key common shares. The plan also permits Key to distribute a discretionary profit sharing component. Total expense associated with the plan was $46 million in 1999, $39 million in 1998 and $41 million in 1997.

15. Income Taxes

Income taxes included in the consolidated statements of income are summarized below. Key files a consolidated Federal income tax return.

Year ended December 31, *in millions*	1999	1998	1997
Currently payable:			
Federal	$104	$147	$265
State	7	11	22
	111	158	287
Deferred:			
Federal	421	296	122
State	45	29	17
	466	325	139
Total income tax expense[a]	$577	$483	$426

[a] *Income tax expense on securities transactions totaled $10 million in 1999, $3 million in 1998, and $.4 million in 1997. Income tax expense excludes equity- and gross receipts-based taxes, which are assessed in lieu of an income tax in certain states in which Key operates. These taxes are included in noninterest expense and totaled $35 million in 1999, $39 million in 1998, and $36 million in 1997.*

Significant components of Key's deferred tax assets and liabilities are as follows:

December 31, *in millions*	1999	1998
Provision for loan losses	$ 352	$ 332
Net unrealized securities losses	79	—
Restructuring charges	37	5
Write-down of OREO	11	20
Other	194	88
Total deferred tax assets	673	445
Leasing income reported using the operating method for tax purposes	1,874	1,375
Net unrealized securities gains	—	19
Depreciation	44	14
Other	84	27
Total deferred tax liabilities	2,002	1,435
Net deferred tax liabilities	$1,329	$ 990

The following table shows how Key arrives at total income tax expense.

Year ended December 31, *in millions*	1999	1998	1997
Income before income taxes times 35% statutory Federal tax rate	$589	$518	$471
State income tax, net of Federal tax benefit	34	26	25
Amortization of non-deductible intangibles	27	24	19
Tax-exempt interest income	(20)	(23)	(27)
Corporate owned life insurance income	(38)	(38)	(30)
Tax credits	(28)	(22)	(26)
Other	13	(2)	(6)
Total income tax expense	$577	$483	$426

16. Commitments, Contingent Liabilities and Other Disclosures

Legal Proceedings

In the ordinary course of business, Key is subject to legal actions involving claims for substantial monetary relief. Based on information presently known to management and Key's counsel, management does not believe that there are any legal actions that, individually or in the aggregate, will have a material adverse effect on Key's financial condition.

Restrictions on Cash, Due from Banks, Subsidiary Dividends and Lending Activities

Federal law requires depository institutions to maintain a prescribed amount of cash or noninterest-bearing balances with the Federal Reserve Bank. KeyCorp's banking subsidiaries maintained average reserve balances aggregating $449 million in 1999 to fulfill these requirements.

KeyCorp's principal source of cash flow, including the cash needed to pay dividends on its common shares and to service its debt, is dividends from its banking and other subsidiaries. Various Federal and state statutes and regulations limit the amount of dividends KeyCorp's banking subsidiaries can pay without prior regulatory approval. At December 31, 1999, KeyCorp's banking subsidiaries could have declared dividends of approximately $697 million in the aggregate without obtaining such approval.

Federal law also restricts loans and advances from banking subsidiaries to their parent companies (and to nonbank subsidiaries of their parent companies), and requires those transactions to be secured.

Obligations Under Noncancelable Leases

Key is obligated under various noncancelable leases for land, buildings and other property, consisting principally of data processing equipment. Rental expense under all operating leases totaled $162 million in 1999, $132 million in 1998, and $118 million in 1997. Minimum future rental payments under noncancelable leases at December 31, 1999, are as follows: 2000 — $134 million; 2001 — $118 million; 2002 — $102 million; 2003 — $94 million; 2004 — $81 million; and all subsequent years — $464 million.

17. Fair Value Disclosures of Financial Instruments

The carrying amount and estimated fair value of Key's financial instruments are as follows:

December 31,	1999		1998	
in millions	Carrying Amount	Fair Value	Carrying Amount	Fair Value
ASSETS				
Cash and short-term investments[a]	$ 4,676	$ 4,676	$ 5,270	$ 5,270
Securities available for sale[b]	6,665	6,665	5,278	5,278
Investment securities[b]	986	998	976	1,004
Loans, net of allowance[c]	63,292	63,559	61,112	62,427
LIABILITIES				
Deposits with no stated maturity[a]	$24,641	$24,641	$26,363	$26,363
Time deposits[d]	18,592	18,593	16,220	16,312
Short-term borrowings[a]	12,616	12,616	14,196	14,196
Long-term debt[d]	15,881	15,533	12,967	13,447
CAPITAL SECURITIES[d]	1,243	1,139	997	1,034

Valuation Methods and Assumptions

[a] *Fair value equals or approximates carrying amount.*

[b] *Fair values of securities available for sale and investment securities generally were based on quoted market prices. Where quoted market prices were not available, fair values were based on quoted market prices of similar instruments.*

[c] *Fair values of most loans were estimated using discounted cash flow models. Lease financing receivables and loans held for sale were included in the estimated fair value of loans at their carrying amounts, although lease financing receivables are excluded from the scope of Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments." The fair value of the credit card portfolio is equal to the contracted price at which the portfolio was sold in January 2000.*

[d] *Fair values of time deposits, long-term debt, and capital securities were estimated based on discounted cash flows.*

The estimated fair values of residential real estate mortgage loans (included in the amount shown for "Loans, net of allowance") and deposits do not take into account the fair values of long-term client relationships, which are integral parts of the related financial instruments. The estimated fair values of these instruments would be significantly higher if they included the fair values of these relationships. Such is the case with Key's credit card receivables which were valued at an amount equal to the contracted price at which the portfolio was sold in January 2000.

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.

If management used different assumptions (on matters such as discount rates and cash flow) and estimation methods, the estimated fair values shown in the table could change significantly. Accordingly, these estimates do not necessarily reflect the amounts Key's financial instruments would command in a current market exchange. Similarly, because Statement of Financial Accounting Standards No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements, the fair value amounts shown in the table do not, by themselves, represent Key's underlying value.

Interest rate swaps, caps and floors (which are not included in the preceding table) were valued based on discounted cash flow models and had an aggregate fair value of $50 million at December 31, 1999, and $245 million at December 31, 1998. Foreign exchange forward contracts (also excluded from the table) were valued based on quoted market prices and had a fair value that approximated their carrying amount at December 31, 1999 and 1998. Off-balance sheet financial instruments are discussed in greater detail in Note 18 ("Financial Instruments with Off-Balance Sheet Risk").

18. Financial Instruments with Off-Balance Sheet Risk

Key, mainly through its lead bank (KeyBank National Association), is party to various financial instruments with off-balance sheet risk. These financial instruments may be used for lending-related purposes, asset and liability management or trading purposes. Generally, these instruments help Key meet clients' financing needs and manage its exposure to "market risk" — the possibility that net interest income will be adversely affected due to changes in interest rates or other economic factors. However, like other financial instruments, these contain an element of "credit risk" — the possibility that Key will incur a loss because a counterparty fails to meet its contractual obligations.

The primary financial instruments that Key uses are commitments to extend credit; standby and commercial letters of credit; interest rate swaps, caps and futures; and foreign exchange forward contracts. All of the foreign exchange forward contracts and interest rate swaps and caps held are over-the-counter instruments.

Financial Instruments Held or Issued for Lending-Related Purposes

These instruments — primarily loan commitments and standby letters of credit — involve credit risk not reflected on Key's balance sheet. Key mitigates its exposure to credit risk with internal controls that guide the way staff reviews and approves applications for credit, establishes credit limits and, when necessary, demands collateral. In particular, Key evaluates the credit-worthiness of each prospective borrower on a case-by-case basis. Key does not have any significant concentrations of credit risk.

Commitments to extend credit are agreements to provide financing at predetermined terms, as long as the client continues to meet specified criteria. Loan commitments generally carry variable rates of interest and have fixed expiration dates or other termination clauses. In many cases, a client must pay a fee to induce Key to issue a loan commitment. Since a commitment may expire without resulting in a loan, the total amount of outstanding commitments does not necessarily represent the future cash outlay that Key will make.

Standby letters of credit enhance the credit-worthiness of Key's clients by assuring their financial performance to third parties in connection with particular transactions. Amounts drawn under standby letters of credit are essentially loans: they bear interest (generally at variable rates) and pose the same credit risk to Key as a loan would.

The following table shows the contractual amount of each class of lending-related, off-balance sheet financial instrument outstanding. The table discloses Key's maximum possible accounting loss, which is equal to the contractual amount of the various instruments. The estimated fair values of these commitments and standby letters of credit are not material.

December 31, *in millions*	**1999**	**1998**
Loan commitments:		
Credit card lines	**$ 7,108**	$ 6,320
Home equity	**4,560**	4,347
Commercial real estate and construction	**1,842**	2,046
Commercial and other	**22,023**	20,995
Total loan commitments	**35,533**	33,708
Other commitments:		
Standby letters of credit	**1,987**	1,834
Commercial letters of credit	**120**	138
Loans sold with recourse	**16**	21
Total loan and other commitments	**$37,656**	$35,701

Financial Instruments Held or Issued for Asset and Liability Management Purposes

Key manages exposure to interest rate risk, in part, by using off-balance sheet financial instruments, commonly referred to as derivatives. Instruments used for this purpose modify the repricing or maturity characteristics of specified on-balance sheet assets and liabilities. The principal financial instruments that Key uses to manage exposure to interest rate risk are interest rate swaps and caps, also referred to as "portfolio" swaps and caps. In addition, Key uses treasury-based interest rate locks to manage the risk associated with anticipated loan securitizations.

To qualify for hedge accounting treatment, a derivative must be effective at reducing the risk associated with the exposure being managed and must be designated as a risk management transaction at the inception of the derivative contract. To be considered effective, there must be a high degree of interest rate correlation between the derivative and the asset or liability being managed, both at inception and over the life of the derivative contract.

Portfolio swaps and caps increased net interest income by $16 million in 1999, $23 million in 1998 and $64 million in 1997 (including the impact of both the spread on the swap portfolio and the amortization of deferred gains and losses resulting from terminated swaps). The weighted average rate received on portfolio swaps as of the end of 1999 exceeded the weighted average rate paid by 32 basis points.

The following table summarizes the features of the various types of portfolio swaps and caps that Key held at the end of 1999.

	December 31, 1999						**December 31, 1998**	
				Weighted Average Rate				
dollars in millions	**Notional Amount**	**Fair Value**	**Maturity (Years)**	**Receive**	**Pay**	**Strike**	**Notional Amount**	**Fair Value**
Interest rate swaps:								
Receive fixed/pay variable-indexed amortizing[a]	**$ 104**	**$ 1**	**1.0**	**7.20%**	**6.18%**	**N/A**	$ 311	$ 4
Receive fixed/pay variable — conventional	**5,962**	**(135)**	**5.4**	**6.15**	**5.83**	**N/A**	4,325	223
Pay fixed/receive variable — conventional	**5,545**	**105**	**3.8**	**6.20**	**6.12**	**N/A**	4,872	(68)
Pay fixed/receive variable — forward starting	**278**	**—**	**3.1**	**5.90**	**6.73**	**N/A**	10	—
Basis swaps	**6,783**	**(20)**	**1.7**	**6.15**	**5.59**	**N/A**	2,872	19
Total	**18,672**	**(49)**	**—**	**6.17%**	**5.85%**	**—**	12,390	178
Interest rate caps, collars and corridors:								
Caps purchased — one- to three-month LIBOR-based[b]	**2,000**	**7**	**.5**	**N/A**	**N/A**	**5.87%**	3,175	3
Collar — one- to three-month LIBOR-based	**250**	**—**	**1.1**	**N/A**	**N/A**	**4.75 and 6.50**	250	(1)
Collar — thirty-year U.S. Treasury-based	**—**	**—**	**—**	**N/A**	**N/A**	**—**	250	(24)
1% payout corridor[c]	**—**	**—**	**—**	**N/A**	**N/A**	**—**	200	—
Total	**2,250**	**7**	**—**	**—**	**—**	**—**	3,875	(22)
Total	**$20,922**	**$ (42)**	**—**	**—**	**—**	**—**	$16,265	$156

[a] *Maturity is based upon expected average lives rather than contractual terms.*

[b] *Includes no forward-starting caps at December 31, 1999, and $200 million at December 31, 1998.*

[c] *Payout is indexed to three-month LIBOR.*

N/A = Not Applicable

Interest rate swap contracts involve the exchange of interest payments calculated on an agreed-upon amount (known as the "notional amount"). Swaps are generally used to mitigate Key's exposure to interest rate risk on certain loans, securities, deposits, short-term borrowings and long-term debt. Key generally uses three types of interest rate swap contracts.

Conventional interest rate swap contracts involve the receipt of interest payments based on a fixed or variable rate in exchange for payments based on variable or fixed rates, without an exchange of the underlying notional amount.

Indexed amortizing swap contracts differ from conventional swaps because the notional amount of an indexed amortizing swap contract remains constant for a specified period of time. Then, based upon the level of an index at agreed-upon dates, one of three events will occur: the swap contract will mature, the notional amount will begin to amortize or the swap will continue in effect until it matures. At December 31, 1999, Key was party to $66 million of indexed amortizing swaps that used a LIBOR index and $38 million of indexed amortizing swaps that used a Constant Maturity Treasuries index.

Basis swap contracts involve the exchange of interest payments based on different floating indices.

Interest rate caps require the buyer to pay a premium to the seller for the right to receive an amount equal to the difference between the current interest rate and an agreed-upon interest rate (known as the "strike rate") applied to a notional amount. Key generally purchases caps, enters into collars (which involves simultaneously purchasing a cap and selling a floor) and enters into corridors (which involves simultaneously purchasing a cap at a specified strike rate and selling a cap at a higher strike rate) to manage the risk of adverse movements in interest rates on specified long-term debt and short-term borrowings.

The notional amount of swaps and caps is significantly greater than the amount at risk.

Credit risk. Swaps and caps present credit risk because the counterparty may not meet the terms of the contract. This risk is measured as the cost of replacing contracts — at current market rates — that have generated unrealized gains. To mitigate credit risk, Key deals exclusively with counterparties that have high credit ratings.

Key uses two additional precautions to manage exposure to credit risk on swap contracts. First, Key generally enters into bilateral collateral and master netting arrangements. These agreements include legal rights of setoff that provide for the net settlement of the subject contracts with the same counterparty in the event of default. Second, a credit committee monitors credit risk exposure to the counterparty on each interest rate swap to determine appropriate limits on Key's total credit exposure and the amount of collateral required, if any.

At December 31, 1999, Key had 38 different counterparties to portfolio swaps and swaps entered into to offset the risk of client swaps. Key had aggregate credit exposure of $237 million to 26 of these counterparties, with the largest credit exposure to an individual counterparty amounting to $37 million. As of the same date, Key's aggregate credit exposure on its interest rate caps totaled $76 million. Based on management's assessment as of December 31, 1999, all counterparties were expected to meet their obligations.

Accounting treatment and valuation. Management estimated the aggregate fair value of interest rate swaps at a negative $49 million at December 31, 1999. Fair value in this case represents an estimate of the unrealized loss that would be recognized if the portfolio were liquidated at that date. Management arrived at this estimate by using discounted cash flow models, which predict interest rates using the applicable forward yield curve.

Interest from a portfolio swap is recognized on an accrual basis over the life of the contract as an adjustment of the interest income or expense of the asset or liability whose risk is being managed. Gains and losses realized upon the termination of interest rate swaps prior to maturity are deferred as an adjustment to the carrying amount of the related asset or liability. The deferred gain or loss is amortized using the straight-line method over the projected remaining life of the swap at its termination or the projected remaining life of the underlying asset or liability, whichever is shorter.

During 1999, swaps with a notional amount of $4.5 billion were terminated, resulting in a net deferred gain of $18 million. During 1998, swaps with a notional amount of $642 million were terminated, resulting in a net deferred loss of $1 million. At December 31, 1999, Key had a net deferred swap gain of $21 million with a weighted average life of 4.8 years related to the management of debt, and a net deferred gain of $3 million with a weighted average life of 8.5 years related to the management of loans.

Financial Instruments Held or Issued for Trading Purposes

Futures contracts and interest rate swaps, caps and floors. Key uses these instruments for dealer activities (which are generally limited to the banks' commercial loan clients), and enters into other positions with third parties to mitigate the interest rate risk of the client positions. The swaps entered into with clients are generally limited to conventional swaps. All of the above instruments are recorded at their estimated fair values. Adjustments to fair value are included in "investment banking and capital markets income" on the income statement.

Foreign exchange forward contracts. Key uses these instruments to accommodate the business needs of clients and for proprietary trading purposes. Foreign exchange forward contracts provide for the delayed delivery or purchase of foreign currency. Key mitigates the associated foreign exchange risk by entering into other foreign exchange contracts with third parties. Adjustments to the fair value of all foreign exchange forward contracts are included in "investment banking and capital markets income" on the income statement.

Treasury options and futures. Key uses these instruments for proprietary trading purposes. Adjustments to the fair value of all such options are included in "investment banking and capital markets income" on the income statement.

Credit risk. At December 31, 1999, credit exposure from financial instruments held or issued for trading purposes was limited to the aggregate fair value of each contract with a positive fair value, or $525 million. Key manages credit risk by contracting only with counterparties with high credit ratings, continuously monitoring counterparties' performance, and entering into master netting agreements when possible.

The following table shows trading income recognized on interest rate, foreign exchange forward, and treasury-based option contracts.

December 31, *in millions*	**1999**	**1998**	**1997**
Interest rate contracts	**$40**	$65	$32
Foreign exchange forward contracts	**30**	22	16
Treasury-based option contracts	**4**	6	—

The following table summarizes the notional amount and fair value of derivative financial instruments held or issued for trading purposes at December 31, 1999, and on average for 1999. The interest rate swaps and caps related to securitization positions were executed in connection with the residual interests retained when Key securitized certain home equity and education loans. The positive fair values represent assets and the negative fair values represent liabilities.

The $24.6 billion notional amount of interest rate swaps presented in the table includes $11.6 billion of client swaps that receive a fixed rate and pay a variable rate, $9.1 billion of client swaps that pay a fixed rate and receive a variable rate, and $3.9 billion of basis swaps. As of December 31, 1999, the client swaps had an average expected life of 5.4 years, carried a weighted average rate received of 6.23%, and had a weighted average rate paid of 6.34%.

	December 31, 1999		Year ended December 31, 1999	
in millions	**Notional Amount**	**Fair Value**	**Average Notional Amount**	**Average Fair Value**
Interest rate contracts — client positions:				
Swap assets	$10,948	$ 360	$13,130	$ 296
Swap liabilities	13,624	(289)	10,351	(221)
Caps and floors purchased	502	5	426	2
Caps and floors sold	605	(5)	540	(2)
Futures purchased	455	(1)	593	(1)
Futures sold	7,392	15	11,373	16
Interest rate contracts — securitization positions:				
Swap assets	$1,193	$21	$ 884	$ 7
Caps purchased	1,225	62	890	32
Caps sold	2,225	(62)	1,290	(32)
Foreign exchange forward contracts:				
Assets	$1,786	$54	$1,531	$50
Liabilities	1,613	(49)	1,341	(45)
Treasury-based option contracts:				
Options purchased	$ 740	$ 8	$3,086	$51
Options sold	1,582	(12)	3,884	(38)

19. Condensed Financial Information of the Parent Company

CONDENSED BALANCE SHEETS

December 31, *in millions*	1999	1998
ASSETS		
Interest-bearing deposits with KeyBank National Association	**$ 683**	$ 314
Loans and advances to subsidiaries:		
Banks	**99**	99
Nonbank subsidiaries	**439**	324
	538	423
Investment in subsidiaries:		
Banks	**7,024**	6,982
Nonbank subsidiaries	**1,035**	889
	8,059	7,871
Other assets	**676**	437
Total assets	**$9,956**	$9,045
LIABILITIES		
Accrued interest and other liabilities	**$ 439**	$ 318
Short-term borrowings	**515**	92
Long-term debt:		
Subsidiary trusts	**1,282**	1,028
Unaffiliated companies	**1,331**	1,440
	2,613	2,468
Total liabilities	**3,567**	2,878
SHAREHOLDERS' EQUITY[a]	**6,389**	6,167
Total liabilities and shareholders' equity	**$9,956**	$9,045

[a] *See page 55 for the parent company's Statements of Changes in Shareholders' Equity.*

CONDENSED STATEMENTS OF INCOME

Year ended December 31,

in millions	1999	1998	1997
INCOME			
Dividends from subsidiaries:			
Banks	$ 900	$600	$180
Nonbank subsidiaries	46	11	28
Interest income from subsidiaries	47	40	51
Gain from sale of Electronic Payment Services, Inc.	134	—	—
Other income	17	20	62
	1,144	671	321
EXPENSES			
Interest on long-term debt with subsidiary trusts	87	67	50
Interest on other borrowed funds	96	94	100
Restructuring charges	98	—	—
Personnel and other expenses	123	87	68
	404	248	218
Income before income tax benefit and equity in net income less dividends from subsidiaries	740	423	103
Income tax benefit	74	83	43
	814	506	146
Equity in net income less dividends from subsidiaries	293	490	773
NET INCOME	$1,107	$996	$919

CONDENSED STATEMENTS OF CASH FLOW

Year ended December 31,

in millions	1999	1998	1997
OPERATING ACTIVITIES			
Net income	$1,107	$ 996	$ 919
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of intangibles	18	3	6
Net gains from divestitures	(134)	—	(53)
Net securities gains	(15)	—	—
Deferred income taxes	(27)	(13)	(2)
Equity in net income less dividends from subsidiaries	(293)	(490)	(773)
Net increase in other assets	(69)	(2)	(19)
Net increase in other liabilities	4	79	25
Net increase (decrease) in accrued restructuring charges	88	(22)	(75)
Other operating activities, net	(75)	17	14
NET CASH PROVIDED BY OPERATING ACTIVITIES	604	568	42
INVESTING ACTIVITIES			
Proceeds from prepayments and maturities of investment securities	—	—	18
Purchases of securities available for sale	(30)	(13)	(2)
Proceeds from prepayments and maturities of securities available for sale	154	5	2
Net (increase) decrease in interest-bearing deposits	(370)	(35)	479
Net increase in loans and advances to subsidiaries	(123)	(128)	(98)
Proceeds from sale of subsidiary	—	—	135
(Increase) decrease in investments in subsidiaries	(23)	14	125
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(392)	(157)	659
FINANCING ACTIVITIES			
Net increase in short-term borrowings	411	92	—
Net proceeds from issuance of long-term debt	510	255	258
Payments on long-term debt	(365)	(138)	(99)
Loan payment received from ESOP trustee	10	8	7
Purchases of treasury shares	(344)	(256)	(563)
Proceeds from issuance of common stock pursuant to employee benefit and dividend reinvestment plans	33	44	65
Cash dividends	(467)	(416)	(369)
NET CASH USED IN FINANCING ACTIVITIES	(212)	(411)	(701)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	—	—	—
CASH AND DUE FROM BANKS AT BEGINNING OF YEAR	—	—	—
CASH AND DUE FROM BANKS AT END OF YEAR	—	—	—

KeyCorp paid interest on borrowed funds amounting to $183 million in 1999, $161 million in 1998 and $147 million in 1997.