

KEYCORP /NEW/  
Form 10-K  
March 02, 2015  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

**ANNUAL REPORT**

**PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended

December 31, 2014

**Commission file number: 1-11302**

**Exact name of Registrant as specified in its charter:**

<b>Ohio</b>	<b>34-6542451</b>
<b>State or other jurisdiction of incorporation or organization:</b>	<b>IRS Employer Identification Number:</b>
<b>127 Public Square, Cleveland, Ohio</b>	<b>44114-1306</b>
<b>Address of Principal Executive Offices:</b>	<b>Zip Code:</b>

**(216) 689-3000**

**Registrant's Telephone Number, including area code:**

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Shares, \$1 par value	New York Stock Exchange

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7.750% Non-Cumulative Perpetual Convertible Preferred Stock, Series A New York Stock Exchange  
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of voting stock held by nonaffiliates of the Registrant was \$12,564,866,525 (based on the June 30, 2014, closing price of KeyCorp common shares of \$14.33 as reported on the New York Stock Exchange). As of February 26, 2015, there were 855,324,689 common shares outstanding.

Certain specifically designated portions of KeyCorp's definitive Proxy Statement for its 2015 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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### **Forward-looking Statements**

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

Forward-looking statements, by their nature, are subject to assumptions, risks, and uncertainties, many of which are outside of our control. Our actual results may differ materially from those set forth in our forward-looking statements. There is no assurance that any list of risks and uncertainties or risk factors is complete. Factors that could cause actual results to differ from those described in forward-looking statements include, but are not limited to:

- ⋮ deterioration of commercial real estate market fundamentals;
  
- ⋮ defaults by our loan counterparties or clients;
  
- ⋮ adverse changes in credit quality trends;
  
- ⋮ declining asset prices;
  
- ⋮ our concentrated credit exposure in commercial, financial, and agricultural loans;
  
- ⋮ the extensive and increasing regulation of the U.S. financial services industry;
  
- ⋮ changes in accounting policies, standards, and interpretations;
  
- ⋮ breaches of security or failures of our technology systems due to technological or other factors and cybersecurity threats;
  
- ⋮ operational or risk management failures by us or critical third-parties;
  
- ⋮ negative outcomes from claims or litigation;
  
- ⋮ the occurrence of natural or man-made disasters or conflicts or terrorist attacks;
  
- ⋮ increasing capital and liquidity standards under applicable regulatory rules;

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- ι unanticipated changes in our liquidity position, including but not limited to, changes in the cost of liquidity, our ability to enter the financial markets and to secure alternative funding sources;
  
- ι our ability to receive dividends from our subsidiary, KeyBank;
  
- ι downgrades in our credit ratings or those of KeyBank;
  
- ι a reversal of the U.S. economic recovery due to financial, political or other shocks;
  
- ι our ability to anticipate interest rate changes and manage interest rate risk;
  
- ι deterioration of economic conditions in the geographic regions where we operate;
  
- ι the soundness of other financial institutions;
  
- ι our ability to attract and retain talented executives and employees and to manage our reputational risks;
  
- ι our ability to timely and effectively implement our strategic initiatives;
  
- ι increased competitive pressure due to industry consolidation;

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⋆ unanticipated adverse effects of strategic partnerships or acquisitions and dispositions of assets or businesses; and

⋆ our ability to develop and effectively use the quantitative models we rely upon in our business planning.

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

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**PART I**

**ITEM 1. BUSINESS**

**Overview**

KeyCorp, organized in 1958 under the laws of the State of Ohio, is headquartered in Cleveland, Ohio. We are a bank holding company under the Bank Holding Company Act of 1956, as amended ( BHCA ), and are one of the nation's largest bank-based financial services companies, with consolidated total assets of approximately \$93.8 billion at December 31, 2014. KeyCorp is the parent holding company for KeyBank National Association ( KeyBank ), its principal subsidiary, through which most of our banking services are provided. Through KeyBank and certain other subsidiaries, we provide a wide range of retail and commercial banking, commercial leasing, investment management, consumer finance, commercial mortgage servicing and special servicing, and investment banking products and services to individual, corporate, and institutional clients through two major business segments: Key Community Bank and Key Corporate Bank.

As of December 31, 2014, these services were provided across the country through KeyBank's 994 full-service retail banking branches and a network of 1,287 automated teller machines ( ATMs ) in 12 states, as well as additional offices, online and mobile banking capabilities, and a telephone banking call center. Additional information pertaining to our two business segments is included in the Line of Business Results section in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this report, and in Note 23 ( Line of Business Results ) of the Notes to Consolidated Financial Statements presented in Item 8. Financial Statements and Supplementary Data, which are incorporated herein by reference. KeyCorp and its subsidiaries had an average of 13,853 full-time equivalent employees for 2014.

In addition to the customary banking services of accepting deposits and making loans, our bank and trust company subsidiaries offer personal, securities lending and custody services, personal financial services, access to mutual funds, treasury services, investment banking and capital markets products, and international banking services. Through our bank, trust company, and registered investment adviser subsidiaries, we provide investment management services to clients that include large corporate and public retirement plans, foundations and endowments, high-net-worth individuals, and multi-employer trust funds established for providing pension or other benefits to employees.

We provide other financial services both within and outside of our primary banking markets through various nonbank subsidiaries. These services include community development financing, securities underwriting, and brokerage. We also provide merchant services to businesses directly and through an equity participation in a joint venture.

KeyCorp is a legal entity separate and distinct from its banks and other subsidiaries. Accordingly, the right of KeyCorp, its security holders and its creditors to participate in any distribution of the assets or earnings of its banks and other subsidiaries is subject to the prior claims of the creditors of such banks and other subsidiaries, except to the extent that KeyCorp's claims in its capacity as a creditor may be recognized.

**Important Terms Used in this Report**

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



consisting of KeyBank and its subsidiaries.

The acronyms and abbreviations identified in Part II, Item 8. Note 1 ( Summary of Significant Accounting Policies ) hereof are used throughout this report, particularly in the Notes to Consolidated Financial Statements as well as in Management's Discussion and Analysis of Financial Condition and Results of Operations. You may find it helpful to refer to that section as you read this report.

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### Demographics

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

Key Community Bank serves individuals and small to mid-sized businesses by offering a variety of deposit, investment, lending, credit card, and personalized wealth management products and business advisory services. These products and services are provided through our relationship managers and specialists working in our 12-state branch network, which is organized into eight internally defined geographic regions: Pacific, Rocky Mountains, Indiana, Western Ohio and Michigan, Eastern Ohio, Western New York, Eastern New York, and New England.

The following table presents the geographic diversity of Key Community Bank's average deposits, commercial loans, and home equity loans.

Year ended	Geographic Region										Total
	Pacific	Rocky Mountains	Indiana	West Ohio/ Michigan	East Ohio	Western New York	Eastern New York	New England	NonRegion	(a)	
December 31, 2014											
<i>dollars in millions</i>											
Average deposits	\$ 11,301	\$ 4,984	\$ 2,320	\$ 4,344	\$ 9,026	\$ 4,931	\$ 7,892	\$ 2,895	\$ 2,632		\$ 50,325
Percent of total	22.5 %	9.9 %	4.6 %	8.6 %	17.9 %	9.8 %	15.7 %	5.8 %	5.2 %		100.0 %
Average commercial loans	\$ 3,497	\$ 1,702	\$ 749	\$ 1,138	\$ 2,201	\$ 573	\$ 1,853	\$ 745	\$ 2,974		\$ 15,432
Percent of total	22.7 %	11.0 %	4.8 %	7.4 %	14.3 %	3.7 %	12.0 %	4.8 %	19.3 %		100.0 %
Average home equity loans	\$ 3,283	\$ 1,580	\$ 489	\$ 850	\$ 1,274	\$ 815	\$ 1,296	\$ 651	\$ 102		\$ 10,340
Percent of total	31.8 %	15.3 %	4.7 %	8.2 %	12.3 %	7.9 %	12.5 %	6.3 %	1.0 %		100.0 %

(a) Represents average deposits, commercial loan products, and home equity loan products centrally managed outside of our eight Key Community Bank regions. Key Corporate Bank is a full-service corporate and investment bank focused principally on serving the needs of middle market clients in seven industry sectors: consumer, energy, healthcare, industrial, public sector, real estate, and technology. Key Corporate Bank delivers a broad product suite of banking and capital markets products to its clients, including syndicated finance, debt and equity capital markets, commercial payments, equipment finance, commercial mortgage banking, derivatives, foreign exchange, financial advisory, and public finance. Key Corporate Bank is also a significant servicer of commercial mortgage loans and a significant special servicer of CMBS. Key Corporate Bank delivers many of its product capabilities to clients of Key Community Bank.

Further information regarding the products and services offered by our Key Community Bank and Key Corporate Bank segments is included in this report in Note 23 ( Line of Business Results ).

**Table of Contents****Additional Information**

The following financial data is included in this report in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 8. Financial Statements and Supplementary Data, and is incorporated herein by reference as indicated below:

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Our executive offices are located at 127 Public Square, Cleveland, Ohio 44114-1306, and our telephone number is (216) 689-3000. Our website is [www.key.com](http://www.key.com), and the investor relations section of our website may be reached through [www.key.com/ir](http://www.key.com/ir). We make available free of charge, on or through the investor relations section of our website, annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our website, and available in print upon request from any shareholder to our Investor Relations Department, are the charters for our Audit Committee, Compensation and Organization Committee, Executive Committee, Nominating and Corporate Governance Committee, and Risk Committee; our Corporate Governance Guidelines; the Code of Ethics for our directors, officers and employees; our Standards for Determining Independence of Directors; our Policy for Review of Transactions Between KeyCorp and Its Directors, Executive Officers and Other Related Persons; and our Statement of Political Activity. Within the time period required by the SEC and the New York Stock Exchange, we will post on our website any amendment to the Code of Ethics and any waiver applicable to any senior executive officer or director. We also make available a summary of filings made with the SEC of statements of beneficial ownership of our equity securities filed by our directors and officers under Section 16 of the Exchange Act. The Regulatory Disclosure tab of the investor relations section of our website includes public disclosures concerning our annual and mid-year stress-testing activities under the Dodd-Frank Act.

Information contained on or accessible through our website or any other website referenced in this report is not part of this report. References to websites in this report are intended to be inactive textual references only.

Shareholders may obtain a copy of any of the above-referenced corporate governance documents by writing to our Investor Relations Department at Investor Relations, KeyCorp, 127 Public Square, Mailcode OH-01-27-0737, Cleveland, Ohio 44114-1306; by calling (216) 689-3000; or by sending an e-mail to [investor\\_relations@keybank.com](mailto:investor_relations@keybank.com).

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### **Acquisitions and Divestitures**

The information presented in Note 13 ( Acquisitions and Discontinued Operations ) is incorporated herein by reference.

### **Competition**

The market for banking and related financial services is highly competitive. Key competes with other providers of financial services, such as bank holding companies, commercial banks, savings associations, credit unions, mortgage banking companies, finance companies, mutual funds, insurance companies, investment management firms, investment banking firms, broker-dealers, and other local, regional, national, and global institutions that offer financial services. Some of our competitors are larger and may have more financial resources, while some of our competitors enjoy fewer regulatory constraints and may have lower cost structures. The financial services industry is likely to become more competitive as further technology advances enable more companies, including nonbank companies, to provide financial services. Technological advances may diminish the importance of depository institutions and other financial institutions. We compete by offering quality products and innovative services at competitive prices, and by maintaining our products and services offerings to keep pace with customer preferences and industry standards.

Mergers and acquisitions have led to increased concentration in the banking industry, placing added competitive pressure on Key's core banking products and services.

### **Executive Officers of KeyCorp**

KeyCorp's executive officers are principally responsible for making policy for KeyCorp, subject to the supervision and direction of the Board of Directors. All executive officers are subject to annual election at the annual organizational meeting of the Board of Directors held each May.

Set forth below are the names and ages of the executive officers of KeyCorp as of December 31, 2014, the positions held by each at KeyCorp during the past five years, and the year each first became an executive officer of KeyCorp. Because Messrs. Buffie, Devine, Hartmann, and Kimble and Ms. Brady have been employed at KeyCorp for less than five years, information is being provided concerning their prior business experience. There are no family relationships among the directors or the executive officers.

Amy G. Brady (48) Ms. Brady is KeyCorp's Chief Information Officer, serving in that role since May 2012. Prior to joining KeyCorp, Ms. Brady spent 25 years with Bank of America (a financial services institution), where she most recently served as Senior Vice President and Chief Information Officer, Enterprise Technology and Operations, supporting technology delivery and operations for crucial enterprise functions. Ms. Brady has been an executive officer of KeyCorp since she joined in 2012.

Craig A. Buffie (54) Mr. Buffie has been KeyCorp's Chief Human Resources Officer since February 2013. Prior to joining KeyCorp, Mr. Buffie was employed for 27 years with Bank of America (a financial services institution), where he served in numerous human resources positions, including as a human resources executive for technology and operations for consumer and small business, as well as for its corporate and investment bank. Most recently, he was Head of Home Loan Originations for Bank of America. Mr. Buffie has been an executive officer of KeyCorp since joining in 2013.

Edward J. Burke (58) Mr. Burke has been the Co-President, Commercial and Private Banking of Key Community Bank since April 2014 and an Executive Officer of KeyCorp since May 2014. From 2005 until his election as Co-President, Mr. Burke was an Executive Vice President and head of KeyBank Real Estate Capital and Key Community Development Lending.

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**Dennis A. Devine (43)** Mr. Devine has been the Co-President, Consumer and Small Business of Key Community Bank since April 2014 and an Executive Officer of KeyCorp since May 2014. From 2012 to 2014, Mr. Devine served as Executive Vice President in various roles, including as head of the Consumer & Small Business Segment and head of Integrated Channels and Community Bank Strategy for Key Community Bank. Prior to joining Key in 2012, Mr. Devine served in various executive capacities with Citizens Financial Group and PNC Bank (financial services institutions).

**Trina M. Evans (50)** Ms. Evans has been the Director of Corporate Center for KeyCorp since August 2012, partnering with Key's executive leadership team and Board of Directors to ensure alignment of strategy, objectives, priorities, and messaging across Key. Prior to this role, Ms. Evans was the Chief Administrative Officer for Key Community Bank and the Director of Client Experience for KeyBank. During her career with KeyCorp, she has served in a variety of senior management roles associated with the call center, internet banking, retail banking, distribution management and information technology. She became an executive officer of KeyCorp in March 2013.

**Robert A. DeAngelis (53)** Mr. DeAngelis has been the Director of the Enterprise Program Management Office for KeyCorp since November 2011, providing leadership for KeyCorp's large-scale, organization-wide initiatives. He previously served as the Consumer Segment executive with responsibility for developing client strategies and programs for Key's Community Bank Consumer and Small Business segments. He became an executive officer of KeyCorp in March 2013.

**Christopher M. Gorman (54)** Mr. Gorman has been the President of Key Corporate Bank since 2010. He previously served as a KeyCorp Senior Executive Vice President and head of Key National Banking during 2010. Mr. Gorman was an Executive Vice President of KeyCorp (2002 to 2010) and served as President of KeyBanc Capital Markets (2003 to 2010). He became an executive officer of KeyCorp in 2010.

**Paul N. Harris (56)** Mr. Harris has been the General Counsel and Secretary of KeyCorp since 2003 and an executive officer of KeyCorp since 2004.

**William L. Hartmann (61)** Mr. Hartmann has been the Chief Risk Officer of KeyCorp since July 2012. Mr. Hartmann joined KeyCorp in 2010 as its Chief Credit Officer. Prior to joining KeyCorp, Mr. Hartmann spent 29 years at Citigroup (a multinational financial services institution) where his most recent position was global head of Large Corporate Risk Management. While at Citigroup, he held numerous roles with increasing responsibility, including Chief Risk Officer, Asia Pacific, head of Global Portfolio Management, co-head of Leveraged Finance Capital Markets and global head of Loan Sales and Trading. Mr. Hartmann has been an executive officer of KeyCorp since 2012.

**Donald R. Kimble (54)** Mr. Kimble has been the Chief Financial Officer of KeyCorp since June 2013. Prior to joining KeyCorp, Mr. Kimble served as Chief Financial Officer of Huntington Bancshares Inc., a bank holding company headquartered in Columbus, Ohio, after joining the company in August 2004, and also served as its Controller from August 2004 to November 2009. Mr. Kimble was also President and a director of Huntington Preferred Capital, Inc., a publicly-traded company, from August 2004 until May 2013. Mr. Kimble became an executive officer upon joining KeyCorp in June 2013.

**Beth E. Mooney (59)** Ms. Mooney has been the Chairman and Chief Executive Officer of KeyCorp since 2011, and an executive officer of KeyCorp since 2006. Prior to becoming Chairman and Chief Executive Officer, she served in a variety of roles with KeyCorp, including President and Chief Operating Officer and Vice Chair and head of Key Community Bank. Prior to joining KeyCorp, she served in a number of executive and senior finance roles with banks and bank holding companies across the United States. She has been a director of AT&T, a publicly-traded telecommunications company, since 2013.

**Robert L. Morris (62)** Mr. Morris has been the Chief Accounting Officer and an executive officer of KeyCorp since 2006.

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**Supervision and Regulation**

The regulatory framework applicable to BHCs and banks is intended primarily to protect customers and depositors, the DIF, consumers, taxpayers and the banking system as a whole, rather than to protect the security holders and creditors of financial services companies. Comprehensive reform of the legislative and regulatory environment for financial services companies occurred in 2010 and remains ongoing. We cannot predict changes in applicable laws, regulations or regulatory agency policies, but such changes may materially affect our business, financial condition, results of operations, or access to liquidity or credit.

**Overview**

As a BHC, KeyCorp is subject to regulation, supervision, and examination by the Federal Reserve under the BHCA. Under the BHCA, BHCs generally may not directly or indirectly own or control more than 5% of the voting shares, or substantially all of the assets, of any bank, without prior approval by the Federal Reserve. In addition, BHCs are generally prohibited from engaging in commercial or industrial activities.

Under federal law, a BHC must serve as a source of financial strength to its subsidiary depository institutions by providing financial assistance to them in the event of their financial distress. This support may be required when we do not have the resources to, or would prefer not to, provide it. Certain loans by a BHC to a subsidiary bank are subordinate in right of payment to deposits in, and certain other indebtedness of, the subsidiary bank. In addition, federal law provides that in the bankruptcy of a BHC, any commitment by the BHC to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Federal law establishes a system of regulation under which the Federal Reserve is the umbrella regulator for BHCs, while their subsidiaries are principally regulated by prudential and functional regulators: 1) the OCC for national banks and federal savings associations; 2) the FDIC for non-member state banks and savings associations; 3) the Federal Reserve for member state banks; 4) the CFPB for consumer financial products or services; 5) the SEC and FINRA for securities broker/dealer activities; 6) the SEC, CFTC, and NFA for swaps and other derivatives; and 7) state insurance regulators for insurance activities. Certain specific activities, including traditional bank trust and fiduciary activities, may be conducted in a bank without the bank being deemed a broker or a dealer in securities for purposes of securities functional regulation. Although the states generally must regulate bank insurance activities in a nondiscriminatory manner, the states may continue to adopt and enforce rules that specifically regulate bank insurance activities in certain identifiable risks.

Our national bank subsidiaries and their subsidiaries are subject to regulation, supervision and examination by the OCC. At December 31, 2014, we operated one full-service, FDIC-insured national bank subsidiary, KeyBank, and one national bank subsidiary that is limited to fiduciary activities. The FDIC also has certain regulatory, supervisory and examination authority over KeyBank and KeyCorp under the FDIA and the Dodd-Frank Act.

We have other financial services subsidiaries that are subject to regulation, supervision and examination by the Federal Reserve, as well as other applicable state and federal regulatory agencies and self-regulatory organizations. Because KeyBank engages in derivative transactions, in 2013 it provisionally registered as a swap dealer with the CFTC and became a member of the NFA, the self-regulatory organization for participants in the U.S. derivatives industry. Our securities brokerage and asset management subsidiaries are subject to supervision and regulation by the SEC, FINRA and state securities regulators, and our insurance subsidiaries are subject to regulation by the insurance regulatory authorities of the states in which they operate. Our other nonbank subsidiaries are subject to laws and regulations of both the federal government and the various states in which they are authorized to do business.

**Table of Contents****Regulatory capital and liquidity**

Federal banking regulators have promulgated risk-based capital and leverage ratio requirements applicable to Key and KeyBank (consolidated). The adequacy of regulatory capital is assessed periodically by federal banking agencies in their examination and supervision processes, and in the evaluation of applications in connection with certain expansion activities.

**Regulatory capital requirements prior to January 1, 2015**

At December 31, 2014, the minimum risk-based capital requirements adopted by federal banking regulators were based on a 1988 international accord ( Basel I ) developed by the Basel Committee on Banking Supervision (the Basel Committee ). Prior to January 2015, Key and KeyBank (consolidated) were generally required to maintain a minimum ratio of total capital to risk-weighted assets of 8%. At least half of the total capital had to be Tier 1 capital, which consists of qualifying perpetual preferred stock, common shareholders equity (excluding AOCI other than the cumulative effect of foreign currency translation), a limited amount of qualifying trust preferred securities, and certain mandatorily convertible preferred securities. The remainder could consist of Tier 2 capital, including qualifying subordinated debt, certain hybrid capital instruments, perpetual debt, mandatory convertible debt instruments, qualifying perpetual preferred stock, and a limited amount of the allowance for credit losses. BHCs and banks with securities and commodities trading activities exceeding specified levels were required to maintain capital to cover their market risk exposure. Federal banking regulators also established a minimum leverage ratio requirement for banking organizations. The leverage ratio is Tier 1 capital divided by adjusted average total assets. At December 31, 2014, the minimum leverage ratio was 3% for BHCs and national banks that are considered strong by the Federal Reserve or the OCC, respectively, 3% for any BHC that had implemented the Federal Reserve s risk-based capital measure for market risk, and 4% for all other BHCs and national banks. At December 31, 2014, the minimum leverage ratio for Key and KeyBank (consolidated) was 3% and 4%, respectively. BHCs and national banks may be expected to maintain ratios well above the minimum levels, depending upon their particular condition, risk profile, or growth plans. As presented in Note 22 ( Shareholders Equity ), at December 31, 2014, Key and KeyBank (consolidated) had regulatory capital in excess of all applicable minimum risk-based capital (including all adjustments for market risk) and leverage ratio requirements.

**Basel III capital and liquidity frameworks**

In December 2010, the Basel Committee released its final framework to strengthen international capital regulation of banks, and revised it in June 2011 and January 2014 (as revised, the Basel III capital framework ). The Basel III capital framework requires higher and better-quality capital, better risk coverage, the introduction of a new leverage ratio as a backstop to the risk-based requirement, and measures to promote the buildup of capital that can be drawn down in periods of stress. The Basel III capital framework, among other things, introduces a new capital measure, Common Equity Tier 1, to be included in Tier 1 capital with other capital instruments meeting specified requirements, a capital conservation buffer, and a countercyclical capital buffer. The Basel III capital framework is being phased-in over a multi-year period.

In November 2011, the Basel Committee issued its final rule for a common equity surcharge on certain designated global systemically important banks ( G-SIBs ), which was revised in July 2013 (as revised, Basel G-SIB framework ). Under the Basel G-SIB framework, a G-SIB is assessed a progressive 1.0% to 3.5% surcharge to the Common Equity Tier 1 capital conservation buffer based upon the bank s systemic importance score. In December 2014, the Federal Reserve published an NPR (the U.S. G-SIB NPR ) that would implement the Basel G-SIB framework for U.S. G-SIBs, but with expected surcharges ranging from 1.0% to 4.5%, and would include a new indicator to address the perceived risks of short-term wholesale funding. At December 31, 2014, and based on 2013 year-end data, there were eight U.S. BHCs (none of which included KeyCorp) designated as G-SIBs under the Basel G-SIB framework. In addition, the U.S. G-SIB NPR would require each

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U.S. top-tier BHC with consolidated total assets of at least \$50 billion and not a subsidiary of a foreign banking organization, such as KeyCorp, to determine annually whether it is a U.S. G-SIB by using five categories that measure global systemic importance – size, interconnectedness, substitutability, complexity, and cross-jurisdictional activity. Comments on the U.S. G-SIB NPR are due by March 2, 2015.

The Basel Committee published its international liquidity standards in 2010, and revised them in January 2013, January 2014, and October 2014 (as revised, the Basel III liquidity framework ). It established quantitative standards for liquidity by introducing a liquidity coverage ratio ( Basel III LCR ) and a net stable funding ratio ( Basel III NSFR ).

The Basel III LCR, calculated as the ratio of the stock of high-quality liquid assets ( HQLAs ) divided by total net cash outflows over 30 consecutive calendar days, must be at least 100%. The implementation of Basel III LCR began on January 1, 2015, with minimum requirements beginning at 60%, rising in annual steps of 10% until full implementation on January 1, 2019.

The Basel III NSFR, calculated as the ratio of the available amount of stable funding divided by the required amount of stable funding, must be at least 100%. The Basel III NSFR becomes effective on January 1, 2018.

**U.S. implementation of the Basel III capital framework**

In October 2013, the federal banking regulators published the final Basel III capital framework for U.S. banking organizations (the Regulatory Capital Rules ), which generally implement the Basel III capital framework as described above in the United States. Under the Regulatory Capital Rules, certain large U.S.-domiciled BHCs and banks (each, an advanced approaches banking organization ) must satisfy minimum qualifying criteria using organization-specific internal risk measures and management processes for calculating risk-based capital requirements as well as follow certain methodologies to calculate their total risk-weighted assets. Since neither KeyCorp nor KeyBank has at least \$250 billion in total consolidated assets or at least \$10 billion of total on-balance sheet foreign exposure, neither KeyCorp nor KeyBank is an advanced approaches banking organization. Instead, each of them is a standardized approach banking organization.

**New minimum capital and leverage ratio requirements**

Under the Regulatory Capital Rules, a standardized approach banking organization, like KeyCorp, will be required to meet the minimum capital and leverage ratios set forth in the table below. At December 31, 2014, Key had an estimated Common Equity Tier 1 Capital Ratio of 10.7% under Basel III. Also at December 31, 2014, based on the fully phased-in Regulatory Capital Rules, Key estimates that its capital and leverage ratios would be as set forth in the table below.

**Estimated Ratios vs. Minimum Capital Ratios Calculated Under the Fully Phased-In**

**Regulatory Capital Rules**

<b>Ratios (including Capital conservation buffer)</b>	<b>Key</b>	<b>Minimum</b>	<b>Phase-Minimum</b>
	<b>December 31, 2014</b>	<b>January 1, 2015</b>	<b>Period January 1, 2018</b>



	<b>Estimated</b>					
Common Equity Tier 1 <sup>(a)</sup>	10.7	%	4.5	%	None	4.5 %
Capital conservation buffer <sup>(b)</sup>					1/1/16 - 1/1/19	2.5
Common Equity Tier 1 + Capital conservation buffer			4.5		1/1/16 - 1/1/19	7.0
Tier 1 Capital	11.0		6.0		None	6.0
Tier 1 Capital + Capital conservation buffer			6.0		1/1/16 - 1/1/19	8.5
Total Capital	13.1		8.0		None	8.0
Total Capital + Capital conservation buffer			8.0		1/1/16 - 1/1/19	10.5
Leverage <sup>(c)</sup>	10.5		4.0		None	4.0

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- (a) See Figure 4 entitled "GAAP to Non-GAAP Reconciliations," which presents the computation for estimated Common Equity Tier 1. The table reconciles the GAAP performance measure to the corresponding non-GAAP measure, which provides a basis for period-to-period comparisons.
- (b) Capital conservation buffer must consist of Common Equity Tier 1 capital. As a standardized approach banking organization, KeyCorp is not subject to the countercyclical capital buffer of up to 2.5% imposed upon an advanced approaches banking organization under the Regulatory Capital Rules.
- (c) As a standardized approach banking organization, KeyCorp is not subject to the 3% supplemental leverage ratio requirement, which becomes effective January 1, 2018. Because KeyCorp has less than \$700 billion in consolidated total assets and less than \$10 trillion in assets under custody, KeyCorp is not subject to the supplemental leverage buffer requirement of at least 2%, which becomes effective January 1, 2018.

**Revised prompt corrective action capital category ratios**

Federal prompt corrective action regulations under the FDIA group FDIC-insured depository institutions into one of five prompt corrective action capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. In addition to implementing the Basel III capital framework in the U.S., the Regulatory Capital Rules also revised, effective January 1, 2015, the prompt corrective action capital category threshold ratios applicable to FDIC-insured depository institutions under the federal banking regulators' prior prompt corrective action regulations. The Prior and Revised Prompt Corrective Action table, below, identifies the capital category threshold ratios for a well capitalized and an adequately capitalized institution under the prior and the revised prompt corrective action rules.

**Well Capitalized and Adequately Capitalized Capital Category Ratios Under Prior and Revised Prompt Corrective Action Rules**

Prompt Corrective Action Ratio	Capital Category					
	Well Capitalized <sup>(a)</sup>			Adequately Capitalized		
	Revised		Prior	Revised		Prior
Common Equity Tier 1 Risk-Based	6.5	%	N/A	4.5	%	N/A
Tier 1 Risk-Based	8.0		6.0	6.0	%	4.0
Total Risk-Based	10.0		10.0	8.0		8.0
Tier 1 Leverage <sup>(b)</sup>	5.0		5.0	4.0		3.0 or 4.0

(a) A well capitalized institution also must not be subject to any written agreement, order or directive to meet and maintain a specific capital level for any capital measure.

(b) As a standardized approach banking organization, KeyBank is not subject to the 3% supplemental leverage ratio requirement, which becomes effective January 1, 2018.

We believe that, as of December 31, 2014, KeyBank (consolidated) would have met all revised well capitalized prompt corrective action capital and leverage ratio requirements under the Regulatory Capital Rules if such

requirements had been effective at that time. The prompt corrective action regulations, however, apply only to FDIC-insured depository institutions (like KeyBank) and not to BHCs (like KeyCorp). Moreover, since the regulatory capital categories under these regulations serve a limited supervisory function, investors should not use them as a representation of the overall financial condition or prospects of KeyBank.

U.S. implementation of the Basel III liquidity framework

In October 2014, the federal banking agencies published the final Basel III liquidity framework for U.S. banking organizations (the Liquidity Coverage Rules ) that create a minimum liquidity coverage ratio ( LCR ) for certain internationally active bank and nonbank financial companies (excluding KeyCorp) and a modified version of the LCR ( Modified LCR ) for BHCs and other depository institution holding companies with over \$50 billion in consolidated assets that are not internationally active (including KeyCorp).

KeyBank will not be subject to the LCR or the Modified LCR under the Liquidity Coverage Rules unless the OCC affirmatively determines that application to KeyBank is appropriate in light of its asset size, level of

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complexity, risk profile, scope of operations, affiliation with foreign or domestic covered entities, or risk to the financial system. The LCR and Modified LCR created by the Liquidity Coverage Rules are also an enhanced prudential liquidity standard consistent with the Dodd-Frank Act.

Because KeyCorp is a Modified LCR BHC under the Liquidity Coverage Rules, Key will be required to maintain its ratio of high-quality liquid assets to its total net cash outflow amount, determined by prescribed assumptions in a standardized hypothetical stress scenario over a 30-calendar day period, at least at 90% by January 1, 2016, and at least at 100% by January 1, 2017. Throughout December 2014, our estimated Modified LCR was approximately in the mid-80% range. To reach the minimum of 90% by January 1, 2016, and to operate with a cushion above the minimum required level, we may change the composition of our investment portfolio, increase the size of the overall investment portfolio, and modify product offerings. Calculation of Key's Modified LCR is required on a monthly basis, unlike on a daily basis for those U.S. banking organizations that are subject to the LCR rather than the Modified LCR.

**Capital planning and stress testing**

The Federal Reserve's capital plan rule requires each U.S.-domiciled, top-tier BHC with total consolidated assets of at least \$50 billion (like KeyCorp) to develop and maintain a written capital plan supported by a robust internal capital adequacy process. The capital plan must be submitted annually to the Federal Reserve for supervisory review in connection with its annual CCAR. The supervisory review includes an assessment of many factors, including Key's ability to maintain capital above each minimum regulatory capital ratio and above a Tier 1 common ratio of 5% on a pro forma basis under expected and stressful conditions throughout the planning horizon. KeyCorp is also subject to the Federal Reserve capital plan rule and supervisory guidance regarding the declaration and payment of dividends and capital redemptions repurchases, including the supervisory expectation in certain circumstances for prior notification to, and consultation with, Federal Reserve supervisory staff.

The Federal Reserve's annual CCAR is an intensive assessment of the capital adequacy of large, complex U.S. BHCs and of the policies and practices these BHCs use to assess their capital needs. Through CCAR, the Federal Reserve assesses the capital plans of these BHCs to ensure that they have both sufficient capital to continue operations throughout times of financial and economic stress and robust, forward-looking capital planning processes that account for their unique risks. The Federal Reserve expects BHCs subject to CCAR to have sufficient capital to withstand a highly adverse operating environment and to be able to continue operations, maintain ready access to funding, meet obligations to creditors and counterparties, and serve as credit intermediaries. In addition, the Federal Reserve evaluates the planned capital actions of these BHCs, including planned capital distributions such as dividend payments or stock repurchases.

KeyCorp filed its 2015 CCAR capital plan on January 5, 2015. Under the Federal Reserve's October 2014 CCAR instructions and guidance, KeyCorp's 2015 capital plan was required to reflect the Regulatory Capital Rules, including their minimum regulatory capital ratios and transition arrangements, as well as Key's Tier 1 common ratio for each quarter of the planning horizon using the definitions of Tier 1 capital and total risk-weighted assets as in effect in 2014, as well as a transition plan for full implementation of the Regulatory Capital Rules.

As part of the annual CCAR, the Federal Reserve conducts an annual supervisory stress test on KeyCorp. As part of this test, the Federal Reserve projects revenue, expenses, losses, and resulting post-stress capital levels, regulatory capital ratios, and the Tier 1 common ratio under conditions that affect the U.S. economy or the financial condition of KeyCorp, including supervisory baseline, adverse, and severely adverse scenarios, that are determined annually by the Federal Reserve. Results from the 2015 CCAR, which will include the annual supervisory stress test methodology and certain firm-specific results for the participating 31 covered companies (including KeyCorp), will be publicly released by the Federal Reserve. The Federal Reserve has announced that the results from the supervisory stress test and the

2015 CCAR will be released on March 5, 2015, and March 11, 2015, respectively.

KeyCorp and KeyBank must also conduct their own company-run stress tests to assess the impact of stress scenarios (including supervisor-provided baseline, adverse, and severely adverse scenarios and, for KeyCorp, one

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KeyCorp-defined baseline scenario and at least one KeyCorp-defined one stress scenario) on their consolidated earnings, losses, and capital over a nine-quarter planning horizon, taking into account their current condition, risks, exposures, strategies, and activities. While KeyBank must only conduct an annual stress test, KeyCorp must conduct both an annual and a mid-cycle stress test. KeyCorp and KeyBank are required to report the results of their annual stress tests to the Federal Reserve and OCC in early January of each year. KeyCorp is required to report the results of its 2015 mid-cycle stress test to the Federal Reserve during the period of July 5, 2015 to August 4, 2015, inclusive. Summaries of the results of these company-run stress tests are disclosed each year under the Regulatory Disclosure tab of Key's Investor Relations website: <http://www.key.com/ir>.

### **Dividend restrictions**

Federal banking law and regulations impose limitations on the payment of dividends by our national bank subsidiaries (like KeyBank). Historically, dividends paid by KeyBank have been an important source of cash flow for KeyCorp to pay dividends on its equity securities and interest on its debt. Dividends by our national bank subsidiaries are limited to the lesser of the amounts calculated under an earnings retention test and an undivided profits test. Under the earnings retention test, without the prior approval of the OCC, a dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year's net income combined with the retained net income of the two preceding years. Under the undivided profits test, a dividend may not be paid in excess of a bank's undivided profits. Moreover, under the FDIA, an insured depository institution may not pay a dividend if the payment would cause it to be in a less than adequately capitalized prompt corrective action capital category or if the institution is in default in the payment of an assessment due to the FDIC. For more information about the payment of dividends by KeyBank to KeyCorp, please see Note 3 (Restrictions on Cash, Dividends and Lending Activities) in this report.

### **FDIA, Resolution Authority and Financial Stability**

#### **Deposit insurance and assessments**

The DIF provides insurance coverage for domestic deposits funded through assessments on insured depository institutions like KeyBank. The amount of deposit insurance coverage for deposits is \$250,000 per depository.

The FDIC must assess the premium based on an insured depository institution's assessment base, calculated as its average consolidated total assets minus its average tangible equity. KeyBank's current annualized premium assessments can range from \$.025 to \$.45 for each \$100 of its assessment base. The rate charged depends on KeyBank's performance on the FDIC's large and highly complex institution risk-assessment scorecard, which includes factors such as KeyBank's regulatory rating, its ability to withstand asset and funding-related stress, and the relative magnitude of potential losses to the FDIC in the event of KeyBank's failure.

#### **Conservatorship and receivership of insured depository institutions**

Upon the insolvency of an insured depository institution, the FDIC will be appointed as receiver or, in rare circumstances, conservator for the insolvent institution under the FDIA. In an insolvency, the FDIC may repudiate or disaffirm any contract to which the institution is a party if the FDIC determines that performance of the contract would be burdensome and that disaffirming or repudiating the contract would promote orderly administration of the institution's affairs. If the contractual counterparty made a claim against the receivership (or conservatorship) for breach of contract, the amount paid to the counterparty would depend upon, among other factors, the receivership (or conservatorship) assets available to pay the claim and the priority of the claim relative to others. In addition, the FDIC may enforce most contracts entered into by the insolvent institution, notwithstanding any provision that would terminate, cause a default, accelerate or give other rights under the contract solely because of the insolvency, the

appointment of the receiver (or conservator), or the exercise of rights or powers by the receiver (or conservator). The FDIC may also transfer any asset or liability of the insolvent institution without obtaining approval or consent from the institution's shareholders or creditors. These provisions would apply to obligations and liabilities of KeyCorp's insured depository institution subsidiaries, such as KeyBank, including obligations under senior or subordinated debt issued to public investors.

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### Receivership of certain SIFIs

The Dodd-Frank Act created a new resolution regime, as an alternative to bankruptcy, known as the orderly liquidation authority (OLA) for certain SIFIs, including BHCs and their affiliates. Under the OLA, the FDIC would generally be appointed as receiver to liquidate and wind up a failing SIFI. The determination that a SIFI should be placed into OLA receivership is made by the U.S. Treasury Secretary, who must conclude that the SIFI is in default or in danger of default and that the SIFI's failure poses a risk to the stability of the U.S. financial system. This determination must come after supermajority recommendations by the Federal Reserve and the FDIC, and consultation between the U.S. Treasury Secretary and the President.

If the FDIC is appointed as receiver under the OLA, its powers and the rights and obligations of creditors and other relevant parties would be determined exclusively under the OLA. The powers of a receiver under the OLA are generally based on the FDIC's powers as receiver for insured depository institutions under the FDIA. Certain provisions of the OLA were modified to reduce disparate treatment of creditors' claims between the U.S. Bankruptcy Code and the OLA. However, substantial differences between the two regimes remain, including the FDIC's right to disregard claim priority in some circumstances, the use of an administrative claims procedure under OLA to determine creditors' claims (rather than a judicial procedure in bankruptcy), the FDIC's right to transfer claims to a bridge entity, and limitations on the ability of creditors to enforce contractual cross-defaults against potentially viable affiliates of the entity in receivership. OLA liquidity would be provided through credit support from the U.S. Treasury and assessments made, first, on claimants against the receivership that received more in the OLA resolution than they would have received in ordinary liquidation (to the full extent of the excess), and second, if necessary, on SIFIs, like KeyCorp, utilizing a risk-based methodology.

In December 2013, the FDIC published a notice for comment regarding its single point of entry resolution strategy under the OLA. This strategy involves the appointment of the FDIC as receiver for the SIFI's top-level U.S. holding company only, while permitting the operating subsidiaries of the failed holding company to continue operations uninterrupted. As receiver, the FDIC would establish a bridge financial company for the failed holding company and would transfer the assets and a very limited set of liabilities of the receivership estate. The claims of unsecured creditors and other claimants in the receivership would be satisfied by the exchange of their claims for the securities of one or more new holding companies emerging from the bridge company. The FDIC has not taken any subsequent regulatory action relating to this resolution strategy under OLA since the comment period ended in March 2014.

### Depositor preference

The FDIA provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of its depositors (including claims of its depositors that have subrogated to the FDIC) and certain claims for administrative expenses of the FDIC as receiver have priority over other general unsecured claims. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will be placed ahead of unsecured, nondeposit creditors, including the institution's parent BHC and subordinated creditors, in order of priority of payment.

### Resolution plans

BHCs with at least \$50 billion in total consolidated assets, like KeyCorp, are required to periodically submit to the Federal Reserve and FDIC a plan discussing how the company could be rapidly and orderly resolved if the company failed or experienced material financial distress. Insured depository institutions with at least \$50 billion in total consolidated assets, like KeyBank, are also required to submit a resolution plan to the FDIC. These plans are due annually by December 31 of each year. For 2014, KeyCorp and KeyBank elected to submit a joint resolution plan given Key's organizational structure and business activities and the significance of KeyBank to Key. This resolution plan, the second required from KeyCorp and KeyBank, was submitted on December 2,



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2014. In January 2015, the Federal Reserve and FDIC made available on their websites the public sections of resolution plans for the companies, including KeyCorp and KeyBank, that submitted plans in December 2014. The public section of the joint resolution plan of KeyCorp and KeyBank is available at <http://www.federalreserve.gov/bankinfo/reg/resolution-plans.htm>.

### **Financial Stability Oversight Council**

The Dodd-Frank Act created the FSOC, a systemic risk oversight body, to (i) identify risks to U.S. financial stability that could arise from the material financial distress or failure, or ongoing activities, of large, interconnected SIFIs, or that could arise outside the financial services marketplace, (ii) promote market discipline by eliminating expectations that the U.S. government will shield shareholders, creditors, and counterparties from losses in the event of failure, and (iii) respond to emerging threats to the stability of the U.S. financial system. The FSOC is responsible for facilitating regulatory coordination, information collection and sharing, designating nonbank financial companies for consolidated supervision by the Federal Reserve, designating systemic financial market utilities and systemic payment, clearing, and settlement activities requiring prescribed risk management standards and heightened federal regulatory oversight, recommending stricter standards for SIFIs, and, together with the Federal Reserve, determining whether action should be taken to break up firms that pose a grave threat to U.S. financial stability.

### **The Bank Secrecy Act**

The BSA requires all financial institutions (including banks and securities broker-dealers) to, among other things, maintain a risk-based system of internal controls reasonably designed to prevent money laundering and the financing of terrorism. It includes a variety of recordkeeping and reporting requirements (such as cash and suspicious activity reporting) as well as due diligence and know-your-customer documentation requirements. Key has established and maintains an anti-money laundering program to comply with the BSA's requirements.

### **Other Regulatory Developments under the Dodd-Frank Act**

#### **Consumer Financial Protection Bureau**

Title X of the Dodd-Frank Act created the CFPB, a consumer financial services regulator with supervisory authority over banks and their affiliates with assets of more than \$10 billion, like Key, for compliance with federal consumer protection laws. The CFPB also regulates financial products and services sold to consumers and has rulemaking authority with respect to federal consumer financial laws. Any new regulatory requirements promulgated by the CFPB or modifications in the interpretations of existing regulations could require changes to Key's consumer-facing businesses. The Dodd-Frank Act also gives the CFPB broad data collecting powers for fair lending for both small business and mortgage loans, as well as extensive authority to prevent unfair, deceptive and abusive practices.

#### **Debit Card Interchange**

Federal Reserve Regulation II – Debit Card Interchange Fees and Routing (the Interchange Fee Rule) limits debit card interchange fees and eliminates exclusivity arrangements between issuers and networks for debit card transactions. The relevant portions of the Interchange Fee Rule became effective October 1, 2011. The Interchange Fee Rule allows debit card issuers to recover from merchants an interchange fee of \$.21 per transaction, a fee of five basis points of the value of the transaction, and an additional \$.01 fraud prevention adjustment. Retail merchants and merchant groups filed suit to challenge the Interchange Fee Rule. Their challenge was unsuccessful.

#### **Volcker Rule**

In December 2013, federal banking regulators issued a joint final rule (the Final Rule) implementing Section 619 of the Dodd-Frank Act, known as the Volcker Rule. The Final Rule prohibits banking entities,

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such as KeyCorp, KeyBank and their affiliates and subsidiaries, from owning, sponsoring, or having certain relationships with hedge funds and private equity funds (referred to as covered funds ) and engaging in short-term proprietary trading of securities, derivatives, commodity futures and options on these instruments.

The Final Rule excepts certain transactions from the general prohibition against proprietary trading, including: transactions in government securities (e.g., U.S. Treasuries or any instruments issued by the GNMA, FNMA, FHLMC, a Federal Home Loan Bank, or any state or a political division of any state, among others); transactions in connection with underwriting or market-making activities; and, transactions as a fiduciary on behalf of customers. Banking entities may also engage in risk-mitigating hedges if the entity can demonstrate that the hedge reduces or mitigates a specific, identifiable risk or aggregate risk position of the entity. The banking entity is required to conduct an analysis supporting its hedging strategy and the effectiveness of the hedges must be monitored and, if necessary, adjusted on an ongoing basis. Banking entities with more than \$50 billion in total consolidated assets and liabilities, like Key, that engage in permitted trading transactions are required to implement enhanced compliance programs, to regularly report data on trading activities to the regulators, and to provide a CEO attestation that the entity's compliance program is reasonably designed to comply with the Final Rule.

Although the Final Rule became effective on April 1, 2014, on December 18, 2014, the Federal Reserve exercised its unilateral authority to extend the compliance deadline until July 21, 2016, with respect to covered funds. The Federal Reserve further indicated its intent to grant an additional one-year extension of the compliance deadline until July 21, 2017, and indicated it would re-evaluate its rules relating to the process by which banking entities would be able to apply for further five-year extensions. Key does not anticipate that the proprietary trading restrictions in the Final Rule will have a material impact on its business, but it may be required to divest certain fund investments as discussed in more detail under the heading Other investments in Item 7 of this report.

**Enhanced prudential standards and early remediation requirements**

Under the Dodd-Frank Act, the Federal Reserve must impose enhanced prudential standards and early remediation requirements upon BHCs, like KeyCorp, with at least \$50 billion in total consolidated assets. Prudential standards must include enhanced risk-based capital requirements and leverage limits, liquidity requirements, risk-management and risk committee requirements, resolution plan requirements, credit exposure report requirements, single counterparty credit limits ( SCCL ), supervisory and company-run stress test requirements and, for certain financial companies, a debt-to-equity limit. Early remediation requirements must include limits on capital distributions, acquisitions, and asset growth in early stages of financial decline and capital restoration plans, capital raising requirements, limits on transactions with affiliates, management changes, and asset sales in later stages of financial decline, which are to be triggered by forward-looking indicators including regulatory capital and liquidity measures.

The stress test requirements applicable to KeyCorp were implemented by a final rule adopted by the Federal Reserve in 2012. The resolution plan requirements applicable to KeyCorp were implemented by a joint final rule adopted by the Federal Reserve and FDIC in 2011.

In March 2014, the Federal Reserve published a final rule to implement certain of these required enhanced prudential standards. The enhanced prudential standards implemented by this final rule were (i) the incorporation of the Regulatory Capital Rules through the Federal Reserve's previously finalized rules on capital planning and stress tests, (ii) liquidity requirements relating to cash flow projections, a contingency funding plan, liquidity risk limits, monitoring liquidity risks (with respect to collateral, legal entities, currencies, business lines, and intraday exposures), liquidity stress testing, and a liquidity buffer, (iii) the risk management framework, the risk committee, and the chief risk officer as well as the corporate governance requirements as they relate to liquidity risk management, including the requirements that apply to the board of directors, the risk committee, senior management, and the independent review

function, and (iv) a 15-to-1 debt-to-equity limit for companies that the FSOC determines pose a grave threat to U.S. financial stability. KeyCorp was required to comply with the final rule starting on January 1, 2015.

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The SCCL and the early remediation requirements published in January 2012 by the Federal Reserve as a proposed rule, however, were not included as part of the March 2014 final rule. The Federal Reserve has indicated that is conducting a quantitative impact study and will take into account the Basel Committee's April 2014 large exposures regime before finalizing the SCCL. It is unclear when the Federal Reserve will finalize the early remediation requirements. No credit exposure reporting requirements, which must be implemented jointly by the Federal Reserve and FDIC, have yet been proposed. The Federal Reserve has indicated that both the Federal Reserve and FDIC recognize that such reports would be most useful and complete if developed in conjunction with the SCCL.

**Bank transactions with affiliates**

Federal banking law and regulation imposes qualitative standards and quantitative limitations upon certain transactions by a bank with its affiliates, including the bank's parent BHC and certain companies the parent BHC may be deemed to control for these purposes. Transactions covered by these provisions must be on arm's-length terms, and cannot exceed certain amounts which are determined with reference to the bank's regulatory capital. Moreover, if the transaction is a loan or other extension of credit, it must be secured by collateral in an amount and quality expressly prescribed by statute, and if the affiliate is unable to pledge sufficient collateral, the BHC may be required to provide it. These provisions materially restrict the ability of KeyBank to fund its affiliates, including KeyCorp, KeyBanc Capital Markets Inc., certain of the Victory mutual funds with which we continue to have a relationship, and KeyCorp's nonbanking subsidiaries engaged in making merchant banking investments (and certain companies in which these subsidiaries have invested).

Provisions added by the Dodd-Frank Act expanded the scope of (i) the definition of affiliate to include any investment fund having any bank or BHC-affiliated company as an investment adviser, (ii) credit exposures subject to the prohibition on the acceptance of low-quality assets or securities issued by an affiliate as collateral, the quantitative limits, and the collateralization requirements to now include credit exposures arising out of derivative, repurchase agreement, and securities lending/borrowing transactions, and (iii) transactions subject to quantitative limits to now also include credit collateralized by affiliate-issued debt obligations that are not securities. In addition, these provisions require that a credit extension to an affiliate remain secured in accordance with the collateral requirements at all times that it is outstanding, rather than the previous requirement of only at the inception or upon material modification of the transaction. These provisions also raise significantly the procedural and substantive hurdles required to obtain a regulatory exemption from the affiliate transaction requirements. While these provisions became effective on July 21, 2012, the Federal Reserve has not yet issued a proposed rule to implement them.

**New assessments, fees and other charges**

Certain provisions of the Dodd-Frank Act require or authorize certain U.S. governmental departments, agencies and instrumentalities to collect new or higher assessments, fees and other charges from BHCs and banks, like KeyCorp and KeyBank. The U.S. Treasury has established an assessment schedule to collect from SIFIs, including KeyCorp, based on their average total consolidated assets semiannual assessments to pay the expenses of the OFR, including the expenses of the FSOC and certain expenses for implementing the orderly liquidation activities of the FDIC. The Federal Reserve has established an annual assessment upon SIFIs, including KeyCorp, based on their average total consolidated assets for the Federal Reserve's examination, supervision, and regulation of such companies. The OCC has changed its semi-annual assessment upon large national banks, like KeyBank, to reflect its Dodd-Frank Act authority to do so.

**ITEM 1A. RISKFACTORS**

As a financial services organization, we are subject to a number of risks inherent in our transactions and present in the business decisions we make. Described below are the primary risks and uncertainties that if realized could have a material and adverse effect on our business, financial condition, results of operations or cash flows, and our access to liquidity. The risks and uncertainties described below are not the only risks we face.

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Our ERM program incorporates risk management throughout our organization to identify, understand, and manage the risks presented by our business activities. Our ERM program identifies Key s major risk categories as: credit risk, compliance risk, operational risk, capital and liquidity risk, market risk, reputation risk, strategic risk, and model risk. These risk factors, and other risks we may face, are discussed in more detail in other sections of this report.

### **I. Credit Risk**

#### **Should the fundamentals of the commercial real estate market deteriorate, our financial condition and results of operations could be adversely affected.**

The U.S. economy remains vulnerable, and any reversal in broad macro trends would threaten the recovery in commercial real estate. The improvement of certain economic factors, such as unemployment and real estate asset values and rents, has continued to lag behind the overall economy. These economic factors generally affect certain industries like real estate and financial services more significantly. A significant portion of our clients are active in these industries. Furthermore, financial services companies with a substantial lending business, like ours, are dependent upon the ability of their borrowers to make debt service payments on loans.

A portion of our commercial real estate loans are construction loans. Typically these properties are not fully leased at loan origination; the borrower may require additional leasing through the life of the loan to provide cash flow to support debt service payments. If we experienced weaknesses similar to those experienced at the height of the economic downturn, then we would experience a slowing in the execution of new leases, which may also lead to existing lease turnover.

#### **We are subject to the risk of defaults by our loan counterparties and clients.**

Many of our routine transactions expose us to credit risk in the event of default of our counterparty or client. Our credit risk may be exacerbated when the collateral held cannot be realized upon or is liquidated at prices insufficient to recover the full amount of the loan or derivative exposure due us. In deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of counterparties and clients, including financial statements, credit reports and other information. We may also rely on representations of those counterparties, clients, or other third parties as to the accuracy and completeness of that information. The inaccuracy of that information or those representations affects our ability to accurately evaluate the default risk of a counterparty or client.

#### **Various factors may cause our allowance for loan and lease losses to increase.**

We maintain an ALLL (a reserve established through a provision for loan and lease losses charged to expense) that represents our estimate of losses based on our evaluation of risks within our existing portfolio of loans. The level of the allowance reflects our ongoing evaluation of industry concentrations; specific credit risks; loan and lease loss experience; current loan portfolio quality; present economic, political and regulatory conditions; and incurred losses inherent in the current loan portfolio. The determination of the appropriate level of the ALLL inherently involves a degree of subjectivity and requires that we make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, the stagnation of certain economic indicators that we are more susceptible to, such as unemployment and real estate values, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may recommend an increase in the ALLL. Bank regulatory agencies periodically review our ALLL and, based on judgments that can differ somewhat from those of our own management, may recommend an increase in the provision for loan and lease losses or the recognition of further loan charge-offs. In addition, if charge-offs in future periods exceed the ALLL (i.e., if the loan and lease allowance is inadequate), we will need additional loan and lease loss provisions to increase the ALLL, which would decrease our net income and capital.

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### **Declining asset prices could adversely affect us.**

During the Great Recession, the volatility and disruption that the capital and credit markets experienced reached extreme levels. This severe market disruption led to the failure of several substantial financial institutions, causing the widespread liquidation of assets and constraining the credit markets. These asset sales, along with asset sales by other leveraged investors, including some hedge funds, rapidly drove down prices and valuations across a wide variety of traded asset classes. Asset price deterioration has a negative effect on the valuation of many of the asset categories represented on our balance sheet, and reduces our ability to sell assets at prices we deem acceptable. A further recession would likely reverse recent positive trends in asset prices.

### **We have concentrated credit exposure in commercial, financial and agricultural loans.**

As of December 31, 2014, approximately 72% of our loan portfolio consisted of commercial, financial and agricultural loans, commercial real estate loans, including commercial mortgage and construction loans, and commercial leases. These types of loans are typically larger than residential real estate loans and consumer loans, and have a different risk profile that includes, among other risks, a borrower's failure to comply with applicable environmental laws and regulations. The deterioration of a larger loan or a group of these loans could cause a significant increase in nonperforming loans, which would result in net loss of earnings from these loans, an increase in the provision for loan and lease losses, and an increase in loan charge-offs.

## **II. Compliance Risk**

### **We are subject to extensive and increasing government regulation and supervision.**

As a financial services institution, we are subject to extensive federal and state regulation and supervision, which has increased in recent years due to the implementation of the Dodd-Frank Act and other financial reform initiatives. Banking regulations are primarily intended to protect depositors' funds, the DIF, consumers, taxpayers, and the banking system as a whole, not our debtholders or shareholders. These regulations increase our costs and affect our lending practices, capital structure, investment practices, dividend policy, ability to repurchase our common shares, and growth, among other things.

We face increased regulation of our industry as a result of current and future initiatives intended to provide financial market stability and enhance the liquidity and solvency of financial institutions. We expect continued intense scrutiny from our bank supervisors in the examination process and aggressive enforcement of regulations at the federal and state levels, particularly due to KeyBank's and KeyCorp's status as covered institutions under the Dodd-Frank Act's heightened prudential standards and regulations. We also face increased regulation from efforts designed to protect consumers from financial abuse. Although many parts of the Dodd-Frank Act are now in effect, other parts continue to be implemented. As a result, some uncertainty remains as to the aggregate impact upon Key of the Dodd-Frank Act.

Changes to existing statutes, regulations or regulatory policies or their interpretation or implementation, and becoming subject to additional heightened regulatory practices, requirements, or expectations, could affect us in substantial and unpredictable ways. These changes may subject us to additional costs and increase our litigation risk should we fail to appropriately comply. Such changes may also limit the types of financial services and products we may offer, affect the investments we make, and change the manner in which we operate.

Additionally, federal banking law grants substantial enforcement powers to federal banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions against banking organizations and affiliated parties. These enforcement actions may be initiated for violations of laws and regulations, for practices determined to be unsafe or unsound, or for practices or acts that are determined to be unfair, deceptive, or abusive.

For more information, see "Supervision and Regulation" in Item 1 of this report.

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### **Changes in accounting policies, standards, and interpretations could materially affect how we report our financial condition and results of operations.**

The FASB, regulatory agencies, and other bodies that establish accounting standards periodically change the financial accounting and reporting standards governing the preparation of Key's financial statements. Additionally, those bodies that establish and interpret the accounting standards (such as the FASB, SEC, and banking regulators) may change prior interpretations or positions on how these standards should be applied. These changes can be difficult to predict and can materially affect how Key records and reports its financial condition and results of operations. In some cases, Key could be required to retroactively apply a new or revised standard, resulting in changes to previously reported financial results.

### **III. Operational Risk**

#### **Our information systems may experience an interruption or breach in security.**

We rely heavily on communications, information systems (both internal and provided by third parties) and the Internet to conduct our business. Our business is dependent on our ability to process and monitor large numbers of daily transactions in compliance with legal, regulatory and internal standards and specifications. In addition, a significant portion of our operations relies heavily on the secure processing, storage and transmission of personal and confidential information, such as the personal information of our customers and clients. These risks may increase in the future as we continue to increase mobile payments and other internet-based product offerings and expand our internal usage of web-based products and applications.

In the event of a failure, interruption or breach of our information systems, we may be unable to avoid impact to our customers. Other U.S. financial service institutions and companies have reported breaches, some severe, in the security of their websites or other systems and several financial institutions, including Key, experienced significant distributed denial-of-service attacks, some of which involved sophisticated and targeted attacks intended to disable or degrade service, or sabotage systems. Other potential attacks have attempted to obtain unauthorized access to confidential information or destroy data, often through the introduction of computer viruses or malware, phishing, cyberattacks, and other means. To date, none of these efforts has had a material adverse effect on our business or operations. Such security attacks can originate from a wide variety of sources, including persons who are involved with organized crime or who may be linked to terrorist organizations or hostile foreign governments. Those same parties may also attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. Our security systems may not be able to protect our information systems from similar attacks due to the rapid evolution and creation of sophisticated cyberattacks. We are also subject to the risk that our employees may intercept and transmit unauthorized confidential or proprietary information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer or third party could result in legal liability, remediation costs, regulatory action, and reputational harm.

#### **We rely on third parties to perform significant operational services for us.**

Third parties perform significant operational services on our behalf. These third-party vendors are subject to similar risks as Key relating to cybersecurity, breakdowns or failures of their own systems or employees. One or more of our vendors may experience a cybersecurity event or operational disruption and, if any such event does occur, it may not be adequately addressed, either operationally or financially, by the third-party vendor. Certain of our vendors may have limited indemnification obligations or may not have the financial capacity to satisfy their indemnification obligations. Financial or operational difficulties of a vendor could also impair our operations if those difficulties interfere with the vendor's ability to serve us. Additionally, some of our outsourcing arrangements are located overseas and, therefore, are subject to risks unique to the regions in which they operate. If a critical vendor is unable to meet our needs in a timely manner or if the services or products provided by such a vendor are terminated or otherwise delayed and if we are not able to develop alternative sources for these services and products quickly and cost-effectively, it could have a material adverse effect on

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our business. Additionally, regulatory guidance adopted by federal banking regulators in 2013 related to how banks select, engage and manage their outside vendors may affect the circumstances and conditions under which we work with third parties and the cost of managing such relationships.

### **We are subject to claims and litigation.**

From time to time, customers, vendors or other parties may make claims and take legal action against us. We maintain reserves for certain claims when deemed appropriate based upon our assessment that a loss is probable, consistent with applicable accounting guidance. At any given time we have a variety of legal actions asserted against us in various stages of litigation. Resolution of a legal action can often take years. Whether any particular claims and legal actions are founded or unfounded, if such claims and legal actions are not resolved in our favor, they may result in significant financial liability and adversely affect how the market perceives us and our products and services as well as impact customer demand for those products and services.

We are also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding our business, including, among other things, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. The number and risk of these investigations and proceedings has increased in recent years with regard to many firms in the financial services industry due to legal changes to the consumer protection laws provided for by the Dodd-Frank Act and the creation of the CFPB.

There have also been a number of highly publicized legal claims against financial institutions involving fraud or misconduct by employees, and we run the risk that employee misconduct could occur. It is not always possible to deter or prevent employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases.

### **We are subject to operational risk.**

We are subject to operational risk, which represents the risk of loss resulting from human error, inadequate or failed internal processes and systems, and external events. Operational risk includes the risk of fraud by employees, clerical and record-keeping errors, nonperformance by vendors, threats to cybersecurity, and computer/telecommunications malfunctions. Operational risk also encompasses compliance and legal risk, which is the risk of loss from violations of, or noncompliance with, laws, rules, regulations, prescribed practices or ethical standards, as well as the risk of our noncompliance with contractual and other obligations. We are also exposed to operational risk through our outsourcing arrangements, and the effect that changes in circumstances or capabilities of our outsourcing vendors can have on our ability to continue to perform operational functions necessary to our business, such as certain loan processing functions. For example, breakdowns or failures of our vendors' systems or employees could be a source of operational risk to us. Resulting losses from operational risk could take the form of explicit charges, increased operational costs, harm to our reputation, inability to secure insurance, litigation, regulatory intervention or sanctions or foregone business opportunities.

### **Our controls and procedures may fail or be circumvented, and our methods of reducing risk exposure may not be effective.**

We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. We also maintain an ERM program designed to identify, measure, monitor, report and analyze our risks. Any system of controls and any system to reduce risk exposure, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Additionally, instruments, systems and strategies used to hedge or otherwise manage exposure to various types of market compliance, credit, liquidity, operational and business risks and enterprise-wide risk could be less effective than anticipated. As a result, we may not be able to effectively mitigate our risk exposures in particular market environments or against particular types of risk.



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**Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact our business.**

Natural disasters, including severe weather events of increasing strength and frequency, acts of war or terrorism and other adverse external events could have a significant impact on our ability to conduct business or upon our customers. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in lost revenue or cause us to incur additional expenses.

**IV. Capital and Liquidity Risk**

**Capital and liquidity requirements imposed by the Dodd-Frank Act require banks and BHCs to maintain more and higher quality capital and higher quality, lower-yielding liquid assets than has historically been the case.**

New and evolving capital standards resulting from the Dodd-Frank Act and the Regulatory Capital Rules adopted by our regulators will have a significant impact on banks and BHCs, including Key. For a detailed explanation of the new capital and liquidity rules that became effective for us on a phased-in basis on January 1, 2015, see the section titled "Regulatory capital and liquidity" under the heading "Supervision and Regulation" in Item 1 of this report.

The Federal Reserve's new capital standards will require Key to maintain more and higher quality capital and could limit our business activities (including lending) and our ability to expand organically or through acquisitions. They could also result in our taking steps to increase our capital that may be dilutive to shareholders or limit our ability to pay dividends or otherwise return capital to shareholders.

In addition, the new liquidity standards will require us to increase our holdings of higher-quality, lower-yielding liquid assets, may require us to change our mix of investment alternatives, and may impact business relationships with certain customers. They could reduce our ability to invest in longer-term assets even if more desirable from a balance sheet management perspective.

In addition, the Federal Reserve requires bank holding companies to obtain approval before making a capital distribution, such as paying or increasing dividends, implementing common stock repurchase programs, or redeeming or repurchasing capital instruments. The Federal Reserve has detailed the processes that bank holding companies should maintain to ensure they hold adequate capital under severely adverse conditions and have ready access to funding before engaging in any capital activities. These rules could limit Key's ability to make distributions, including paying out dividends or buying back shares. For more information, see "Supervision and Regulation" in Item 1 of this report.

**Federal agencies may take actions that disrupt the stability of the U.S. financial system.**

Since 2008, the federal government has taken unprecedented steps to provide stability to and confidence in the financial markets. For example, the Federal Reserve maintains a variety of stimulus policy measures designed to maintain a low interest rate environment. In light of recent moderate improvements in the U.S. economy, federal agencies may no longer support such initiatives. The discontinuation of such initiatives may have a negative impact, perhaps severe, on the financial markets. These effects could include a sudden move to higher debt yields, which could have a chilling effect on borrowing. In addition, new initiatives or legislation may not be implemented, or, if implemented, may not be adequate to counter any negative effects of discontinuing programs or, in the event of an economic downturn, to support and stabilize a troubled economy.

**We rely on dividends by our subsidiaries for most of our funds.**

We are a legal entity separate and distinct from our subsidiaries. With the exception of cash that we may raise from debt and equity issuances, we receive substantially all of our cash flow from dividends by our subsidiaries. Dividends by our subsidiaries are the principal source of funds for the dividends we pay on our equity securities.

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and interest and principal payments on our debt. Federal banking law and regulations limit the amount of dividends that KeyBank (KeyCorp's largest subsidiary) can pay. For further information on the regulatory restrictions on the payment of dividends by KeyBank, see "Supervision and Regulation" in Item 1 of this report.

In the event KeyBank is unable to pay dividends to us, we may not be able to service debt, pay obligations or pay dividends on our equity securities. In addition, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors.

### **We are subject to liquidity risk, which could negatively affect our funding levels.**

Market conditions or other events could negatively affect the level of or cost of funding, affecting our ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, or fund asset growth and new business initiatives at a reasonable cost, in a timely manner and without adverse consequences.

Although we have implemented strategies to maintain sufficient and diverse sources of funding to accommodate planned as well as unanticipated changes in assets, liabilities, and off-balance sheet commitments under various economic conditions (including by reducing our reliance on wholesale funding sources), a substantial, unexpected or prolonged change in the level or cost of liquidity could have a material adverse effect on us. If the cost effectiveness or the availability of supply in these credit markets is reduced for a prolonged period of time, our funding needs may require us to access funding and manage liquidity by other means. These alternatives may include generating client deposits, securitizing or selling loans, extending the maturity of wholesale borrowings, borrowing under certain secured wholesale facilities, using relationships developed with a variety of fixed income investors, and further managing loan growth and investment opportunities. These alternative means of funding may not be available under stressed conditions.

### **Our credit ratings affect our liquidity position.**

The rating agencies regularly evaluate the securities of KeyCorp and KeyBank, and their ratings of our long-term debt and other securities are based on a number of factors, including our financial strength, ability to generate earnings, and other factors. Some of these factors are not entirely within our control, such as conditions affecting the financial services industry and the economy and changes in rating methodologies as a result of the Dodd-Frank Act. We may not be able to maintain our current credit ratings. A downgrade of the securities of KeyCorp or KeyBank could adversely affect our access to liquidity and could significantly increase our cost of funds, trigger additional collateral or funding requirements, and decrease the number of investors and counterparties willing to lend to us, reducing our ability to generate income.

## **V. Market Risk**

### **A reversal of the U.S. economic recovery and a return to volatile or recessionary conditions in the U.S. or abroad could negatively affect our business or our access to capital markets.**

A worsening of economic and market conditions, downside shocks, or a return to recessionary economic conditions could result in adverse effects on Key and others in the financial services industry. Additionally, the prolonged low-interest rate environment, despite a generally improving economy, has presented a challenge for Key and affected our business and financial performance. The low-interest rate environment may persist for some time even as the economy continues to improve, and may continue to have a negative impact on our performance.

In particular, we could face some of the following risks, and other unforeseeable risks, in connection with a downturn in the economic and market environment or in the face of downside shocks or a recession, whether in the United States or internationally:

- A loss of confidence in the financial services industry and the equity markets by investors, placing pressure on the price of Key's common shares or decreasing the credit or liquidity available to Key;

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- ι A decrease in consumer and business confidence levels generally, decreasing credit usage and investment or increasing delinquencies and defaults;
- ι A decrease in household or corporate incomes, reducing demand for Key's products and services;
- ι A decrease in the value of collateral securing loans to Key's borrowers or a decrease in the quality of Key's loan portfolio, increasing loan charge-offs and reducing Key's net income;
- ι A decrease in our ability to liquidate positions at market prices;
- ι The extended continuation of the current low-interest rate environment, continuing or increasing downward pressure to our net interest income;
- ι A decrease in the accuracy and viability of our quantitative models;
- ι An increase in competition and consolidation in the financial services industry;
- ι Increased concern over and scrutiny of the capital and liquidity levels of financial institutions generally, and those of our transaction counterparties specifically;
- ι A decrease in confidence in the creditworthiness of the United States or other governments whose securities we hold; and
- ι An increase in limitations on or the regulation of financial services companies like Key.

**We are subject to interest rate risk, which could adversely affect net interest income.**

Our earnings are largely dependent upon our net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions, the competitive environment within our markets, consumer preferences for specific loan and deposit products and policies of various governmental and regulatory agencies, in particular, the Federal Reserve. Changes in monetary policy, including changes in interest rate controls being applied by the Federal Reserve, could influence the amount of interest we receive on loans and securities, the amount of interest we pay on deposits and borrowings, our ability to originate loans and obtain deposits, and the fair value of our financial assets and liabilities. If the interest we pay on deposits and other borrowings increases at a faster rate than the interest we receive on loans and other investments, net interest income, and therefore our earnings, would be adversely affected. Conversely, earnings could also be adversely affected if the interest we receive on loans and other investments falls more quickly than the interest we pay on deposits and other borrowings.

Our methods for simulating and analyzing our interest rate exposure are discussed more fully under the heading "Risk Management" Management of interest risk exposure found in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

**Our profitability depends upon economic conditions in the geographic regions where we have significant operations and on certain market segments with which we conduct significant business.**

We have concentrations of loans and other business activities in geographic regions where our bank branches are located Pacific; Rocky Mountains; Indiana; West Ohio/Michigan; East Ohio; Western New York; Eastern New York; and New England and potential exposure to geographic regions outside of our branch footprint. The moderate U.S. economic recovery has been experienced unevenly in the various regions

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where we operate, and continued improvement in the overall U.S. economy may not result in similar improvement, or any improvement at all, in the economy of any particular geographic region. Adverse conditions in a geographic region such as inflation, unemployment, recession, natural disasters, or other factors beyond our control could impact the ability of borrowers in these regions to repay their loans, decrease the value of collateral securing loans made in these regions, or affect the ability of our customers in these regions to continue conducting business with us.

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Additionally, a significant portion of our business activities are concentrated with the real estate, health care and utilities market segments. The profitability of some of these market segments depends upon the health of the overall economy, seasonality, the impact of regulation, and other factors that are beyond our control and may be beyond the control of our customers in these market segments.

An economic downturn in one or more geographic regions where we conduct our business, or any significant or prolonged impact on the profitability of one or more of the market segments with which we conduct significant business activity, could adversely affect the demand for our products and services, the ability of our customers to repay loans, the value of the collateral securing loans, and the stability of our deposit funding sources.

### **The soundness of other financial institutions could adversely affect us.**

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. We have exposure to many different industries and counterparties in the financial services industries, and we routinely execute transactions with such counterparties, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. Defaults by one or more financial services institutions have led to, and may cause, market-wide liquidity problems and losses. Many of our transactions with other financial institutions expose us to credit risk in the event of default of a counterparty or client. In addition, our credit risk may be affected when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivatives exposure due us.

## **VI. Reputation Risk**

### **Damage to our reputation could significantly harm our businesses.**

Our ability to attract and retain customers, clients, investors, and highly-skilled management and employees is affected by our reputation. Public perception of the financial services industry has declined as a result of the Great Recession. We face increased public and regulatory scrutiny resulting from the financial crisis and economic downturn. Significant harm to our reputation can also arise from other sources, including employee misconduct, actual or perceived unethical behavior, litigation or regulatory outcomes, failing to deliver minimum or required standards of service and quality, compliance failures, disclosure of confidential information, significant or numerous failures, interruptions or breaches of our information systems, and the activities of our clients, customers and counterparties, including vendors. Actions by the financial services industry generally or by certain members or individuals in the industry may have a significant adverse effect on our reputation. We could also suffer significant reputational harm if we fail to properly identify and manage potential conflicts of interest. Management of potential conflicts of interests has become increasingly complex as we expand our business activities through more numerous transactions, obligations and interests with and among our clients. The actual or perceived failure to adequately address conflicts of interest could affect the willingness of clients to deal with us, which could adversely affect our businesses.

## **VII. Strategic Risk**

### **We may not realize the expected benefits of our strategic initiatives.**

Our ability to compete depends on a number of factors, including among others, our ability to develop and successfully execute our strategic plans and initiatives. Our strategic priorities include growing profitably and maintaining financial strength; effectively managing risk and reward; engaging a high-performing, talented, and diverse workforce; and embracing the changes required by our clients and the marketplace. Acquiring and expanding customer relationships, including by cross-selling additional or new products to them, is also very important to our business model and our ability to grow revenue and earnings. Our inability to execute on or achieve the anticipated outcomes of our strategic priorities may affect how the market perceives us and could impede our growth and profitability.

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**We operate in a highly competitive industry.**

We face substantial competition in all areas of our operations from a variety of competitors, some of which are larger and may have more financial resources than us. Our competitors primarily include national and super-regional banks as well as smaller community banks within the various geographic regions in which we operate. We also face competition from many other types of financial institutions, including, without limitation, savings associations, credit unions, mortgage banking companies, finance companies, mutual funds, insurance companies, investment management firms, investment banking firms, broker-dealers and other local, regional, national, and global financial services firms. In addition, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks. Mergers and acquisitions have led to increased concentration in the banking industry, placing added competitive pressure on Key's core banking products and services. We expect the competitive landscape of the financial services industry to become even more intensified as a result of legislative, regulatory, structural and technological changes.

Our ability to compete successfully depends on a number of factors, including: our ability to develop and execute strategic plans and initiatives; our ability to develop, maintain and build long-term customer relationships based on quality service and competitive prices; our ability to develop competitive products and technologies demanded by our customers, maintaining our high ethical standards and safe and sound assets; and industry and general economic trends. Increased competition in the financial services industry, and our failure to perform in any of these areas, could significantly weaken our competitive position, which could adversely affect our growth and profitability.

**Maintaining or increasing our market share depends upon our ability to adapt our products and services to evolving industry standards and consumer preferences, while maintaining competitive prices.**

The continuous, widespread adoption of new technologies, including internet services and mobile devices (including smartphones and tablets), requires us to evaluate our product and service offerings to ensure they remain competitive. Our success depends, in part, on our ability to adapt our products and services, as well as our distribution of them, to evolving industry standards and consumer preferences. New technologies have altered consumer behavior by allowing consumers to complete transactions such as paying bills or transferring funds directly without the assistance of banks. New products allow consumers to maintain funds in brokerage accounts or mutual funds that would have historically been held as bank deposits. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits and related income generated from those deposits.

The increasing pressure from our competitors, both bank and nonbank, to keep pace and adopt new technologies and products and services requires us to incur substantial expense. We may be unsuccessful in developing or introducing new products and services, modifying our existing products and services, adapting to changing consumer preferences and spending and saving habits, achieving market acceptance or regulatory approval, sufficiently developing or maintaining a loyal customer base or offering products and services at prices lower than the prices offered by our competitors. These risks may affect our ability to achieve growth in our market share and could reduce both our revenue streams from certain products and services and our revenues from our net interest income.

**We may not be able to attract and retain skilled people.**

Our success depends, in large part, on our ability to attract, retain, motivate, and develop key people. Competition for the best people in most of our business activities is ongoing and can be intense, and we may not be able to retain or hire the people we want or need to serve our customers. To attract and retain qualified employees, we must compensate these employees at market levels. Typically, those levels have caused employee compensation to be our greatest expense.

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Various restrictions on compensation of certain executive officers were imposed under the Dodd-Frank Act and other legislation and regulations. In addition, our incentive compensation structure is subject to review by the Federal Reserve, who may identify deficiencies in the structure, causing us to make changes that may affect our ability to offer competitive compensation to these individuals. Our ability to attract and retain talented employees may be affected by these developments, or any new executive compensation limits and regulations.

### **Potential acquisitions or strategic partnerships may disrupt our business and dilute shareholder value.**

Acquiring other banks, bank branches, or other businesses involves various risks commonly associated with acquisitions or partnerships, including exposure to unknown or contingent liabilities of the target company; diversion of our management's time and attention; significant integration risk with respect to employees, accounting systems, and technology platforms; our inability to realize anticipated revenue and cost benefits and synergies; increased regulatory scrutiny; and, the possible loss of key employees and customers of the target company. We regularly evaluate merger and acquisition and strategic partnership opportunities and conduct due diligence activities related to possible transactions. As a result, mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions may involve the payment of a premium over book and market values. Therefore, some dilution of our tangible book value and net income per common share could occur in connection with any future transaction. Additionally, if an acquisition or strategic partnership were to occur, we may fail to realize the expected revenue increases, cost savings, increases in geographic or product presence, or other projected benefits.

## **VIII. Model Risk**

### **We rely on quantitative models to manage certain accounting, risk management and capital planning functions.**

We use quantitative models to help manage certain aspects of our business and to assist with certain business decisions, including estimating probable loan losses, measuring the fair value of financial instruments when reliable market prices are unavailable, estimating the effects of changing interest rates and other market measures on our financial condition and results of operations, managing risk, and for capital planning purposes (including during the CCAR capital planning process). Our modeling methodologies rely on many assumptions, historical analyses and correlations. These assumptions may be incorrect, particularly in times of market distress, and the historical correlations on which we rely may no longer be relevant. Additionally, as businesses and markets evolve, our measurements may not accurately reflect this evolution. Even if the underlying assumptions and historical correlations used in our models are adequate, our models may be deficient due to errors in computer code, bad data, misuse of data, or the use of a model for a purpose outside the scope of the model's design.

As a result, our models may not capture or fully express the risks we face, may suggest that we have sufficient capitalization when we do not, or may lead us to misjudge the business and economic environment in which we will operate. If our models fail to produce reliable results on an ongoing basis, we may not make appropriate risk management, capital planning, or other business or financial decisions. Furthermore, strategies that we employ to manage and govern the risks associated with our use of models may not be effective or fully reliable, and as a result, we may realize losses or other lapses.

Banking regulators continue to focus on the models used by banks and bank holding companies in their businesses. The failure or inadequacy of a model may result in increased regulatory scrutiny on us or may result in an enforcement action or proceeding against us by one of our regulators.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.



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The headquarters of KeyCorp and KeyBank are located in Key Tower at 127 Public Square, Cleveland, Ohio 44114-1306. At December 31, 2014, Key leased approximately 686,002 square feet of the complex, encompassing the first 23 floors and the 54th through 56th floors of the 57-story Key Tower. As of the same date, KeyBank owned 450 and leased 544 branches. The lease terms for applicable branches are not individually material, with terms ranging from month-to-month to 99 years from inception.

**Branches and ATMs by Region**

	Rocky		West Ohio/		Western	Eastern	New		
	Pacific	Mountains	Indiana	Michigan	East Ohio	New York	New York	England	Total
<b>Branches</b>	252	130	65	100	149	83	149	66	994
<b>ATMs</b>	296	164	72	123	249	112	188	83	1,287

**ITEM 3. LEGAL PROCEEDINGS**

The information in the Legal Proceedings section of Note 20 ( Commitments, Contingent Liabilities and Guarantees ) of the Notes to Consolidated Financial Statements is incorporated herein by reference.

On at least a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. Where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. These legal reserves may be increased or decreased to reflect any relevant developments on a quarterly basis. Where a loss is not probable or the amount of the loss is not estimable, we have not accrued legal reserves, consistent with applicable accounting guidance. Based on information currently available to us, advice of counsel, and available insurance coverage, we believe that our established reserves are adequate and the liabilities arising from the legal proceedings will not have a material adverse effect on our consolidated financial condition. We note, however, that in light of the inherent uncertainty in legal proceedings there can be no assurance that the ultimate resolution will not exceed established reserves. As a result, the outcome of a particular matter or a combination of matters may be material to our results of operations for a particular period, depending upon the size of the loss or our income for that particular period.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Table of Contents****PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The dividend restrictions discussion in the Supervision and Regulation section in Item 1. Business of this report, and the disclosures included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to Consolidated Financial Statements contained in Item 8 of this report, are incorporated herein by reference:

	<b>Page(s)</b>
<u>Discussion of our common shares, shareholder information and repurchase activities in the section captioned Capital Common shares outstanding</u>	69
<u>Presentation of annual and quarterly market price and cash dividends per common share and discussion of dividends in the section captioned Capital Dividends</u>	34, 68, 96
<u>Discussion of dividend restrictions in the Liquidity risk management Liquidity for KeyCorp section, Note 3 ( Restrictions on Cash, Dividends and Lending Activities ), and Note 22 ( Shareholders Equity )</u>	85, 130, 210
<u>KeyCorp common share price performance (2010-2014) graph</u>	69

From time to time, KeyCorp or its principal subsidiary, KeyBank, may seek to retire, repurchase, or exchange outstanding debt of KeyCorp or KeyBank, and capital securities or preferred stock of KeyCorp, through cash purchase, privately negotiated transactions, or otherwise. Such transactions, if any, depend on prevailing market conditions, our liquidity and capital requirements, contractual restrictions, and other factors. The amounts involved may be material.

As authorized by our Board of Directors and pursuant to our 2014 capital plan submitted to and not objected to by the Federal Reserve, we have authority to repurchase up to \$542 million of our common shares in the open market or through privately negotiated transactions. Share repurchases under the 2014 capital plan began in the second quarter of 2014 and included repurchases to offset issuances of common shares under our employee compensation plans. Common share repurchases under the remaining 2014 capital plan authorization are expected to be executed through the first quarter of 2015.

We completed \$128 million of common share repurchases during the fourth quarter of 2014 under our 2014 capital plan authorization.

The following table summarizes our repurchases of our common shares for the three months ended December 31, 2014.

Total number of shares repurchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that yet be purchased as publicly announced programs
2,482,427	\$ 12.77	2,560,755	21,5

6,487,088		13.39	6,486,428	14,6
739,781		13.27	738,500	13,4
9,709,296	\$	13.22	9,785,683	

(a) Includes common shares repurchased in the open market and common shares deemed surrendered by employees in connection with our stock compensation and benefit plans to satisfy tax obligations.

(b) Calculated using the remaining general repurchase amount divided by the closing price of KeyCorp common shares as follows: on October 31, 2014, at \$13.20; on November 30, 2014, at \$13.50; and on December 31, 2014, at \$13.90.

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**ITEM 6. SELECTED FINANCIAL DATA**

The information included under the caption "Selected Financial Data" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 32 is incorporated herein by reference.

**Table of Contents****ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (the MD&A )**

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Throughout the Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, we use certain acronyms and abbreviations. These terms are defined in Note 1 ( Summary of Significant Accounting Policies ), which begins on page 114.

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### Introduction

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

### Terminology

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

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

- ⌚ We use the phrase *continuing operations* in this document to mean all of our businesses other than the education lending business, Victory, and Austin. The education lending business and Austin have been accounted for as *discontinued operations* since 2009. Victory was classified as a *discontinued operation* in our first quarter 2013 financial reporting as a result of the sale of this business as announced on February 21, 2013, and closed on July 31, 2013.
- ⌚ Our *exit loan portfolios* are separate from our *discontinued operations*. These portfolios, which are in a run-off mode, stem from product lines we decided to cease because they no longer fit with our corporate strategy. These exit loan portfolios are included in *Other Segments*.
- ⌚ We engage in *capital markets activities* primarily through business conducted by our Key Corporate Bank segment. These activities encompass a variety of products and services. Among other things, we trade securities as a dealer, enter into derivative contracts (both to accommodate clients' financing needs and to mitigate certain risks), and conduct transactions in foreign currencies (both to accommodate clients' needs and to benefit from fluctuations in exchange rates).
- ⌚ For regulatory purposes, capital is divided into two classes. Federal regulations currently prescribe that at least one-half of a bank or BHC's *total risk-based capital* must qualify as *Tier 1 capital*. Both total and Tier 1 capital serve as bases for several measures of capital adequacy, which is an important indicator of financial stability and condition. As described under the heading "Regulatory capital and liquidity" Capital planning and stress testing in the section entitled "Supervision and Regulation" in Item 1 of this report, the regulators are required to conduct a supervisory capital assessment of all BHCs with assets of at least \$50 billion, including KeyCorp. As part of this capital adequacy review, banking regulators evaluate a component of Tier 1 capital, known as *Tier 1 common equity*. The section entitled "Capital" Capital adequacy in this MD&A provides more information on total capital, Tier 1 capital, and Tier 1 common equity and describes how the three measures are calculated.

Additionally, a comprehensive list of the acronyms and abbreviations used throughout this discussion is included in Note 1 ( Summary of Significant Accounting Policies ).



**Table of Contents****Figure 1. Selected Financial Data**

	2014	2013	2012	2011	2010	Compound Annual Rate of Change (2010-2014)
<i>dollars in millions, except per share amounts</i>						
<b>YEAR ENDED DECEMBER 31,</b>						
Interest income	\$ 2,554	\$ 2,620	\$ 2,705	\$ 2,889	\$ 3,408	(5.6)%
Interest expense	261	295	441	622	897	(21.9)
Net interest income	2,293	2,325	2,264	2,267	2,511	(1.8)
Provision (credit) for loan and lease losses	59	130	229	(60)	638	(37.9)
Noninterest income	1,797	1,766	1,856	1,688	1,954	(1.7)
Noninterest expense	2,759	2,820	2,818	2,684	3,034	(1.9)
Income (loss) from continuing operations before income taxes	1,272	1,141	1,073	1,331	793	9.9
Income (loss) from continuing operations attributable to Key	939	870	835	955	577	10.2
Income (loss) from discontinued operations, net of taxes <sup>(b)</sup>	(39)	40	23	(35)	(23)	N/M
Net income (loss) attributable to Key	900	910	858	920	554	10.2
Income (loss) from continuing operations attributable to Key common shareholders	917	847	813	848	413	17.3
Income (loss) from discontinued operations, net of taxes <sup>(b)</sup>	(39)	40	23	(35)	(23)	N/M
Net income (loss) attributable to Key common shareholders	878	887	836	813	390	17.6
<b>PER COMMON SHARE</b>						
Income (loss) from continuing operations attributable to Key common shareholders	\$ 1.05	\$ .93	\$ .87	\$ .91	\$ .47	17.4%
Income (loss) from discontinued operations, net of taxes <sup>(b)</sup>	(.04)	.04	.02	(.04)	(.03)	N/M
Net income (loss) attributable to Key common shareholders <sup>(c)</sup>	1.01	.98	.89	.87	.45	17.5
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	\$ 1.04	\$ .93	\$ .86	\$ .91	\$ .47	17.2%
Income (loss) from discontinued operations, net of taxes assuming	(.04)	.04	.02	(.04)	(.03)	N/M

dilution <sup>(b)</sup>

Net income (loss) attributable to Key common shareholders assuming dilution <sup>(c)</sup>	<b>.99</b>	.97	.89	.87	.44	17.6
Cash dividends paid	<b>.25</b>	.215	.18	.10	.04	44.3%
Book value at year end	<b>11.91</b>	11.25	10.78	10.09	9.52	4.6
Tangible book value at year end	<b>10.65</b>	10.11	9.67	9.11	8.45	4.7
Market price at year end	<b>13.90</b>	13.42	8.42	7.69	8.85	9.4
Dividend payout ratio	<b>24.8%</b>	21.9%	20.2%	11.49%	8.89%	N/A
Weighted-average common shares outstanding (000)	<b>871,464</b>	906,524	938,941	931,934	874,748	(.1)
Weighted-average common shares and potential common shares outstanding (000) <sup>(d)</sup>	<b>878,199</b>	912,571	943,259	935,801	878,153	

**AT DECEMBER 31.**

Loans	<b>\$ 57,381</b>	\$ 54,457	\$ 52,822	\$ 49,575	\$ 50,107	2.7%
Earning assets	<b>82,269</b>	79,467	75,055	73,729	76,211	1.5
Total assets	<b>93,821</b>	92,934	89,236	88,785	91,843	.4
Deposits	<b>71,998</b>	69,262	65,993	61,956	60,610	3.5
Long-term debt	<b>7,875</b>	7,650	6,847	9,520	10,592	(5.8)
Key common shareholders equity	<b>10,239</b>	10,012	9,980	9,614	8,380	4.1
Key shareholders equity	<b>10,530</b>	10,303	10,271	9,905	11,117	(1.1)

**PERFORMANCE RATIOS FROM CONTINUING OPERATIONS**

Return on average total assets	<b>1.08%</b>	1.03%	1.03%	1.16%	.66%	N/A
Return on average common equity	<b>9.01</b>	8.48	8.25	9.17	5.06	N/A
Return on average tangible common equity <sup>(e)</sup>	<b>10.04</b>	9.45	9.16	10.20	5.73	N/A
Net interest margin (TE)	<b>2.97</b>	3.12	3.21	3.16	3.26	N/A
Cash efficiency ratio <sup>(e)</sup>	<b>66.1</b>	67.5	67.4	67.3	67.3	N/A

**PERFORMANCE RATIOS FROM CONSOLIDATED OPERATIONS**

Return on average total assets	<b>.99%</b>	1.02%	.99%	1.04%	.59%	N/A
Return on average common equity	<b>8.63</b>	8.88	8.48	8.79	4.78	N/A
Return on average tangible common equity <sup>(e)</sup>	<b>9.61</b>	9.90	9.42	9.78	5.41	N/A
Net interest margin (TE)	<b>2.94</b>	3.02	3.13	3.09	3.16	N/A
Loan to deposit <sup>(f)</sup>	<b>84.6</b>	83.8	85.8	87.0	90.3	N/A

**CAPITAL RATIOS AT DECEMBER 31,**

Key shareholders equity to assets	<b>11.22%</b>	11.09%	11.51%	11.16%	12.10%	N/A
Key common shareholders equity to assets	<b>10.91</b>	10.78	11.18	10.83	9.12	N/A
Tangible common equity to tangible assets <sup>(e)</sup>	<b>9.88</b>	9.80	10.15	9.88	8.19	N/A

Tier 1 common equity <sup>(e)</sup>	<b>11.17</b>	11.22	11.36	11.26	9.34	N/A
Tier 1 risk-based capital	<b>11.90</b>	11.96	12.15	12.99	15.16	N/A
Total risk-based capital	<b>13.89</b>	14.33	15.13	16.51	19.12	N/A
Leverage	<b>11.26</b>	11.11	11.41	11.79	13.02	N/A

**TRUST AND BROKERAGE****ASSETS**

Assets under management	<b>\$ 39,157</b>	\$ 36,905	\$ 34,744	\$ 51,732	\$ 59,815	N/A
Nonmanaged and brokerage assets	<b>49,147</b>	47,418	35,550	30,639	28,069	N/A

**OTHER DATA**

Average full-time-equivalent employees	<b>13,853</b>	14,783	15,589	15,381	15,610	(2.4)%
Branches	<b>994</b>	1,028	1,088	1,058	1,033	(.8)

(a) Financial data was not adjusted to reflect the treatment of Victory as a discontinued operation.

(b) In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In February 2013, we decided to sell Victory to a private equity fund. As a result of these decisions, we have accounted for these businesses as discontinued operations. For further discussion regarding the income (loss) from discontinued operations, see Note 13 ( Acquisitions and Discontinued Operations ).

(c) EPS may not foot due to rounding.

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- (d) Assumes conversion of common share options and other stock awards and/or convertible preferred stock, as applicable.
- (e) See Figure 4 entitled GAAP to Non-GAAP Reconciliations, which presents the computations of certain financial measures related to tangible common equity, Tier 1 common equity, and cash efficiency. The table reconciles the GAAP performance measures to the corresponding non-GAAP measures, which provides a basis for period-to-period comparisons.
- (f) Represents period-end consolidated total loans and loans held for sale (excluding education loans in securitizations trusts for periods prior to 2014) divided by period-end consolidated total deposits (excluding deposits in foreign office).

**Economic overview**

The economy continued its modest recovery in 2014, with overall GDP starting slowly and accelerating as the year progressed, resulting in 2.4% growth. The year began with GDP contracting 2.1% in the first quarter, due to extreme weather halting consumer spending and investment. In the second quarter, growth of 4.6% more than reversed the first quarter's decline. Pent-up consumer demand was the largest contributor to the growth, as the impact of extreme weather conditions in the first quarter faded. In the third quarter, growth accelerated as consumers spent money saved at the gas pump. Oil prices dropped 46% over the last half of the year, giving consumers a boost in discretionary income. The fourth quarter saw growth slow to 2.6% as consumer spending continued to be a bright spot. The stock market continued its climb in 2014, with the S&P 500 equity index increasing 11%, compared to a 30% increase in 2013. Globally, the economic recovery slowed; central banks in developed nations maintained easy money policies. In Europe, the recovery stalled and the risk of deflation rose, leading the European Central Bank to consider further action. Emerging markets struggled as well—demand decreased, exports dropped, and China grew at its slowest rate in 24 years.

For 2014, 2.95 million new jobs were added in the U.S. The unemployment rate fell further, from 6.97% at December 31, 2013, to 5.70% at December 31, 2014. While job growth was a factor, the majority of the improvement was driven by a decrease in the labor force participation rate, which declined to its lowest level in over 35 years. Wage growth deteriorated through much of the year and income growth was weak, indicative of slack in the labor market. However, consumer spending held up reasonably well, resulting in a falling savings rate. A slowing rate of inflation supported real incomes, and therefore spending, throughout the year. By December 2014, headline inflation was down to .8%, compared to 1.5% one year ago, mainly due to the decline in fuel prices. Core inflation also remained low throughout the year, ending 2014 at 1.6%, down from 1.7% in 2013.

As the economy expanded further and job growth accelerated, the housing market gained traction, with slight improvement across nearly all metrics in 2014. Slow household formation continues to be a factor, however, and sales growth remains relatively modest. Existing home sales finished 2014 at a seasonally adjusted annual rate of 5.04 million, up slightly from December 2013. New home sales ended the year on a solid note, reaching a seasonally adjusted annual rate of 481,000 in December 2014, up 8.8% from 2013. The pace of price appreciation slowed, with the median price for existing homes up 5.5% year-over-year in November 2014, compared to 9.9% in 2013. Housing starts accelerated further, up 9% over 2013, driven primarily by substantial gains in both single and multi-family construction.

The Federal Reserve remained active and accommodative in 2014, keeping the federal funds target rate near zero, expanding its balance sheet further, and making significant changes to its communications. Janet Yellen replaced Ben

Bernanke as the Federal Reserve Chairman in February 2014. The Federal Reserve started tapering the pace of asset purchases by \$10 billion, from \$85 billion per month to \$75 billion per month, in January and concluded purchasing securities in October. However, the Federal Open Market Committee ( FOMC ) decided to maintain the existing policy of reinvesting principal payments to help accommodate financial conditions. In addition, the Federal Reserve kept its forward guidance unchanged in December, explicitly stating that the federal funds rate will be kept near zero for a considerable time. Low inflation remains a concern; the FOMC acknowledged lower energy prices were a factor in holding inflation under their longer-run objective of 2.0%. The 10-year U.S. Treasury yield began the year at 3.0%, and was range-bound from 2.7% to 2.9% for the first quarter of the year, driven by disappointing weather-related economic data. Around the year's halfway point, with rising concerns over global growth, the 10-year U.S. Treasury yield began to decrease, approaching 2.0% by the end of the year as the stock market continued to rally.

**Table of Contents****Long-term financial goals**

Our long-term financial goals are as follows:

- ι Improve balance sheet efficiency by targeting a loan-to-deposit ratio range of 90% to 100%;
- ι Maintain a moderate risk profile by targeting a net loan charge-off ratio range of .40% to .60%;
- ι Grow high quality and diverse revenue streams by targeting a net interest margin in excess of 3.50%, and a ratio of noninterest income to total revenue of greater than 40%;
- ι Generate positive operating leverage and target a cash efficiency ratio of less than 60%; and
- ι Strengthen returns by executing our strategy and target a return on average assets in the range of 1.00% to 1.25%. Figure 2 shows the evaluation of our long-term financial goals for the three and twelve months ended December 31, 2014.

**Figure 2. Evaluation of Our Long-Term Financial Goals**

KEY Business Model	Key Metrics <sup>(a)</sup>	Year ended		Targets
		4Q14	December 31, 2014	
Balance sheet efficiency	Loan-to-deposit ratio <sup>(b)</sup>	85 %	85 %	90 - 100 %
Moderate risk profile	NCOs to average loans	.22 %	.20 %	.40 - .60 %
High quality, diverse revenue streams	Provision to average loans	.15 %	.11 %	
	Net interest margin	2.94 %	2.97 %	> 3.50 %
Positive operating leverage	Noninterest income to total revenue	45 %	44 %	> 40 %
	Cash efficiency ratio <sup>(c)</sup>	64.4 %	66.1 %	< 60 %
Execution of strategy	Return on average assets	1.12 %	1.08 %	1.00 - 1.25 %

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

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

(c) Excludes intangible asset amortization; Non-GAAP measures: see Figure 4 for reconciliation.

### **Corporate strategy**

We remain committed to enhancing long-term shareholder value by continuing to execute our relationship business model, growing our franchise, and being disciplined in our management of capital. Our 2014/2015 strategic focus is to add new clients and to expand our relationships with existing clients. We intend to pursue this strategy by continuing to control and reduce expenses; being more productive from the front office to the back office; effectively balancing risk and rewards within our moderate risk profile; and engaging, retaining and inspiring our diverse and high performing workforce. Our strategic priorities for enhancing long-term shareholder value are described below.

- ↳ **Grow profitably** We will continue to focus on growing revenue and creating a more efficient operating environment. We expect our relationship business model to keep generating organic growth as it helps us expand engagement with existing clients and attract new customers. We will leverage our continuous improvement culture to create a more efficient cost structure that is aligned, sustainable, and consistent with the current operating environment and supports our relationship business model.
  
- ↳ **Acquire and expand targeted relationships** We have taken purposeful steps to enhance our ability to acquire and expand targeted relationships. Our local delivery of a broad product set and industry expertise allows us to match client needs and market conditions to deliver the best solutions.
  
- ↳ **Effectively manage risk and rewards** Our risk management activities are focused on ensuring we properly identify, measure, and manage risks across the entire company to maintain safety and soundness and maximize profitability.

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- ↳ ***Maintain financial strength*** With the foundation of a strong balance sheet, we will remain focused on sustaining strong reserves, liquidity and capital. We will work closely with our Board of Directors and regulators to manage capital to support our clients' needs and create shareholder value. Our capital remains a competitive advantage for us.
- ↳ ***Engage a high performing, talented and diverse workforce*** Every day our employees provide our clients with great ideas, extraordinary service and smart solutions. We will continue to engage our high performing, talented and diverse workforce to create an environment where they can make a difference, own their careers, be respected and feel a sense of pride.

**Strategic developments**

We initiated the following actions during 2014 to support our corporate strategy:

- ↳ We continued to take actions to drive growth and efficiency. These actions included leadership changes to leverage our alignment, accelerate momentum, and drive growth. We also focused on growing our commercial payments business and maximizing the return from our recent investments, which included the launch of purchase and prepaid cards in the first quarter of 2014. In addition to these new payment products, we continued to invest in, and build out, our online and mobile capabilities. During the first quarter of 2014, we expanded our online account-opening tools to include more products and services. During the second quarter of 2014, we introduced the new KeyBank Hassle-Free Account for banking customers who want straightforward ways to make deposits, track money, obtain cash, and make payments without worrying about potential overdraft fees or other unexpected fees. In addition, as part of our actions to drive efficiency, we closed 34 branches and reduced headcount in our fixed income trading business during 2014.
- ↳ We also made progress on other strategic initiatives, including improving sales productivity and strengthening our business mix through targeted investments and exiting businesses that are not a strategic fit. Key Community Bank strengthened its sales management process and saw a lift in sales productivity. Key Corporate Bank continued to see growth in new and expanded client relationships. In the first quarter of 2014, we announced that we would be exiting our international leasing operation, which had limited scale and connectivity to our other businesses. This decision was consistent with our commitment to allocate our capital to businesses that fit our strategy and generate appropriate risk-adjusted returns. Late in the third quarter of 2014, we closed the acquisition of Pacific Crest Securities, a leading technology-focused investment bank and capital markets firm. This acquisition underscores our commitment to creating the leading corporate and investment bank serving middle market companies. The transaction brings together two firms with a shared vision of enhancing their differentiation in the market by capitalizing on the convergence of technology across traditional industry verticals.
- ↳ Our strong risk management practices and a more favorable credit environment resulted in another year of positive credit quality trends. For 2014, net loan charge-offs were .20% of average loans, well below our targeted range, and nonperforming assets decreased 17.9% from the year-ago period.

↳



Capital management remained a priority. During 2014, we completed \$355 million of common share repurchases under our 2014 capital plan authorization. In addition, we completed \$141 million of common share repurchases in the first quarter of 2014 under our 2013 capital plan for a total of \$496 million of open market common share repurchases during 2014. Common share repurchases under the 2014 capital plan are expected to be executed through the first quarter of 2015.

- ⌚ The Board declared a quarterly dividend of \$.055 per common share for the first quarter of 2014. Our 2014 capital plan proposed an 18% increase in our quarterly common share dividend to \$.065 per share, which was approved by our Board in May 2014. Consistent with the 2014 capital plan, we made a dividend payment of \$.065 per share on our common shares during each of the second, third, and fourth quarters of 2014, which brought our annual dividend to \$.25 per common share for 2014.
- ⌚ At December 31, 2014, our capital ratios remained strong with a Tier 1 common equity ratio of 11.17%, our loan loss reserves were adequate at 1.38% to period-end loans, and we were core funded with a loan-to-

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deposit ratio of 85%. We believe our strong capital position provides us with the flexibility to support our clients and our business needs, and to evaluate other appropriate capital deployment opportunities.

**Highlights of Our 2014 Performance****Financial performance**

For 2014, we announced net income from continuing operations attributable to Key common shareholders of \$917 million, or \$1.04 per common share. These results compare to net income from continuing operations attributable to Key common shareholders of \$847 million, or \$.93 per common share, for 2013.

Figure 3 shows our continuing and discontinued operating results for the past three years.

**Figure 3. Results of Operations**

<b>Year ended December 31,</b> <i>in millions, except per share amounts</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>SUMMARY OF OPERATIONS</b>			
Income (loss) from continuing operations attributable to Key	\$ 939	\$ 870	\$ 835
Income (loss) from discontinued operations, net of taxes <sup>(a)</sup>	(39)	40	23
Net income (loss) attributable to Key	\$ 900	\$ 910	\$ 858
Income (loss) from continuing operations attributable to Key	\$ 939	\$ 870	\$ 835
Less: Dividends on Series A Preferred Stock	22	23	22
Income (loss) from continuing operations attributable to Key common shareholders	917	847	813
Income (loss) from discontinued operations, net of taxes <sup>(a)</sup>	(39)	40	23
Net income (loss) attributable to Key common shareholders	\$ 878	\$ 887	\$ 836
<b>PER COMMON SHARE ASSUMING DILUTION</b>			
Income (loss) from continuing operations attributable to Key common shareholders	\$ 1.04	\$ .93	\$ .86
Income (loss) from discontinued operations, net of taxes <sup>(a)</sup>	(.04)	.04	.02
Net income (loss) attributable to Key common shareholders <sup>(b)</sup>	\$ .99	\$ .97	\$ .89

(a) In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. In September 2009, we decided to discontinue the education lending

business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In February 2013, we decided to sell Victory to a private equity fund. As a result of these decisions, we have accounted for these businesses as discontinued operations. For further discussion regarding the income (loss) from discontinued operations, see Note 13 ( Acquisitions and Discontinued Operations ).

(b) EPS may not foot due to rounding.

Our 2014 full-year results reflect success in executing our strategy by generating positive operating leverage and maintaining strong risk management and disciplined capital management. We continued to invest in our businesses to accelerate growth. During the third quarter of 2014, we acquired Pacific Crest Securities, a leading technology-focused investment bank and capital markets firm. We added bankers across our franchise, expanded our payment capabilities, and enhanced technology in areas such as mobile, online, and cyber security. In addition, as part of our actions to drive efficiency, we closed 34 branches and exited nonstrategic assets that were not consistent with our relationship strategy, such as international leasing. We remain committed to generating positive operating leverage and delivering on our long-term goal of achieving a cash efficiency ratio below 60%.

Our taxable-equivalent net interest income for 2014 was \$2.3 billion, and the net interest margin was 2.97%. These results compare to taxable-equivalent net interest income of \$2.3 billion and a net interest margin of 3.12% for the prior year. The decreases in net interest income, which declined \$31 million, and the net interest margin were attributable to lower earning asset yields. These decreases were partially offset by loan growth, the maturity of higher-rate certificates of deposit, and a more favorable mix of lower-cost deposits. In 2015, we expect net interest income and net interest margin to benefit from anticipated higher rates, with net interest income growth in the low- to mid-single-digit percentage range compared to 2014 and net interest margin to be stable to slightly higher later in 2015.

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Our noninterest income was \$1.8 billion, up \$31 million, or 1.8%, from 2013. Investment banking and debt placement fees benefited from our business model and had a record high year, increasing \$64 million from 2013. Net gains (losses) from principal investing were \$26 million higher than prior year, and trust and investment services income increased \$10 million. These increases were partially offset by declines of \$21 million in operating lease income and other leasing, \$20 million in service charges on deposits accounts, \$12 million in mortgage servicing fees, and \$9 million in consumer mortgage income. Other income also decreased \$15 million. In 2015, we expect mid-single-digit growth compared to 2014, including the full-year impact of the recently-acquired Pacific Crest Securities.

Our noninterest expense was \$2.8 billion, a decrease of \$61 million, or 2.2%, from 2013. We recognized \$80 million of efficiency- and pension-related charges in 2014 compared to \$117 million in 2013. Personnel expense declined \$18 million, driven by lower net technology contract labor, severance, and employee benefits, partially offset by higher incentive compensation and stock-based compensation. Nonpersonnel expense decreased \$43 million, primarily due to declines in net occupancy costs of \$14 million, provision (credit) for losses on lending-related commitments of \$10 million, and equipment expense of \$8 million. In 2015, we expect noninterest expense to be relatively stable with 2014.

Average loans totaled \$55.7 billion for 2014, compared to \$53.1 billion in 2013. Commercial, financial and agricultural loan growth of \$2.7 billion from the prior year was broad-based across our commercial lines of business. Consumer loans remained relatively stable, as modest increases across our core consumer loan portfolio, primarily home equity loans and direct term loans, were mostly offset by run-off in our designated consumer exit portfolio. For 2015, we anticipate average loans growth in the mid-single-digit range, benefiting from the strength in our commercial businesses.

Average deposits, excluding deposits in foreign office, totaled \$67.3 billion for 2014, an increase of \$1.9 billion compared to 2013. Demand deposits and NOW and money market deposit accounts each increased \$1.4 billion, mostly due to growth related to commercial client inflows as well as increases related to the commercial mortgage servicing business. These increases were partially offset by run-off in certificates of deposit. Our consolidated loan to deposit ratio was 84.6% at December 31, 2014, compared to 83.8% at December 31, 2013.

Our asset quality statistics continued to improve during 2014. The provision for loan and lease losses was \$59 million for 2014 compared to \$130 million for 2013. Net loan charge-offs declined to \$113 million, or .20%, of average loan balances for 2014, compared to \$168 million, or .32%, for 2013. In addition, our nonperforming loans declined to \$418 million, or .73%, of period-end loans at December 31, 2014, compared to \$508 million, or .93%, at December 31, 2013. Our ALLL was \$794 million, or 1.38%, of period-end loans, compared to \$848 million, or 1.56%, at December 31, 2013, and represented 190% and 166.9% coverage of nonperforming loans at December 31, 2014, and December 31, 2013, respectively. In 2015, we expect net loan charge-offs to average loans to remain below our long-term targeted range of 40 to 60 basis points and the provision for loan and lease losses to approximate net loan charge-offs.

Our tangible common equity ratio and Tier 1 common ratio both remain strong at December 31, 2014, at 9.88% and 11.17% respectively, compared to 9.80% and 11.22%, respectively, at December 31, 2013. We have identified four primary uses of capital:

1. Investing in our businesses, supporting our clients, and loan growth;
2. Maintaining or increasing our common share dividend;
3. Returning capital in the form of common share repurchases to our shareholders; and
4. Remaining disciplined and opportunistic about how we invest in our franchise to include selective acquisitions over time.

Our capital management remains focused on creating value. During 2014, we announced an 18% increase in the common share dividend and repurchased \$496 million of common shares, resulting in a peer-leading shareholder payout of approximately 82% of our 2014 net income.

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The Federal Reserve is currently reviewing of our 2015 capital plan under the CCAR process. Until such time as it has completed its review and has no objection to our plan, we are not permitted to implement our capital plan for periods after the first quarter of 2015. Should we receive an objection to our plan, it would likely delay any actions on capital management until later in the calendar year. For more information about the CCAR process, see [Capital planning and stress testing](#) under [Supervision and Regulation](#) in Item 1 of this report.

Figure 4 presents certain non-GAAP financial measures related to [tangible common equity](#), [return on tangible common equity](#), [Tier 1 common equity](#), [pre-provision net revenue](#), [cash efficiency ratio](#), and [Common Equity Tier 1](#) under the Regulatory Capital Rules (estimates).

The tangible common equity ratio and the return on tangible common equity ratio have been a focus for some investors, and management believes these ratios may assist investors in analyzing Key's capital position without regard to the effects of intangible assets and preferred stock. Tier 1 common equity, a non-GAAP financial measure, is a component of Tier 1 risk-based capital. Tier 1 common equity is neither formally defined by GAAP nor prescribed in amount by federal banking regulations applicable to us before January 1, 2015. However, since analysts and banking regulators may assess our capital adequacy using tangible common equity and Tier 1 common equity, we believe it is useful to enable investors to assess our capital adequacy on these same bases. Figure 4 also reconciles the GAAP performance measures to the corresponding non-GAAP measures.

Traditionally, the banking regulators have assessed bank and BHC capital adequacy based on both the amount and the composition of capital, the calculation of which is prescribed in federal banking regulations. The Federal Reserve focuses its assessment of capital adequacy on a component of Tier 1 capital known as Tier 1 common equity. Because the Federal Reserve has long indicated that voting common shareholders equity (essentially Tier 1 risk-based capital less preferred stock, qualifying capital securities and noncontrolling interests in subsidiaries) generally should be the dominant element in Tier 1 risk-based capital, this focus on Tier 1 common equity is consistent with existing capital adequacy categories. The Regulatory Capital Rules, described in more detail under the section [Supervision and Regulation](#) in Item 1 of this report, also make Tier 1 common equity a priority. The Regulatory Capital Rules change the regulatory capital standards that apply to BHCs by, among other changes, phasing out the treatment of trust preferred securities and cumulative preferred securities as Tier 1 eligible capital. By 2016, our trust preferred securities will only be included in Tier 2 capital.

Figure 4 also shows the computation for pre-provision net revenue, which is not formally defined by GAAP. We believe that eliminating the effects of the provision for loan and lease losses makes it easier to analyze our results by presenting them on a more comparable basis.

The cash efficiency ratio is a ratio of two non-GAAP performance measures. Accordingly, there is no directly comparable GAAP performance measure. The cash efficiency ratio excludes the impact of our intangible asset amortization from the calculation. We believe this ratio provides greater consistency and comparability between our results and those of our peer banks. Additionally, this ratio is used by analysts and investors as they develop earnings forecasts and peer bank analysis.

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

**Table of Contents****Figure 4. GAAP to Non-GAAP Reconciliations**

Year ended December 31,

<i>dollars in millions</i>	2014	2013	2012	2011	2010	(a)
<b>Tangible common equity to tangible assets at period end</b>						
Key shareholders' equity (GAAP)	\$ 10,530	\$ 10,303	\$ 10,271	\$ 9,905	\$ 11,117	
Less: Intangible assets <sup>(b)</sup>	1,090	1,014	1,027	934	938	
Series B Preferred Stock					2,446	
Series A Preferred Stock <sup>(c)</sup>	282	282	291	291	291	
<b>Tangible common equity (non-GAAP)</b>	<b>\$ 9,158</b>	<b>\$ 9,007</b>	<b>\$ 8,953</b>	<b>\$ 8,680</b>	<b>\$ 7,442</b>	
Total assets (GAAP)	\$ 93,821	\$ 92,934	\$ 89,236	\$ 88,785	\$ 91,843	
Less: Intangible assets <sup>(b)</sup>	1,090	1,014	1,027	934	938	
<b>Tangible assets (non-GAAP)</b>	<b>\$ 92,731</b>	<b>\$ 91,920</b>	<b>\$ 88,209</b>	<b>\$ 87,851</b>	<b>\$ 90,905</b>	
<b>Tangible common equity to tangible assets ratio (non-GAAP)</b>	<b>9.88</b>	<b>9.80</b>	<b>10.15</b>	<b>9.88</b>	<b>8.19</b>	<b>% % % % %</b>
<b>Tier 1 common equity at period end</b>						
Key shareholders' equity (GAAP)	\$ 10,530	\$ 10,303	\$ 10,271	\$ 9,905	\$ 11,117	
Qualifying capital securities	339	339	339	1,046	1,791	
Less: Goodwill	1,057	979	979	917	917	
Accumulated other comprehensive income (loss) <sup>(d)</sup>	(395)	(394)	(172)	(72)	(66)	
Other assets <sup>(e)</sup>	83	89	114	72	248	
<b>Total Tier 1 capital (regulatory)</b>	<b>10,124</b>	<b>9,968</b>	<b>9,689</b>	<b>10,034</b>	<b>11,809</b>	
Less: Qualifying capital securities	339	339	339	1,046	1,791	
Series B Preferred Stock					2,446	
Series A Preferred Stock <sup>(c)</sup>	282	282	291	291	291	
<b>Total Tier 1 common equity (non-GAAP)</b>	<b>\$ 9,503</b>	<b>\$ 9,347</b>	<b>\$ 9,059</b>	<b>\$ 8,697</b>	<b>\$ 7,281</b>	
Net risk-weighted assets (regulatory)	\$ 85,100	\$ 83,328	\$ 79,734	\$ 77,214	\$ 77,921	
<b>Tier 1 common equity ratio (non-GAAP)</b>	<b>11.17</b>	<b>11.22</b>	<b>11.36</b>	<b>11.26</b>	<b>9.34</b>	<b>% % % % %</b>
<b>Pre-provision net revenue</b>						
Net interest income (GAAP)	\$ 2,293	\$ 2,325	\$ 2,264	\$ 2,267	\$ 2,511	
Plus: Taxable-equivalent adjustment	24	23	24	25	26	
Noninterest income (GAAP)	1,797	1,766	1,856	1,688	1,954	
Less: Noninterest expense (GAAP)	2,759	2,820	2,818	2,684	3,034	
<b>Pre-provision net revenue from continuing operations (non-GAAP)</b>	<b>\$ 1,355</b>	<b>\$ 1,294</b>	<b>\$ 1,326</b>	<b>\$ 1,296</b>	<b>\$ 1,457</b>	
<b>Average tangible common equity</b>						
Average Key shareholders' equity (GAAP)	\$ 10,467	\$ 10,276	\$ 10,144	\$ 10,133	\$ 10,895	
Less: Intangible assets (average) <sup>(f)</sup>	1,039	1,021	978	935	959	
Series B Preferred Stock (average)				590	2,438	
Series A Preferred Stock (average)	291	291	291	291	291	

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Average tangible common equity (non-GAAP)	\$ 9,137	\$ 8,964	\$ 8,875	\$ 8,317	\$ 7,207
<b>Return on average tangible common equity from continuing operations</b>					
Net income (loss) from continuing operations attributable to Key common shareholders (GAAP)	\$ 917	\$ 847	\$ 813	\$ 848	\$ 413
Average tangible common equity (non-GAAP)	9,137	8,964	8,875	8,317	7,207
Return on average tangible common equity from continuing operations (non-GAAP)	10.04 %	9.45 %	9.16 %	10.20 %	5.73 %
<b>Return on average tangible common equity consolidated</b>					
Net income (loss) attributable to Key common shareholders (GAAP)	\$ 878	\$ 887	\$ 836	\$ 813	\$ 390
Average tangible common equity (non-GAAP)	9,137	8,964	8,875	8,317	7,207
Return on average tangible common equity consolidated (non-GAAP)	9.61 %	9.90 %	9.42 %	9.78 %	5.41 %
<b>Cash efficiency ratio</b>					
Noninterest expense (GAAP)	\$ 2,759	\$ 2,820	\$ 2,818	\$ 2,684	\$ 3,034
Less: Intangible asset amortization (GAAP)	39	44	23	4	14
Adjusted noninterest expense (non-GAAP)	\$ 2,720	\$ 2,776	\$ 2,795	\$ 2,680	\$ 3,020
Net interest income (GAAP)	\$ 2,293	\$ 2,325	\$ 2,264	\$ 2,267	\$ 2,511
Plus: Taxable-equivalent adjustment	24	23	24	25	26
Noninterest income (GAAP)	1,797	1,766	1,856	1,688	1,954
Total taxable-equivalent revenue (non-GAAP)	\$ 4,114	\$ 4,114	\$ 4,144	\$ 3,980	\$ 4,491
Cash efficiency ratio (non-GAAP)	66.1 %	67.5 %	67.4 %	67.3 %	67.3 %

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- (a) Financial data was not adjusted to reflect the treatment of Victory as a discontinued operation.
- (b) For the years ended December 31, 2014, December 31, 2013, and December 31, 2012, intangible assets exclude \$68 million, \$92 million, and \$123 million, respectively, of period-end purchased credit card receivables.
- (c) Net of capital surplus for the years ended December 31, 2014, and December 31, 2013.
- (d) Includes net unrealized gains or losses on securities available for sale (except for net unrealized losses on marketable equity securities), net gains or losses on cash flow hedges, and amounts resulting from the application of the applicable accounting guidance for defined benefit and other postretirement plans.
- (e) Other assets deducted from Tier 1 capital and net risk-weighted assets consist of disallowed intangible assets (excluding goodwill) and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at December 31, 2014, December 31, 2013, December 31, 2012, and December 31, 2011. There were disallowed deferred tax assets of \$158 million at December 31, 2010.
- (f) For the years ended December 31, 2014, December 31, 2013, and December 31, 2012, average intangible assets exclude \$79 million, \$107 million, and \$55 million, respectively, of average purchased credit card receivables.

**Figure 4. GAAP to Non-GAAP Reconciliations, continued****Year ended December 31,***dollars in millions***2014****Common Equity Tier 1 under the Regulatory Capital Rules (estimates)**

Tier 1 common equity under current regulatory rules	\$	<b>9,503</b>
Adjustments from current regulatory rules to the Regulatory Capital Rules:		
Deferred tax assets and other <sup>(g)</sup>		<b>(89)</b>

Common Equity Tier 1 anticipated under the Regulatory Capital Rules <sup>(h)</sup>	\$	<b>9,414</b>
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Net risk-weighted assets under current regulatory rules	\$	<b>85,100</b>
Adjustments from current regulatory rules to the Regulatory Capital Rules:		
Loan commitments less than one year		<b>1,139</b>
Past due loans		<b>129</b>
Mortgage servicing assets <sup>(i)</sup>		<b>484</b>
Deferred tax assets <sup>(i)</sup>		<b>267</b>
Other		<b>1,059</b>

Total risk-weighted assets anticipated under the Regulatory Capital Rules <sup>(h)</sup>	\$	<b>88,178</b>
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Common Equity Tier 1 ratio under the Regulatory Capital Rules	<b>10.68</b>	%
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(g) Includes the deferred tax assets subject to future taxable income for realization, primarily tax credit carryforwards, as well as the deductible portion of purchased credit card receivables.

(h) The anticipated amount of regulatory capital and risk-weighted assets is based upon the federal banking agencies Regulatory Capital Rules (as fully phased-in on January 1, 2019); Key is subject to the Regulatory Capital Rules under the standardized approach.

(i) Item is included in the 10%/15% exceptions bucket calculation and is risk-weighted at 250%.

### **Results of Operations**

#### **Net interest income**

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

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

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

Figure 5 shows the various components of our balance sheet that affect interest income and expense, and their respective yields or rates over the past five years. This figure also presents a reconciliation of taxable-equivalent net interest income to net interest income reported in accordance with GAAP for each of those years. The net interest margin, which is an indicator of the profitability of the earning assets portfolio less cost of funding, is calculated by dividing taxable-equivalent net interest income by average earning assets.

Taxable-equivalent net interest income for 2014 was \$2.317 billion, and the net interest margin was 2.97%. These results compare to taxable-equivalent net interest income of \$2.348 billion and a net interest margin of 3.12% for the prior year. The decreases in net interest income, which declined \$31 million, and the net interest margin were attributable to lower earning asset yields. These decreases were partially offset by loan growth, the maturity of higher-rate certificates of deposit, and a more favorable mix of lower-cost deposits and wholesale borrowings.

Taxable-equivalent net interest income for 2013 increased \$60 million compared to 2012 due to an increase in average loans, a more favorable funding mix, and higher loan fees, partially offset by lower earning asset yields. The net interest margin declined nine basis points primarily resulting from lower earning asset yields, which were partially offset by a more favorable funding mix.

Average earning assets totaled \$78.1 billion for 2014, compared to \$75.4 billion in 2013. Commercial, financial and agricultural loan growth of \$2.7 billion from the prior year was broad-based across our commercial lines of business. Consumer loans remained relatively stable, as modest increases across our core consumer loan portfolio, primarily home equity loans and direct term loans, were mostly offset by run-off in our designated consumer exit portfolio.

Average deposits, excluding deposits in foreign office, totaled \$67.3 billion for 2014, an increase of \$1.9 billion compared to 2013. Demand deposits and NOW and money market deposit accounts each increased \$1.4 billion, mostly due to growth related to commercial client inflows as well as increases related to the commercial mortgage servicing business. These increases were partially offset by run-off in certificates of deposit.

**Table of Contents****Figure 5. Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates from Continuing Operations**

Year ended December 31, <i>dollars in millions</i>	2014					2013				
	Average Balance	Interest	Yield/ Rate			Average Balance	Interest	Yield/ Rate		
		(a)	(a)	(a)	(a)		(a)	(a)	(a)	(a)
<b>ASSETS</b>										
Loans: (b), (c)										
Commercial, financial and agricultural	\$ 26,375	(d) \$ 866	3.28	%	\$ 23,723	(d) \$ 855	3.60	%		
Real estate commercial mortgage	7,999	303	3.79		7,591	312	4.11			
Real estate construction	1,061	43	4.07		1,058	45	4.25			
Commercial lease financing	4,239	156	3.67		4,683	172	3.67			
<b>Total commercial loans</b>	<b>39,674</b>	<b>1,368</b>	<b>3.45</b>		<b>37,055</b>	<b>1,384</b>	<b>3.73</b>			
Real estate residential mortgage	2,201	96	4.37		2,185	98	4.49			
Home equity:										
Key Community Bank	10,340	405	3.91		10,086	397	3.93			
Other	299	23	7.80		377	29	7.70			
<b>Total home equity loans</b>	<b>10,639</b>	<b>428</b>	<b>4.02</b>		<b>10,463</b>	<b>426</b>	<b>4.07</b>			
Consumer other Key Community Bank	1,501	104	6.92		1,404	103	7.33			
Credit cards	712	78	10.95		701	83	11.86			
Consumer other:										
Marine	894	56	6.22		1,172	74	6.26			
Other	58	4	7.70		74	6	8.32			
<b>Total consumer other</b>	<b>952</b>	<b>60</b>	<b>6.31</b>		<b>1,246</b>	<b>80</b>	<b>6.38</b>			
<b>Total consumer loans</b>	<b>16,005</b>	<b>766</b>	<b>4.79</b>		<b>15,999</b>	<b>790</b>	<b>4.94</b>			
<b>Total loans</b>	<b>55,679</b>	<b>2,134</b>	<b>3.83</b>		<b>53,054</b>	<b>2,174</b>	<b>4.10</b>			
Loans held for sale	570	21	3.76		532	20	3.72			
Securities available for sale (b), (e)	12,210	277	2.27		12,689	311	2.49			
Held-to-maturity securities (b)	4,949	93	1.88		4,387	82	1.87			
Trading account assets	932	25	2.70		756	21	2.78			
Short-term investments	2,886	6	.21		2,948	6	.20			
Other investments (e)	865	22	2.53		1,028	29	2.84			

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Total earning assets	78,091	2,578	3.30	75,394	2,643	3.51
Allowance for loan and lease losses	(818)			(879)		
Accrued income and other assets	9,806			9,662		
Discontinued assets	3,828			5,036		
<b>Total assets</b>	<b>\$ 90,907</b>			<b>\$ 89,213</b>		
<b>LIABILITIES</b>						
NOW and money market deposit accounts	\$ 34,283	48	.14	\$ 32,846	53	.16
Savings deposits	2,446	1	.02	2,505	1	.04
Certificates of deposit (\$100,000 or more) <sup>(f)</sup>	2,616	35	1.35	2,829	50	1.76
Other time deposits	3,495	32	.91	4,084	53	1.30
Deposits in foreign office	615	1	.23	567	1	.23
Total interest-bearing deposits	43,455	117	.27	42,831	158	.37
Federal funds purchased and securities sold under repurchase agreements	1,182	2	.16	1,802	2	.13
Bank notes and other short-term borrowings	597	9	1.49	394	8	1.89
Long-term debt <sup>(f), (g)</sup>	5,161	133	2.68	4,184	127	3.28
Total interest-bearing liabilities	50,395	261	.52	49,211	295	.60
Noninterest-bearing deposits	24,410			23,046		
Accrued expense and other liabilities	1,791			1,656		
Discontinued liabilities <sup>(g)</sup>	3,828			4,995		
<b>Total liabilities</b>	<b>80,424</b>			<b>78,908</b>		
<b>EQUITY</b>						
Key shareholders equity	10,467			10,276		
Noncontrolling interests	16			29		
Total equity	10,483			10,305		
<b>Total liabilities and equity</b>	<b>\$ 90,907</b>			<b>\$ 89,213</b>		

Interest rate spread (TE)			2.78	%		2.91	%	
Net interest income (TE) and net interest margin (TE)		2,317	2.97	%		2,348	3.12	%
TE adjustment <sup>(b)</sup>		24				23		

Net interest income, GAAP basis	\$ 2,293	\$ 2,325
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- (a) Results are from continuing operations. Interest excludes the interest associated with the liabilities referred to in (g) below, calculated using a matched funds transfer pricing methodology.
- (b) Interest income on tax-exempt securities and loans has been adjusted to a taxable-equivalent basis using the statutory federal income tax rate of 35%.
- (c) For purposes of these computations, nonaccrual loans are included in average loan balances.
- (d) Commercial, financial and agricultural average balances include \$93 million, \$95 million, and \$36 million of assets from commercial credit cards for the years ended December 31, 2014, December 31, 2013, and December 31, 2012, respectively.

**Table of Contents****Figure 5. Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates from Continuing Operations (Continued)**

2012 Interest	Yield/ Rate	(a)	Average Balance	2011				2010				Compound Change Average Balance
				Interest	Yield/ Rate	(a)	Average Balance	(h)	Interest	(a), (h)	Yield/ Rate	
810	3.83	%	\$ 17,507	\$ 705	4.03	%	\$ 17,500	\$ 813	4.64	%	8.6	
339	4.43		8,437	380	4.50		10,027	491	4.90		(4.4)	
56	4.74		1,677	73	4.36		3,495	149	4.26		(21.2)	
187	3.64		5,846	293	5.01		6,754	352	5.21		(8.9)	
1,392	3.96		33,467	1,451	4.34		37,776	1,805	4.78		1.0	
100	4.86		1,850	97	5.25		1,828	102	5.57		3.8	
384	4.03		9,390	387	4.12		9,773	411	4.20		1.1	
37	7.81		598	46	7.66		751	57	7.59		(16.8)	
421	4.21		9,988	433	4.34		10,524	468	4.45		.2	
121	9.53		1,167	113	9.62		1,158	132	11.44		5.3	
40	13.99										N/M	
97	6.26		1,992	125	6.28		2,497	155	6.23		(18.6)	
8	8.14		142	11	7.87		188	15	7.87		(21.0)	
105	6.38		2,134	136	6.38		2,685	170	6.34		(18.7)	
787	5.16		15,139	779	5.14		16,195	872	5.39		(.2)	
2,179	4.33		48,606	2,230	4.59		53,971	2,677	4.96		.6	
20	3.45		387	14	3.58		453	17	3.62		4.7	
399	3.08		18,766	584	3.20		18,800	646	3.50		(8.3)	
69	1.97		514	12	2.35		20	2	10.56		N/M	
18	2.48		878	26	2.97		1,068	37	3.47		(2.7)	
6	.27		2,543	6	.25		2,684	6	.24		1.5	
38	3.27		1,264	42	3.14		1,442	49	3.08		(9.7)	
2,729	3.82		72,958	2,914	4.02		78,438	3,434	4.39		(.1)	
			(1,250)				(2,207)				(18.0)	
			10,341				11,243				(2.7)	
			6,247				6,677				(10.5)	
			\$ 88,296				\$ 94,151				(.7)	
56	.19		\$ 27,001	71	.26		\$ 25,712	91	.35		5.9	
1	.05		1,958	1	.06		1,867	1	.06		5.6	

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94	2.64	4,931	149	3.02	8,486	275	3.24	(21.0)
104	1.92	7,185	166	2.31	10,545	301	2.86	(19.8)
2	.23	807	3	.30	926	3	.34	(7.9)
257	.62	41,882	390	.93	47,536	671	1.41	(1.8)
4	.19	1,981	5	.27	2,044	6	.31	(10.4)
7	1.69	619	11	1.84	545	14	2.63	1.8
173	4.10	7,293	216	3.18	7,211	206	3.09	(6.5)
441	.92	51,775	622	1.21	57,336	897	1.58	(2.5)
		17,381			15,856			9.0
		2,658			3,131			(10.6)
		6,232			6,677			(10.5)
		78,046			83,000			(.6)
		10,133			10,895			(.8)
		117			256			(42.6)
		10,250			11,151			(1.2)
		\$ 88,296			\$ 94,151			(.7)
	2.90 %			2.81 %			2.81 %	
2,288	3.21 %		2,292	3.16 %		2,537	3.26 %	
24			25			26		
2,264		\$ 2,267				\$ 2,511		

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

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

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

(h) Financial data was not adjusted to reflect the treatment of Victory as a discontinued operation.

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Figure 6 shows how the changes in yields or rates and average balances from the prior year affected net interest income. The section entitled "Financial Condition" contains additional discussion about changes in earning assets and funding sources.

**Figure 6. Components of Net Interest Income Changes from Continuing Operations**

<i>in millions</i>	2014 vs. 2013			2013 vs. 2012			(a)
	Average Volume	Yield/Rate	Net Change	Average Volume	Yield/Rate	Net Change	
<b>INTEREST INCOME</b>							
Loans	\$ 105	\$ (145)	\$ (40)	\$ 113	\$ (118)	\$ (5)	
Loans held for sale	1		1	(2)	2		
Securities available for sale	(11)	(23)	(34)	(21)	(67)	(88)	
Held-to-maturity securities	11		11	17	(4)	13	
Trading account assets	5	(1)	4	1	2	3	
Short-term investments				2	(2)		
Other investments	(4)	(3)	(7)	(4)	(5)	(9)	
Total interest income (TE)	107	(172)	(65)	106	(192)	(86)	
<b>INTEREST EXPENSE</b>							
NOW and money market deposit accounts	2	(7)	(5)	6	(9)	(3)	
Certificates of deposit (\$100,000 or more)	(4)	(11)	(15)	(17)	(27)	(44)	
Other time deposits	(7)	(14)	(21)	(22)	(29)	(51)	
Deposits in foreign office					(1)	(1)	
Total interest-bearing deposits	(9)	(32)	(41)	(33)	(66)	(99)	
Federal funds purchased and securities sold under repurchase agreements	(1)	1			(2)	(2)	
Bank notes and other short-term borrowings	3	(2)	1		1	1	
Long-term debt	27	(21)	6	(17)	(29)	(46)	
Total interest expense	20	(54)	(34)	(50)	(96)	(146)	
Net interest income (TE)	\$ 87	\$ (118)	\$ (31)	\$ 156	\$ (96)	\$ 60	

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

**Noninterest income**



As shown in Figure 7, noninterest income for 2014 was \$1.8 billion, up \$31 million, or 1.8%, from 2013. Investment banking and debt placement fees benefited from our business model and had a record high year, increasing \$64 million from 2013. Net gains (losses) from principal investing were \$26 million higher than prior year, and trust and investment services income increased \$10 million, primarily due to the third quarter 2014 acquisition of Pacific Crest Securities. These increases were partially offset by declines of \$21 million in operating lease income and other leasing, \$20 million in service charges on deposits accounts, \$12 million in mortgage servicing fees, and \$9 million in consumer mortgage income. Other income also decreased \$15 million.

In 2013, noninterest income decreased \$90 million, or 4.8%, compared to 2012. Operating lease income and other leasing gains decreased \$84 million, primarily due to fewer early terminations in the leveraged lease portfolio. Consumer mortgage income declined \$21 million, and net gains (losses) from principal investing decreased \$20 million. Other income also declined \$46 million, primarily due to gains on the redemption of trust preferred securities in the prior year. These decreases were partially offset by increases of \$34 million in mortgage servicing fees, \$27 million in cards and payments income, and \$18 million in trust and investment services income.

Table of Contents**Figure 7. Noninterest Income**

Year ended December 31, <i>dollars in millions</i>	Change 2014 vs. 2013				
	2014	2013	2012	Amount	Percent
Trust and investment services income	\$ 403	\$ 393	\$ 375	\$ 10	2.5 %
Investment banking and debt placement fees	397	333	327	64	19.2
Service charges on deposit accounts	261	281	287	(20)	(7.1)
Operating lease income and other leasing gains	96	117	201	(21)	(17.9)
Corporate services income	178	172	168	6	3.5
Cards and payments income	166	162	135	4	2.5
Corporate-owned life insurance income	118	120	122	(2)	(1.7)
Consumer mortgage income	10	19	40	(9)	(47.4)
Mortgage servicing fees	46	58	24	(12)	(20.7)
Net gains (losses) from principal investing	78	52	72	26	50.0
Other income <sup>(a)</sup>	44	59	105	(15)	(25.4)
<b>Total noninterest income</b>	<b>\$ 1,797</b>	<b>\$ 1,766</b>	<b>\$ 1,856</b>	<b>\$ 31</b>	<b>1.8 %</b>

(a) Included in this line item is our Dealer trading and derivatives income (loss). Additional detail is provided in Figure 8.

**Figure 8. Dealer Trading and Derivatives Income (Loss)**

Year ended December 31, <i>dollars in millions</i>	Change 2014 vs. 2013				
	2014	2013	2012	Amount	Percent
Dealer trading and derivatives income (loss), proprietary <sup>(a), (b)</sup>	\$ (18)	\$ (14)	\$ (2)	\$ (4)	N/M
Dealer trading and derivatives income (loss), nonproprietary <sup>(b)</sup>	7	27	6	(20)	(74.1) %
<b>Total dealer trading and derivatives income (loss)</b>	<b>\$ (11)</b>	<b>\$ 13</b>	<b>\$ 4</b>	<b>\$ (24)</b>	<b>N/M</b>

(a) For the year ended December 31, 2014, income of \$4 million related to foreign exchange, interest rate, and commodity derivative trading was offset by losses related to equity securities trading, fixed income, and credit portfolio management activities. For the year ended December 31, 2013, income of \$3 million related to foreign exchange and interest rate derivative trading was offset by losses related to fixed income, equity securities trading, commodity derivative trading, and credit portfolio management activities. For the year ended December 31, 2012, equity securities trading and credit portfolio management securities trading constitute the majority of this amount. These losses were partially offset by income of \$6 million related to fixed income, foreign exchange, interest rate, and commodity derivative trading activities.

(b) The allocation between proprietary and nonproprietary is made based upon whether the trade is conducted for the benefit of Key or Key's clients rather than based upon rulemaking under the Volcker Rule. The prohibitions and restrictions on proprietary trading activities contemplated by the Volcker Rule were detailed in a final rule approved by federal banking regulators in December 2013, which became effective April 1, 2014. For more information, see the discussion under the heading "Other regulatory developments under the Dodd-Frank Act - Volcker Rule" in the section entitled "Supervision and Regulation" in Item 1 of this report.

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

Trust and investment services income

Trust and investment services income is one of our largest sources of noninterest income and consists of brokerage commissions, trust and asset management commissions, and insurance income. The assets under management that primarily generate these revenues are shown in Figure 9.

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For 2014, trust and investment services income increased \$10 million, or 2.5%, from the prior year primarily due to the third quarter 2014 acquisition of Pacific Crest Securities. For 2013, trust and investment services income increased \$18 million, or 4.8%, from the prior year.

A significant portion of our trust and investment services income depends on the value and mix of assets under management. At December 31, 2014, our bank, trust, and registered investment advisory subsidiaries had assets under management of \$39.2 billion, compared to \$36.9 billion at December 31, 2013 and \$34.7 billion at December 31, 2012. As shown in Figure 9, increases across all portfolios were primarily attributable to market appreciation.

**Table of Contents****Figure 9. Assets Under Management**

December 31, <i>dollars in millions</i>	2014	2013	2012	Change 2014 vs. 2013		
				Amount	Percent	
Assets under management by investment type:						
Equity	\$ 21,393	\$ 20,971	\$ 18,013	\$ 422	2.0	%
Securities lending	4,835	3,422	3,147	1,413	41.3	
Fixed income	10,023	9,767	10,872	256	2.6	
Money market	2,906	2,745	2,712	161	5.9	
Total	\$ 39,157	\$ 36,905	\$ 34,744	\$ 2,252	6.1	%

**Investment banking and debt placement fees**

Investment banking and debt placement fees consist of syndication fees, debt and equity financing fees, financial advisor fees, gains on sales of commercial mortgages, and agency origination fees. For 2014, investment banking and debt placement fees increased \$64 million, or 19.2%, from the prior year. For 2013, investment banking and debt placement fees increased \$6 million, or 1.8%. These increases reflect the benefits of our business model focusing on targeted industries including the addition of the technology sector with the 2014 acquisition of Pacific Crest Securities.

**Service charges on deposit accounts**

Service charges on deposit accounts declined \$20 million, or 7.1%, in 2014 compared to the prior year, and \$6 million, or 2.1%, in 2013 compared to the prior year due to lower maintenance fees and overdraft charges.

**Operating lease income and other leasing gains**

Operating lease income and other leasing gains decreased \$21 million, or 17.9%, during 2014 compared to the prior year, and \$84 million, or 41.8%, in 2013 compared to 2012 due to lower gains on the early terminations of leveraged leases. Product run-off also contributed to the declines between years. Accordingly, as shown in Figure 10, operating lease expense related to the rental of leased equipment also declined between years.

**Corporate services income**

Corporate services income increased \$6 million, or 3.5%, in 2014 compared to 2013, driven by higher non-yield loan fees, and \$4 million, or 2.4%, in 2013 compared to 2012 primarily due to an increase in letter of credit fees.

**Cards and payments income**

Cards and payments income, which consists of debit card, consumer and commercial credit card, and merchant services income, increased \$4 million, or 2.5%, in 2014 compared to 2013. Credit card fees were higher due to growth in both rate and volume while increased merchant fees were driven by volume. Cards and payments income increased \$27 million, or 20%, in 2013 compared to 2012 primarily due to the third quarter 2012 credit card portfolio acquisition.

**Consumer mortgage income**

Consumer mortgage income declined \$9 million, or 47.4%, in 2014 compared to 2013, and \$21 million, or 52.5%, in 2013 compared to 2012 primarily due to lower mortgage originations caused by increasing mortgage interest rates.

**Mortgage servicing fees**

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Mortgage servicing fees decreased \$12 million, or 20.7%, in 2014 compared to 2013 due to lower special servicing fees. Mortgage servicing fees increased \$34 million, or 141.7%, in 2013 compared to 2012 due to higher levels of core servicing and special servicing fees as a result of the 2013 acquisition of a commercial mortgage servicing portfolio.

**Table of Contents****Other income**

Other income, which consists primarily of gain on sale of certain loans, other service charges, and certain dealer trading income, decreased \$15 million, or 25.4%, in 2014 compared to 2013, and \$46 million, or 43.8%, in 2013 compared to 2012 due to declines in various miscellaneous income categories.

**Noninterest expense**

As shown in Figure 10, noninterest expense for 2014 was \$2.8 billion, a decrease of \$61 million, or 2.2%, from 2013. We recognized \$80 million of efficiency- and pension-related charges in 2014 compared to \$117 million in 2013. We also recognized \$22 million of noninterest expense related to Pacific Crest Securities, which we acquired in the third quarter of 2014. As shown in Figure 11, personnel expense declined \$18 million, driven by lower net technology contract labor, severance, and employee benefits, partially offset by higher incentive compensation and stock-based compensation. Nonpersonnel expense decreased \$43 million, primarily due to declines in net occupancy costs of \$14 million, provision (credit) for losses on lending-related commitments of \$10 million, and equipment expense of \$8 million.

Noninterest expense for 2013 was \$2.8 billion, up \$2 million, or .1%, from 2012. In 2013, expenses attributable to the 2012 acquisitions of the credit card portfolios and Western New York branches increased \$40 million, and we recognized \$117 million of expenses related to our efficiency initiative and a pension settlement charge. As shown in Figure 11, personnel expense increased by \$39 million in 2013, driven by higher levels of incentive compensation, employee benefits, and severance expense, partially offset by a decline in stock-based compensation. Nonpersonnel expense decreased \$37 million, primarily due to declines in several expense categories: \$39 million in business services and professional fees, \$17 million in marketing, \$11 million in other expense, and \$10 million in operating lease expense. These declines in nonpersonnel expense were partially offset by increases of \$24 million in provision (credit) for losses on lending-related commitments, \$21 in intangible asset amortization, and \$15 million in net occupancy costs.

**Figure 10. Noninterest Expense**

<b>Year ended December 31,</b>				<b>Change 2014 vs. 2013</b>	
<i>dollars in millions</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>Amount</b>	<b>Percent</b>
Personnel	\$ 1,591	\$ 1,609	\$ 1,570	\$ (18)	(1.1) %
Net occupancy	261	275	260	(14)	(5.1)
Computer processing	158	156	164	2	1.3
Business services and professional fees	156	151	190	5	3.3
Equipment	96	104	107	(8)	(7.7)
Operating lease expense	42	47	57	(5)	(10.6)
Marketing	49	51	68	(2)	(3.9)
FDIC assessment	30	30	31		
Intangible asset amortization	39	44	23	(5)	(11.4)
Provision (credit) for losses on lending-related commitments	(2)	8	(16)	(10)	N/M
OREO expense, net	5	7	15	(2)	(28.6)
Other expense	334	338	349	(4)	(1.2)

Total noninterest expense	\$ 2,759	\$ 2,820	\$ 2,818	\$ (61)	(2.2) %
Average full-time equivalent employees <sup>(a)</sup>	13,853	14,783	15,589	(930)	(6.3) %

(a) The number of average full-time-equivalent employees was not adjusted for discontinued operations. The following discussion explains the composition of certain elements of our noninterest expense and the factors that caused those elements to change.

#### Personnel

As shown in Figure 11, personnel expense, the largest category of our noninterest expense, decreased by \$18 million, or 1.1%, in 2014 compared to 2013. Declines in net technology contract labor of \$17 million, severance

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of \$14 million, and employee benefits of \$12 million all contributed to the decrease in personnel expense. These declines were partially offset by increases in incentive compensation of \$19 million and stock-based compensation of \$9 million related to the performance of our business and the third quarter 2014 acquisition of Pacific Crest Securities.

Personnel expense increased by \$39 million, or 2.5%, from 2012 to 2013. Incentive compensation increased \$28 million. Severance expense and employee benefits increased \$15 million and \$12 million, respectively, as a result of staff reductions related to our efficiency initiative. Employee benefits included a \$27 million pension settlement charge. These increases in personnel expense were partially offset by a decrease of \$14 million in stock-based compensation.

**Figure 11. Personnel Expense**

<b>Year ended December 31,</b>	<b>Change 2014 vs. 2013</b>				
<i>dollars in millions</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>Amount</b>	<b>Percent</b>
Salaries	\$ 894	\$ 897	\$ 902	\$ (3)	(.3) %
Technology contract labor, net	55	72	69	(17)	(23.6)
Incentive compensation	337	318	290	19	6.0
Employee benefits	237	249	237	(12)	(4.8)
Stock-based compensation <sup>(a)</sup>	44	35	49	9	25.7
Severance	24	38	23	(14)	(36.8)
Total personnel expense	\$ 1,591	\$ 1,609	\$ 1,570	\$ (18)	(1.1) %

(a) Excludes directors' stock-based compensation of \$2 million in 2014, \$3 million in 2013, and \$4 million in 2012, reported as other expense in Figure 10.

**Operating lease expense**

Operating lease expense decreased \$5 million, or 10.6%, in 2014 compared to 2013, and \$10 million, or 17.5%, in 2013 compared to 2012 primarily due to product run-off. Income related to the rental of leased equipment is presented in Figure 7 as operating lease income and other leasing gains.

**Intangible asset amortization**

Intangible asset amortization decreased \$5 million, or 11.4%, in 2014 compared to 2013 due to the accelerated basis of amortization for the core deposit and PCCR intangibles. Intangible asset amortization increased \$21 million, or 91.3%, in 2013 compared to 2012 due to the 2012 acquisitions of the credit card portfolio and Western New York branches. Additional information regarding our intangible assets can be found in Note 10 ( Goodwill and Other Intangible Assets ).

**Other expense**

Other expense comprises various miscellaneous expense items such as travel and entertainment, technology service providers, and franchise and business taxes. Other expense declined \$4 million, or 1.2%, in 2014 compared to 2013,



and \$11 million, or 3.2%, in 2013 compared to 2012 due to fluctuations in several of those line items.

**Income taxes**

We recorded a tax provision from continuing operations of \$326 million for 2014, compared to a tax provision of \$271 million for 2013, and \$231 million for 2012. The effective tax rate, which is the provision for income taxes as a percentage of income from continuing operations before income taxes, was 25.6% for 2014, compared to 23.7% for 2013, and 21.4% for 2012.

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Our federal tax (benefit) expense differs from the amount that would be calculated using the federal statutory tax rate, primarily because we generate income from investments in tax-advantaged assets, such as corporate-owned life insurance, earn credits associated with investments in low-income housing projects, and make periodic adjustments to our tax reserves. In 2014, our effective tax rate was positively impacted by a settlement with the IRS on tax refund claims for prior years, partially offset by the write-off of a foreign deferred tax asset due to the sale of certain foreign leasing assets. In addition, in 2014, 2013 and 2012, our effective tax rate was lower due to the early termination of certain leveraged leases that resulted in nontaxable gains pursuant to a prior settlement with the IRS.

We recorded a valuation allowance of \$.3 million at December 31, 2014, compared to \$1 million at December 31, 2013, and \$3 million at December 31, 2012, against the gross deferred tax assets for certain state net operating loss and state credit carryforwards.

**Line of Business Results**

This section summarizes the financial performance and related strategic developments of our two major business segments (operating segments): Key Community Bank and Key Corporate Bank. Note 23 ( Line of Business Results ) describes the products and services offered by each of these business segments, provides more detailed financial information pertaining to the segments and certain lines of business, and explains Other Segments and Reconciling Items.

Figure 12 summarizes the contribution made by each major business segment to our taxable-equivalent revenue from continuing operations and income (loss) from continuing operations attributable to Key for each of the past three years.

**Figure 12. Major Business Segments - Taxable-Equivalent ( TE ) Revenue from Continuing Operations and Income (Loss) from Continuing Operations Attributable to Key**

Year ended December 31, <i>dollars in millions</i>	2014	2013	2012	Change 2014 vs. 2013	
				Amount	Percent
<b>REVENUE FROM CONTINUING OPERATIONS (TE)</b>					
Key Community Bank	\$ 2,217	\$ 2,316	\$ 2,308	\$ (99)	(4.3)%
Key Corporate Bank	1,630	1,536	1,499	94	6.1
Other Segments	271	263	353	8	3.0
Total Segments	4,118	4,115	4,160	3	.1%
Reconciling Items	(4)	(1)	(16)	(3)	N/M
Total	\$ 4,114	\$ 4,114	\$ 4,144		
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO KEY</b>					
Key Community Bank	\$ 234	\$ 205	\$ 162	\$ 29	14.1%
Key Corporate Bank	497	475	425	22	4.6
Other Segments	226	220	204	6	2.7
Total Segments	957	900	791	57	6.3
Reconciling Items	(18)	(30)	44	12	N/M

Total	\$	<b>939</b>	\$	870	\$	835	\$	69	7.9%
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**Key Community Bank summary of operations**

As shown in Figure 13, Key Community Bank recorded net income attributable to Key of \$234 million for 2014, compared to \$205 million for 2013, and \$162 million for 2012. The increase in 2014 was primarily due to a reduced provision for loan and lease losses and lower noninterest expense.

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Taxable-equivalent net interest income declined \$84 million, or 5.5%, from 2013. Average loans and leases grew \$794 million while average deposits increased \$521 million compared to 2013. The positive contribution to net interest income from loan and deposit growth was more than offset by a reduction in the value of deposits in 2014 compared to one year ago.

Noninterest income decreased \$15 million, or 1.9%, from 2013. Service charges on deposit accounts declined \$19 million from 2013 primarily due to reduced overdraft fees resulting from changes in posting order. Consumer mortgage income decreased \$9 million from 2013 due to lower refinancing activity, and operating leasing income and other leasing gains declined \$4 million. These decreases in noninterest income were partially offset by an \$8 million increase in cards and payments income and a \$9 million increase in other miscellaneous income.

The provision for loan and lease losses declined \$81 million, or 52.3%, from 2013. Net loan charge-offs decreased \$31 million from 2013 as a result of continued progress in the economic environment and further improvement in the credit quality of the portfolio.

Noninterest expense declined \$65 million, or 3.5%, from 2013. Personnel expense decreased \$26 million, primarily due to declines in salaries, incentive compensation, and employee benefits. Nonpersonnel expense declined \$39 million, primarily due to decreases in outside loan servicing fees, computer processing, intangible asset amortization, and other support costs.

In 2013, Key Community Bank's net income attributable to Key increased \$43 million from the prior year. Taxable-equivalent net interest income declined \$5 million from 2012. The positive contribution to net interest income from loan and deposit growth was offset by a reduction in the value of deposits in 2013 driven by the prolonged low rate environment. Noninterest income increased \$13 million from 2012. Trust and investment services income increased due to higher assets under management resulting from market appreciation and increased production. Cards and payments income increased due to the full-year impact of the credit card portfolio acquisition in 2012. These increases in noninterest income were partially offset by a decline in consumer mortgage income primarily due to lower originations. The provision for loan and lease losses increased \$5 million. Noninterest expense declined \$65 million from 2012 due to Key's efficiency initiative. Personnel expense decreased primarily due to declines in salaries and employee benefits. Nonpersonnel expense declined primarily due to decreases in business services and professional fees, computer processing, and other support costs.

**Figure 13. Key Community Bank**

Year ended December 31, <i>dollars in millions</i>				Change 2014 vs. 2013		
	2014	2013	2012	Amount	Percent	
<b>SUMMARY OF OPERATIONS</b>						
Net interest income (TE)	\$ 1,448	\$ 1,532	\$ 1,537	\$ (84)	(5.5)	%
Noninterest income	769	784	771	(15)	(1.9)	
Total revenue (TE)	2,217	2,316	2,308	(99)	(4.3)	
Provision (credit) for loan and lease losses	74	155	150	(81)	(52.3)	
Noninterest expense	1,770	1,835	1,900	(65)	(3.5)	
Income (loss) before income taxes (TE)	373	326	258	47	14.4	
Allocated income taxes (benefit) and TE adjustments	139	121	96	18	14.9	
Net income (loss) attributable to Key	\$ 234	\$ 205	\$ 162	\$ 29	14.1	%
<b>AVERAGE BALANCES</b>						
Loans and leases	\$ 30,105	\$ 29,311	\$ 27,202	\$ 794	2.7	%
Total assets	32,231	31,634	29,622	597	1.9	
Deposits	50,325	49,804	48,708	521	1.0	
Assets under management at year end	\$ 39,157	\$ 36,815	\$ 34,537	\$ 2,342	6.4	%

**Table of Contents****ADDITIONAL KEY COMMUNITY BANK DATA**

Year ended December 31, <i>dollars in millions</i>				<u>Change 2014 vs. 2013</u>		
	2014	2013	2012	Amount	Percent	
<b>NONINTEREST INCOME</b>						
Trust and investment services income	\$ 291	\$ 291	\$ 280			
Services charges on deposit accounts	218	237	239	\$ (19)	(8.0)	%
Cards and payments income	152	144	118	8	5.6	
Other noninterest income	108	112	134	(4)	(3.6)	
Total noninterest income	\$ 769	\$ 784	\$ 771	\$ (15)	(1.9)	%

**AVERAGE DEPOSITS OUTSTANDING**

NOW and money market deposit accounts	\$ 27,526	\$ 26,620	\$ 24,404	\$ 906	3.4	%
Savings deposits	2,436	2,495	2,208	(59)	(2.4)	
Certificates of deposits (\$100,000 or more)	2,048	2,331	3,064	(283)	(12.1)	
Other time deposits	3,488	4,078	5,370	(590)	(14.5)	
Deposits in foreign office	314	279	291	35	12.5	
Noninterest-bearing deposits	14,513	14,001	13,371	512	3.7	
Total deposits	\$ 50,325	\$ 49,804	\$ 48,708	\$ 521	1.0	%

**HOME EQUITY LOANS**

Average balance	\$ 10,340	\$ 10,086	\$ 9,520			
Weighted-average loan-to-value ratio (at date of origination)	71 %	71 %	70 %			
Percent first lien positions	60	58	55			

**OTHER DATA**

Branches	994	1,028	1,088			
Automated teller machines	1,287	1,335	1,611			

**Key Corporate Bank summary of operations**

As shown in Figure 14, Key Corporate Bank recorded net income attributable to Key of \$497 million for 2014, compared to \$475 million for 2013 and \$425 million for 2012. The 2014 increase was driven by an increase in net interest income and noninterest income, partially offset by an increase in noninterest expense.

Taxable-equivalent net interest income increased \$45 million, or 5.7%, in 2014 compared to 2013. The growth was primarily driven by a \$28 million increase in the earning asset spread, as the increase in earning asset balances more than offset the decrease in the spread rate year-over-year. In addition, there were increases in other components of net interest income.

Noninterest income increased \$49 million, or 6.5%, from 2013. Investment banking and debt placement fees increased \$63 million driven by the strength of Key's business model. Corporate services income increased \$11 million due to growth in non-yield loan fees associated with increases in loans. Trust and investment services income increased \$8 million due to the recently-acquired Pacific Crest Securities. These increases were partially offset by a \$17 million decrease in other noninterest income mostly due to lower gains realized on the disposition of certain investments held by the Real Estate Capital line of business, and a \$12 million decline in mortgage servicing fees due to lower special servicing fees.

The provision for loan and lease losses was a credit of \$2 million in 2014, compared to a credit of \$3 million in 2013. The 2014 credit was driven by continued improvement in credit quality within the portfolio, as the quality of new business volume exceeded that of the legacy portfolio. Net loan charge-offs decreased from \$3 million in 2013 to a \$19 million recovery in 2014.

Noninterest expense increased \$49 million, or 6.1%, from 2013. This increase was primarily driven by a \$38 million increase in personnel expense due to higher incentive compensation expense related to the performance

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of the Key Corporate Bank and the impact of the recently-acquired Pacific Crest Securities. In addition, there were increases in various other expense categories.

In 2013, Key Corporate Bank's net income attributable to Key increased \$50 million from the prior year. Taxable-equivalent net interest income increased \$4 million in 2013 compared to 2012, as increases in earning asset spread from higher earning asset balances offset a decrease in deposit spread from a decline in rates. Noninterest income increased \$33 million as increases in mortgage servicing fees, gains realized on the disposition of certain investments held by the Real Estate Capital line of business, and investment banking and debt placement fees more than offset decreases in operating lease income and other leasing gains. The provision for loan and lease losses decreased \$33 million due to improved credit quality with the portfolio. Noninterest expense increased \$6 million driven by higher provision (credit) for losses on lending-related commitments and personnel expense. These expense increases were partially offset by decreases in operating lease expense and net OREO expense.

**Figure 14. Key Corporate Bank**

Year ended December 31, <i>dollars in millions</i>	2014	2013	2012	Change 2014 vs. 2013		
				Amount	Percent	
<b>SUMMARY OF OPERATIONS</b>						
Net interest income (TE)	\$ 830	\$ 785	\$ 781	\$ 45	5.7	%
Noninterest income	800	751	718	49	6.5	
Total revenue (TE)	1,630	1,536	1,499	94	6.1	
Provision (credit) for loan and lease losses	(2)	(3)	30	1	N/M	
Noninterest expense	848	799	793	49	6.1	
Income (loss) before income taxes (TE)	784	740	676	44	5.9	
Allocated income taxes and TE adjustments	285	265	248	20	7.5	
Net income (loss)	499	475	428	24	5.1	
Less: Net income (loss) attributable to noncontrolling interests	2		3	2	N/M	
Net income (loss) attributable to Key	\$ 497	\$ 475	\$ 425	\$ 22	4.6	%
<b>AVERAGE BALANCES</b>						
Loans and leases	\$ 22,452	\$ 19,822	\$ 18,328	\$ 2,630	13.3	%
Loans held for sale	549	492	500	57	11.6	
Total assets	26,312	23,628	22,252	2,684	11.4	
Deposits	16,793	15,696	12,572	1,097	7.0	%
Assets under management at year end		\$ 90	\$ 207	\$ (90)	N/M	

**ADDITIONAL KEY CORPORATE BANK DATA**

Year ended December 31, <i>dollars in millions</i>	2014	2013	2012	Change 2014 vs. 2013		
				Amount	Percent	
<b>NONINTEREST INCOME</b>						
Trust and investment services income	\$ 112	\$ 104	\$ 99	\$ 8	7.7	%
Investment banking and debt placement fees	392	329	320	63	19.1	
Operating lease income and other leasing gains	63	62	74	1	1.6	
Corporate services income	131	120	117	11	9.2	
Service charges on deposit accounts	43	44	48	(1)	(2.3)	
Cards and payments income	14	18	20	(4)	(22.2)	
Payments and services income	188	182	185	6	3.3	
Mortgage servicing fees	46	58	25	(12)	(20.7)	
Other noninterest income	(1)	16	15	(17)	N/M	
Total noninterest income	\$ 800	\$ 751	\$ 718	\$ 49	6.5	%





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**Other Segments**

Other Segments consist of Corporate Treasury, Community Development, our Principal Investing unit, and various exit portfolios. Other Segments generated net income attributable to Key of \$226 million for 2014, compared to \$220 million for 2013 and \$204 million for 2012. Taxable-equivalent net interest income and noninterest income both increased \$4 million compared to 2013. Noninterest expense declined \$17 million from the prior year. These improvements were partially offset by an increase in the provision for loan and lease losses of \$10 million.

In 2013, Other Segments net income attributable to Key increased \$16 million from the prior year. Taxable-equivalent net interest income increased \$68 million. The provision for loan and lease losses declined \$74 million and noninterest expense decreased \$34 million. These improvements were partially offset by a decrease in noninterest income of \$158 million.

**Table of Contents****Financial Condition****Loans and loans held for sale**

Figure 15 shows the composition of our loan portfolio at December 31 for each of the past five years.

**Figure 15. Composition of Loans**

December 31, <i>dollars in millions</i>	2014			2013			2012		
	Amount	Percent of Total	%	Amount	Percent of Total	%	Amount	Percent of Total	%
<b>COMMERCIAL</b>									
Commercial, financial and agricultural <sup>(a), (b)</sup>	\$ 27,982	48.8	%	\$ 24,963	45.8	%	\$ 23,242	44.0	%
Commercial real estate: <sup>(c)</sup>									
Commercial mortgage	8,047	14.0		7,720	14.2		7,720	14.6	
Construction	1,100	1.9		1,093	2.0		1,003	1.9	
Total commercial real estate loans	9,147	15.9		8,813	16.2		8,723	16.5	
Commercial lease financing <sup>(d)</sup>	4,252	7.4		4,551	8.4		4,915	9.3	
Total commercial loans	41,381	72.1		38,327	70.4		36,880	69.8	
<b>CONSUMER</b>									
Real estate residential mortgage	2,225	3.9		2,187	4.0		2,174	4.1	
Home equity:									
Key Community									
Bank	10,366	18.1		10,340	19.0		9,816	18.6	
Other	267	.5		334	.6		423	.8	
Total home equity loans	10,633	18.6		10,674	19.6		10,239	19.4	
Consumer other									
Key Community									
Bank	1,560	2.7		1,449	2.7		1,349	2.5	
Credit cards	754	1.3		722	1.3		729	1.4	
Consumer other:									
Marine	779	1.3		1,028	1.9		1,358	2.6	
Other	49	.1		70	.1		93	.2	
Total consumer other	828	1.4		1,098	2.0		1,451	2.8	

Total consumer loans		<b>16,000</b>	<b>27.9</b>		16,130	29.6		15,942	30.2	
Total loans <sup>(e), (f)</sup>	\$	<b>57,381</b>	<b>100.0</b>	%	\$ 54,457	100.0	%	\$ 52,822	100.0	%

		2011			2010				
		Amount	Percent of Total	%	Amount	Percent of Total	%		
<b>COMMERCIAL</b>									
Commercial, financial and agricultural	\$	19,759	39.9	%	\$ 16,441	32.8	%		
Commercial real estate:									
Commercial mortgage		8,037	16.2		9,502	19.0			
Construction		1,312	2.6		2,106	4.2			
Total commercial real estate loans		9,349	18.8		11,608	23.2			
Commercial lease financing		5,674	11.4		6,471	12.9			
Total commercial loans		34,782	70.1		34,520	68.9			
<b>CONSUMER</b>									
Real estate residential mortgage		1,946	3.9		1,844	3.7			
Home equity:									
Key Community Bank		9,229	18.6		9,514	19.0			
Other		535	1.1		666	1.3			
Total home equity loans		9,764	19.7		10,180	20.3			
Consumer other Key Community Bank		1,192	2.4		1,167	2.3			
Credit cards									
Consumer other:									
Marine		1,766	3.6		2,234	4.5			
Other		125	.3		162	.3			
Total consumer other		1,891	3.9		2,396	4.8			
Total consumer loans		14,793	29.9		15,587	31.1			
Total loans <sup>(e)</sup>	\$	49,575	100.0	%	\$ 50,107	100.0	%		

- (a) Loan balances include \$88 million, \$94 million, and \$90 million of commercial credit card balances at December 31, 2014, December 31, 2013, and December 31, 2012, respectively.
- (b) See Figure 16 for a more detailed breakdown of our commercial, financial and agricultural loan portfolio at December 31, 2014, and December 31, 2013.
- (c) See Figure 17 for a more detailed breakdown of our commercial real estate loan portfolio at December 31, 2014.

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(d) Commercial lease financing includes receivables of \$302 million and \$58 million held as collateral for a secured borrowing at December 31, 2014, and December 31, 2013, respectively. Principal reductions are based on the cash payments received from these related receivables. We expect to record additional commercial lease financing receivables held as collateral for a secured borrowing through the first quarter of 2015. Additional information pertaining to this secured borrowing is included in Note 18 ( Long-Term Debt ).

(e) Total loans exclude loans of \$2.3 billion at December 31, 2014, \$4.5 billion at December 31, 2013, \$5.2 billion at December 31, 2012, \$5.8 billion at December 31, 2011, and \$6.5 billion at December 31, 2010, related to the discontinued operations of the education lending business.

(f) At December 31, 2014, total loans include purchased loans of \$138 million, of which \$13 million were PCI loans. At December 31, 2013, total loans include purchased loans of \$166 million, of which \$16 million were PCI loans. At December 31, 2012, total loans include purchased loans of \$217 million, of which \$23 million were PCI loans.

At December 31, 2014, total loans outstanding from continuing operations were \$57.4 billion, compared to \$54.5 billion at the end of 2013, and \$52.8 billion at the end of 2012. Loans related to the discontinued operations of the education lending business and excluded from total loans were \$2.3 billion at December 31, 2014, \$4.5 billion at December 31, 2013, and \$5.2 billion at December 31, 2012. Further information regarding our discontinued operations is provided in Note 13 ( Acquisitions and Discontinued Operations ). For more information on balance sheet carrying value, see Note 1 ( Summary of Significant Accounting Policies ) under the headings Loans and Loans Held for Sale.

**Commercial loan portfolio**

Commercial loans outstanding were \$41.4 billion at December 31, 2014, an increase of \$3.1 billion, or 8%, compared to December 31, 2013.

**Commercial, financial and agricultural.** As shown in Figure 15, our commercial, financial and agricultural loans, also referred to as commercial and industrial, represent 49% and 46% of our total loan portfolio at December 31, 2014, and 2013, respectively, and are the largest component of our total loans. The loans consist of fixed and variable rate loans to our large, middle market and small business clients. These loans increased \$3 billion, or 12.1%, from one year ago.

Figure 16 provides our commercial, financial, and agricultural loans by industry classification as of December 31, 2014, and 2013.

**Figure 16. Commercial, Financial and Agricultural Loans**

<i>dollars in millions</i>	December 31, 2014			December 31, 2013		
	Amount	Percent of Total		Amount	Percent of Total	
Industry classification:						
Services	\$ 6,053	21.6	%	\$ 6,036	24.2	%
Manufacturing	4,621	16.5		4,238	17.0	
Public utilities	1,938	6.9		1,838	7.4	
Financial services	2,844	10.2		2,155	8.6	
Wholesale trade	2,294	8.2		1,838	7.4	
Retail trade	1,089	3.9		993	4.0	
Mining	946	3.4		634	2.5	
Dealer floor plan	1,439	5.2		1,345	5.4	
Property management	834	3.0		877	3.5	
Transportation	1,407	5.0		953	3.8	
Building contractors	683	2.4		526	2.1	
Agriculture/forestry/fishing	675	2.4		542	2.2	
Insurance	257	.9		169	.7	
Public administration	501	1.8		432	1.7	
Communications	196	.7		204	.8	
Other	2,205	7.9		2,183	8.7	
Total	\$ 27,982	100.0	%	\$ 24,963	100.0	%

Commercial, financial and agricultural loans increased \$3 billion, or 12.1%, from the same period last year, with Key Corporate Bank increasing \$2.7 billion and Key Community Bank up \$553 million. We have experienced



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growth in new high credit quality loan commitments and utilization with clients in our middle market segment and Institutional and Capital Markets business. Our two largest industry classifications services and manufacturing increased by .3% and 9%, respectively, when compared to one year ago. The services and manufacturing industries represented 22% and 17%, respectively, of the total commercial, financial and agricultural loan portfolio at December 31, 2014, and 24% and 17%, respectively, at December 31, 2013. At the end of each period provided in Figure 16 above, loans in the services and manufacturing industry classifications accounted for approximately 40% of our total commercial, financial and agricultural loan portfolio.

Services, manufacturing, and public utilities are focus areas where we maintain dedicated industry verticals that are staffed by relationship managers who possess deep industry experience and knowledge. Our loans in the services classification grew by \$17 million, or .3%, compared to last year. Loans in the manufacturing classification grew by \$383 million, or 9% compared to the same period one year ago. Increases in lending to large corporate, middle market, and business banking clients accounted for the majority of the growth in this classification.

Our loans in the financial services and transportation classifications increased 32% and 48%, respectively, compared to the prior year. The increase in financial services loans was primarily attributable to higher issuances of revolving facilities to finance companies and additional REIT balances. The increase in transportation loans was primarily attributable to loan growth for rail cars and shipping containers.

Our oil and gas loan portfolio focuses on lending to middle market companies and represents 2% of total loans outstanding at December 31, 2014. We have over 10 years of experience in energy lending with over 20 specialists dedicated to oil and gas. Credit quality on these loans remains solid.

**Commercial real estate loans.** CRE loans represent 16% of our total loan portfolio at December 31, 2014, and December 31, 2013. These CRE loans, including both owner- and nonowner-occupied properties, represented 22% of our commercial loan portfolio at December 31, 2014, compared to 23% one year ago. These loans have increased \$334 million, or 3.8%, to \$9.1 billion at December 31, 2014, from \$8.8 billion at December 31, 2013. Our CRE lending business is conducted through two primary sources: our 12-state banking franchise, and KeyBank Real Estate Capital, a national line of business that cultivates relationships with owners of CRE located both within and beyond the branch system. This line of business deals primarily with nonowner-occupied properties (generally properties for which at least 50% of the debt service is provided by rental income from nonaffiliated third parties) and accounted for approximately 61% of our average year-to-date CRE loans, compared to 56% one year ago. KeyBank Real Estate Capital generally focuses on larger owners and operators of CRE.

Figure 17 includes commercial mortgage and construction loans in both Key Community Bank and Key Corporate Bank. As shown in Figure 17, this loan portfolio is diversified by both property type and geographic location of the underlying collateral.

As presented in Figure 17, at December 31, 2014, our CRE portfolio included mortgage loans of \$8 billion and construction loans of \$1.1 billion, representing 14% and 2%, respectively, of our total loans. Nonowner-occupied loans represented 11% of our total loans and owner-occupied loans represented 5% of our total loans. The average size of mortgage loans originated during 2014 was \$4.9 million, and our largest mortgage loan at December 31, 2014, had a balance of \$105 million. At December 31, 2014, our average construction loan commitment was \$5.9 million. Our largest construction loan commitment was \$49.8 million, and our largest construction loan amount outstanding was \$42.2 million.

Also shown in Figure 17, at December 31, 2014, 70% of our CRE loans were for nonowner-occupied properties, compared to 67% at December 31, 2013. Approximately 15% and 16% of these loans were construction loans at December 31, 2014, and 2013, respectively. Typically, these properties are not fully leased at the origination of the loan. The borrower relies upon additional leasing through the life of the construction loan to provide the cash flow necessary to support debt service payments. A significant decline in economic growth, and in turn, in rental rates and occupancy, would adversely affect our portfolio of construction loans.

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**Figure 17. Commercial Real Estate Loans**

December 31, 2014	Geographic Region							Percent of		Commercial		
	West	Southwest	Central	Midwest	Southeast	Northeast	National	Total	Total	Construction	Mortgage	
<i>dollars in millions</i>												
<b>Nonowner-occupied:</b>												
Retail properties	\$ 167	\$ 133	\$ 95	\$ 119	\$ 183	\$ 59	\$ 129	\$ 885	9.7	%	\$ 107	\$ 778
Multifamily properties	489	143	425	531	762	126	181	2,657	29.0		551	2,106
Health facilities	198		192	149	115	259	171	1,084	11.9		99	985
Office buildings	230	14	145	97	48	98		632	6.9		86	546
Warehouses	170	10	27	105	81	84	102	579	6.3		29	550
Manufacturing facilities	19		11	6	56	1		93	1.0		16	77
Hotels/Motels	37		7	17	17	6		84	.9			84
Residential properties	1		24	2	4	13		44	.5		12	32
Land and development	8		8	6	12	11		45	.5		35	10
Other	61		15	14	67	78	102	337	3.7		14	323
<b>Total nonowner-occupied</b>	<b>1,380</b>	<b>300</b>	<b>949</b>	<b>1,046</b>	<b>1,345</b>	<b>735</b>	<b>685</b>	<b>6,440</b>	<b>70.4</b>		<b>949</b>	<b>5,491</b>
<b>Owner-occupied</b>	<b>1,138</b>	<b>7</b>	<b>312</b>	<b>622</b>	<b>48</b>	<b>580</b>		<b>2,707</b>	<b>29.6</b>		<b>151</b>	<b>2,556</b>
<b>Total</b>	<b>\$ 2,518</b>	<b>\$ 307</b>	<b>\$ 1,261</b>	<b>\$ 1,668</b>	<b>\$ 1,393</b>	<b>\$ 1,315</b>	<b>\$ 685</b>	<b>\$ 9,147</b>	<b>100.0</b>	<b>%</b>	<b>\$ 1,100</b>	<b>\$ 8,047</b>

<b>Nonowner-occupied:</b>												
<b>Nonperforming loans</b>												
	\$ 1			\$ 8		\$ 12		\$ 21	N/M		\$ 10	\$ 11
Accruing loans past due 90 days or more						3		3	N/M			3
Accruing loans past due 30 through 89 days	1		\$ 4	2		2		9	N/M			9

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

During 2014, nonperforming loans related to our nonowner-occupied properties decreased by \$2 million from \$23 million at December 31, 2013, to \$21 million at December 31, 2014, as a result of continued improvement in asset quality and market conditions. This category of loans declined by \$104 million during 2013.

Since December 31, 2013, our nonowner-occupied CRE portfolio has increased by approximately \$567 million, or 9.7%, as many of our clients have taken advantage of opportunities to permanently refinance their loans at historically low interest rates.

If the economic recovery stalls, it may weaken the CRE market fundamentals (i.e., vacancy rates, the stability of rental income and asset values), leading to reduced cash flow to support debt service payments. Reduced client cash flow would adversely affect our ability to collect such payments. Accordingly, the value of CRE loan portfolio could be adversely affected.

**Commercial lease financing.** We conduct commercial lease financing arrangements through our KEF line of business and have both the scale and array of products to compete in the equipment lease financing business. Commercial lease financing receivables represented 10% of commercial loans at December 31, 2014, and 12% at December 31, 2013.



Commercial loan modification and restructuring

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

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

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

Our concession types are primarily interest rate reductions, forgiveness of principal, and other modifications. Loan extensions are sometimes coupled with these primary concession types. Because economic conditions have improved modestly and we have restructured loans to provide the optimal opportunity for successful repayment by the borrower, certain of our restructured loans have returned to accrual status and consistently performed under the restructured loan terms over the past year.

If loan terms are extended at less than normal market rates for similar lending arrangements, our Asset Recovery Group is consulted to help determine if any concession granted would result in designation as a TDR. Transfer to our Asset Recovery Group is considered for any commercial loan determined to be a TDR. During 2014, there were \$22 million of new restructured commercial loans compared to \$69 million of new restructured commercial loans in 2013.

For more information on concession types for our commercial accruing and nonaccruing TDRs, see Note 5 ( Asset Quality ).

**Figure 18. Commercial TDRs by Note Type and Accrual Status**

<b>December 31,</b> <i>in millions</i>	<b>2014</b>	<b>2013</b>
<b>Commercial TDRs by Note Type</b>		
Tranche A	\$ 40	\$ 107
Total Commercial TDRs	\$ 40	\$ 107
<b>Commercial TDRs by Accrual Status</b>		
Nonaccruing	\$ 36	\$ 52
Accruing	4	55
Total Commercial TDRs	\$ 40	\$ 107

We often use an A-B note structure for our TDRs, breaking the existing loan into two tranches. First, we create an A note. Since the objective of this TDR note structure is to achieve a fully performing and well-rated A note, we focus on sizing that note to a level that is supported by cash flow available to service debt at current market terms and consistent with our customary underwriting standards. This note structure typically will include a debt coverage ratio of 1.2 or better of cash flow to monthly payments of market interest, and principal amortization of generally not more than 25 years. (These metrics are adjusted from time to time based upon changes in long-term markets and take-out underwriting standards of our various lines of business.) Appropriately sized A notes are more likely to return to accrual status, allowing us to resume recognizing interest income. As the borrower's payment performance improves, these restructured notes typically also allow for an upgraded internal quality risk rating classification. Moreover, the borrower retains ownership and control of the underlying collateral (typically, CRE), the borrower's capital structure is strengthened (often to the point that fresh capital is attracted to the transaction), and local markets are spared distressed/fire sales.

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

Restructured nonaccrual loans may be returned to accrual status based on a current, well-documented evaluation of the credit, which would include analysis of the borrower's financial condition, prospects for repayment under

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the modified terms, and alternate sources of repayment such as the value of loan collateral. We wait a reasonable period (generally a minimum of six months) to establish the borrower's ability to sustain historical repayment performance before returning the loan to accrual status. Sustained historical repayment performance prior to the restructuring also may be taken into account. The primary consideration for returning a restructured loan to accrual status is the reasonable assurance that the full contractual principal balance of the loan and the ongoing contractually required interest payments will be fully repaid. Although our policy is a guideline, considerable judgment is required to review each borrower's circumstances.

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

Additional information regarding TDRs is provided in Note 5 ( Asset Quality ).

**Extensions.** Project loans typically are refinanced into the permanent commercial loan market at maturity, but sometimes they are modified and extended. Extension terms take into account the specific circumstances of the client relationship, the status of the project, and near-term prospects for both the client and the collateral. In all cases, pricing and loan structure are reviewed and, where necessary, modified to ensure the loan has been priced to achieve a market rate of return and loan terms that are appropriate for the risk. Typical enhancements include one or more of the following: principal pay down, increased amortization, additional collateral, increased guarantees, and a cash flow sweep. Some maturing construction loans have automatic extension options built in; in those cases, pricing and loan terms cannot be altered.

Loan pricing is determined based on the strength of the borrowing entity and the strength of the guarantor, if any. Therefore, pricing for an extended loan may remain the same because the loan is already priced at or above current market.

We do not consider loan extensions in the normal course of business (under existing loan terms or at market rates) as TDRs, particularly when ultimate collection of all principal and interest is not in doubt and no concession has been made. In the case of loan extensions where either collection of all principal and interest is uncertain or a concession has been made, we would analyze such credit under the applicable accounting guidance to determine whether it qualifies as a TDR. Extensions that qualify as TDRs are measured for impairment under the applicable accounting guidance.

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

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

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

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

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As of December 31, 2014, we had \$3.4 million of mortgage and construction loans that had a loan-to-value ratio greater than 1.0, and were accounted for as performing loans. These loans were not considered impaired due to one or more of the following factors: (i) underlying cash flow adequate to service the debt at a market rate of return with adequate amortization; (ii) a satisfactory borrower payment history; and (iii) acceptable guarantor support.

**Consumer loan portfolio**

Consumer loans outstanding decreased by \$130 million, or .8%, from one year ago. The home equity portfolio is the largest segment of our consumer loan portfolio. Approximately 97% of this portfolio at December 31, 2014, originated from Key Community Bank within our 12-state footprint. The remainder of the portfolio, which has been in an exit mode since the fourth quarter of 2007, was originated from the Consumer Finance line of business and is now included in Other Segments. Home equity loans in Key Community Bank increased by \$26 million, or .3%, over the past 12 months as a result of stabilized home values, improved employment, and favorable borrowing conditions.

As shown in Figure 13, we hold the first lien position for approximately 60% of the Key Community Bank home equity portfolio at December 31, 2014, and 58% at December 31, 2013. For consumer loans with real estate collateral, we track borrower performance monthly. Regardless of the lien position, credit metrics are refreshed quarterly, including recent Fair Isaac Corporation scores as well as original and updated loan-to-value ratio. This information is used in establishing the ALLL. Our methodology is described in Note 1 ( Summary of Significant Accounting Policies ) under the heading Allowance for Loan and Lease Losses.

Regulatory guidance issued in January 2012 addressed specific risks and required actions within home equity portfolios associated with second lien loans. This regulatory guidance related to the classification of second lien home equity loans was implemented prospectively, and therefore prior periods were not adjusted. At December 31, 2014, 40% of our home equity portfolio is secured by second lien mortgages. On at least a quarterly basis, we continue to monitor the risk characteristics of these loans when determining whether our loss estimation methods are appropriate.

Figure 19 summarizes our home equity loan portfolio by source at the end of each of the last five years, as well as certain asset quality statistics and yields on the portfolio as a whole.

**Figure 19. Home Equity Loans****December 31,**

<i>dollars in millions</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>SOURCES OF YEAR END LOANS</b>					
Key Community Bank	\$ 10,366	\$ 10,340	\$ 9,816	\$ 9,229	\$ 9,514
Other	267	334	423	535	666
Total	\$ 10,633	\$ 10,674	\$ 10,239	\$ 9,764	\$ 10,180
Nonperforming loans at year end	\$ 195	\$ 220	\$ 231 <sup>(a), (b)</sup>	\$ 120	\$ 120
Net loan charge-offs for the year	32	66	118	130	175
Yield for the year	4.02 %	4.07 %	4.21 %	4.34 %	4.45 %

(a) Includes \$48 million of performing home equity second liens that are subordinate to first liens and 120 days or more past due or in foreclosure, or for which the first mortgage delinquency timeframe is unknown. Such second liens are now being reported as nonperforming loans based upon regulatory guidance issued in January 2012.

(b) Includes \$72 million of performing secured loans that were discharged through Chapter 7 bankruptcy and not formally re-affirmed as addressed in regulatory guidance that was updated in the third quarter of 2012. Such loans have been designated as nonperforming and TDRs.

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**Loans held for sale**

As shown in Note 4 ( Loans and Loans Held for Sale ), our loans held for sale were \$734 million at December 31, 2014, compared to \$611 million at December 31, 2013. During 2014, we recorded net gains (losses) from loan sales of \$97 million. There were no loans held for sale related to the discontinued operations of the education lending business at December 31, 2014, and 2013.

At December 31, 2014, loans held for sale included \$638 million of commercial mortgages, which increased by \$331 million from December 31, 2013, \$63 million of commercial, financial and agricultural loans, which decreased by \$215 million from December 31, 2013, \$18 million of residential mortgage loans, which increased by \$1 million from December 31, 2013, and \$15 million of commercial lease financing, which increased \$6 million from December 31, 2013. Valuations are conducted using internal models that rely on market data from sales or nonbinding bids on similar assets, including credit spreads, treasury rates, interest rate curves and risk profiles, as well as our own assumptions about the exit market for the loans and details about individual loans within the respective portfolios. We review our assumptions quarterly. For additional information related to the valuation of loans held for sale, see Note 6 ( Fair Value Measurements ).

**Loan sales**

As shown in Figure 20, during 2014, we sold \$4.4 billion of CRE loans, \$407 million of residential real estate loans, and \$376 million of commercial loans. Most of these sales came from the held-for-sale portfolio.

Among the factors that we consider in determining which loans to sell are:

- our business strategy for particular lending areas;
- whether particular lending businesses meet established performance standards or fit with our relationship banking strategy;
- our A/LM needs;
- the cost of alternative funding sources;
- the level of credit risk;
- capital requirements; and
- market conditions and pricing.

Figure 20 summarizes our loan sales for 2014 and 2013.

**Figure 20. Loans Sold (Including Loans Held for Sale)**

<i>in millions</i>	<b>Commercial</b>	<b>Commercial Real Estate</b>	<b>Commercial Lease Financing</b>	<b>Residential Real Estate</b>	<b>Total</b>
<b>2014</b>					
Fourth quarter	\$ 29	\$ 2,333	\$ 80	\$ 103	\$ 2,545

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Third quarter	179	913	48	127	1,267
Second quarter	152	679	45	104	980
First quarter	16	489	39	73	617
Total	\$ 376	\$ 4,414	\$ 212	\$ 407	\$ 5,409

<b>2013</b>					
Fourth quarter	\$ 39	\$ 1,504	\$ 141	\$ 102	\$ 1,786
Third quarter	17	923	129	184	1,253
Second quarter	181	815	90	226	1,312
First quarter	38	880	69	328	1,315
Total	\$ 275	\$ 4,122	\$ 429	\$ 840	\$ 5,666 <sup>(a)</sup>

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(a) Excludes education loans of \$147 million sold during 2013 that relate to the discontinued operations of the education lending business. Figure 21 shows loans that are either administered or serviced by us but not recorded on the balance sheet. The table includes loans that have been sold.

**Figure 21. Loans Administered or Serviced****December 31,**

<i>in millions</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Commercial real estate loans	\$ 191,407	\$ 177,731	\$ 107,630	\$ 99,608	\$ 117,071
Education loans <sup>(a)</sup>	<b>1,589</b>				
Commercial lease financing	722	717	520	521	706
Commercial loans	344	327	343	306	269
<b>Total</b>	<b>\$ 194,062</b>	<b>\$ 178,775</b>	<b>\$ 108,493</b>	<b>\$ 100,435</b>	<b>\$ 118,046</b>

(a) During the third quarter of 2014, we sold the residual interests in all of our outstanding education loan securitization trusts to a third party. At September 30, 2014, we deconsolidated the securitization trusts and removed the trust assets from our balance sheet. We retained the servicing for the loans associated with these securitization trusts. See Note 13 ( Acquisitions and Discontinued Operations ) for more information about this transaction.

In the event of default by a borrower, we are subject to recourse with respect to approximately \$1.4 billion of the \$194 billion of loans administered or serviced at December 31, 2014. Additional information about this recourse arrangement is included in Note 20 ( Commitments, Contingent Liabilities and Guarantees ) under the heading Recourse agreement with FNMA.

We derive income from several sources when retaining the right to administer or service loans that are sold. We earn noninterest income (recorded as other income ) from fees for servicing or administering loans. This fee income is reduced by the amortization of related servicing assets. In addition, we earn interest income from investing funds generated by escrow deposits collected in connection with the servicing of CRE loans. Additional information about our mortgage servicing assets is included in Note 9 ( Mortgage Servicing Assets ).

**Maturities and sensitivity of certain loans to changes in interest rates**

Figure 22 shows the remaining maturities of certain commercial and real estate loans, and the sensitivity of those loans to changes in interest rates. At December 31, 2014, approximately 27.2% of these outstanding loans were scheduled to mature within one year.

**Figure 22. Remaining Maturities and Sensitivity of Certain Loans to Changes in Interest Rates****December 31, 2014**

<i>in millions</i>	<b>Within One Year</b>	<b>One - Five Years</b>	<b>Over Five Years</b>	<b>Total</b>
Commercial, financial and agricultural	\$ 8,145	\$ 15,807	\$ 4,030	\$ 27,982
Real estate construction	321	688	91	1,100
Real estate residential and commercial mortgage	2,247	4,332	3,693	10,272
	\$ 10,713	\$ 20,827	\$ 7,814	\$ 39,354
Loans with floating or adjustable interest rates <sup>(a)</sup>		\$ 17,855	\$ 3,899	\$ 21,754
Loans with predetermined interest rates <sup>(b)</sup>		2,972	3,915	6,887
		\$ 20,827	\$ 7,814	\$ 28,641

- (a) Floating and adjustable rates vary in relation to other interest rates (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 may change during the term of the loan according to a specific formula or schedule.



**Table of Contents****Securities**

Our securities portfolio totaled \$18.4 billion at December 31, 2014, compared to \$17.1 billion at December 31, 2013. Available-for-sale securities were \$13.4 billion at December 31, 2014, compared to \$12.3 billion at December 31, 2013. Held-to-maturity securities were \$5 billion at December 31, 2014, compared to \$4.8 billion at December 31, 2013.

As shown in Figure 23, all of our mortgage-backed securities, which include both securities available for sale and held-to-maturity securities, are issued by government-sponsored enterprises or GNMA, and are traded in liquid secondary markets. These securities are recorded on the balance sheet at fair value for the available-for-sale portfolio and at cost for the held-to-maturity portfolio. For more information about these securities, see Note 6 ( Fair Value Measurements ) under the heading Qualitative Disclosures of Valuation Techniques, and Note 7 ( Securities ).

**Figure 23. Mortgage-Backed Securities by Issuer****December 31,**

<i>in millions</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>
FHLMC	\$ <b>5,666</b>	\$ 7,047	\$ 7,923
FNMA	<b>4,998</b>	5,978	5,246
GNMA	<b>7,636</b>	3,997	2,746
Total <sup>(a)</sup>	\$ <b>18,300</b>	\$ 17,022	\$ 15,915

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

**Securities available for sale**

The majority of our securities available-for-sale portfolio consists of Federal Agency CMOs and mortgage-backed securities. CMOs are debt securities secured by a pool of mortgages or mortgage-backed securities. These mortgage securities generate interest income, serve as collateral to support certain pledging agreements, and provide liquidity value under upcoming regulatory requirements. At December 31, 2014, we had \$13.3 billion invested in CMOs and other mortgage-backed securities in the available-for-sale portfolio, compared to \$12.3 billion at December 31, 2013.

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

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

Throughout 2013 and 2014, our investing activities continued to complement other balance sheet developments and provide for our ongoing liquidity management needs. Our actions to not reinvest the monthly security cash flows at various times during this time period served to provide the liquidity necessary to address our funding requirements. These funding requirements included ongoing loan growth and occasional debt maturities. At other times, we may make additional investments that go beyond the replacement of maturities or mortgage security cash flows as our liquidity position and/or interest rate risk management strategies may require. Lastly, our focus on investing in GNMA-related securities is also related to liquidity management strategies as we continue to make progress in preparing for future regulatory requirements.

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Figure 24 shows the composition, yields, and remaining maturities of our securities available for sale. For more information about these securities, including gross unrealized gains and losses by type of security and securities pledged, see Note 7 ( Securities ).

**Figure 24. Securities Available for Sale**

<i>dollars in millions</i>	States and Political Subdivisions	Collateralized Mortgage Obligations (a)	Other Mortgage- Backed Securities (a)	Other Securities (b)	Total	Weighted- Average Yield (c)
<b>December 31, 2014</b>						
Remaining maturity:						
One year or less	\$ 1	\$ 278			\$ 279	3.18%
After one through five years	15	10,956	\$ 2,028	\$ 32	13,031	2.21
After five through ten years	7	36	4		47	2.54
After ten years			3		3	5.51
Fair value	\$ 23	\$ 11,270	\$ 2,035	\$ 32	\$ 13,360	
Amortized cost	22	11,310	2,004	29	13,365	2.24%
Weighted-average yield (c)	4.61 %	2.22 %	2.28 %	9.50 %	2.24 % (d)	
Weighted-average maturity	4.4 years	3.6 years	3.6 years	3.7 years	3.6 years	
<b>December 31, 2013</b>						
Fair value	\$ 40	\$ 11,000	\$ 1,286	\$ 20	\$ 12,346	
Amortized cost	39	11,120	1,270	17	12,446	2.33%
<b>December 31, 2012</b>						
Fair value	\$ 49	\$ 11,464	\$ 538	\$ 43	\$ 12,094	
Amortized cost	47	11,148	491	42	11,728	2.91%

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

(b) Includes primarily marketable equity securities.

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

(d) Excludes \$22 million of securities at December 31, 2014, that have no stated yield.

Held-to-maturity securities

Federal Agency CMOs and mortgage-backed securities constitute essentially all of our held-to-maturity securities. The remaining balance comprises foreign bonds and capital securities. Figure 25 shows the composition, yields and remaining maturities of these securities.

**Figure 25. Held-to-Maturity Securities**

<i>dollars in millions</i>	<b>Collateralized Mortgage Obligations</b>	<b>Other Mortgage- backed Securities</b>	<b>Other Securities</b>	<b>Total</b>	<b>Weighted- Average Yield</b>	<b>(a)</b>
<b>December 31, 2014</b>						
Remaining maturity:						
One year or less			\$ 9	\$ 9	2.42	%
After one through five years	\$ 4,672		11	4,683	1.91	
After five through ten years	83	\$ 240		323	2.58	
Amortized cost	\$ 4,755	\$ 240	\$ 20	\$ 5,015	1.95	%
Fair value	4,713	241	20	4,974		
Weighted-average yield	1.91	2.73 %	2.47 %	1.95 %	(b)	
Weighted-average maturity	3.4 years	7.7 years	1.5 years	3.6 years		
<b>December 31, 2013</b>						
Amortized cost	\$ 4,736		\$ 20	\$ 4,756	1.83	%
Fair value	4,597		20	4,617		
<b>December 31, 2012</b>						
Amortized cost	\$ 3,913	\$	\$ 18	\$ 3,931	1.92	%
Fair value	3,974		18	3,992		

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

(b) Excludes \$5 million of securities at December 31, 2014, that have no stated yield.

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**Table of Contents****Other investments**

Principal investments—investments in equity and debt instruments made by our Principal Investing unit—represented 53% of other investments at December 31, 2014. They include direct investments (investments made in a particular company) as well as indirect investments (investments made through funds that include other investors). Principal investments are predominantly made in privately held companies and are carried at fair value. The fair value of the direct investments was \$104 million at December 31, 2014, and \$141 million at December 31, 2013, while the fair value of the indirect investments was \$302 million at December 31, 2014, and \$413 million at December 31, 2013. Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect principal investments. On December 18, 2014, the Federal Reserve extended the conformance period to July 21, 2016, for all banking entities with respect to covered funds. The Federal Reserve also indicated its intent to exercise the authority granted by Section 13 of the Bank Holding Company Act to grant the final one-year extension until July 21, 2017. If this authority is not exercised by the Federal Reserve, Key is permitted to file for a one-year extension, and an additional extension of up to five years for illiquid funds, to retain the indirect investments for a longer period of time. We plan to apply for the extension, if not granted automatically, and hold the investments. As of December 31, 2014, we have not committed to a plan to sell these investments. For more information about the Volcker Rule, see the discussion under the heading **Other regulatory developments under the Dodd-Frank Act—Volcker Rule** in the section entitled **Supervision and Regulation** in Item 1 of this report.

In addition to principal investments, other investments include other equity and mezzanine instruments, such as certain real-estate-related investments that are carried at fair value, as well as other types of investments that generally are carried at cost. There are indirect real-estate-related investments valued at \$10 million at December 31, 2014 and \$23 million at December 31, 2013, that may be subject to the disposal requirements under the Volcker Rule, as described in the previous paragraph.

Most of our other investments are not traded on an active market. We determine the fair value at which these investments should be recorded based on the nature of the specific investment and all available relevant information. This review may encompass such factors as the issuer's past financial performance and future potential, the values of public companies in comparable businesses, the risks associated with the particular business or investment type, current market conditions, the nature and duration of resale restrictions, the issuer's payment history, our knowledge of the industry, third-party data, and other relevant factors. As of December 31, 2014, net gains from our principal investing activities (including results attributable to noncontrolling interests) totaled \$78 million, which includes \$13 million of net unrealized losses. These net gains are recorded as net gains (losses) from principal investing on the income statement. Additional information regarding these investments is provided in Note 6 (**Fair Value Measurements**).

**Deposits and other sources of funds**

Domestic deposits are our primary source of funding. During 2014, average domestic deposits were \$67.3 billion and represented 86% of the funds we used to support loans and other earning assets, compared to \$65.3 billion and 87% during 2013. The composition of our average deposits is shown in Figure 5 in the section entitled **Net interest income**.

The increase in average domestic deposits from 2013 to 2014 was due to increases in demand deposits of \$1.4 billion and NOW and money market deposit accounts of \$1.4 billion. These increases were mostly due to growth related to commercial client inflows as well as increases related to the commercial mortgage servicing business. This growth was partially offset by run-off in certificates of deposit.

Wholesale funds, consisting of deposits in our foreign office and short-term borrowings, averaged \$2.4 billion during 2014, compared to \$2.8 billion during 2013. The change from 2013 was caused by a \$620 million decrease in federal funds purchased and securities sold under agreements to repurchase partially offset by a \$48 million increase in foreign office deposits and a \$203 million increase in bank notes and other short-term borrowings.

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At December 31, 2014, Key had \$2.6 billion in time deposits of \$100,000 or more. Figure 26 shows the maturity distribution of these deposits.

**Figure 26. Maturity Distribution of Time Deposits of \$100,000 or More**

**December 31, 2014**

<i>in millions</i>	<b>Domestic Offices</b>	<b>Foreign Offices</b>	<b>Total</b>
Remaining maturity:			
Three months or less	\$ 400	\$ 564	\$ 964
After three through six months	197		197
After six through twelve months	447		447
After twelve months	996		996
Total	\$ 2,040	\$ 564	\$ 2,604

**Capital**

At December 31, 2014, our shareholders' equity was \$10.5 billion, up \$227 million from December 31, 2013. The following sections discuss certain factors that contributed to this change. For other factors that contributed to the change, see the Consolidated Statements of Changes in Equity.

**CCAR and capital actions**

As part of its ongoing supervisory process, the Federal Reserve requires BHCs like KeyCorp to submit an annual comprehensive capital plan and to update that plan to reflect material changes in the BHC's risk profile, business strategies, or corporate structure, including but not limited to changes in planned capital actions. In January 2014, we submitted to the Federal Reserve and provided to the OCC our 2014 capital plan under the annual CCAR process. On March 26, 2014, the Federal Reserve announced that it did not object to our 2014 capital plan. The 2014 capital plan includes a common share repurchase program of up to \$542 million. Share repurchases under the capital plan began in the second quarter of 2014 and include repurchases to offset issuances of common shares under our employee compensation plans. Common share repurchases under the 2014 capital plan are expected to be executed through the first quarter of 2015.

Through the fourth quarter of 2014, we repurchased \$355 million of common shares under our 2014 capital plan authorization. During the first quarter of 2014, we completed \$141 million of common shares under our 2013 capital plan authorization.

**Dividends**

As previously reported, our 2014 capital plan also proposed an increase in our quarterly common share dividend from \$.055 to \$.065 per share, which was approved by our Board of Directors in May 2014. Other changes to future dividends may be evaluated by the Board based upon our earnings, financial condition, and other factors, including regulatory review. Further information regarding the capital planning process and CCAR is included in the Supervision and Regulation section of Item 1 of this report under the heading Regulatory capital and liquidity.

Consistent with the 2014 capital plan, we made a dividend payment of \$.065 per share on our common shares during each of the second, third, and fourth quarters of 2014, totaling \$169 million, and a dividend payment of \$.055 per share, or \$49 million, during the first quarter of 2014.

We also made four quarterly dividend payments of \$1.9375 per share totaling \$22 million on our Series A Preferred Stock during 2014.



**Table of Contents****Common shares outstanding**

Our common shares are traded on the New York Stock Exchange under the symbol KEY with 28,673 holders of record at December 31, 2014. Our book value per common share was \$11.91 based on 859.4 million shares outstanding at December 31, 2014, compared to \$11.25 based on 890.7 million shares outstanding at December 31, 2013. At December 31, 2014, our tangible book value per common share was \$10.65, compared to \$10.11 at December 31, 2013.

Figure 45 in the section entitled "Fourth Quarter Results" shows the market price ranges of our common shares, per common share earnings, and dividends paid by quarter for each of the last two years.

Figure 27 compares the price performance of our common shares (based on an initial investment of \$100 on December 31, 2009, and assuming reinvestment of dividends) with that of the Standard & Poor's 500 Index and a group of other banks that constitute our peer group. The peer group consists of the banks that make up the Standard & Poor's 500 Regional Bank Index and the banks that make up the Standard & Poor's 500 Diversified Bank Index. We are included in the Standard & Poor's 500 Index and the peer group.

**Figure 27. Common Share Price Performance (2010 – 2014)<sup>(a)</sup>**

(a) Share price performance is not necessarily indicative of future price performance.

Figure 28 shows activities that caused the change in our outstanding common shares over the past two years.

**Figure 28. Changes in Common Shares Outstanding**

<i>in thousands</i>	2014 Quarters					2013
	2014	Fourth	Third	Second	First	
<b>Shares outstanding at beginning of period</b>	<b>890,724</b>	<b>868,477</b>	<b>876,823</b>	<b>884,869</b>	<b>890,724</b>	925,769
Common shares repurchased	(36,285)	(9,786)	(8,830)	(7,824)	(9,845)	(41,599)
Shares reissued (returned) under employee benefit plans	4,964	712	484	(222)	3,990	6,554
<b>Shares outstanding at end of period</b>	<b>859,403</b>	<b>859,403</b>	<b>868,477</b>	<b>876,823</b>	<b>884,869</b>	890,724

At December 31, 2014, we had 157.6 million treasury shares, compared to 126.2 million treasury shares at December 31, 2013. During 2014, common shares outstanding decreased by 31 million shares from share repurchases under our 2013 and 2014 capital plans and the net activity in our employee benefit plans. Going forward, we expect to reissue treasury shares as needed in connection with stock-based compensation awards and for other corporate purposes.

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As discussed in further detail in the **Supervision and Regulation** section in Item 1 of this report under the heading **Capital planning and stress testing**, we are required to annually submit a capital plan to the Federal Reserve setting forth planned capital actions, including any share repurchases our Board of Directors and management intend to make during the year (subject to the Federal Reserve's notice of non-objection). Pursuant to that requirement, we have submitted to the Federal Reserve for review our 2015 capital plan.

**Capital adequacy**

Capital adequacy is an important indicator of financial stability and performance. All of our capital ratios remained in excess of regulatory requirements at December 31, 2014. Our capital and liquidity levels are intended to position us to weather an adverse credit cycle while continuing to serve our clients' needs, as well as to meet the Regulatory Capital Rules described in the **Supervision and Regulation** section of Item 1 of this report. Our shareholders' equity to assets ratio was 11.22% at December 31, 2014, compared to 11.09% at December 31, 2013. Our tangible common equity to tangible assets ratio was 9.88% at December 31, 2014, compared to 9.80% at December 31, 2013.

Federal banking regulators have promulgated minimum risk-based capital and leverage ratio requirements for BHCs like KeyCorp and their banking subsidiaries like KeyBank. Prior to January 1, 2015, Key and KeyBank (consolidated) were each required to maintain a minimum Tier 1 risk-based capital ratio of 4.00% and a total risk-based capital ratio of 8.00%, while Key was required to maintain a minimum Tier 1 leverage ratio of 3.00% and KeyBank (consolidated) was required to maintain a minimum Tier 1 leverage ratio of 4.00%. At December 31, 2014, our Tier 1 risk-based capital ratio, total risk-based capital ratio, and Tier 1 leverage ratio were 11.90%, 13.89%, and 11.26%, respectively, compared to 11.96%, 14.33%, and 11.11%, respectively, at December 31, 2013.

The adoption of the Regulatory Capital Rules changes the regulatory capital standards that apply to BHCs by phasing out the treatment of capital securities and cumulative preferred securities as eligible Tier 1 capital. The phase-out period, which began January 1, 2015, for standardized approach banking organizations such as KeyCorp, will result in our trust preferred securities issued by the KeyCorp capital trusts being treated only as Tier 2 capital by 2016. The trust preferred securities issued by the KeyCorp capital trusts contribute \$339 million, or 40, 38, and 39 basis points, to our Tier 1 risk-based capital ratio of 11.90%, Tier 1 leverage ratio of 11.26%, and total risk-based capital ratio of 13.89%, respectively, at December 31, 2014. The new minimum capital and leverage ratios under the Regulatory Capital Rules together with the estimated ratios of Key at December 31, 2014, calculated on a fully phased-in basis, are set forth under the heading **New minimum capital and leverage ratio requirements** in the **Supervision and Regulation** section in Item 1 of this report.

As previously indicated in the **Supervision and Regulation** section of Item 1 of this report under the heading **Revised prompt corrective action capital category ratios**, the prompt corrective action capital category regulations do not apply to BHCs. If, however, these regulations did apply to BHCs, we believe KeyCorp would qualify for the **well capitalized** capital category at December 31, 2014. Moreover, after accounting for the phase-out of our trust preferred securities as Tier 1 eligible (and therefore as Tier 2 instead) as of December 31, 2014, we estimate KeyCorp would still qualify for the **well capitalized** capital category under the regulatory capital regulations in effect before January 1, 2015, with an estimated Tier 1 risk-based capital ratio, estimated Tier 1 leverage ratio, and estimated total risk-based capital ratio of 11.50%, 10.88%, and 13.89%, respectively. The new threshold ratios for a **well capitalized** and an **adequately capitalized** institution under the Regulatory Capital Rules are described in the **Supervision and Regulation** section of Item 1 of this report under the heading **Revised prompt corrective action capital category ratios**. Since the regulatory capital categories under these regulations serve a limited supervisory function, investors should not use them as a representation of the overall financial condition or prospects of KeyCorp. A discussion of the regulatory capital standards and other related capital adequacy regulatory standards is included in the section **Regulatory capital and liquidity** in **Supervision and Regulation** under Item 1 of this report.



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Traditionally, the banking regulators have assessed bank and BHC capital adequacy based on both the amount and composition of capital, the calculation of which is prescribed in federal banking regulations. The Federal Reserve's assessment of capital adequacy focuses on a component of Tier 1 risk-based capital, known as Tier 1 common equity, and its review of the consolidated capitalization of systemically important financial companies, including KeyCorp. The capital modifications mandated by the Regulatory Capital Rules are consistent with the renewed focus on Tier 1 common equity and the consolidated capitalization of banks, and BHCs. Tier 1 common equity is neither formally defined by GAAP nor prescribed in amount prior to January 1, 2015, by federal banking regulations; this measure is considered to be a non-GAAP financial measure. Figure 4 in the Highlights of Our 2014 Performance section reconciles Key shareholders' equity, the GAAP performance measure, to Tier 1 common equity, the corresponding non-GAAP measure. Our Tier 1 common equity ratio was 11.17% at December 31, 2014, compared to 11.22% at December 31, 2013.

Generally, for risk-based capital purposes, deferred tax assets that are dependent upon future taxable income are limited to the lesser of: (i) the amount of deferred tax assets that a financial institution expects to realize within one year of the calendar quarter-end date, based on its projected future taxable income for the year, or (ii) 10% of the amount of an institution's Tier 1 capital. At December 31, 2014, and December 31, 2013, we had no net deferred tax assets deducted from Tier 1 capital and risk-weighted assets. At December 31, 2014, for Key's consolidated operations, we had a federal net deferred tax asset of \$195 million and a state deferred tax asset of \$22 million, compared to a federal net deferred tax asset of \$184 million and a state deferred tax asset of \$7 million at December 31, 2013. We have recorded a valuation allowance of less than \$1 million against the gross deferred tax assets associated with certain state net operating loss carryforwards and state credit carryforwards at December 31, 2014, compared to \$1 million at December 31, 2013.

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Figure 29 represents the details of our regulatory capital position at December 31, 2014, and December 31, 2013.

**Figure 29. Capital Components and Risk-Weighted Assets**

**December 31,**

<i>dollars in millions</i>	<b>2014</b>	<b>2013</b>
<b>TIER 1 CAPITAL</b>		
Key shareholders' equity	\$ 10,530	\$ 10,303
Qualifying capital securities	339	339
Less: Goodwill	1,057	979
Accumulated other comprehensive income <sup>(a)</sup>	(395)	(394)
Other assets <sup>(b)</sup>	83	89
Total Tier 1 capital	10,124	9,968
<b>TIER 2 CAPITAL</b>		
Allowance for losses on loans and liability for losses on lending-related commitments <sup>(c)</sup>	859	924
Net unrealized gains on equity securities available for sale	1	1
Qualifying long-term debt	840	1,048
Total Tier 2 capital	1,700	1,973
Total risk-based capital	\$ 11,824	\$ 11,941
<b>TIER 1 COMMON EQUITY</b>		
Tier 1 capital	\$ 10,124	\$ 9,968
Less: Qualifying capital securities	339	339
Series A Preferred Stock <sup>(d)</sup>	282	282
Total Tier 1 common equity	\$ 9,503	\$ 9,347
<b>RISK-WEIGHTED ASSETS</b>		
Risk-weighted assets on balance sheet	\$ 66,054	\$ 65,505
Risk-weighted off-balance sheet exposure	19,360	17,778
Less: Goodwill	1,057	979
Other assets <sup>(b)</sup>	120	458
Plus: Market risk-equivalent assets	863	1,482
Gross risk-weighted assets	85,100	83,328
Less: Excess allowance for loan and lease losses	-	-
Net risk-weighted assets	\$ 85,100	\$ 83,328
<b>AVERAGE QUARTERLY TOTAL ASSETS</b>	<b>\$ 91,116</b>	<b>\$ 91,141</b>
<b>CAPITAL RATIOS</b>		
Tier 1 risk-based capital	11.90 %	11.96 %
Total risk-based capital	13.89	14.33
Leverage <sup>(e)</sup>	11.26	11.11
Tier 1 common equity	11.17	11.22

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

(b) Other assets deducted from Tier 1 capital and risk-weighted assets consist of disallowed intangible assets (excluding goodwill) and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at December 31, 2014, and December 31, 2013.

(c)

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The ALLL included in Tier 2 capital is limited by regulation to 1.25% of the sum of gross risk-weighted assets plus low level exposures and residual interests calculated under the direct reduction method, as defined by the Federal Reserve. The ALLL includes \$29 million, and \$39 million of allowance classified as discontinued assets on the balance sheet at December 31, 2014, and December 31, 2013, respectively.

(d) Net of capital surplus.

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

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**Off-Balance Sheet Arrangements and Aggregate Contractual Obligations**

**Off-balance sheet arrangements**

We are party to various types of off-balance sheet arrangements, which could lead to contingent liabilities or risks of loss that are not reflected on the balance sheet.

**Variable interest entities**

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

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

In accordance with the applicable accounting guidance for consolidations, we consolidate a VIE if we have: (i) a variable interest in the entity; (ii) the power to direct activities of the VIE that most significantly impact the entity's economic performance; and (iii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE (i.e., we are considered to be the primary beneficiary). Additional information regarding the nature of VIEs and our involvement with them is included in Note 1 ( Summary of Significant Accounting Policies ) under the heading Basis of Presentation, and in Note 11 ( Variable Interest Entities ).

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

**Commitments to extend credit or funding**

Loan commitments provide for financing on predetermined terms as long as the client continues to meet specified criteria. These commitments generally carry variable rates of interest and have fixed expiration dates or other termination clauses. We typically charge a fee for our loan commitments. Since a commitment may expire without

resulting in a loan or being fully utilized, the total amount of an outstanding commitment may significantly exceed any related cash outlay. Further information about our loan commitments at December 31, 2014, is presented in Note 20 ( Commitments, Contingent Liabilities and Guarantees ) under the heading Commitments to Extend Credit or Funding. Figure 30 shows the remaining contractual amount of each class of commitment to extend credit or funding. For loan commitments and commercial letters of credit, this amount represents our maximum possible accounting loss if the borrower were to draw upon the full amount of the commitment and then default on payment for the total amount of the then outstanding loan.



**Table of Contents****Other off-balance sheet arrangements**

Other off-balance sheet arrangements include financial instruments that do not meet the definition of a guarantee in accordance with the applicable accounting guidance, and other relationships, such as liquidity support provided to asset-backed commercial paper conduits, indemnification agreements and intercompany guarantees. Information about such arrangements is provided in Note 20 under the heading Other Off-Balance Sheet Risk.

**Contractual obligations**

Figure 30 summarizes our significant contractual obligations, and lending-related and other off-balance sheet commitments at December 31, 2014, by the specific time periods in which related payments are due or commitments expire.

**Figure 30. Contractual Obligations and Other Off-Balance Sheet Commitments**

<b>December 31, 2014</b>	<b>Within 1</b>	<b>After 1</b>	<b>After 3</b>	<b>After 5</b>	<b>Total</b>
<i>in millions</i>	<b>year</b>	<b>through 3</b>	<b>through 5</b>	<b>years</b>	<b>years</b>
<b>Contractual obligations: <sup>(a)</sup></b>					
Deposits with no stated maturity	\$ 66,135				\$ 66,135
Time deposits of \$100,000 or more	1,608	\$ 831	\$ 92	\$ 73	2,604
Other time deposits	1,774	1,239	118	128	3,259
Federal funds purchased and securities sold under repurchase agreements	575				575
Bank notes and other short-term borrowings	423				423
Long-term debt	1,296	1,679	2,645	2,255	7,875
Noncancelable operating leases	116	197	143	370	826
Liability for unrecognized tax benefits	6				6
<b>Purchase obligations:</b>					
Banking and financial data services	66	121	64	5	256
Telecommunications	17	22	11		50
Professional services	22	32	10		64
Technology equipment and software	61	70	52	2	185
Other	6	16	3		25
Total purchase obligations	172	261	140	7	580
<b>Total</b>	<b>\$ 72,105</b>	<b>\$ 4,207</b>	<b>\$ 3,138</b>	<b>\$ 2,833</b>	<b>\$ 82,283</b>

Lending-related and other off-balance sheet commitments:						
Commercial, including real estate	\$ 8,954	\$ 8,311	\$ 9,715	\$ 964	\$ 27,944	
Home equity	230	1,050	1,009	4,875	7,164	
Credit cards	3,762				3,762	
Purchase cards	63				63	
When-issued and to-be-announced securities commitments	102				102	
Commercial letters of credit	110	9	2		121	
Principal investing commitments	28	16	11	5	60	
Liabilities of certain limited partnerships and other commitments	1				1	
Total	\$ 13,250	\$ 9,386	\$ 10,737	\$ 5,844	\$ 39,217	

(a) Deposits and borrowings exclude interest.

#### **Guarantees**

We are a guarantor in various agreements with third parties. As guarantor, we may be contingently liable to make payments to the guaranteed party based on changes in a specified interest rate, foreign exchange rate or other

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variable (including the occurrence or nonoccurrence of a specified event). These variables, known as underlyings, may be related to an asset or liability, or another entity's failure to perform under a contract. Additional information regarding these types of arrangements is presented in Note 20 under the heading Guarantees.

## **Risk Management**

### **Overview**

Like all financial services companies, we engage in business activities and assume the related risks. The most significant risks we face are credit, compliance, operational, capital and liquidity, market, reputation, strategic, and model risks. Our risk management activities are focused on ensuring we properly identify, measure, and manage such risks across the entire enterprise to maintain safety and soundness and maximize profitability. Certain of these risks are defined and discussed in greater detail in the remainder of this section.

The KeyCorp Board of Directors (the Board) serves in an oversight capacity ensuring that Key's risks are managed in a manner that is effective and balanced and adds value for the shareholders. The Board understands Key's risk philosophy, approves the risk appetite, inquires about risk practices, reviews the portfolio of risks, compares the actual risks to the risk appetite, and is apprised of significant risks, both actual and emerging, and determines whether management is responding appropriately. The Board challenges management and ensures accountability.

The Board's Audit Committee assists the Board in oversight of financial statement integrity, regulatory and legal requirements, independent auditors' qualifications and independence, and the performance of the internal audit function and independent auditors. The Audit Committee meets with management and approves significant policies relating to the risk areas overseen by the Audit Committee. The Audit Committee has responsibility over all risk review functions, including internal audit, financial reporting, legal matters, and fraud risk. The Audit Committee also receives reports on enterprise risk. In addition to regularly scheduled bi-monthly meetings, the Audit Committee convenes to discuss the content of our financial disclosures and quarterly earnings releases.

The Board's Risk Committee assists the Board in oversight of strategies, policies, procedures, and practices relating to the assessment and management of enterprise-wide risk, including credit, market, liquidity, model, operational, compliance, reputation, and strategic risks. The Risk Committee also assists the Board in overseeing risks related to capital adequacy, capital planning, and capital actions. The Risk Committee reviews and provides oversight of management's activities related to the enterprise-wide risk management framework, which includes review of the Enterprise Risk Management (ERM) Policy, including the Risk Appetite Statement, and management and ERM reports, and approval of any material changes to the charter of the ERM Committee and significant policies relating to risk management.

The Audit and Risk Committees meet jointly, as appropriate, to discuss matters that relate to each committee's responsibilities. Committee chairpersons routinely meet with management during interim months to plan agendas for upcoming meetings and to discuss emerging trends and events that have transpired since the preceding meeting. All members of the Board receive formal reports designed to keep them abreast of significant developments during the interim months.

Our ERM Committee, chaired by the Chief Executive Officer and comprising other senior level executives, is responsible for managing risk and ensuring that the corporate risk profile is managed in a manner consistent with our risk appetite. The ERM Program encompasses our risk philosophy, policy, framework, and governance structure for the management of risks across the entire company. The ERM Committee reports to the Board's Risk Committee. Annually, the Board reviews and approves the ERM Policy, as well as the risk appetite, including corporate risk

tolerances for major risk categories. We use a risk-adjusted capital framework to manage risks. This framework is approved and managed by the ERM Committee.

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Tier 2 Risk Governance Committees support the ERM Committee by identifying early warning events and trends, escalating emerging risks, and discussing forward-looking assessments. Risk Governance Committees include attendees from each of the Three Lines of Defense. The First Line of Defense is the Line of Business primarily responsible to accept, own, proactively identify, monitor, and manage risk. The Second Line of Defense comprises Risk Management representatives who provide independent, centralized oversight over all risk categories by aggregating, analyzing, and reporting risk information. Risk Review provides the Third Line of Defense in their role to provide independent assessment and testing of the effectiveness, appropriateness, and adherence to KeyCorp's risk management policies, practices, and controls.

The Chief Risk Officer ensures that relevant risk information is properly integrated into strategic and business decisions, ensures appropriate ownership of risks, provides input into performance and compensation decisions, assesses aggregate enterprise risk, monitors capabilities to manage critical risks, and executes appropriate Board and stakeholder reporting.

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

## **Market risk management**

Market risk is the risk that movements in market risk factors, including interest rates, foreign exchange rates, equity prices, commodity prices, credit spreads, and volatilities will reduce Key's income and the value of its portfolios. These factors influence prospective yields, values, or prices associated with the instrument. For example, the value of a fixed-rate bond will decline when market interest rates increase, while the cash flows associated with a variable rate loan will increase when interest rates increase. The holder of a financial instrument is exposed to market risk when either the cash flows or the value of the instrument is tied to such external factors.

We are exposed to market risk both in our trading and nontrading activities, which include asset and liability management activities. Our trading positions are carried at fair value with changes recorded in the income statement. These positions are subject to various market-based risk factors that impact the fair value of the financial instruments in the trading category. Our traditional banking loan and deposit products as well as long-term debt and certain short-term borrowings are nontrading positions. These positions are generally carried at the principal amount outstanding for assets and the amount owed for liabilities. The nontrading positions are subject to changes in economic value due to varying market conditions, primarily changes in interest rates.

## **Trading market risk**

Key incurs market risk as a result of trading, investing, and client facilitation activities, principally within our investment banking and capital markets business. Key has exposures to a wide range of interest rates, equity prices, foreign exchange rates, credit spreads, and commodity prices, as well as the associated implied volatilities and spreads. Our primary market risk exposures are a result of trading activities in the derivative and fixed income markets and maintaining positions in these instruments. We maintain modest trading inventories to facilitate customer flow, make markets in securities, and hedge certain risks. The majority of our positions are traded in active markets.

***Management of trading market risks.*** Market risk management is an integral part of Key's risk culture. Oversight of trading market risks is governed by the Risk Committee of our Board, the ERM Committee, and the Market Risk Committee. These committees regularly review and discuss market risk reports prepared by our Market Risk

Management group ( MRM ) that contain our market risk exposures and results of monitoring

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activities. Market risk policies and procedures have been defined and approved by the Market Risk Committee, a Tier 2 Risk Governance Committee, and take into account our tolerance for risk and consideration for the business environment.

MRM is an independent risk management function that partners with the lines of business to identify, measure, and monitor market risks throughout our company. MRM is responsible for ensuring transparency of significant market risks, monitoring compliance with established limits, and escalating limit exceptions to appropriate senior management. The various business units and trading desks are responsible for ensuring that market risk exposures are well-managed and prudent. Market risk is monitored through various measures, such as VaR, and through routine stress testing, sensitivity, and scenario analyses. MRM conducts stress tests for each covered position using historical worst case and standard shock scenarios. VaR, stressed VaR, and other analyses are prepared daily and distributed to appropriate management.

**Covered positions.** We monitor the market risk of our covered positions, which includes all of our trading positions as well as all foreign exchange and commodity positions, regardless of whether the position is in a trading account. All positions in the trading account are recorded at fair value, and changes in fair value are reflected in our consolidated statements of income. Information regarding our fair value policies, procedures and methodologies is provided in Note 1 ( Summary of Significant Accounting Policies ) under the heading Fair Value Measurements and Note 6 ( Fair Value Measurements ) in this report. Instruments that are used to hedge nontrading activities, such as bank-issued debt and loan portfolios, equity positions that are not actively traded, and securities financing activities, do not meet the definition of a covered position. MRM is responsible for identifying our portfolios as either covered or non-covered. The Covered Position Working Group develops the final list of covered positions, and a summary is provided to the Market Risk Committee.

Our significant portfolios of covered positions are detailed below. We analyze market risk by portfolios of covered positions, and do not separately measure and monitor our portfolios by risk type. The descriptions below incorporate the respective risk types associated with each of these portfolios.

- ⌚ Fixed income includes those instruments associated with our capital markets business and the trading of securities as a dealer. These instruments may include positions in municipal bonds, bonds backed by the U.S. government, agency and corporate bonds, certain mortgage-backed securities, securities issued by the U.S. Treasury, money markets, and certain CMOs. The activities and instruments within the fixed income portfolio create exposures to interest rate and credit spread risks.
- ⌚ Interest rate derivatives include interest rate swaps, caps and floors, which are transacted primarily to accommodate the needs of commercial loan clients. In addition, we enter into interest rate derivatives to offset or mitigate the interest rate risk related to the client positions. The activities within this portfolio create exposures to interest rate risk.
- ⌚ Credit derivatives include credit default swaps, which are used to mitigate loan portfolio credit risk, and credit default swap indexes, which are used to manage the credit risk exposure associated with anticipated sales of certain commercial real estate loans. The transactions within the credit derivatives portfolio result in exposure to counterparty credit risk and market risk.

**VaR and stressed VaR.** VaR is the estimate of the maximum amount of loss on an instrument or portfolio due to adverse market conditions during a given time interval within a stated confidence level. Stressed VaR is used to assess the extreme conditions on market risk within our trading portfolios. MRM calculates VaR and stressed VaR on a daily basis, and the results are distributed to appropriate management. VaR and stressed VaR results are also provided to our regulators and utilized in regulatory capital calculations.

We use a historical VaR model to measure the potential adverse effect of changes in interest rates, foreign exchange rates, equity prices, and credit spreads on the fair value of our covered positions. Historical scenarios are customized for specific covered positions, and numerous risk factors are incorporated in the calculation.

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Additional consideration is given to the risk factors to estimate the exposures that contain optionality features, such as options and cancelable provisions. VaR is calculated using daily observations over a one-year time horizon, and approximates a 95% confidence level. Statistically, this means that we would expect to incur losses greater than VaR, on average, five out of 100 trading days, or three to four times each quarter. We also calculate VaR and stressed VaR at a 99% confidence level.

The VaR model is an effective tool in estimating ranges of possible gains and losses on our covered positions. However, there are limitations inherent in the VaR model since it uses historical results over a given time interval to estimate future performance. Historical results may not be indicative of future results, and changes in the market or composition of our portfolios could have a significant impact on the accuracy of the VaR model. We regularly review and enhance the modeling techniques, inputs and assumptions used. Our market risk policy includes the independent validation of our VaR model by Key's Risk Management Group on an annual basis. The Model Risk Management Committee oversees the Model Validation Program, and results of validations are discussed with the ERM Committee.

MRM backtests our VaR model on a daily basis to evaluate its predictive power. The test compares VaR model results at the 99% confidence level to observed daily profit and loss. Results of backtesting are provided to the Market Risk Committee. Backtesting exceptions occur when trading losses exceed VaR. Actual losses did not exceed daily trading VaR on any day during the quarters ended December 31, 2014, and December 31, 2013.

We do not engage in correlation trading, or utilize the internal model approach for measuring default and credit migration risk. Our net VaR approach incorporates diversification, but our VaR calculation does not include the impact of counterparty risk and our own credit spreads on derivatives.

The aggregate VaR at the 99% confidence level for all covered positions was \$.9 million at December 31, 2014, and \$1.0 million at December 31, 2013. The decrease in aggregate VaR was primarily due to reduced exposures in credit and interest rate derivatives. Figure 31 summarizes our VaR at the 99% confidence level for significant portfolios of covered positions for the three months ended December 31, 2014, and December 31, 2013.

**Figure 31. VaR for Significant Portfolios of Covered Positions**

<i>in millions</i>	2014 Three months ended December 31,			2013 Three months ended December 31,		
	High	Low	Mean	High	Low	Mean
Trading account assets:						
Fixed income	\$.5	\$.3	\$.4	\$1.2	\$.5	\$.8
Derivatives:						
Interest rate	\$.3		\$.1	\$.5	\$.2	\$.3
Credit	.3	\$.1	.2	.3	.4	.3

Stressed VaR is calculated using our general VaR results at the 99% confidence level and applying certain assumptions. The aggregate stressed VaR for all covered positions was \$2.6 million at December 31, 2014, and \$2.9 million at December 31, 2013. Figure 32 summarizes our stressed VaR for significant portfolios of covered positions for the three months ended December 31, 2014, and December 31, 2013, as used for market risk capital charge calculation purposes.



**Table of Contents****Figure 32. Stressed VaR for Significant Portfolios of Covered Positions**

<i>in millions</i>	2014 Three months ended December 31,			2013 Three months ended December 31,		
	High	Low	Mean	High	Low	Mean
Trading account assets:						
Fixed income	\$ 1.6	\$ .8	\$ 1.2	\$ 1.2	\$ 3.7	\$ 1.4
Derivatives:						
Interest rate	\$ .8	\$ .1	\$ .2	\$ .2	\$ 1.5	\$ .5
Credit	1.0	.4	.7	.9	1.2	.8

**Internal capital adequacy assessment.** Market risk is a component of our internal capital adequacy assessment. Our risk-weighted assets include a market risk-equivalent asset position, which consists of a VaR component, stressed VaR component, a de minimis exposure amount, and a specific risk add-on, which are added together to arrive at total market risk equivalent assets. Specific risk is the price risk of individual financial instruments, which is not accounted for by changes in broad market risk factors and is measured through a standardized approach. Specific risk calculations are run quarterly by MRM, and approved by the Chief Market Risk Officer.

**Nontrading market risk**

Most of our nontrading market risk is derived from interest rate fluctuations and its impacts on our traditional loan and deposit products, as well as investments, hedging relationships, long-term debt, and certain short-term borrowings. Interest rate risk, which is inherent in the banking industry, is measured by the potential for fluctuations in net interest income and the EVE. Such fluctuations may result from changes in interest rates and differences in the repricing and maturity characteristics of interest-earning assets and interest-bearing liabilities. We manage the exposure to changes in net interest income and the EVE in accordance with our risk appetite and within Board approved policy limits.

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

The management of nontrading market risk is centralized within Corporate Treasury. Oversight and governance is provided by the Risk Committee of our Board, the ERM Committee and the ALCO. These committees review reports on the components of interest rate risk described above as well as sensitivity analyses of these exposures. These committees have various responsibilities related to managing nontrading market risk, including recommending, approving, and monitoring strategies that maintain risk positions within approved tolerance ranges. The Asset Liability Management policy provides the framework for the oversight and management of interest rate risk and is administered by the ALCO. Internal and external emerging issues are monitored on a daily basis. The Market Risk Management Group, as the second line of defense, provides additional oversight.

- ⌚ **Gap risk** is the exposure to changes in interest rates and occurs when the volume of interest-bearing liabilities and the volume of interest-earning assets they fund (for example, deposits used to fund loans) do not mature or reprice at the same time.
- ⌚ **Basis risk** is the exposure to asymmetrical changes in interest rate indexes and occurs when floating-rate assets and floating-rate liabilities reprice at the same time, but in response to different market factors or indexes.
- ⌚ **Yield curve risk** is the exposure to non-parallel changes in the slope of the yield curve (where the yield curve depicts the relationship between the yield on a particular type of security and its term to maturity) and

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occurs when interest-bearing liabilities and the interest-earning assets that they fund do not price or reprice to the same term point on the yield curve.

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

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

We measure the amount of net interest income at risk by simulating the change in net interest income that would occur if the federal funds target rate were to gradually increase or decrease over the next 12 months, and term rates were to move in a similar fashion. Our standard rate scenarios encompass a gradual increase or decrease of 200 basis points, but due to the low interest rate environment, we have modified the standard to a gradual decrease of 25 basis points over two months with no change over the following ten months. After calculating the amount of net interest income at risk to interest rate changes, we compare that amount with the base case of an unchanged interest rate environment. We also perform regular stress tests and sensitivities on the model inputs that could materially change the resulting risk assessments. One set of stress tests and sensitivities assesses the effect of interest rate inputs on simulated exposures. Assessments are performed using different shapes of the yield curve, including a sustained flat yield curve, an inverted slope yield curve, changes in credit spreads, an immediate parallel change in market interest rates, and changes in the relationship of money market interest rates. Another set of stress tests and sensitivities assesses the effect of loan and deposit assumptions and assumed discretionary strategies on simulated exposures. Assessments are performed on changes to the following assumptions: the pricing of deposits without contractual maturities; changes in lending spreads; prepayments on loans and securities; other loan and deposit balance shifts; investment, funding and hedging activities; and liquidity and capital management strategies.

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

Figure 33 presents the results of the simulation analysis at December 31, 2014, and December 31, 2013. At December 31, 2014, our simulated exposure to changes in interest rates was moderately asset sensitive, and net interest income would benefit over time from either an increase in short-term or intermediate-term interest rates. Tolerance levels for risk management require the development of remediation plans to maintain residual risk within tolerance if simulation modeling demonstrates that a gradual increase or decrease in short-term interest rates over the next 12 months would adversely affect net interest income over the same period by more than 4%. As shown in Figure 33, we are operating within these levels as of December 31, 2014.

**Table of Contents****Figure 33. Simulated Change in Net Interest Income**

<b>December 31, 2014</b>		
Basis point change assumption (short-term rates)	-25	+200
Tolerance level	-4.00 %	-4.00 %
Interest rate risk assessment	-96 %	3.20 %
<b>December 31, 2013</b>		
Basis point change assumption (short-term rates)	-25	+200
Tolerance level	-4.00 %	-4.00 %
Interest rate risk assessment	-1.33 %	3.00 %

The results of additional sensitivity analysis of alternate interest rate paths and loan and deposit behavior assumptions indicates that net interest income could increase or decrease from the base simulation results presented in Figure 33. Net interest income is highly dependent on the timing, magnitude, frequency, and path of interest rate increases and the associated assumptions for deposit repricing relationships, lending spreads, and the balance behavior of transaction accounts. The unprecedented low level of interest rates increases the uncertainty of assumptions for deposit balance behavior and deposit repricing relationships to market interest rates. Our historical deposit repricing betas in the last rising rate cycle ranged between 50% and 60% for interest-bearing deposits, and we continue to make similar assumptions in our modeling. The sensitivity testing of these assumptions supports our confidence that actual results are likely to be within a 75 basis point range of modeled results.

Key will continue to monitor balance sheet flows and expects the benefit from rising rates to increase modestly prior to any increase in the federal funds rate. Our current interest rate risk position could fluctuate to higher or lower levels of risk depending on the competitive environment and client behavior that may affect the actual volume, mix, maturity, and repricing characteristics of loan and deposit flows. As changes occur to both the configuration of the balance sheet and the outlook for the economy, management proactively evaluates hedging opportunities that may change our interest rate risk profile.

We also conduct simulations that measure the effect of changes in market interest rates in the second and third years of a three-year horizon. These simulations are conducted in a manner similar to those based on a 12-month horizon. To capture longer-term exposures, we calculate exposures to changes to the EVE as discussed in the following section.

**Economic value of equity modeling.** EVE complements net interest income simulation analysis as it estimates risk exposure beyond 12-, 24-, and 36-month horizons. EVE modeling measures the extent to which the economic values of assets, liabilities and off-balance sheet instruments may change in response to fluctuations in interest rates. EVE is calculated by subjecting the balance sheet to an immediate 200 basis point increase or decrease in interest rates, measuring the resulting change in the values of assets, liabilities and off-balance sheet instruments, and comparing those amounts with the base case of an unchanged interest rate environment. Because the calculation of EVE under an immediate 200 basis point decrease in interest rates in the current low rate environment results in certain interest rates declining to zero and a less than 200 basis point decrease in certain yield curve term points, we have modified the standard declining rate scenario to an immediate 100 basis point decrease. This analysis is highly dependent upon assumptions applied to assets and liabilities with non-contractual maturities. Those assumptions are based on historical behaviors, as well as our expectations. We develop remediation plans that would maintain residual risk within tolerance if this analysis indicates that our EVE will decrease by more than 15% in response to an immediate increase or decrease in interest rates. We are operating within these guidelines as of December 31, 2014.

**Management of interest rate exposure.** We use the results of our various interest rate risk analyses to formulate A/LM strategies to achieve the desired risk profile while managing to our objectives for capital adequacy and

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liquidity risk exposures. Specifically, we manage interest rate risk positions by purchasing securities, issuing term debt with floating or fixed interest rates, and using derivatives—predominantly in the form of interest rate swaps, which modify the interest rate characteristics of certain assets and liabilities.

Figure 34 shows all swap positions that we hold for A/LM purposes. These positions are used to convert the contractual interest rate index of agreed-upon amounts of assets and liabilities (i.e., notional amounts) to another interest rate index. For example, fixed-rate debt is converted to a floating rate through a receive fixed/pay variable interest rate swap. The volume, maturity and mix of portfolio swaps change frequently as we adjust our broader A/LM objectives and the balance sheet positions to be hedged. For more information about how we use interest rate swaps to manage our risk profile, see Note 8 ( Derivatives and Hedging Activities ).

**Figure 34. Portfolio Swaps by Interest Rate Risk Management Strategy**

	December 31, 2014							December 31, 2013	
	Notional Amount	Fair Value	Maturity (Years)	Weighted-Average Receive Rate	Weighted-Average Pay Rate	Notional Amount	Fair Value	Notional Amount	Fair Value
<i>dollars in millions</i>									
Receive fixed/pay variable conventional A/LM <sup>(a)</sup>	\$ 9,700	\$ (4)	1.8	.8 %	.2 %	\$ 9,300	\$ 6		
Receive fixed/pay variable conventional debt	5,124	209	3.8	2.4	.2	5,074	201		
Pay fixed/receive variable conventional debt	50	(7)	13.5	.2	3.6	105			
Total portfolio swaps	\$ 14,874	\$ 198 <sup>(b)</sup>	2.5	1.3 %	.2 %	\$ 14,479	\$ 207 <sup>(b)</sup>		

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

(b) Excludes accrued interest of \$49 million and \$61 million for December 31, 2014, and December 31, 2013, respectively.

### **Liquidity risk management**

Liquidity risk, which is inherent in the banking industry, is measured by our ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, and fund new business opportunities at a reasonable cost, in a timely manner and without adverse consequences. Liquidity management involves maintaining sufficient and diverse sources of funding to accommodate planned, as well as unanticipated, changes in assets and liabilities under both normal and adverse conditions.

### Governance structure

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

The management of consolidated liquidity risk is centralized within Corporate Treasury. Oversight and governance is provided by the Board of Directors, the ERM Committee, the ALCO, and the Chief Risk Officer. The Asset Liability Management Policy provides the framework for the oversight and management of liquidity risk and is administered by the ALCO. The Market Risk Management group, as the second line of defense, provides additional oversight. Our current liquidity risk management practices are in compliance with the Federal Reserve Board's Enhanced Prudential Standards.

These committees regularly review liquidity and funding summaries, liquidity trends, peer comparisons, variance analyses, liquidity projections, hypothetical funding erosion stress tests and goal tracking reports. The reviews generate a discussion of positions, trends and directives on liquidity risk and shape a number of our decisions. When liquidity pressure is elevated, positions are monitored more closely and reporting is more intensive. To ensure that emerging issues are identified, we also communicate with individuals inside and outside of the company on a daily basis.

**Table of Contents****Factors affecting liquidity**

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

Our credit ratings at December 31, 2014, are shown in Figure 35. We believe these credit ratings, under normal conditions in the capital markets, will enable the parent company or KeyBank to issue fixed income securities to investors.

**Figure 35. Credit Ratings**

		Senior	Subordinated		
	Short-Term	Long-Term	Long-Term	Capital	Series A
December 31, 2014	Borrowings	Debt	Debt	Securities	Preferred Stock
<b>KEYCORP (THE PARENT COMPANY)</b>					
Standard & Poor's	A-2	BBB+	BBB	BB+	BB+
Moody's	P-2	Baa1	Baa2	Baa3	Ba1
Fitch	F1	A-	BBB+	BB+	BB
DBRS	R-2(high)	BBB(high)	BBB	BBB	N/A
<b>KEYBANK</b>					
Standard & Poor's	A-2	A-	BBB+	N/A	N/A
Moody's	P-2	A3	Baa1	N/A	N/A
Fitch	F1	A-	BBB+	N/A	N/A
DBRS	R-1(low)	A(low)	BBB(high)	N/A	N/A

**Managing liquidity risk**

Most of our liquidity risk is derived from our lending activities, which inherently places funds into illiquid assets. Liquidity risk is also derived from our deposit gathering activities and the ability of our customers to withdraw funds that do not have a stated maturity or to withdraw funds before their contractual maturity. The assessments of liquidity risk are measured under the assumption of normal operating conditions as well as under a stressed environment. We manage these exposures in accordance with our risk appetite, and within Board approved policy limits.

We regularly monitor our liquidity position and funding sources and measure our capacity to obtain funds in a variety of hypothetical scenarios in an effort to maintain an appropriate mix of available and affordable funding. In the normal course of business, we perform a monthly hypothetical funding erosion stress test for both KeyCorp and KeyBank. In a heightened monitoring mode, we may conduct the hypothetical funding erosion stress tests more frequently, and use assumptions to reflect the changed market environment. Our testing incorporates estimates for loan and deposit lives based on our historical studies. Erosion stress tests analyze potential liquidity scenarios under various funding constraints and time periods. Ultimately, they determine the periodic effects that major direct and indirect events would have on our access to funding markets and our ability to fund our normal operations. To compensate for the effect of these assumed liquidity pressures, we consider alternative sources of liquidity and maturities over different time periods to project how funding needs would be managed.

We maintain a Contingency Funding Plan that outlines the process for addressing a liquidity crisis. The plan provides for an evaluation of funding sources under various market conditions. It also assigns specific roles and responsibilities for managing liquidity through a problem period. As part of the plan, we maintain a liquidity reserve through balances in our liquid asset portfolio. During a problem period, that reserve could be used as a source of funding to provide time to develop and execute a longer-term strategy. The liquid asset portfolio at



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December 31, 2014, totaled \$15 billion, consisting of \$10.4 billion of unpledged securities, \$799 million of securities available for secured funding at the Federal Home Loan Bank of Cincinnati ( FHLB ), and \$3.8 billion of net balances of federal funds sold and balances in our Federal Reserve account. The liquid asset portfolio can fluctuate due to excess liquidity, heightened risk, or prefunding of expected outflows, such as debt maturities. Additionally, as of December 31, 2014, our unused borrowing capacity secured by loan collateral was \$18.7 billion at the Federal Reserve Bank of Cleveland and \$2.8 billion at the FHLB. In 2014, Key's outstanding FHLB advances decreased by \$24 million due to repayments.

**Final U.S. liquidity coverage ratio**

Under the Liquidity Coverage Rules, we will be required to calculate the Modified LCR. Implementation for Modified LCR banking organizations, like Key, will begin on January 1, 2016, with a minimum requirement of 90% coverage, reaching 100% coverage by January 1, 2017. Throughout December 2014, our estimated Modified LCR was approximately in the mid-80% range. To reach the minimum of 90% by January 1, 2016, and to operate with a cushion above the minimum required level, we may change the composition of our investment portfolio, increase the size of the overall investment portfolio, and modify product offerings.

Additional information about the Liquidity Coverage Ratio is included in the Supervision and Regulation section under the heading U.S. implementation of the Basel III liquidity framework in Item 1 of this report.

**Long-term liquidity strategy**

Our long-term liquidity strategy is to be predominantly funded by core deposits. However, we may use wholesale funds to sustain an adequate liquid asset portfolio, meet daily cash demands, and allow management flexibility to execute business initiatives. Key's client-based relationship strategy provides for a strong core deposit base which, in conjunction with intermediate and long-term wholesale funds managed to a diversified maturity structure and investor base, supports our liquidity risk management strategy. We use the loan-to-deposit ratio as a metric to monitor these strategies. Our target loan-to-deposit ratio is 90-100% (at December 31, 2014, our loan-to-deposit ratio was 85%), which we calculate as total loans, loans held for sale, and nonsecuritized discontinued loans divided by domestic deposits.

**Sources of liquidity**

Our primary sources of liquidity include customer deposits, wholesale funding and liquid assets. If the cash flows needed to support operating and investing activities are not satisfied by deposit balances, we rely on wholesale funding or liquid assets. Conversely, excess cash generated by operating, investing and deposit-gathering activities may be used to repay outstanding debt or invest in liquid assets.

**Liquidity programs**

We have several liquidity programs, which are described in Note 18 ( Long-Term Debt ), that are designed to enable the parent company and KeyBank to raise funds in the public and private debt markets. The proceeds from most of these programs can be used for general corporate purposes, including acquisitions. These liquidity programs are reviewed from time to time by the Board of Directors and are renewed and replaced as necessary. There are no restrictive financial covenants in any of these programs. During the second quarter of 2014, the KeyCorp shelf registration statement on file with the SEC, including the Medium-Term Note Program, was updated. In connection with the updated Medium-Term Note Program, the Board of Directors authorized KeyCorp to issue up to \$4 billion of debt, and revoked all prior issuance authority under previous KeyCorp shelf registration statements including through previous medium-term note programs.

In 2014, Key's aggregate outstanding note balance, net of unamortized discounts and adjustments related to hedging with derivative financial instruments was unchanged. On July 1, 2014, \$750 million of subordinated bank debt matured. On November 24, 2014, \$750 million of 2.50% Senior Notes due 2019 were issued.



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### **Liquidity for KeyCorp**

The primary source of liquidity for KeyCorp is from subsidiary dividends, primarily from KeyBank. KeyCorp has sufficient liquidity when it can service its debt; support customary corporate operations and activities (including acquisitions); support occasional guarantees of subsidiaries obligations in transactions with third parties at a reasonable cost, in a timely manner, and without adverse consequences; and pay dividends to shareholders.

We use a parent cash coverage months metric as the primary measure to assess parent company liquidity. The parent cash coverage months metric measures the months into the future where projected obligations can be met with the current amount of liquidity to meet all projected obligations. We generally issue term debt to supplement dividends from KeyBank to manage our liquidity position at or above our targeted levels. The parent company generally maintains cash and short-term investments in an amount sufficient to meet projected debt maturities over at least the next 24 months. At December 31, 2014, KeyCorp held \$2.2 billion in short-term investments, which we projected to be sufficient to meet our projected obligations, including the repayment of our maturing debt obligations for the periods prescribed by our risk tolerance.

Typically, KeyCorp meets its liquidity requirements through regular dividends from KeyBank, supplemented with term debt. Federal banking law limits the amount of capital distributions that a bank can make to its holding company without prior regulatory approval. A national bank's dividend-paying capacity is affected by several factors, including net profits (as defined by statute) for the two previous calendar years and for the current year, up to the date of dividend declaration. During 2014, KeyBank paid KeyCorp \$300 million in dividends; nonbank subsidiaries did not pay any cash dividends or noncash dividends to KeyCorp. KeyCorp did not make any capital infusions to KeyBank during 2014. As of December 31, 2014, KeyBank had \$935 million of capacity to pay dividends to KeyCorp.

### **Our liquidity position and recent activity**

Over the past 12 months our liquid asset portfolio, which includes overnight and short-term investments, as well as unencumbered, high quality liquid securities held as protection against a range of potential liquidity stress scenarios, has increased as a result of net customer loan and deposit flows and an increase in unpledged securities. The liquid asset portfolio continues to exceed the amount that we estimate would be necessary to manage through an adverse liquidity event by providing sufficient time to develop and execute a longer-term solution.

From time to time, KeyCorp or KeyBank may seek to retire, repurchase or exchange outstanding debt, capital securities, preferred shares or common shares through cash purchase, privately negotiated transactions or other means. Additional information on repurchases of common shares by KeyCorp is included in Part II, Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities of this report. Such transactions depend on prevailing market conditions, our liquidity and capital requirements, contractual restrictions, regulatory requirements and other factors. The amounts involved may be material, individually or collectively.

We generate cash flows from operations and from investing and financing activities. We have approximately \$195 million of cash and cash equivalents and short-term investments in international tax jurisdictions as of December 31, 2014. As we consider alternative long-term strategic and liquidity plans, opportunities to repatriate these amounts would result in approximately \$7 million in taxes to be paid. If we were to cease operations in all international tax jurisdictions, the total amount of taxes to be paid would increase to approximately \$11 million. Accordingly, we have included the total amount as a deferred tax liability at December 31, 2014.

The Consolidated Statements of Cash Flows summarize our sources and uses of cash by type of activity for the years ended December 31, 2014, and December 31, 2013.

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**Credit risk management**

Credit risk is the risk of loss to us arising from an obligor's inability or failure to meet contractual payment or performance terms. Like other financial services institutions, we make loans, extend credit, purchase securities, and enter into financial derivative contracts, all of which have related credit risk.

**Credit policy, approval, and evaluation**

We manage credit risk exposure through a multifaceted program. The Credit Risk Committee approves both retail and commercial credit policies. These policies are communicated throughout the organization to foster a consistent approach to granting credit.

Our credit risk management team is responsible for credit approval, is independent of our lines of business, and consists of senior officers who have extensive experience in structuring and approving loans. Only credit risk management members are authorized to grant significant exceptions to credit policies. It is not unusual to make exceptions to established policies when mitigating circumstances dictate, but most major lending units have been assigned specific thresholds to keep exceptions at an acceptable level based upon portfolio and economic considerations.

Loan grades are assigned at the time of origination, verified by the credit risk management team and periodically reevaluated thereafter. Most extensions of credit are subject to loan grading or scoring. This risk rating methodology blends our judgment with quantitative modeling. Commercial loans generally are assigned two internal risk ratings. The first rating reflects the probability that the borrower will default on an obligation; the second rating reflects expected recovery rates on the credit facility. Default probability is determined based on, among other factors, the financial strength of the borrower, an assessment of the borrower's management, the borrower's competitive position within its industry sector, and our view of industry risk within the context of the general economic outlook. Types of exposure, transaction structure and collateral, including credit risk mitigants, affect the expected recovery assessment.

Our credit risk management team uses risk models to evaluate consumer loans. These models, known as scorecards, forecast the probability of serious delinquency and default for an applicant. The scorecards are embedded in the application processing system, which allows for real-time scoring and automated decisions for many of our products. We periodically validate the loan grading and scoring processes.

We maintain an active concentration management program to encourage diversification in our credit portfolios. For individual obligors, we employ a sliding scale of exposure, known as hold limits, which is dictated by the strength of the borrower. Our legal lending limit is approximately \$1.6 billion for any individual borrower. However, internal hold limits generally restrict the largest exposures to less than 20% of that amount. As of December 31, 2014, we had five client relationships with loan commitments net of credit default swaps of more than \$200 million. The average amount outstanding on these five individual net obligor commitments was \$43 million at December 31, 2014. In general, our philosophy is to maintain a diverse portfolio with regard to credit exposures.

We actively manage the overall loan portfolio in a manner consistent with asset quality objectives and concentration risk tolerances to mitigate credit risk. We utilize credit default swaps on a limited basis to transfer a portion of the credit risk associated with a particular extension of credit to a third party. At December 31, 2014, we used credit default swaps with a notional amount of \$309 million to manage the credit risk associated with specific commercial lending obligations. We may also sell credit derivatives—primarily single name credit default swaps—to offset our purchased credit default swap position prior to maturity. At December 31, 2014, we had sold credit default swaps outstanding with a total notional amount of \$5 million.

Credit default swaps are recorded on the balance sheet at fair value. Related gains or losses, as well as the premium paid or received for credit protection, are included in the corporate services income and other income components of noninterest income.

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We may also manage the loan portfolio using portfolio swaps and bulk purchases and sales. Our overarching goal is to manage the loan portfolio within a specified range of asset quality.

**Allowance for loan and lease losses**

At December 31, 2014, the ALLL was \$794 million, or 1.38% of period-end loans, compared to \$848 million, or 1.56%, at December 31, 2013. The allowance includes \$40 million that was specifically allocated for impaired loans of \$302 million at December 31, 2014, compared to \$42 million that was allocated for impaired loans of \$358 million one year ago. For more information about impaired loans, see Note 5 ( Asset Quality ). At December 31, 2014, the ALLL was 190.0% of nonperforming loans, compared to 166.9% at December 31, 2013.

Selected asset quality statistics for each of the past five years are presented in Figure 36. The factors that drive these statistics are discussed in the remainder of this section.

**Figure 36. Selected Asset Quality Statistics from Continuing Operations**

<b>Year ended December 31,</b> <i>dollars in millions</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net loan charge-offs	\$ 113	\$ 168	\$ 345	\$ 541	\$ 1,570
Net loan charge-offs to average loans	.20 %	.32 %	.69 %	1.11 %	2.91 %
Allowance for loan and lease losses	\$ 794	\$ 848	\$ 888	\$ 1,004	\$ 1,604
Allowance for credit losses <sup>(a)</sup>	830	885	917	1,049	1,677
Allowance for loan and lease losses to period-end loans	1.38 %	1.56 %	1.68 %	2.03 %	3.20 %
Allowance for credit losses to period-end loans	1.45	1.63	1.74	2.12	3.35
Allowance for loan and lease losses to nonperforming loans	190.0	166.9	131.8	138.1	150.2
Allowance for credit losses to nonperforming loans	198.6	174.2	136.1	144.3	157.0
Nonperforming loans at period end <sup>(b)</sup>	\$ 418	\$ 508	\$ 674	\$ 727	\$ 1,068
Nonperforming assets at period end	436	531	735	859	1,338
Nonperforming loans to period-end portfolio loans	.73 %	.93 %	1.28 %	1.47 %	2.13 %
Nonperforming assets to period-end portfolio loans plus OREO and other nonperforming assets	.76	.97	1.39	1.73	2.66

(a) Includes the ALLL plus the liability for credit losses on lending-related unfunded commitments.

(b) Loan balances exclude \$13 million, \$16 million, and \$23 million of PCI loans at December 31, 2014, December 31, 2013, and December 31, 2012, respectively.

We estimate the appropriate level of the ALLL on at least a quarterly basis. The methodology used is described in Note 1 ( Summary of Significant Accounting Policies ) under the heading Allowance for Loan and Lease Losses. Briefly, our general allowance applies expected loss rates to existing loans with similar risk characteristics. We exercise judgment to assess any adjustment to the expected loss rates for the impact of factors such as changes in economic conditions, lending policies including underwriting standards, and the level of credit risk associated with specific industries and markets.

For all commercial and consumer loan TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance of \$2.5 million and greater, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. We estimate the extent of the individual impairment for commercial loans and TDRs by comparing the recorded investment of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan's observable market price. Secured consumer loan TDRs that are discharged through Chapter 7 bankruptcy and not formally re-affirmed are adjusted to reflect the fair value of the underlying collateral, less costs to sell. Other consumer loan TDRs are combined in homogenous pools and assigned a specific allocation based on the estimated present value of future cash flows using the effective interest rate. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses. The ALLL at December 31, 2014, represents our best estimate of the probable credit losses inherent in the loan portfolio at that date.



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As shown in Figure 37, our ALLL decreased by \$54 million, or 6.4%, during the past 12 months. This contraction is directly associated with the improvement in credit quality of the loan portfolio. The quality of new loan originations and decreasing levels of criticized, classified, and nonperforming loans and net loan charge-offs has resulted in a reduction in our general allowance. Our delinquency trends have declined during the past 12 months due to a modest level of loan growth, relatively stable economic conditions, and continued run-off in our exit loan portfolio reflecting our effort to maintain a moderate enterprise risk tolerance. Our liability for credit losses on lending-related commitments was \$36 million at December 31, 2014. When combined with our ALLL, our total allowance for credit losses represented 1.45% of period-end loans at December 31, 2014, compared to 1.63% at December 31, 2013.

Figure 37. Allocation of the Allowance for Loan and Lease Losses

December 31,	2014			2013			2012		
	Total Allowance	Percent of Allowance to Total Allowance	Percent of Loan Type to Total Loans	Total Allowance	Percent of Allowance to Total Allowance	Percent of Loan Type to Total Loans	Total Allowance	Percent of Allowance to Total Allowance	Percent of Loan Type to Total Loans
<i>dollars in millions</i>									
Commercial, financial and agricultural	\$ 391	49.2 %	48.8 %	\$ 362	42.7 %	45.8 %	\$ 327	36.8 %	44.0 %
Commercial real estate:									
Commercial mortgage	148	18.7	14.0	165	19.4	14.2	198	22.3	14.6
Construction	28	3.5	1.9	32	3.8	2.0	41	4.6	1.9
Total commercial real estate loans	176	22.2	15.9	197	23.2	16.2	239	26.9	16.5
Commercial lease financing	56	7.1	7.4	62	7.3	8.4	55	6.2	9.3
Total commercial loans	623	78.5	72.1	621	73.2	70.4	621	69.9	69.8
Real estate residential mortgage	23	2.9	3.9	37	4.4	4.0	30	3.4	4.1
Home equity:									
Key Community Bank	66	8.3	18.1	84	9.9	19.0	105	11.8	18.6
Other	5	.6	.5	11	1.3	.6	25	2.8	.8
Total home equity loans	71	8.9	18.6	95	11.2	19.6	130	14.6	19.4
Consumer other:									
Key Community Bank	22	2.8	2.7	29	3.4	2.7	38	4.3	2.5
Credit cards	33	4.1	1.3	34	4.0	1.3	26	2.9	1.4
Consumer other:									
Marine	21	2.7	1.3	29	3.4	1.9	39	4.4	2.6
Other	1	.1	.1	3	.4	.1	4	.5	.2
Total consumer other	22	2.8	1.4	32	3.8	2.0	43	4.9	2.8
Total consumer loans	171	21.5	27.9	227	26.8	29.6	267	30.1	30.2
Total <sup>(a)</sup>	\$ 794	100.0 %	100.0 %	\$ 848	100.0 %	100.0 %	\$ 888	100.0 %	100.0 %

  

	2011			2010		
	Total Allowance	Percent of Allowance to Total Allowance	Percent of Loan Type to Total Loans	Total Allowance	Percent of Allowance to Total Allowance	Percent of Loan Type to Total Loans
Commercial, financial and agricultural	\$ 334	33.2 %	39.1 %	\$ 485	30.2 %	32.8 %

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Commercial real estate:						
Commercial mortgage	272	27.1	16.2	416	25.9	19.0
Construction	63	6.3	2.7	145	9.1	4.2
Total commercial real estate loans	335	33.4	18.9	561	35.0	23.2
Commercial lease financing	78	7.8	12.2	175	10.9	12.9
Total commercial loans	747	74.4	70.2	1,221	76.1	68.9
Real estate residential mortgage	37	3.7	3.9	49	3.1	3.7
Home equity:						
Key Community Bank	103	10.2	18.6	120	7.5	19.0
Other	29	2.9	1.1	57	3.5	1.3
Total home equity loans	132	13.1	19.7	177	11.0	20.3
Consumer other Key Community Bank	41	4.1	2.4	57	3.6	2.3
Credit cards						
Consumer other:						
Marine	46	4.6	3.5	89	5.5	4.5
Other	1	.1	.3	11	.7	.3
Total consumer other	47	4.7	3.8	100	6.2	4.8
Total consumer loans	257	25.6	29.8	383	23.9	31.1
Total <sup>(a)</sup>	\$ 1,004	100.0 %	100.0 %	\$ 1,604	100.0 %	100.0 %

(a) Excludes allocations of the ALLL related to the discontinued operations of the education lending business in the amount of \$29 million at December 31, 2014, \$39 million at December 31, 2013, \$55 million at December 31, 2012, \$104 million at December 31, 2011, and \$114 million at December 31, 2010.

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Our provision (credit) for loan and lease losses was \$59 million for 2014, compared to \$130 million for 2013. Our net loan charge-offs were \$113 million for 2014, compared to \$168 million for 2013. The decrease in our provision is due to continued improvement in credit quality experienced in most of our loan portfolios. Additionally, we continue to reduce our exposure in our higher-risk businesses, including the residential properties portion of our construction loan portfolio, Marine/RV financing, and other selected leasing portfolios through the sale of certain loans, payments from borrowers, or net loan charge-offs.

Credit quality on our oil and gas loan portfolio, which represents 2% of total loans at December 31, 2014, remains solid, with net loan charge-offs lower than those on our overall portfolio. Our ALLL reflects the estimated impact of current oil prices at December 31, 2014.

**Net loan charge-offs**

Net loan charge-offs for 2014 totaled \$113 million, or .20% of average loans, compared to net loan charge-offs of \$168 million, or .32%, for the same period last year. Figure 38 shows the trend in our net loan charge-offs by loan type, while the composition of loan charge-offs and recoveries by type of loan is presented in Figure 39.

Over the past 12 months, net loan charge-offs decreased \$55 million. This decrease is attributable to continued improvement in asset quality as reflected in the asset quality statistics shown in Figure 40. As shown in Figure 41, our exit loan portfolio contributed a total of \$13 million in net loan charge-offs for 2014. Net loan charge-offs for 2013 in our exit loan portfolio were \$17 million. The decrease in net loan charge-offs in our exit loan portfolio was primarily driven by lower levels of net loan charge offs in the consumer exit loan portfolios during 2014.

**Figure 38. Net Loan Charge-offs from Continuing Operations <sup>(a)</sup>**

<b>Year ended December 31,</b> <i>dollars in millions</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Commercial, financial and agricultural	\$ 12	\$ 23	\$ 17	\$ 119	\$ 478
Real estate commercial mortgage	2	(7)	79	103	330
Real estate construction	(12)	(11)	19	56	336
Commercial lease financing		12	5	17	63
Total commercial loans	2	17	120	295	1,207
Home equity Key Community Bank	28	52	88	89	116
Home equity Other	4	14	30	41	59
Credit cards	33	27	11		
Marine	14	14	37	48	86
Other	32	44	59	68	102
Total consumer loans	111	151	225	246	363
Total net loan charge-offs	\$ 113	\$ 168	\$ 345	\$ 541	\$ 1,570
Net loan charge-offs to average loans	.20 %	.32 %	.69 %	1.11 %	2.91 %
Net loan charge-offs from discontinued operations education lending business	\$ 31	\$ 37	\$ 58	\$ 123	\$ 121

(a) Credit amounts indicate that recoveries exceeded charge-offs.



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<i>dollars in millions</i>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Average loans outstanding	<b>\$ 55,679</b>	\$ 53,054	\$ 50,362	\$ 48,606	\$ 53,971
Allowance for loan and lease losses at beginning of period	<b>\$ 848</b>	\$ 888	\$ 1,004	\$ 1,604	\$ 2,534
Loans charged off:					
Commercial, financial and agricultural <sup>(a)</sup>	<b>45</b>	62	80	169	565
Real estate commercial mortgage	<b>6</b>	20	102	113	360
Real estate construction	<b>5</b>	3	24	83	380
Total commercial real estate loans <sup>(b)</sup>	<b>11</b>	23	126	196	740
Commercial lease financing	<b>10</b>	27	27	42	88
Total commercial loans	<b>66</b>	112	233	407	1,393
Real estate residential mortgage	<b>10</b>	20	27	29	36
Home equity:					
Key Community Bank	<b>37</b>	62	99	100	123
Other	<b>9</b>	20	35	45	62
Total home equity loans	<b>46</b>	82	134	145	185
Consumer other Key Community Bank	<b>30</b>	31	38	45	64
Credit cards	<b>34</b>	30	11		
Consumer other:					
Marine	<b>23</b>	29	59	80	129
Other	<b>2</b>	4	6	9	15
Total consumer other	<b>25</b>	33	65	89	144
Total consumer loans	<b>145</b>	196	275	308	429
Total loans charged off	<b>211</b>	308	508	715	1,822
Recoveries:					
Commercial, financial and agricultural <sup>(a)</sup>	<b>33</b>	39	63	50	87
Real estate commercial mortgage	<b>4</b>	27	23	10	30
Real estate construction	<b>17</b>	14	5	27	44
Total commercial real estate loans <sup>(b)</sup>	<b>21</b>	41	28	37	74
Commercial lease financing	<b>10</b>	15	22	25	25
Total commercial loans	<b>64</b>	95	113	112	186
Real estate residential mortgage	<b>2</b>	2	3	3	2
Home equity:					
Key Community Bank	<b>9</b>	10	11	11	7
Other	<b>5</b>	6	5	4	3
Total home equity loans	<b>14</b>	16	16	15	10
Consumer other Key Community Bank	<b>6</b>	7	6	8	7
Credit cards	<b>1</b>	3			
Consumer other:					
Marine	<b>9</b>	15	22	32	43
Other	<b>2</b>	2	3	4	4

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Total consumer other	<b>11</b>	17	25	36	47
Total consumer loans	<b>34</b>	45	50	62	66
Total recoveries	<b>98</b>	140	163	174	252

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