KEYCORP /NEW/
Form 10-K
February 27, 2012
Table of Contents

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, 2011

(Mark One)

[ü] Annual Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2011

or

[ ] Transition Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the transition period from to

Commission file number: 1-11302

Exact name of Registrant as specified in its charter:

Ohio	**34-6542451**
State or other jurisdiction of incorporation or organization:	**IRS Employer Identification Number:**
127 Public Square, Cleveland, Ohio	**44114-1306**
Address of Principal Executive Offices:	

(216) 689-3000

Registrant s Telephone Number, including area code:

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

Title of each class	Name of each exchange on which registered
Common Shares, $1 par value (Common Shares)	New York Stock Exchange
7.750% Non-Cumulative Perpetual Convertible Preferred Stock, Series A	New York Stock Exchange
8.000% Enhanced Trust Preferred Securities, issued by KeyCorp Capital X, including Junior Subordinated Debentures of KeyCorp and Guarantee of KeyCorp[1]	New York Stock Exchange[2]

[1] The Subordinated Debentures and the Guarantee are issued by KeyCorp. The Enhanced Trust Preferred Securities are issued by the individual trusts.

[2] The Subordinated Debentures and Guarantee of KeyCorp have been registered on the New York Stock Exchange only in connection with the trading of the Enhanced Trust Preferred Securities and not for independent trading.

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 ü 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 ü

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 ü 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 ü 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. ü

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

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

The aggregate market value of voting stock held by nonaffiliates of the Registrant is approximately $7,945,340,370 (based on the June 30, 2011, closing price of Common Shares of $8.33 as reported on the New York Stock Exchange). As of February 22, 2012, there were 953, 561, 366 Common Shares outstanding.

Certain specifically designated portions of KeyCorp s definitive Proxy Statement for its 2012 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

Table of Contents

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, anticipate, intend, project, believe, estimate, or other words of similar meaning. Forv statements provide our current expectations or forecasts of future events, circumstances, results or aspirations. Our disclosures in this report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may also make forward-looking statements in our other documents filed with or furnished to the 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 are not historical facts and, 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:

¿ the economic recovery may face challenges causing its momentum to falter or a further recession;

¿ the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as amended (the Dodd-Frank Act), and other reforms will subject us to a variety of new and more stringent legal and regulatory requirements, including increased scrutiny from our regulators;

¿ changes in local, regional and international business, economic or political conditions in the regions where we operate or have significant assets;

¿ changes in trade, monetary and fiscal policies of various governmental bodies and central banks could affect the economic environment in which we operate;

¿ adverse changes in credit quality trends;

¿ our ability to determine accurate values of certain assets and liabilities;

¿ adverse behaviors in securities, public debt, and capital markets, including changes in market liquidity and volatility;

¿ our ability to anticipate interest rate changes correctly and manage interest rate risk presented through unanticipated changes in our interest rate risk position and/or short- and long-term interest rates;

¿ unanticipated changes in our liquidity position, including but not limited to our ability to enter the financial markets to manage and respond to any changes to our liquidity position;

¿ adequacy of our risk management program;

¿ reduction of the credit ratings assigned to KeyCorp and KeyBank;

¿ increased competitive pressure due to consolidation;

¿ our ability to timely and effectively implement our strategic initiatives;

¿ unanticipated adverse effects of acquisitions and dispositions of assets, business units or affiliates;

Table of Contents

- our ability to attract and/or retain talented executives and employees;
- operational or risk management failures due to technological, cybersecurity threats or other factors;
- changes in accounting principles or in tax laws, rules and regulations;
- adverse judicial proceedings;
- occurrence of natural or man-made disasters or conflicts or terrorist attacks disrupting the economy or our ability to operate; and
- other risks and uncertainties summarized in Part 1, Item 1A: Risk Factors in this report.

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 and on our website at www.Key.com/IR.

Table of Contents

KEYCORP

2011 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

Item Number		Page Number
	PART I	
1	Business	4
1A	Risk Factors	13
1B	Unresolved Staff Comments	29
2	Properties	29
3	Legal Proceedings	29
4	Mine Safety Disclosures	30
	PART II	
5	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	31
6	Selected Financial Data	33
7	Management s Discussion and Analysis of Financial Condition and Results of Operations	34
7A	Quantitative and Qualitative Disclosures About Market Risk	104
8	Financial Statements and Supplementary Data	105
	Management s Annual Report on Internal Control Over Financial Reporting	106
	Reports of Independent Registered Public Accounting Firm	108
	Consolidated Financial Statements and Related Notes	109
	Consolidated Balance Sheets	109
	Consolidated Statements of Income	110
	Consolidated Statements of Changes in Equity	111
	Consolidated Statements of Cash Flows	112
	Notes to Consolidated Financial Statements	113
9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	203
9A	Controls and Procedures	203
9B	Other Information	203
	PART III	
10	Directors, Executive Officers and Corporate Governance	204
11	Executive Compensation	204
12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	204
13	Certain Relationships and Related Transactions, and Director Independence	204
14	Principal Accountant Fees and Services	204
	PART IV	
15	Exhibits and Financial Statement Schedules	205
	(a) (1) Financial Statements See listing in Item 8 above	
	(a) (2) Financial Statement Schedules None required	
	(a) (3) Exhibits	
	Signatures	208
	Exhibits	

Table of Contents

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 $89 billion at December 31, 2011. 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 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, 2011, these services were provided across the country through KeyBank s 1,058 full-service retail banking branches in 14 states, additional offices, a telephone banking call center services group and a network of 1,579 automated teller machines (ATMs) in 15 states. Additional information pertaining to our two business segments is included in this report in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (the MD&A), in the Line of Business Results section, and in Note 21 (Line of Business Results) of the Notes to the Consolidated Financial Statements presented in Item 8. Financial Statements and Supplementary Data are incorporated herein by reference. KeyCorp and its subsidiaries had an average of 15,381 full-time equivalent employees for 2011.

In addition to the customary banking services of accepting deposits and making loans, our bank and trust company subsidiaries offer personal and corporate trust services, personal financial services, access to mutual funds, cash management 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 are an equity participant in a joint venture that provides merchant services to businesses.

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.

Demographics

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

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

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

Table of Contents

Year Ended December 31, 2011	**Geographic Region**				
dollars in millions	**Rocky Mountains and Northwest**	**Great Lakes**	**Northeast**	**Nonregion** (a)	**Total**
Average deposits	$ 15,717	$ 15,446	$ 14,149	$ 2,581	$ 47,893
Percent of total	32.8 %	32.3 %	29.5 %	5.4 %	100.0 %
Average commercial loans	$ 5,332	$ 3,602	$ 2,667	$ 2,398	$ 13,999
Percent of total	38.1 %	25.7 %	19.1 %	17.1 %	100.0 %
Average home equity loans	$ 4,239	$ 2,614	$ 2,432	$ 105	$ 9,390
Percent of total	45.1 %	27.9 %	25.9 %	1.1 %	100.0 %

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

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

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

Real Estate Capital professionals are located in select markets across the country and provide financial services for public and private owners, investors and developers of nonowner-occupied commercial real estate properties. In addition to direct loans, this business unit is a Fannie Mae Delegated Underwriter and Servicer, Freddie Mac Program Plus Seller/Servicer and FHA-approved mortgagee. KeyBank Real Estate Capital is also one of the nation s largest and highest rated commercial mortgage servicers. Figure 20, which appears later in this report in the Loans and loans held for sale section, shows the diversity of our commercial real estate lending business based on industry type and location.

Corporate Banking Services provides cash management, interest rate derivatives, and foreign exchange products and services to existing clients. Through its Public Sector and Financial Institutions businesses, Corporate Banking Services also provides a full array of commercial banking products and services to government and not-for-profit entities and to community banks. A variety of cash management services are provided through the Global Treasury Management unit.

Equipment Finance is one of the largest bank-based equipment finance providers based in the U.S. This business unit meets the equipment financing needs of companies worldwide and provides equipment manufacturers, distributors and resellers with a platform and funding options for their clients. Equipment finance specializes in the technology, healthcare, and renewable energy markets as well as the finance needs related to other capital assets.

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

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

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

The products and services offered by our Key Community Bank and Key Corporate Bank segments are described further in this report in Note 21 (Line of Business Results).

Table of Contents

Additional Information

A comprehensive list of acronyms and abbreviations used throughout this report is included in Note 1 (Summary of Significant Accounting Policies) in Item 8 of this report.

The following financial data is included in this report in the MD&A and Item 8. Financial Statements and Supplementary Data are incorporated herein by reference as indicated below:

Description of Financial Data	Page(s)
Selected Financial Data	37
Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates From Continuing Operations	47-48
Components of Net Interest Income Changes from Continuing Operations	49
Composition of Loans	59
Remaining Maturities and Sensitivity of Certain Loans to Changes in Interest Rates	67
Securities Available for Sale	69
Held-to-Maturity Securities	69
Maturity Distribution of Time Deposits of $100,000 or More	71
Allocation of the Allowance for Loan and Lease Losses	89
Summary of Loan and Lease Loss Experience from Continuing Operations	91
Summary of Nonperforming Assets and Past Due Loans from Continuing Operations	92
Exit Loan Portfolio from Continuing Operations	93
Summary of Changes in Nonperforming Loans from Continuing Operations	94
Short-Term Borrowings	172

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, and the investor relations section of our website may be reached through www.Key.com/ir. We make available free of charge, on or through the investor relations links on 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 U.S. 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 of 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 Management Committee; our Corporate Governance Guidelines; the Code of Ethics governing our directors, officers and employees; our Standards for Determining Independence of Directors; and our Limitation on Luxury Expenditures Policy. 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.

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-01-27-1113, Cleveland, Ohio 44114-1306; by calling (216) 689-3000; or by sending an e-mail to investor_relations@keybank.com.

Acquisitions and Divestitures

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

Table of Contents

Competition

The market for banking and related financial services is highly competitive. KeyCorp and its subsidiaries (Key) compete 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 and national institutions that offer financial services. Many of our competitors enjoy fewer regulatory constraints and some may have lower cost structures. The financial services industry is likely to become more competitive as further technology advances enable more 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.

In recent years, mergers and acquisitions have led to greater concentration in the banking industry, placing added competitive pressure on Key s core banking products and services. Consolidation continued during 2011 and led to redistribution of deposits and certain banking assets to larger financial institutions, including through the Federal Deposit Insurance Corporation (the FDIC) least cost resolution process, albeit at a slower pace than 2010. Financial institutions with liquidity challenges sought mergers and the deposits and certain banking assets of the 157 banks that failed during 2010, representing $96.7 billion in total assets, were redistributed through the FDIC s least-cost resolution process.

Supervision and Regulation

The following discussion addresses elements of the regulatory framework applicable to bank holding companies, financial holding companies and banks and provides certain specific information regarding material elements of the regulatory framework applicable to us. This regulatory framework is intended primarily to protect customers and depositors, the Deposit Insurance Fund (the DIF) of the FDIC and the banking system as a whole, rather than for the protection of security holders and creditors. As described in detail in Item 1A: Risk Factors, comprehensive reform of the legislative and regulatory environment occurred in 2010 and remains ongoing due to the passage of the Dodd-Frank Act. We cannot predict changes in the applicable laws, regulations and regulatory agency policies, yet such changes may have a material effect on our business, financial condition or results of operations.

General

As a bank holding company, KeyCorp is subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve System (the Federal Reserve) under the BHCA. Pursuant to the BHCA, bank holding companies may not, in general, directly or indirectly acquire the ownership or control of more than 5% of the voting shares, or substantially all of the assets, of any bank, without the prior approval of the Federal Reserve. In addition, bank holding companies are generally prohibited from engaging in commercial or industrial activities.

Under the Dodd-Frank Act and long-standing Federal Reserve policy, a bank holding company is expected to serve as a source of financial and managerial strength to each of its subsidiary banks and, under appropriate circumstances, to commit resources to support each such subsidiary bank. This support may be required at a time when we may not have the resources to, or would choose not to, provide it. Certain loans by a bank holding company 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 event of a bankruptcy, any commitment by a bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Federal law also establishes a system of functional regulation under which the Federal Reserve is the umbrella regulator for bank holding companies, but bank holding company affiliates are principally regulated by

functional regulators such as the Office of the Comptroller of the Currency (OCC) for national banks, the SEC for securities affiliates and state insurance regulators for insurance affiliates. Certain specific activities, including traditional bank trust and fiduciary activities, may be conducted in the bank without the bank being deemed a broker or a dealer in securities for purposes of 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, 2011, we operated one full-service, FDIC-insured national bank subsidiary, KeyBank, and one national bank subsidiary whose activities are limited to those of a fiduciary. On January 17, 2012, we opened another national bank subsidiary; its activities are limited to those of a fiduciary. The FDIC also has certain regulatory and supervisory authority over KeyBank and KeyCorp under the Federal Deposit Insurance Act, as amended (the FDIA), because domestic deposits in KeyBank are insured (up to applicable limits) and certain debt obligations of KeyBank and KeyCorp are guaranteed until maturity by the FDIC.

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. Our brokerage and asset management subsidiaries are subject to supervision and regulation by the SEC, the Financial Industry Regulatory Authority 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.

Capital

Dividend Restrictions

Federal banking law and regulations impose limitations on the payment of dividends by our national bank subsidiaries. Historically, dividends paid to us by KeyBank have been an important source of cash flow for KeyCorp to pay dividends on its equity securities and interest on its debt. 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, 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, unless the national bank obtains the approval of the OCC. Under the undivided profits test, a dividend may not be paid in excess of a bank s undivided profits. During 2008, 2009 and 2010, and the first three quarters of 2011, KeyBank did not pay any dividends to us, and non-bank subsidiaries paid $25 million in dividends during 2010 and $45 million in dividends during 2011. During the fourth quarter of 2011, KeyBank paid $300 million in dividends to us. At January 1, 2012, KeyBank has capacity to pay $1.3 billion in dividends to KeyCorp under the applicable supervisory guidance tests. At December 31, 2011, we held $2.1 billion in short-term investments, which can be used to pay dividends, service debt and finance operations.

If, in the opinion of a federal banking agency, a banking organization, including KeyCorp and KeyBank, under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the institution, could include the payment of dividends), the agency may require that such institution cease and desist from such practice.

Capital Assessment and Review of Capital Actions

The Federal Reserve has issued supervisory guidance and published a capital plans final rule requiring bank holding companies with $50 billion or more in assets, such as KeyCorp, to consult with the Federal Reserve staff before taking actions, such as increasing dividends, implementing common stock repurchase programs, or redeeming or repurchasing capital instruments. Such guidance and final rule provide for a Comprehensive

Table of Contents

Capital Analysis and Review (CCAR), including a supervisory capital assessment review, and outlines the Federal Reserve s expectations concerning the processes that such bank holding companies should have in place to ensure they hold adequate capital under adverse conditions to maintain ready access to funding. The procedures require the implementation of a comprehensive capital plan and demonstration that the bank holding company will meet the Basel III regulatory capital standards, including the Basel III fully-phased in 7% tier 1 common equity target after giving effect to proposed dividend increases or other capital actions. KeyCorp is currently undergoing a capital assessment review pursuant to the supervisory program.

Regulatory Capital Standards

Federal banking regulators have promulgated risk-based and leverage capital guidelines applicable to bank holding companies and their bank subsidiaries. Adequacy of regulatory capital is assessed periodically by the federal banking agencies in the examination and supervision process, and in the evaluation of applications in connection with specific transactions and activities, including acquisitions, expansion of existing activities and commencement of new activities.

Under the risk-based capital requirements, KeyCorp and its bank subsidiaries are each generally required to maintain a minimum ratio of total capital to risk-weighted assets (which include certain off-balance sheet assets, such as standby letters of credit) of 8%. At least half of the total capital must be composed of common shareholders equity excluding the over- or underfunded status of post-retirement benefit obligations, unrealized gains or losses on debt securities available for sale, unrealized gains on equity securities available for sale, and unrealized gains or losses on cash flow hedges, net of deferred income taxes; plus certain mandatorily redeemable equity investments. This is called Tier 1 capital. The remainder may consist of qualifying subordinated debt, certain hybrid capital instruments, qualifying preferred stock and a limited amount of the allowance for credit losses. This is called Tier 2 capital. Each of the federal banking regulatory agencies, including the Federal Reserve, the OCC, and the FDIC, also have established minimum leverage capital requirements for banking organizations. The leverage ratio is defined as Tier 1 capital divided by adjusted average total assets. The minimum leverage ratio is currently 3% for bank holding companies that are considered strong under the Federal Reserve Board s guidelines or which have implemented the Federal Reserve Board s risk-based capital measure for market risk. Other bank holding companies must have a minimum leverage ratio of 4%. Bank holding companies may be expected to maintain ratios well above the minimum levels, depending upon their particular condition, risk profile or growth plans. At December 31, 2011, Key had regulatory capital in excess of all minimum leverage capital requirements, and satisfied the CCAR requirements set forth in supervisory guidance.

As part of the Dodd-Frank Act, federal banking agencies are required to develop capital requirements that address systemically risky activities. The effect of these capital rules will disallow trust preferred securities from counting as Tier 1 capital at the holding company level for entities with greater than $15 billion in assets with a three- year phase-in period beginning on January 1, 2013.

Bank holding companies with securities and commodities trading activities that exceed specified levels are required to maintain capital for market risk. Market risk includes changes in the market value of trading account, foreign exchange and commodity positions, whether resulting from broad market movements (such as changes in the general level of interest rates, equity prices, foreign exchange rates or commodity prices) or from position specific factors (such as idiosyncratic variation, event risk and default risk).

Prompt Corrective Action

The FDIA requires the relevant federal banking regulator to take prompt corrective action with respect to a depository institution if that institution does not meet certain capital adequacy standards. FDIC-insured depository institutions are grouped into one of five prompt corrective action capital categories well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically

Table of Contents

undercapitalized using the Tier 1 risk-based, total risk-based, and Tier 1 leverage capital ratios as the relevant capital measures. An institution is considered well-capitalized if it has a total risk-based capital ratio of at least 10.00%, a Tier 1 risk-based capital ratio of at least 6.00% and a Tier 1 leverage capital ratio of at least 5.00% and is not subject to any written agreement, order or capital directive to meet and maintain a specific capital level for any capital measure. At December 31, 2011, KeyBank was well-capitalized under the prompt corrective action standards. Federal law also requires that the bank regulatory agencies implement systems for prompt corrective action for institutions that fail to meet minimum capital requirements within the five capital categories, with progressively more restrictions on operations, management and capital distributions.

The regulations apply only to banks and not to bank holding companies, such as KeyCorp. However, the Federal Reserve is authorized to take appropriate action against the bank holding company based on the undercapitalized status of any bank subsidiary. In certain instances, the bank holding company would be required to guarantee the performance of the capital restoration plan for its undercapitalized subsidiary. If such categories applied to bank holding companies, we believe that KeyCorp would satisfy the well-capitalized criteria at December 31, 2011. An institution s prompt corrective action capital category, however, may not constitute an accurate representation of the overall financial condition or prospects of the institution or parent bank holding company, and should be considered in conjunction with other available information regarding the financial condition and results of operations of the institution and its parent bank holding company.

Basel Accords

Overview

The current minimum risk-based capital requirements adopted by the U.S. federal banking agencies are based on a 1988 international accord (Basel I) that was developed by the Basel Committee on Banking Supervision (the Basel Committee). In 2004, the Basel Committee published a new capital framework document (Basel II) governing the capital adequacy of large, internationally active banking organizations that generally rely on sophisticated risk management and measurement systems. Basel II is designed to create incentives for these organizations to improve their risk measurement and management processes and to better align minimum capital requirements with the risks underlying their activities.

Basel II adopts a three-pillar framework for addressing capital adequacy minimum capital requirements, supervisory review, and market discipline. In December 2007, U.S. federal banking regulators issued a final rule for Basel II implementation, requiring banks with over $250 billion in consolidated total assets or on-balance sheet foreign exposure of $10 billion (core banks) to adopt the advanced approach of Basel II while allowing other institutions to elect to opt-in. Currently, neither KeyCorp nor KeyBank is required to apply this final rule.

Basel III Capital Framework

In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation (Basel III). Basel III is a comprehensive set of reform measures designed to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to improve the banking sector s ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance, and strengthen banks transparency and disclosures. Basel III requires higher and better-quality capital, better risk coverage, the introduction of a new leverage ratio as a backstop to the risk-based requirement, measures to promote the build up of capital that can be drawn down in periods of stress, and the introduction of two global liquidity standards.

The Basel III final capital framework, among other things, introduces as a new capital measure, Tier 1 common equity, and specifies that Tier 1 capital consists of Tier 1 common equity and additional Tier 1 capital instruments meeting specified requirements.

Table of Contents

The implementation of the Basel III final capital framework will commence January 1, 2013 and be fully phased-in on January 1, 2019. Beginning January 2013, banks with regulators adopting these standards in full would be required to meet the following minimum capital ratios 3.5% common equity Tier 1 to risk-weighted assets, 4.5% Tier 1 capital to risk-weighted assets, and 8.0% total capital to risk-weighted assets. The implementation of a capital conservation buffer, effectively raising the minimum capital requirements, will begin on January 1, 2016 at 0.625% and be phased-in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

When fully phased-in on January 1, 2019, the Basel III capital framework will require banks to maintain: (a) a minimum ratio of Tier 1 common equity to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer ; (b) a Tier 1 capital to risk-weighted assets ratio of at least 6%, plus the capital conservation buffer; (c) a minimum ratio of total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and (d) a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (as the average for each quarter of the month-end ratios for the quarter). Thus, when the capital conservation buffer is fully phased-in, minimum ratios will effectively be: 7% for Tier 1 common equity, 8.5% for Tier 1 capital and 10.5% for total capital, with the 3% leverage ratio being maintained. At December 31, 2011, we had a Tier 1 common equity ratio of 11.26% under current Basel I. Basel III also provides for a countercyclical capital buffer, generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a common equity Tier 1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented (potentially resulting in total buffers of between 2.5% and 5%).

The Basel III final framework provides for a number of adjustments to, including new deductions from, Tier 1 capital. These include, for example, the inclusion of the mark to market on the available for sale investment securities portfolio, the deduction of the defined pension benefit asset, the deduction of certain deferred tax assets, and the requirement that mortgage servicing rights and significant investments in non-consolidated financial entities be deducted from Tier 1 common equity to the extent that any one such category exceeds 10% of Tier 1 common equity or all such categories in the aggregate exceed 15% of Tier 1 common equity. Implementation of the adjustments and new deductions from Tier 1 common equity will begin on January 1, 2014 and will be phased-in over a five-year period (20% per year).

On January 13, 2011, the Basel Committee issued its final minimum requirements to ensure loss absorbency at the point of non-viability document. It requires that all non-common Tier 1 and Tier 2 instruments (e.g., non-cumulative perpetual preferred stock and subordinated debt) issued by an internationally active bank must have a provision that such instruments, at the option of the relevant regulator, are to either be written-off or converted into common equity upon the occurrence of certain trigger events. The final loss absorbency requirements specify that instruments issued on or after January 1, 2013, must meet the new criteria to be included in regulatory capital. Instruments issued prior to January 1, 2013, that do not meet the criteria, but that meet all of the entry criteria for additional Tier 1 or Tier 2 capital, will be considered as instruments that no longer qualify as additional Tier 1 or Tier 2 capital and will be phased out from January 1, 2013 in accordance with the Basel III framework. These provisions are similar to the concept set forth in the Dodd-Frank Act of phasing out trust preferred securities, cumulative preferred securities and certain other securities as Tier 1 capital over a three-year period beginning January 1, 2013, as well as the application of similar capital standards to BHCs as are currently applied to depository institutions. In connection with a rulemaking published in the Federal Register in January 2012, the Federal Reserve indicated that it is in the process of developing a rulemaking with other agencies to implement Basel III. Accordingly, a notice of proposed rulemaking is expected during the first half of 2012. Given our strong capital position, we expect to be able to satisfy the Basel III capital framework when corresponding U.S. capital regulations are finalized.

Basel III Liquidity Framework

The final Basel III liquidity framework requires banks to comply with two measures of liquidity risk exposure:

- the liquidity coverage ratio, based on a 30-day time horizon and calculated as the ratio of the stock of high-quality liquid assets divided by total net cash outflows over the next 30 calendar days, which must be at least 100%; and

- the net stable funding ratio, calculated as the ratio of the available amount of stable funding divided by the required amount of stable funding, which must be at least 100%.

Each of the components of these ratios is defined, and the ratio calculated, in accordance with detailed requirements in the Basel III liquidity framework. Although the Basel Committee has not asked for additional comment on these ratios, both are subject to observation periods and transitional arrangements. The Basel III liquidity framework provides specifically that revisions to the liquidity coverage ratio will be made by mid-2013, with such ratio being introduced as a requirement on January 1, 2015, revisions to the net stable funding ratio will be made by mid-2016, and the net stable funding ratio will be introduced as a requirement on January 1, 2018.

The Federal Reserve is expected to publish in the first-half of 2012 a notice of proposed rulemaking for the implementation of the Basel III liquidity framework. While we have a strong liquidity position, the Basel III liquidity framework could require us and other U.S. banks to initiate additional liquidity management initiatives, including adding additional liquid assets, issuing term debt, and modifying our product pricing for loans, commitments, and deposits. U.S. regulators have indicated that they may elect to make certain refinements to the Basel III liquidity framework. Accordingly, at this point it is premature to assess its impact.

Federal Deposit Insurance Act

Deposit Insurance

The FDIC s DIF provides insurance coverage for certain deposits, which insurance is funded through assessments on banks, like KeyBank. During the period of 2007-2010, higher bank failures dramatically increased resolution costs of the FDIC and depleted the DIF. Pursuant to the Dodd-Frank Act, the amount of deposit insurance coverage for deposits increased permanently from $100,000 to $250,000 per depository, and the coverage of non-interest bearing demand deposit accounts is unlimited, effective from December 31, 2010 to December 31, 2012.

Deposit Insurance Assessments

Substantially all of KeyBank s domestic deposits are insured up to applicable limits by the FDIC. The FDIC assesses an insured depository institution an amount for deposit insurance premiums. The Dodd-Frank Act required the FDIC to change the assessment base from domestic deposits to average consolidated total assets minus average tangible equity, and requires the DIF reserve ratio to increase to 1.35% by September 30, 2020. Under the final rule, which was effective on April 1, 2011, KeyBank s annualized deposit insurance premium assessments ranged from $.025 to $.45 for each $100 of its new assessment base, depending on its new scorecard performance factors that will incorporate KeyBank s regulatory rating, ability to withstand asset and funding related stress, and relative magnitude of potential losses to the FDIC in the event of KeyBank s failure. We estimate that our 2012 expense for deposit insurance assessments will be $45 million to $60 million.

Conservatorship and Receivership of Institutions

Upon the insolvency of an insured depository institution, the FDIC will be appointed the conservator or receiver under the FDIA. In such an insolvency, the FDIC may repudiate or disaffirm any contract to which such

Table of Contents

institution is a party if the FDIC determines that performance of the contract would be burdensome, and that disaffirmance or repudiation of the contract would promote the orderly administration of the institution s affairs. Such disaffirmance or repudiation would result in a claim by the other party to the contract against the receivership or conservatorship. The amount paid upon such claim would depend upon, among other factors, the amount of receivership assets available for the payment of such claim and the priority of the claim relative to the priority of others. In addition, the FDIC as conservator or receiver may enforce most contracts entered into by the institution notwithstanding any provision regarding termination, default, acceleration, or exercise of rights upon or solely by reason of insolvency of the institution, appointment of a conservator or receiver for the institution, or exercise of rights or powers by a conservator or receiver for the institution. The FDIC as conservator or receiver also may transfer any asset or liability of the institution without obtaining any approval or consent of the institution s shareholders or creditors.

The above provisions would be applicable to obligations and liabilities of Key s bank subsidiaries that are insured depository institutions, such as KeyBank, including, without limitation, obligations under senior or subordinated debt issued by those banks to investors in the public markets.

Under the Dodd-Frank Act, the FDIC may be appointed receiver to conduct an orderly liquidation of a systemically important financial institution. The FDIC has adopted certain rules to implement its orderly liquidation authority. As KeyCorp has over $50 billion in assets, we are subject to these requirements.

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 by the FDIC as subrogee of insured depositors) and certain claims for administrative expenses of the FDIC as receiver would be afforded a priority over other general unsecured claims against such an institution. If an insured depository institution fails, insured and uninsured depositors along with the FDIC will be placed ahead of unsecured, nondeposit creditors, including a parent holding company, such as KeyCorp, and subordinated creditors, in order of priority of payment.

The Bank Secrecy Act

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

Bank Transactions with Affiliates

Federal banking law and the regulations promulgated thereunder impose qualitative standards and quantitative limitations upon certain transactions by a bank with its affiliates. Transactions covered by these provisions must be on arm s length terms, and cannot exceed certain amounts, 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. These provisions materially restrict the ability of KeyBank, as a bank, to fund its affiliates, including KeyCorp, KeyBanc Capital Markets Inc., any of the Victory mutual funds, and KeyCorp s nonbanking subsidiaries engaged in making merchant banking investments.

ITEM 1A. RISK FACTORS

An investment in our Common Shares or other securities is subject to risks inherent to our business and our industry. Described below are certain risks and uncertainties, the occurrence of which could have a material and

adverse effect on us. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones we face. Although we have significant risk management policies, procedures and practices aimed at mitigating these risks, uncertainties may nevertheless impair our business operations. This report is qualified in its entirety by these risk factors.

IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCUR, OUR BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS, AND/OR ACCESS TO LIQUIDITY AND/OR CREDIT COULD BE MATERIALLY AND ADVERSELY AFFECTED (MATERIAL ADVERSE EFFECT ON US). IF THIS WERE TO HAPPEN, THE VALUE OF OUR SECURITIES COMMON SHARES, SERIES A PREFERRED STOCK, TRUST PREFERRED SECURITIES AND DEBT SECURITIES COULD DECLINE, PERHAPS SIGNIFICANTLY, AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT.

Our enterprise risk management program (the ERM program) identifies Key s major risk categories, including: market, compliance, credit, liquidity, and operational, together with reputation and strategic risks as they relate to the foregoing. The following risk factors are grouped into categories consistent with the five preceding main categories of risk focused on in our ERM program, with an additional category for risks related to investment in our Common Shares.

I. Market Risks

The global financial markets continue to be strained as a result of the economic slowdown abroad and concerns about the creditworthiness of member states of the European Union. These factors could have international implications, which could hinder the U.S. economic recovery and affect the stability of global financial markets.

Certain European Union member states have fiscal obligations greater than their fiscal revenue, which has caused investor concern over such countries ability to continue to service their debt and foster economic growth in their economies. During 2011, the European debt crisis caused spreads to widen in the fixed income debt markets and liquidity to be less abundant. The European debt crisis and measures adopted to address it have significantly weakened European economies. A weaker European economy may cause investors to lose confidence in the safety and soundness of European financial institutions and the stability of European member economies. A failure to adequately address sovereign debt concerns in Europe could hamper economic recovery or contribute to recessionary economic conditions and severe stress in the financial markets, including in the United States. Should the U.S. economic recovery be adversely impacted by these factors, the likelihood for loan and asset growth at U.S. financial institutions, like Key, would deteriorate.

The U.S. economy remains vulnerable as the economic recovery continues to progress slowly.

The recovery of the U.S. economy continues to progress slowly with improvement expected to continue gradually into 2012 and 2013, according to the Federal Open Market Committee (the FOMC). Certain downside risks to the U.S. economy remain present. Strains in the global financial markets pose significant downside risk to the U.S. economy. Unemployment, the slowing pace of business fixed investment, and the depressed housing sector are additional factors of concern. The U.S. economy could also be affected by the slowdown in economic activity abroad often related to fiscal tightening and the significant fiscal challenges that remain for local governments in the U.S. The continuation or worsening of these factors could weaken the U.S. economic recovery underway. The downgrade of U.S. Treasury securities by Standard & Poor s Ratings Services (S&P) and political difficulties in addressing the economy within the U.S. government have contributed to high levels of volatility in the financial markets. Should economic indicators deteriorate, the U.S. could face another recession, which could affect us in a variety of substantial and unpredictable ways as well as affect our borrowers ability to meet their repayment obligations. We have taken steps since the 2008-2009 financial crisis to strengthen our liquidity position. Nevertheless, a return of the volatile economic

conditions recently experienced, including the adverse conditions in the fixed income debt markets, for an extended period of time, particularly if left unmitigated by policy measures, may have a Material Adverse Effect on Us.

We are subject to interest rate risk, which could adversely affect our earnings on loans and other interest-earning assets.

Our earnings and cash flows 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 and, in particular, the Federal Reserve. Changes in monetary policy, including changes in interest rates, could influence not only the amount of interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also affect our ability to originate loans and obtain deposits as well as 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, could be adversely affected. 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. We use simulation analysis to produce an estimate of interest rate exposure based on assumptions and judgments related to balance sheet changes, customer behavior, new products, new business volume, product pricing, competitor behavior, the behavior of market interest rates and anticipated hedging activities. Simulation analysis involves a high degree of subjectivity and requires estimates of future risks and trends. Accordingly, there can be no assurance that actual results will not differ from those derived in simulation analysis due to the timing, magnitude and frequency of interest rate changes, actual hedging strategies employed, changes in balance sheet composition, and the possible effects of unanticipated or unknown events.

Although we believe that we have implemented effective asset and liability management strategies, including simulation analysis and the use of interest rate derivatives as hedging instruments, to reduce the potential effects of changes in interest rates on our results of operations, any substantial, unexpected and/or prolonged change in market interest rates could have a Material Adverse Effect on Us.

II. Compliance Risks

The regulatory environment for the financial services industry is being significantly impacted by the financial regulatory reform initiatives in the United States, including the Dodd-Frank Act and the regulations promulgated thereunder.

The United States as well as other governments have undertaken major reforms of the regulatory oversight structure of the financial services industry. We expect to face increased regulation of our industry as a result of current and future initiatives intended to provide economic stimulus, financial market stability, and enhance the liquidity and solvency of financial institutions, and new efforts designed to protect consumers and investors from financial abuse. We also expect more intense scrutiny from our bank supervisors in the examination process and more aggressive enforcement of regulations on both the federal and state levels, particularly due to both KeyBank s and KeyCorp s status as covered institutions for the enhanced prudential standards promulgated under the Dodd-Frank Act. Compliance with these new regulations and supervisory initiatives will likely increase our cost and reduce our revenue and may limit our ability to pursue certain desirable business opportunities.

Many parts of the Dodd-Frank Act are now in effect, while others are in an implementation stage likely to continue for several years. The law requires that regulators, some of which are new regulatory bodies created by the Dodd-Frank Act, draft, review and approve more than 300 implementing regulations and conduct numerous studies that are likely to lead to more regulations, thus extending the uncertainty surrounding the ultimate impact of the Dodd-Frank Act on us.

Table of Contents

A number of reform provisions are likely to significantly impact the ways in which banks and bank holding companies, including Key, conduct their business:

The newly created regulatory bodies include the Bureau of Consumer Financial Protection (the CFPB) and the Financial Stability Oversight Council (the FSOC). The CFPB has been given authority to regulate consumer financial products and services sold by banks and non-bank companies and to supervise banks with assets of more than $10 billion and their affiliates for compliance with Federal consumer protection laws. Any new regulatory requirements promulgated by the CFPB could require changes to our consumer businesses, result in increased compliance costs and affect the streams of revenue of such businesses. The FSOC has been charged with identifying systemic risks, promoting stronger financial regulation and identifying those non-bank companies that are systemically important and thus should be subject to regulation by the Federal Reserve. In addition, in extraordinary cases and together with the Federal Reserve, the FSOC could break up financial firms that are deemed to present a grave threat to the financial stability of the United States.

The Dodd-Frank Act Volcker Rule provisions prohibit banks from engaging in certain types of proprietary trading. The scope of the proprietary trading prohibition, and its impact on Key, will depend on the definitions in the final rule, particularly those definitions related to statutory exemptions for risk-mitigating hedging activities; market-making; and customer-related activities.

The Volcker Rule and the rulemakings promulgated thereunder are also expected to restrict private equity and hedge fund activities. Our principal investments and real estate capital lines of business hold certain investments representing in aggregate $538 million ($473 million and $65 million, respectively) that we expect may be subject to certain limitations under the Volcker Rule. Under the proposed rulemaking announced on October 11, 2011, we expect to be able to hold these investments until July 2014 with no restriction, and be eligible to obtain up to three one-year extension periods, subject to regulatory approvals. A forced sale of some of these investments could result in Key receiving less value than it would otherwise have received. Depending on the provisions of the final rule, it is possible that other structures through which Key conducts business but that are not typically referred to as private equity or hedge funds could be restricted, with an impact that cannot be evaluated.

Pursuant to certain provisions of the Dodd-Frank Act, the Federal Reserve promulgated Regulation II, Debit Card Interchange Fees and Routing (Regulation II), which limits debit card interchange fees, eliminates exclusivity arrangements between issuers and networks for debit card transactions, and imposes limits for restrictions on merchant discounting for the use of certain payment forms and minimum or maximum amount thresholds as a condition for acceptance of credit cards. The relevant portions of Regulation II became effective October 1, 2011. Assuming interchange fees are set at the maximum allowable under Regulation II and we receive the fraud adjustment, we estimate that the impact on our debit interchange revenue stream will be an annualized decline of approximately $50 million to $60 million before any potential offsets from other fees or cost mitigation that may be implemented.

New provisions under the Dodd-Frank Act concerning the applicability of state consumer protection laws to national banks, such as KeyBank, became effective on July 21, 2011. Questions may arise as to whether certain state consumer financial laws that may have previously been preempted by federal law are no longer preempted as a result of the effectiveness of these new provisions. Depending on how such questions are resolved, we may experience an increase in state-level regulation of our retail banking business and additional compliance obligations, revenue impacts and costs. Provisions under the Dodd-Frank Act that also took effect on July 21, 2011, permit state attorneys general to bring civil actions against national banks, such as KeyBank, for violations of regulations issued by the CFPB.

The FDIC and the Federal Reserve have adopted a final rule that requires bank holding companies that have $50 billion or more in assets, like KeyCorp, to periodically submit to the Federal Reserve, the FDIC and the

FSOC a plan discussing how the company could be resolved in a rapid and orderly fashion if the company were to fail or experience material financial distress. In a related rulemaking, the FDIC adopted a final rule that requires insured depository institutions with $50 billion or more in assets, like KeyBank, to prepare and submit a resolution plan to the FDIC. The initial plans for KeyCorp and KeyBank are due December 31, 2013. KeyCorp and KeyBank will be required to submit updated plans annually thereafter. The Federal Reserve and the FDIC may jointly impose restrictions on KeyCorp or KeyBank, including additional capital requirements or limitations on growth, if the agencies determine that the institution s plan is not credible or would not facilitate a rapid and orderly resolution of KeyCorp under the U.S. Bankruptcy Code, or KeyBank under the FDIA, and additionally could require Key to divest assets or take other actions if we did not submit an acceptable resolution within two years after any such restrictions were imposed.

Key is a significant servicer of commercial mortgages held by others, including securitization vehicles. Key anticipates that the Dodd-Frank Act risk retention requirements will impact the market for loans of types that historically have been securitized, potentially affecting the volumes of loans securitized, the types of loan products made available, the terms on which loans are offered, consumer and business demand for loans, and the need for third party loan servicers. The risk retention rules themselves could have the effect of slowing the rebound in the securitization markets and, as a result, may impact the willingness of banks, including KeyBank, to make loans due to balance sheet management requirements.

Dodd-Frank imposes a new regulatory regime on the U.S. derivatives markets. While some of the provisions related to derivatives markets went into effect on July 16, 2011, most of the new requirements await final regulations from the relevant regulatory agencies for derivatives, the Commodities Futures Trading Commission (CFTC) and the SEC. One aspect of this new regulatory regime for derivatives is that substantial oversight responsibility has been provided to the CFTC, which, as a result, will for the first time have a meaningful supervisory role with respect to some of Key s businesses. Although the ultimate impact will depend on the final regulations, Key expects that its derivatives business will likely be subject to new substantive requirements, including registration with the CFTC, margin requirements in excess of current market practice, capital requirements specific to this business, real time trade reporting and robust record keeping requirements, business conduct requirements (including daily valuations, disclosure of material risks associated with swaps and disclosure of material incentives and conflicts of interest), and mandatory clearing and exchange trading of all standardized swaps designated by the relevant regulatory agencies as required to be cleared. These requirements will collectively impose implementation and ongoing compliance burdens on Key and will introduce additional legal risk (including as a result of newly applicable antifraud and antimanipulation provisions and private rights of action). Depending on the final rules that relate to our swaps businesses, the nature and extent of those businesses may change.

Financial institutions may be required, regardless of risk, to pay taxes or other fees to the U.S. Treasury. Such taxes or other fees could be designed to reimburse the U.S. Treasury for the many government programs and initiatives it has taken or may undertake as part of its economic stimulus efforts.

It is clear that the reforms, both under the Dodd-Frank Act and otherwise, will have a significant effect on our entire industry. Although it is difficult to predict the magnitude and extent of these effects at this stage, we believe compliance with the Dodd-Frank Act and its implementing regulations and other initiatives will likely negatively impact revenue and increase the cost of doing business, both in terms of transition expenses and on an ongoing basis, and may also limit our ability to pursue certain desirable business opportunities. Any new regulatory requirements or changes to existing requirements could require changes to our businesses, result in increased compliance costs and affect the profitability of such businesses. Additionally, reform could affect the behaviors of third parties that we deal with in the course of our business, such as rating agencies, insurance companies and investors. Heightened regulatory practices, requirements or expectations resulting from the Dodd- Frank Act and the rules promulgated thereunder could affect us in substantial and unpredictable ways, and, in turn, could have a Material Adverse Effect on Us.

Table of Contents

We are subject to extensive government regulation and supervision.

We are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors funds, the DIF and the banking system as a whole, not shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy, ability to repurchase our Common Shares, and growth, among other things.

Changes to statutes, regulations or regulatory policies; changes in the interpretation or implementation of statutes, regulations or policies; and/or continuing to become subject to heightened regulatory practices, requirements or expectations, could affect us in substantial and unpredictable ways, and could have a Material Adverse Effect on Us. Such changes will subject us to additional costs, may limit the types of financial services and products that we may offer as well as the investments that we may make and the manner in which we operate our businesses. These changes may increase the ability of nonbanks to offer competing financial services and products and could make them more attractive alternatives to customers. Failure to appropriately comply with laws, regulations or policies (including internal policies and procedures designed to prevent such violations) could result in sanctions by regulatory agencies or self-regulatory organizations, civil money penalties, financial loss and/or reputation damage, which could have a Material Adverse Effect on Us.

Our controls and procedures may fail or be circumvented.

We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. We also maintain an ERM program. Any system of controls, 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. Any failure or circumvention of our controls and procedures or a failure to establish appropriate controls or to comply with regulations related to controls and procedures could have a Material Adverse Effect on Us.

III. **Credit Risks**

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

The fundamentals within the commercial real estate sector are improving but remain relatively weak, under continuing pressure by reduced asset values, high vacancies and reduced rents. Commercial real estate values peaked in the fall of 2007, after gaining approximately 30% since 2005 and 90% since 2001. According to Moody s Real Estate Analytics, LLC Commercial Property Index (November 2011), commercial real estate values were down 42% from their peak. A portion of our commercial real estate loans are construction loans. These properties are typically not fully leased at the origination of the loan, but the borrower may be reliant upon 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.

The U.S. economy remains highly vulnerable, and any reversal in broad macro trends would threaten the nascent 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, or not occur at all. These economic factors typically affect certain industries, such as real estate and financial services, more significantly. To illustrate this point, improvements in commercial real estate fundamentals typically lag broad economic recovery by 12 to 18 months. Our clients include entities 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. Should unemployment or real estate asset values fail to recover for an extended period of time, it could have a Material Adverse Effect on Us. Should fundamentals deteriorate as a result of further decline in asset values and the instability of rental income, it could have a Material Adverse Effect on Us.

Table of Contents

A failure to sustain reduced amounts of provision (credit) for loan and lease losses and provision (credit) for losses on lending-related commitments, which has benefitted results of operation in recent periods, could result in decreases in net income.

As was typical in the banking industry, the economic downturn that started in 2007 resulted in Key experiencing elevated levels of provision for loan and lease losses and provision for losses on lending-related commitments (Provision). In the quarters from the fourth quarter of 2008 through the second quarter of 2010, Key s Provision for credit losses ranged from $847 million to $218 million for such quarters. Subsequently, in part due to improvement in economic conditions, as well as actions taken by us to manage our portfolio, Key s Provision declined substantially and in some quarters was a negative Provision, reaching an inflection point in the third quarter of 2010 when a negative Provision of $88 million was recorded. This decline in the Provision has been a major contributor to our ability to maintain and grow our net income during this period. If our Provision were to rise back towards levels experienced during the height of the economic downturn, it would have an adverse effect on our net income and could result in lower levels of net income than we have reported in recent periods.

Declining asset prices could adversely affect us.

During the recent recession from December 2007 to June 2009, the volatility and disruption that the capital and credit markets experienced reached extreme levels. The severe market dislocations in 2008 led to the failure of several substantial financial institutions, causing widespread liquidation of assets and further constraining of 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. For example, a further recession would likely reverse recent positive trends in asset prices. These factors could have a Material Adverse Effect on Us.

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

We maintain an allowance for loan and lease losses, which is a reserve established through a provision for loan and lease losses charged to expense, that represents our estimate of losses within the existing portfolio of loans. The allowance is necessary to reserve for estimated loan and lease losses and risks incurred in the loan portfolio. 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 allowance for loan and lease losses 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 require an increase in the allowance for loan and lease losses. In addition, bank regulatory agencies periodically review our allowance for loan and lease losses and may require an increase in the provision for loan and lease losses or the recognition of further loan charge-offs, based on judgments that can differ somewhat from those of our own management. In addition, if charge-offs in future periods exceed the allowance for loan and lease losses (i.e., if the loan and lease allowance is inadequate), we will need additional loan and lease loss provisions to increase the allowance for loan and lease losses. Should such additional provisions become necessary, they would result in a decrease in net income and capital and may have a Material Adverse Effect on Us.

We are subject to credit risk, in the form of changes in interest rates and/or changes in the economic conditions in the markets where we operate, which changes could adversely affect us.

There are inherent risks associated with our lending and trading activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where we

operate. Increases in interest rates and/or further weakening of economic conditions caused by another recession or otherwise could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans.

As of December 31, 2011, approximately 70% 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. We closely monitor and manage risk concentrations and utilize various portfolio management practices to limit excessive concentrations when it is feasible to do so; however, our loan portfolio still contains a number of commercial loans with relatively large balances.

We also do business with environmentally sensitive industries and in connection with the development of Brownfield sites that provide appropriate business opportunities. We monitor and evaluate our borrowers for compliance with environmental-related covenants, which include covenants requiring compliance with applicable law. We take steps to mitigate risks; however, should political or other changes make it difficult for certain of our customers to maintain compliance with applicable covenants, our credit quality could be adversely affected. The deterioration of a larger loan or a group of our loans could cause a significant increase in nonperforming loans, which could 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, any of which could have a Material Adverse Effect on Us.

We also are subject to various laws and regulations that affect our lending activities. Failure to comply with applicable laws and regulations could subject us to regulatory enforcement action that could result in the assessment against us of civil money or other penalties, which could have a Material Adverse Effect on Us.

Our profitability depends significantly on economic conditions in the geographic regions in which we operate.

Our success depends primarily on economic conditions in the markets in which we operate. We have concentrations of loans and other business activities in geographic areas where our branches are located the Rocky Mountains and Northwest, the Great Lakes and the Northeast as well as potential exposure to geographic areas outside of our branch footprint. For example, the nonowner-occupied properties segment of our commercial real estate portfolio has exposures in markets outside of our footprint. Real estate values and cash flows have been negatively affected on a national basis due to weak economic conditions. Certain markets, such as Florida, southern California, Phoenix, Arizona, and Las Vegas, Nevada, experienced more significant deterioration during the recession; real estate values in these markets in particular remain depressed. The delinquencies, nonperforming loans and charge-offs that we have experienced since 2007 have been more heavily weighted to these specific markets. The regional economic conditions in areas in which we conduct our business have an impact on the demand for our products and services as well as the ability of our customers to repay loans, the value of the collateral securing loans and the stability of our deposit funding sources, and, in turn, may have a Material Adverse Effect on Us.

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 measure, monitor, and mitigate our counterparty risks to reduce the risk of these exposures. These measures include daily position measurement and reporting, the use of scenario analysis and stress testing, replacement cost estimation, risk mitigation strategies, and market feedback validation. Financial services institutions, however, are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. During 2008, Key incurred $54 million

Table of Contents

of derivative-related charges as a result of market disruption caused by the failure of Lehman Brothers. Another example of losses related to this type of risk are the losses associated with the Bernie Madoff ponzi scheme (Madoff ponzi scheme). As a result of the Madoff ponzi scheme, our investment subsidiary, Austin, determined that its funds had suffered investment losses up to $186 million.

Many of our routine transactions expose us to credit risk in the event of default of our counterparty or client. In addition, 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. It is not possible to anticipate all of these risks and it is not feasible to mitigate these risks completely. There can be no assurance that our ERM program will effectively mitigate these risks. In deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a negative impact on us. Accordingly, these factors could have a Material Adverse Effect on Us.

IV. Liquidity Risks

Capital requirements imposed by the Dodd-Frank Act, together with new capital and liquidity standards adopted by the Basel Committee, will result in banks and bank holding companies needing to maintain more and higher quality capital than has historically been the case.

New and evolving capital standards, both as a result of the Dodd-Frank Act and the implementation of new capital standards adopted by the Basel Committee, including the so-called Basel III accord, will have a significant effect on banks and bank holding companies, including Key. Basel III, among other things, narrows the definition of regulatory capital and establishes higher minimum risk-based capital ratios that, when fully phased-in, will require banking organizations, including Key, to maintain a minimum Tier 1 common ratio of 4.5%, a Tier 1 capital ratio of 6.0%, and a total capital ratio of 8.0%. A capital conservation buffer of 2.5% above each of these levels also is required, which potentially may be supplemented by an additional countercyclical capital buffer. In addition, Basel III introduces new short-term liquidity and term funding standards, as well as a newly-defined leverage ratio. The capital standards adopted by the Basel Committee and expected to be implemented in the United States increase the capital requirements for specific types of exposures and require that unconsolidated investments in financial entities, mortgage servicing rights, and certain types of deferred tax assets above certain thresholds be deducted from regulatory capital.

Implementation of the new Basel III capital and liquidity standards as well as any additional heightened capital or liquidity standards that may be established by the Federal Reserve under the Dodd-Frank Act remain subject to rulemaking in the U.S. and, in many cases, to extended observation and phase-in periods. As part of the implementation of Basel III, the Federal Reserve will promulgate rules providing for the phase-out of trust preferred securities as Tier 1 risk-based capital for purposes of the regulatory capital guidelines for bank holding companies, as required by the Dodd-Frank Act. Currently, our trust preferred securities represent 10.4% of our Tier 1 risk-based capital or $1.05 billion of Tier 1 risk-based capital. By comparison, our non-cumulative preferred equity and our Tier 1 common equity represent 2.9% and 86.7%, respectively, of our Tier 1 risk-based capital, as of December 31, 2011. The anticipated phase-out (as eligible Tier 1 risk-based capital) of our trust preferred securities will eventually result in us having less of a capital buffer above the well-capitalized regulatory standard of 6% of Tier 1 risk-based capital. The Federal Reserve has indicated that it may make revisions to the Basel III liquidity standards. The full effect of these standards on Key is uncertain at this time.

The need to maintain more and higher quality capital as well as greater liquidity going forward could limit our business activities, including lending, and our ability to expand, either organically or through acquisitions. It could also result in our taking steps to increase our capital that may be dilutive to shareholders or limit our ability

Table of Contents

to pay dividends or otherwise return capital to shareholders. In addition, the new liquidity standards could require us to increase our holdings of highly liquid short-term investments, thereby reducing our ability to invest in longer-term assets even if more desirable from a balance sheet management perspective. Moreover, although these new requirements are being phased in over time, U.S. Federal banking agencies have been taking into account expectations regarding the ability of banks to meet these new requirements, including under stressed conditions, in approving actions that represent uses of capital, such as dividend increases and share repurchases.

There can be no assurance that the legislation and other initiatives undertaken by the United States government to restore long-term liquidity and stability to the U.S. financial system and reform financial regulation in the U.S. will help stabilize the U.S. financial system.

Since 2008, the federal government has intervened in an unprecedented manner in an effort to provide stability and liquidity to the financial markets. The Federal Reserve is currently maintaining a variety of monetary policy measures to stabilize the economy; these policy measures have been maintained by the FOMC over the last few years as economic growth, unemployment and inflation have not been at levels mandated for the FOMC to achieve.

Market liquidity issues have been alleviated somewhat, but U.S. economic indicators continue to present challenges for overall growth at levels mandated for the FOMC to achieve, and the U.S. economy remains vulnerable. There can be no assurance regarding the actual impact that these government initiatives will have on the financial markets. The failure of the U.S. government programs to sufficiently contribute to financial market stability and put the U.S. economy on a stable path for an economic recovery could result in a worsening of current financial market conditions, which could have a Material Adverse Effect on Us. For example, during the liquidity crisis from late 2007 to 2009, regional financial institutions, like Key, faced difficulties issuing debt in the fixed income debt markets; these conditions could return and pose difficulties for the issuance of both medium-term note and long-term subordinated note issuances. In the event that any of the various forms of turmoil experienced in the financial markets return or become exacerbated, there may be a Material Adverse Effect on Us from (i) continued or accelerated disruption and volatility in financial markets, (ii) continued capital and liquidity concerns regarding financial institutions generally and our transaction counterparties specifically, (iii) limitations resulting from further governmental action to stabilize or provide additional regulation of the financial system, or (iv) further recessionary conditions.

We rely on dividends from our subsidiaries for most of our funds.

We are a legal entity separate and distinct from our subsidiaries. With the exception of cash raised from debt and equity issuances, we receive substantially all of our cash flow from dividends from our subsidiaries. These dividends are the principal source of funds to pay dividends on our equity securities and interest and principal on our debt. Federal banking law and regulations limit the amount of dividends that KeyBank (our largest subsidiary) and certain nonbank subsidiaries may pay to us. During 2008, 2009, 2010 and the first three quarters of 2011, KeyBank did not pay any dividends to us; nonbank subsidiaries paid us $25 million in dividends during 2010 and $45 million in dividends during 2011. During the fourth quarter of 2011, KeyBank paid $300 million in dividends to KeyCorp as it had sufficient capacity to pay dividends under its earnings retention test, which requires KeyBank to only pay dividends from retained earnings generated over the most recent two full years, plus the current year period. At January 1, 2012, KeyBank has capacity to pay $1.3 billion in dividends to KeyCorp under applicable supervisory guidance tests. For further information on the regulatory restrictions on the payment of dividends by KeyBank, see Supervision and Regulation Capital of this report.

Also, 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. 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. The inability to receive dividends from KeyBank could have a Material Adverse Effect on Us.

We are subject to changes in the financial markets which could adversely affect us.

Traditionally, market factors such as changes in foreign exchange rates; changes in interest rates, interest rate levels and credit spreads; changes in the equity markets; and changes in the financial soundness of bond insurers, sureties and other unrelated financial companies have the potential to affect current market values of financial instruments. During 2008, market events demonstrated this to an extreme. Between July 2007 and October 2009, conditions in the fixed income markets, specifically the wider credit spreads over benchmark U.S. Treasury securities for many fixed income securities, caused significant volatility in the market values of loans, securities, and certain other financial instruments that are held in our trading or held-for-sale portfolios. During the second half of 2010, credit spreads and availability of liquidity in the fixed income debt markets ameliorated with the conclusion of the recession and the beginning of the gradual recovery. As 2011 progressed, the European debt crisis caused credit spreads to widen and the availability of liquidity in the fixed income debt markets to be somewhat less abundant than during the second half of 2010. Opportunities to minimize the adverse affects of market changes are not always available. Substantial changes in the financial markets could have a Material Adverse Effect on Us.

Our credit ratings affect our liquidity position.

Our 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 which are not entirely within our control, such as conditions affecting the financial services industry and the economy. In light of the difficulties in the financial services industry, the financial markets and the economy, there can be no assurance that we will maintain our current ratings. On December 6, 2011, S&P announced a ratings review of 31 North American regional banks and their subsidiaries under its new bank ratings criteria announced November 9, 2011. S&P s updated its ratings outlook on both KeyCorp and KeyBank from Stable to Positive and maintained the ratings for KeyCorp and KeyBank. S&P s ratings for KeyCorp s short-term borrowings and senior long-term debt are A-2 and BBB+, respectively, and KeyBank s short-term borrowings, senior long-term debt and subordinated debt are rated A-2, A-, and BBB+, respectively.

In light of the various changes in the ratings methodologies underway as a result of the Dodd-Frank Act, there can be no assurance that we will maintain our current ratings. If the securities of KeyCorp and/or KeyBank suffer ratings downgrades, such downgrades 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, thereby reducing our ability to generate income. Downgrades of the credit ratings of securities, particularly if they are below investment-grade, could have a Material Adverse Effect on Us.

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

Market conditions or other events could negatively affect the level or cost of funding, affecting our ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, and fund asset growth and new business transactions at a reasonable cost, in a timely manner and without adverse consequences. Although we have implemented strategies to maintain sufficient and diverse sources of funding to accommodate planned as well as unanticipated changes in assets and liabilities under both normal and adverse conditions, any substantial, unexpected and/or prolonged change in the level or cost of liquidity could have a Material Adverse Effect on Us. Certain credit markets that we participate in and rely upon as sources of funding were significantly disrupted and volatile from the third quarter of 2007 through the third quarter of 2009. Credit markets have improved since then, and we have significantly reduced our reliance on wholesale funding sources. Part of our strategy to reduce liquidity risk involves promoting customer deposit growth, exiting certain noncore lending businesses, diversifying our funding base, maintaining a liquid asset portfolio, and strengthening our capital base to reduce our need for debt as a source of liquidity. Many of these disrupted markets have shown signs of

recovery throughout 2011. Nonetheless, if further market disruption or other factors reduce the cost effectiveness and/or the availability of supply in the credit markets for a prolonged period of time, should our funding needs necessitate it, we may need to expand our use of other potential means of accessing funding and managing liquidity such as generating client deposits, securitizing or selling loans, extending the maturity of wholesale borrowings, purchasing deposits from other banks, borrowing under certain secured wholesale facilities, and utilizing relationships developed with fixed income investors in a variety of markets, as well as increased management of loan growth and investment opportunities and other management tools. There can be no assurance that these alternative means of funding will be available; under certain stressed conditions experienced in the liquidity crisis during 2007-2009, some of these alternative means of funding were not available. Should these forms of funding become unavailable, it is unclear what impact, given current economic conditions, unavailability of such funding would have on us. A deep and prolonged disruption in the markets could have the effect of significantly restricting the accessibility of cost effective capital and funding, which could have a Material Adverse Effect on Us.

V. Operational Risks

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. These events include, among other things, threats to our cybersecurity, as we are reliant upon information systems and the internet to conduct certain of our business activities. 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. Additionally, some of our outsourcing arrangements are located overseas and, therefore, are subject to political risks unique to the regions in which they operate. Although we seek to mitigate operational risk through a system of internal controls, resulting losses from operational risk could take the form of explicit charges, increased operational costs, harm to our reputation or foregone opportunities, any and all of which could have a Material Adverse Effect on Us.

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

We rely heavily on communications and information systems (both internal and provided by third parties) to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if any does occur, that it will be adequately addressed. We also maintain commercially reasonable measures to ensure cybersecurity of our information systems. Other financial service institutions and companies have reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage systems, often through the introduction of computer viruses or malware, cyber attacks and other means.

Given the rapidly expanding and changing cybersecurity threat landscape that exists today, it is not commercially reasonable to expect that some sort of cybersecurity incident will never occur to Key or the systems of any third-party providers Key relies upon, including overseas providers. This is particularly true because the techniques used change frequently or are not recognized until launched and attacks can originate from a wide array of sources, including third parties outside the company, such as persons involved in organized crimes or associated with external service providers. Those parties may also attempt to fraudulently induce employees or customers or other users of our systems to disclose sensitive information to gain access to our data or that of our customers or clients. These risks may increase in the future as we continue to increase our offerings of mobile payments and other internet or web-based products.

A successful penetration or circumvention of the security of our own systems or third-party providers systems could cause serious negative consequences for Key, including significant disruption of our operations, misappropriation of confidential information of the company or that of our customers, or damage to our computers or operating systems or those of our customers and counterparties. We have adjusted our cybersecurity program to anticipate that a breach is more likely and have put a greater focus on detection and incident response. Should these measures be insufficient, fail or be breached our operations could be adversely affected, possibly materially. The occurrence of any failure, interruption or security breach of our information systems, including a cybersecurity breach of our systems implemented to protect our information systems security, could damage our reputation, result in a loss of customer business, result in violations of applicable privacy and other laws, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a Material Adverse Effect on Us.

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

The continuous, widespread adoption of new technologies, including internet services and smart phones, 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. Consumers can now maintain funds in brokerage accounts or mutual funds that would have historically been held as bank deposits. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks using smart phones utilizing PayPal or a financial account associated with a smart phone. There is increasing pressure from our competitors, both bank and non-bank, to keep pace with evolving preferences of consumers and businesses. Payment methods and financial service providers have evolved as the advancement of technology has made possible the delivery of financial products and services through different mediums and providers, such as smart phones and PayPal accounts, thereby increasing competitive pressure in the delivery of financial products and services. The adoption of new technologies could require us to make substantial expenditures to modify our existing products and services. Furthermore, we might not be successful in developing or introducing new products and services, adapting to changing consumer preferences and spending and saving habits, achieving market acceptance or regulatory approval, or sufficiently developing or maintaining a loyal customer base. The introduction of new products and services has the potential to introduce risk which, in turn, can present challenges to us in operating within our risk tolerances while also achieving growth in our market share. In addition, there is increasing pressure from our competitors to deliver products and services at lower prices. 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 the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have an adverse impact on us. These factors could reduce our revenues from our net interest margin and fee-based products and services and have a Material Adverse Effect on Us.

We operate in a highly competitive industry and market areas.

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national and super-regional banks as well as smaller community banks within the various markets 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 and national financial services firms. In recent years, while the breadth of the institutions that we compete with has increased, competition has intensified as a result of consolidation efforts. Since 2009, competition has intensified as the challenges of the liquidity crisis and market disruption led to further redistribution of deposits and certain banking assets to strong and large financial institutions. We expect this trend to continue. The competitive

landscape was also affected by the conversion of traditional investment banks to bank holding companies during the liquidity crisis due to the access it provides to government-sponsored sources of liquidity. The financial services industry s competitive landscape could become even more intensified as a result of legislative, regulatory, structural and technological changes and continued consolidation. Also, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks.

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 upon long-term customer relationships based on quality service, high ethical standards and safe, sound assets;
- our ability to expand our market position;
- the rate at which we introduce new products and services as well as new technologies relative to our competitors;
- the scope, relevance and pricing of products and services offered to meet customer needs and demands;
- our ability to attract and retain talented executives and relationship managers; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could have a Material Adverse Effect on Us.

Our earnings and/or financial condition may be affected by changes in accounting principles and in tax laws, or the interpretation of them.

Changes in or reinterpretations of U.S. generally accepted accounting principles could have a Material Adverse Effect on Us. Although these changes may not have an economic impact on our business, they could impact our financial statements thus affecting our performance ratios.

Like all businesses, we are subject to tax laws, rules and regulations. Changes to tax laws, rules and regulations, including changes in the interpretation or implementation of tax laws, rules and regulations by the Internal Revenue Service or other governmental bodies, could affect us in substantial and unpredictable ways. Failure to appropriately comply with tax laws, rules and regulations could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a Material Adverse Effect on Us.

Additionally, we conduct quarterly assessments of our deferred tax assets. The carrying value of these assets is dependent upon earnings forecasts and prior period earnings. A significant change in our assumptions could affect the carrying value of our deferred tax assets on our balance sheet, which, in turn, could have a Material Adverse Effect on Us.

Potential acquisitions may disrupt our business and dilute shareholder value.

Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including:

- potential exposure to unknown or contingent liabilities of the target company;
- exposure to potential asset quality issues of the target company;
- difficulty and expense of integrating the operations and personnel of the target company;
- potential disruption to our business;
- potential diversion of our management s time and attention;
- the possible loss of key employees and customers of the target company;
- difficulty in estimating the value (i.e., the assets and liabilities) of the target company;
- difficulty in estimating the fair value of acquired assets, liabilities and derivatives of the target company; and
- potential changes in banking or tax laws or regulations that may affect the target company.

We regularly evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value and net income per Common Share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a Material Adverse Effect on Us.

We are subject to claims and litigation.

From time to time, customers, vendors or other parties may make claims and take legal actions 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/or 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 of these investigations and proceedings has increased in recent years with regard to many firms in the financial services industry. The legal changes to the consumer protection laws provided for by the Dodd-Frank Act, the creation of the CFPB, and the uncertainty as to whether federal preemption of certain state consumer laws remains intact for federally chartered financial institutions like KeyBank and KeyCorp present additional legal risk to the financial services industry, including Key. Furthermore, we, like other members of the banking industry, may face additional regulatory and legal actions from state attorneys general, the CFPB and other parties related to consumer rights. There have also been a number of highly publicized cases involving fraud or misconduct by employees in the financial services industry in recent years, 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. Any financial liability for which we have not adequately maintained reserves, and/or any reputation damage from such claims and legal actions, could have a Material Adverse Effect on Us.

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

Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities in which we are engaged can be intense, and we may not be able to retain or hire the people we want and/or need. To attract and retain qualified employees, we must compensate such employees at market levels. Typically, those levels have caused employee compensation to be our greatest expense. If we are unable to continue to attract and retain qualified employees, or do so at rates necessary to maintain our competitive position, our performance, including our competitive position, could suffer, and, in turn, have a Material Adverse Effect on Us. Although we have incentive compensation plans aimed, in part, at long-term employee retention, the unexpected loss of services of one or more of our key personnel could still occur, and such events may have a Material Adverse Effect on Us.

Various restrictions on compensation of certain executive offers were imposed under the Recovery Act, the Dodd-Frank Act and other legislation or regulations. Our ability to attract and/or retain talented executives and/or relationship managers may be affected by these developments or any new executive compensation limits, and such restrictions could have a Material Adverse Effect on Us.

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

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on our ability to conduct business. 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 loss of revenue and/or cause us to incur additional expenses. Although we have established disaster recovery plans and procedures, and monitor for significant environmental effects on our properties or our investments, the occurrence of any such event could have a material adverse effect on us.

VI. Risks to Our Common Shares.

You may not receive dividends on the Common Shares.

Holders of our Common Shares are only entitled to receive such dividends as the Board of Directors may declare out of funds legally available for such payments. Furthermore, our common shareholders are subject to the prior dividend rights of any holders of our preferred stock or depositary shares representing such preferred stock then outstanding. As of February 17, 2012, there were 2,904,839 shares of KeyCorp s Series A Preferred Stock with a liquidation preference of $100 per share issued and outstanding.

We paid a quarterly dividend on our Common Shares for each quarter of 2011. As long as our Series A Preferred Stock is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities, including our Common Shares, are prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions. These factors could adversely affect the market price of our Common Shares. Also, KeyCorp is a bank holding company and its ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends.

In addition, terms of KeyBank s outstanding junior subordinated debt securities prohibit us from declaring or paying any dividends or distributions on KeyCorp s capital stock, including its Common Shares, or purchasing, acquiring, or making a liquidation payment on such stock, if an event of default has occurred and is continuing under the applicable indenture, if we are in default with respect to a guarantee payment under the guarantee of the related capital securities or if we have given notice of our election to defer interest payments but the related deferral period has not yet commenced or a deferral period is continuing. These factors could have a Material Adverse Effect on Us.

Our share price can be volatile.

Share price volatility may make it more difficult for you to resell your Common Shares when you want and at prices you find attractive. Our share price can fluctuate significantly in response to a variety of factors including:

- actual or anticipated variations in quarterly results of operations;
- recommendation by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to our business;
- changes in the credit, mortgage and real estate markets, including the market for mortgage-related securities;
- news reports relating to trends, concerns and other issues in the financial services industry;
- perceptions of us and/or our competitors in the marketplace;
- new technology used, or products or services offered, by competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments entered into by us or our competitors;

Table of Contents

- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- future sales of our equity or equity-related securities;
- our past and future dividend practices;
- changes in governmental regulations affecting our industry generally or our business and operations;
- changes in global financial markets, economies and market conditions, such as interest or foreign exchange rates, stock, commodity, credit or asset valuations or volatility;
- geopolitical conditions such as acts or threats of terrorism or military conflicts; and
- the occurrence or nonoccurrence, as appropriate, of any circumstance described in these Risk Factors.

Any of these factors could have a Material Adverse Effect on Us.

An investment in our Common Shares is not an insured deposit.

Our Common Shares are not a bank deposit and, therefore, are not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our Common Shares is inherently risky for the reasons described in this Risk Factors section and elsewhere in this report and is subject to the same market forces that affect the price of common shares in any company. As a result, if you acquire our Common Shares, you may lose some or all of your investment.

Our articles of incorporation and regulations, as well as certain banking laws, may have an anti-takeover effect.

Provisions of our articles of incorporation and regulations and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. The combination of these provisions may inhibit a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of our Common Shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The headquarters of KeyCorp and KeyBank are located in Key Tower at 127 Public Square, Cleveland, Ohio 44114-1306. At December 31, 2011, Key leased approximately 686,002 square feet of the complex, encompassing the first twenty-three floors and the 54th through 56th floors of the 57-story Key Tower. As of the same date, KeyBank owned 593 and leased 465 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 Mountains and Northwest	Great Lakes	Northeast	Total
Branches	401	353	304	1,058
ATMs	583	551	445	1,579

Rocky Mountains and Northwest Alaska, Colorado, Idaho, Oregon, Utah and Washington

Great Lakes Indiana, Kentucky, Michigan and Ohio

Northeast Connecticut, Maine, New York and Vermont

ITEM 3. LEGAL PROCEEDINGS

As of December 31, 2011, KeyCorp and its subsidiaries and its employees, directors and officers are defendants or putative defendants in a variety of legal proceedings, in the form of regulatory/government investigations as

Table of Contents

well as private, civil litigation and arbitration proceedings. The private, civil litigations range from individual actions involving a single plaintiff to putative class action lawsuits with potentially thousands of class members. Investigations involve both formal and informal proceedings, by both government agencies and self-regulatory bodies. These legal proceedings are at varying stages of adjudication, arbitration or investigation and involve a variety of claims (including common law tort, contract claims, securities, ERISA, and consumer protection claims). At times, these legal proceedings present novel claims or legal theories.

On at least a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. 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 operation for a particular period, depending upon the size of the loss or our income for that particular period.

The information in the Legal Proceedings section of Note 16 (Commitments, Contingent Liabilities and Guarantees) of the Notes to our Consolidated Financial Statements is incorporated herein by reference.

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 of this report, and the following disclosures included in Item 7 the Management s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the Consolidated Financial Statements contained in Item 8 of this report, are incorporated herein by reference:

	Page(s)
Discussion of Common Shares, shareholder information and repurchase activities in the section captioned Capital Common shares outstanding	72-73
Presentation of annual and quarterly market price and cash dividends per Common Share	37, 98
Discussion of dividend restrictions in the Liquidity risk management Liquidity for KeyCorp section, Note 3 (Restrictions on Cash, Dividends and Lending Activities), and Note 20 (Shareholders Equity)	85, 127, 194
KeyCorp common share price performance (2006-2011) graph	73

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.

In the past, we have periodically repurchased Common Shares in the open market or through privately negotiated transactions under a repurchase program authorized by our Board of Directors. The program does not have an expiration date, and we have outstanding Board authority to repurchase 13.9 million shares. We did not repurchase any Common Shares during all of 2011 or 2010 other than the shares acquired from employees in connection with our stock compensation. As discussed in further detail in Supervision and Regulation in Item 1, Part I of this report, we are required to annually submit a capital plan to the Federal Reserve setting forth capital actions, including any share repurchases our board of directors and management may propose to make during the year. Pursuant to that requirement, we have submitted our capital plan for review to the Federal Reserve that contemplates, among other uses of our capital, potential share repurchases in 2012.

Calendar month	Total number of shares repurchased (a)	Average price paid per share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Maximum number of shares that may yet be purchased under the plans or programs (a)
October				13,922,496
November				13,922,496
December	361	$ 7.47		13,922,496
Total	361	$ 7.47		13,922,496

(a) During the fourth quarter of 2011, Key did not make any repurchases pursuant to any publicly announced plan or program to repurchase its Common Shares; the total Common Shares purchased represents shares deemed surrendered to Key to satisfy certain employee elections under its compensation and benefit programs. As such, there has been no change in the maximum number of shares that may yet be purchased under the plans or programs.

Entry Into Certain Covenants

We entered into a transaction (with an overallotment option) in 2008, which involved the issuance of enhanced trust preferred securities (Trust Preferred Securities) by Delaware statutory trusts formed by us (the Trusts), as further described below. Simultaneously with the closing of this transaction, we entered into a so-called

31

Table of Contents

replacement capital covenant (each, a Replacement Capital Covenant and collectively, the Replacement Capital Covenants) for the benefit of persons that buy or hold specified series of long-term indebtedness of KeyCorp or its then largest depository institution, KeyBank (the Covered Debt). This Replacement Capital Covenant provides that neither KeyCorp nor any of its subsidiaries (including any of the Trusts) will redeem or purchase all or any part of the Trust Preferred Securities or certain junior subordinated debentures issued by KeyCorp and held by the Trust (the Junior Subordinated Debentures), as applicable, on or before the date specified in the applicable Replacement Capital Covenant, with certain limited exceptions, except to the extent that, prior to the date of that redemption or purchase, we have received proceeds from the sale of qualifying securities that (i) have equity-like characteristics that are the same as, or more equity-like than, the applicable characteristics of the Trust Preferred Securities or the Junior Subordinated Debentures, as applicable, at the time of redemption or purchase, and (ii) we have obtained the prior approval of the Federal Reserve, if such approval is then required by the Federal Reserve. We will provide a copy of the Replacement Capital Covenant to holders of Covered Debt upon request made in writing to KeyCorp, Investor Relations, 127 Public Square, Mail Code OH-01-27-1113, Cleveland, OH 44114-1306.

The following table identifies the (i) closing date for each transaction, (ii) issuer, (iii) series of Trust Preferred Securities issued, (iv) Junior Subordinated Debentures, and (v) applicable Covered Debt as of the date this annual report was filed with the SEC.

Closing Date	Issuer	Trust Preferred Securities	Junior Subordinated Debentures	Covered Debt
2/27/2008	KeyCorp Capital X and KeyCorp	$700,000,000 principal amount of 8.000% Enhanced Trust Preferred Securities	KeyCorp s 8.000% junior subordinated debentures due March 15, 2068	KeyCorp s 5.70% junior subordinated debentures due 2035, underlying the 5.70% trust preferred securities of KeyCorp Capital VII (CUSIP No. 49327LAA4011)
3/3/2008	KeyCorp Capital X and KeyCorp (overallotment)	$40,000,000 principal amount of 8.000% Enhanced Trust Preferred Securities	KeyCorp s 8.000% junior subordinated debentures due March 15, 2068	KeyCorp s 5.70% junior subordinated debentures due 2035 underlying the 5.70% trust preferred securities of KeyCorp Capital VII (CUSIP No. 49327LAA4011)

32

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The information included under the caption Selected Financial Data in Item 7. the MD&A beginning on page 37 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)

	Page Number
Introduction	
Terminology	36
Selected financial data	37
Economic overview	38
Long-term financial goals	39
Corporate strategy	39
Strategic developments	40
Highlights of Our 2011 Performance	41
Financial performance	41
Results of Operations	45
Net interest income	45
Noninterest income	49
Trust and investment services income	50
Service charges on deposit accounts	51
Operating lease income	51
Investment banking and capital markets income (loss)	51
Corporate-owned life insurance income	52
Net gains (losses) from loan sales	52
Net gains (losses) from principal investing	52
Noninterest expense	52
Personnel	53
Intangible assets impairment	54
Operating lease expense	54
FDIC assessment	54
OREO expense	54
Provision (credit) for losses on lending-related commitments	54
Income taxes	54
Line of Business Results	55
Key Community Bank summary of operations	56
Key Corporate Bank summary of operations	57
Other Segments	58
Financial Condition	59
Loans and loans held for sale	59
Commercial loan portfolio	60
Commercial, financial and agricultural	60
Commercial real estate loans	60
Commercial lease financing	62
Commercial loan modification and restructuring	62
Extensions	64
Guarantors	64
Consumer loan portfolio	65
Loans held for sale	65
Loan sales	66
Maturities and sensitivity of certain loans to changes in interest rates	67
Securities	67
Securities available for sale	68
Held-to-maturity securities	69
Other investments	70
Deposits and other sources of funds	70
The Dodd-Frank Act s reform of deposit insurance	71

Capital	71
Comprehensive capital assessment review and redemption notices for certain capital securities	71
Repurchase of TARP CPP preferred stock, warrant and completion of equity and debt offerings	72
Dividends	72
Common shares outstanding	72
2011 Capital plan and proposed actions	73

Table of Contents

Capital adequacy	74
Basel III	75
Off-Balance Sheet Arrangements and Aggregate Contractual Obligations	77
Off-balance sheet arrangements	77
Variable interest entities	77
Commitments to extend credit or funding	77
Other off-balance sheet arrangements	78
Contractual obligations	78
Guarantees	78
Risk Management	79
Overview	79
Market risk management	80
Interest rate risk management	80
Net interest income simulation analysis	80
Economic value of equity modeling	82
Management of interest rate exposure	82
Derivatives not designated in hedge relationships	83
Liquidity risk management	83
Governance structure	83
Factors affecting liquidity	83
Managing liquidity risk	84
Long-term liquidity strategy	84
Sources of liquidity	84
Liquidity programs	85
Liquidity for KeyCorp	85
Our liquidity position and recent activity	85
Credit ratings	86
Credit risk management	87
Credit policy, approval and evaluation	87
Watch and criticized assets	88
Allowance for loan and lease losses	88
Net loan charge-offs	90
Nonperforming assets	92
Operational risk management	95
Fourth Quarter Results	96
Earnings	96
Net interest income	96
Noninterest income	96
Noninterest expense	97
Provision for loan and lease losses	97
Income taxes	97
Critical accounting policies and estimates	99
Allowance for loan and lease losses	99
Valuation methodologies	100
Derivatives and hedging	101
Contingent liabilities, guarantees and income taxes	102
European Sovereign Debt Exposure	103

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 113.

Table of Contents

Introduction

This section generally reviews the financial condition and results of operations of KeyCorp and its subsidiaries for each of the past three years. Some tables may include additional periods to comply with disclosure requirements or to illustrate trends in greater depth. When you read this discussion, you should also refer to the consolidated financial statements and related notes in this report. The page locations of specific sections 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 to KeyCorp s subsidiary bank, KeyBank National Association.

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

¿ We use the phrase ***continuing operations*** in this document to mean all of our businesses other than the education lending business and Austin. Results for the education lending business and Austin have been accounted for as ***discontinued operations*** for all periods presented.

¿ 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 for proprietary trading purposes), and conduct transactions in foreign currencies (both to accommodate clients needs and to benefit from fluctuations in exchange rates).

¿ For regulatory purposes, capital is divided into two classes. Federal regulations currently prescribe that at least one-half of a bank or bank holding company s ***total risk-based capital*** must qualify as ***Tier 1 capital***. Both total and Tier 1 capital serve as bases for several measures of capital adequacy, which is an important indicator of financial stability and condition. As described in the section entitled Supervision and Regulation, the regulators are required to conduct a supervisory capital assessment of the 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***. For more information on total capital, Tier 1 capital and Tier 1 common equity, and how they are calculated see the section entitled Capital.

¿ During the first quarter of 2010, we re-aligned our reporting structure for our segments. Previously, the Consumer Finance business group consisted mainly of portfolios that were identified as exit or run-off portfolios and were included in our Key Corporate Bank segment. We are now reflecting these exit loan portfolios in Other Segments. The automobile dealer floor plan business, previously included in Consumer Finance, has been re-aligned with the Commercial Banking line of business within the Key Community Bank segment. In addition, other previously identified exit portfolios included in the Key Corporate Bank segment, including our homebuilder loans from the Real Estate Capital line of business and commercial leases from the Equipment Finance line of business, have been moved to Other Segments. For more detailed financial information pertaining to each segment and its respective lines of business, see Note 21 (Line of Business Results).

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

dollars in millions, except per share amounts	2011	2010	2009	2008	2007	2006	Compound Annual Rate of Change (2006-2011) (d)
YEAR ENDED DECEMBER 31,							
Interest income	**$ 2,889**	$ 3,408	$ 3,795	$ 4,353	$ 5,336	$ 5,065	(10.6) %
Interest expense	**622**	897	1,415	2,037	2,650	2,329	(23.2)
Net interest income	**2,267**	2,511	2,380	2,316	2,686	2,736	(3.7)
Provision for loan and lease losses	**(60)**	638	3,159	1,537	525	148	N/M
Noninterest income	**1,808**	1,954	2,035	1,847	2,241	2,124	(3.2)
Noninterest expense	**2,790**	3,034	3,554	3,476	3,158	3,061	(1.8)
Income (loss) from continuing operations before income taxes and cumulative effect of accounting change	**1,345**	793	(2,298)	(850)	1,244	1,651	(4.0)
Income (loss) from continuing operations attributable to Key before cumulative effect of accounting change	**964**	577	(1,287)	(1,295)	935	1,177	(3.9)
Income (loss) from discontinued operations, net of taxes[b]	**(44)**	(23)	(48)	(173)	(16)	(127)	N/M
Net income (loss) attributable to Key before cumulative effect of accounting change	**920**	554	(1,335)	(1,468)	919	1,050	(2.6)
Net income (loss) attributable to Key	**920**	554	(1,335)	(1,468)	919	1,055	(2.7)
Income (loss) from continuing operations attributable to Key common shareholders	**857**	413	(1,581)	(1,337)	935	1,182	(6.2)
Income (loss) from discontinued operations, net of taxes[b]	**(44)**	(23)	(48)	(173)	(16)	(127)	N/M
Net income (loss) attributable to Key common shareholders	**813**	390	(1,629)	(1,510)	919	1,055	(5.1)
PER COMMON SHARE							
Income (loss) from continuing operations attributable to Key common shareholders before cumulative effect of accounting change	**$ .92**	$ .47	$ (2.27)	$ (2.97)	$ 2.39	$ 2.91	(20.6) %
Income (loss) from discontinued operations, net of taxes[b]	**(.05)**	(.03)	(.07)	(.38)	(.04)	(.31)	N/M
Net income (loss) attributable to Key before cumulative effect of accounting change	**.87**	.45	(2.34)	(3.36)	2.35	2.60	(19.7)
Net income (loss) attributable to Key common shareholders	**.87**	.45	(2.34)	(3.36)	2.35	2.61	(19.7)
Income (loss) from continuing operations attributable to Key common shareholders before cumulative effect of accounting change assuming dilution	**$ .92**	$ .47	$ (2.27)	$ (2.97)	$ 2.36	$ 2.87	(20.4)
Income (loss) from discontinued operations, net of taxes assuming dilution[b]	**(.05)**	(.03)	(.07)	(.38)	(.04)	(.31)	N/M
Income (loss) attributable to Key before cumulative effect of accounting change assuming dilution	**.87**	.44	(2.34)	(3.36)	2.32	2.56	(19.4)

Net income (loss) attributable to Key common shareholders assuming dilution	**.87**	.44	(2.34)	(3.36)	2.32	2.57		(19.5)
Cash dividends paid	**.10**	.04	.0925	1.00	1.46	1.38		(40.8)
Book value at year end	**10.09**	9.52	9.04	14.97	19.92	19.30		(12.2)
Tangible book value at year end	**9.11**	8.45	7.94	12.48	16.47	16.07		(10.7)
Market price at year end	**7.69**	8.85	5.55	8.52	23.45	38.03		(27.4)
Dividend payout ratio	**11.49**	8.89	N/M	N/M	62.13%	52.87%		N/A
Weighted-average common shares outstanding (000)	**931,934**	874,748	697,155	450,039	392,013	404,490		18.2
Weighted-average common shares and potential common shares outstanding (000)	**935,801**	878,153	697,155	450,039	395,823	410,222		17.9
AT DECEMBER 31.								
Loans	**$ 49,575**	$ 50,107	$ 58,770	$ 72,835	$ 70,492	$ 65,480		(5.4) %
Earning assets	**73,729**	76,211	80,318	89,759	82,865	77,146	(d)	(.9)
Total assets	**88,785**	91,843	93,287	104,531	98,228	92,337	(d)	(.8)
Deposits	**61,956**	60,610	65,571	65,127	62,934	58,901		1.0
Long-term debt	**9,520**	10,592	11,558	14,995	11,957	14,533		(8.1)
Key common shareholders equity	**9,614**	8,380	7,942	7,408	7,746	7,703		4.5
Key shareholders equity	**9,905**	11,117	10,663	10,480	7,746	7,703		5.2
PERFORMANCE RATIOS FROM CONTINUING OPERATIONS								
Return on average total assets	**1.17%**	.66%	(1.35)%	(1.29)%	1.02%	1.34%		N/A
Return on average common equity	**9.26**	5.06	(19.00)	(16.22)	12.11	15.28		N/A
Net interest margin (TE)	**3.16**	3.26	2.83	2.15	3.50	3.73		N/A
PERFORMANCE RATIOS FROM CONSOLIDATED OPERATIONS								
Return on average total assets	**1.04%**	.59%	(1.34)%	(1.41)%	.97%	1.12%		N/A
Return on average common equity	**8.79**	4.78	(19.62)	(18.32)	11.90	13.64		N/A
Net interest margin (TE)	**3.09**	3.16	2.81	2.16	3.46	3.69		N/A
Loan to deposit[c]	**87.00**	90.30	97.30	120.87	128.20	120.50		N/A
CAPITAL RATIOS AT DECEMBER 31,								
Key shareholders equity to assets	**11.16 %**	12.10 %	11.43 %	10.03 %	7.89 %	8.34 %	(d)	N/A
Tangible Key shareholders equity to tangible assets	**10.21**	11.20	10.50	8.96	6.61	7.04	(d)	N/A
Tangible common equity to tangible assets[a]	**9.88**	8.19	7.56	5.98	6.61	7.04	(d)	N/A
Tier 1 common equity[a]	**11.26**	9.34	7.50	5.62	5.74	6.47		N/A
Tier 1 risk-based capital	**12.99**	15.16	12.75	10.92	7.44	8.24		N/A
Total risk-based capital	**16.51**	19.12	16.95	14.82	11.38	12.43		N/A
Leverage	**11.79**	13.02	11.72	11.05	8.39	8.98		N/A
TRUST AND BROKERAGE ASSETS								
Assets under management	**$ 51,732**	$ 59,815	$ 66,939	$ 64,717	$ 85,442	$ 84,699		N/A
Nonmanaged and brokerage assets	**30,639**	28,069	19,631	22,728	33,918	56,292		N/A
OTHER DATA								
Average full-time-equivalent employees	**15,381**	15,610	16,698	18,095	18,934	20,006		(5.1) %
Branches	**1,058**	1,033	1,007	986	955	950		2.2

(a) See Figure 4 entitled GAAP to Non-GAAP Reconciliations, which presents the computations of certain financial measures to tangible common equity and Tier 1 common equity. The table reconciles the GAAP performance to the corresponding non-GAAP measures, which provides a basis for period-to-period comparisons.

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

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

(d) Certain financial data for periods prior to 2007 have not been adjusted to reflect the effect of our January 1, 2008, adoption of new accounting guidance regarding the offsetting of amounts related to certain contracts.

Economic overview

Economic and political uncertainty and financial market volatility were the dominant themes throughout 2011. The year began with optimism that the economic recovery in the United States was finally gaining momentum three years after the financial crisis of 2008 sparked the worst recession since the Great Depression. That optimism quickly faded during the first quarter of 2011 after multiple economic shocks interrupted the recovery. First, political unrest in North Africa and the Middle East resulted in volatility in oil and gas prices, lessening the consumer s discretionary purchasing power. Then the natural disasters in Japan created manufacturing supply chain disruptions, which slowed U.S. industrial production and growth. Finally, awareness of the sovereign debt crisis in Europe increased and financial market volatility heightened. Equity markets reeled over fears that fiscal austerity in Europe would lead to a weakening of their banking sector, and European leaders were unable to allay those concerns. The environment was further intensified by the U.S. debt ceiling debate that ultimately led to the historic downgrade of the United States AAA credit rating by Standard & Poor s.

U.S. employers added 1.82 million jobs in 2011. This compares favorably to the 1 million jobs added in 2010. The unemployment rate in December of 2011 decreased to 8.5%, compared to the 9.4% rate at the end of 2010. While the unemployment rate showed improvement throughout the year, it remained considerably higher than the ten-year average unemployment rate of 6.5%. Despite the improving job market, U.S. consumers, whose confidence had been rattled by the news headlines throughout the year, were hesitant to spend. The average monthly rate of consumer spending increased 0.3% for 2011 compared to an average monthly increase of 0.4% for 2010. Spending was also tempered by rising inflationary pressures, as consumer prices in December of 2011 increased at an annual rate of 3.0%, up from the 1.5% increase for all of 2010.

The housing market remained weak throughout 2011 and continued to be a drag on the recovery. In December of 2011 new home sales decreased 7% from December of 2010, while the median price of new homes decreased by 13% over the same period. Building activity improved modestly as housing starts at the end of 2011 increased 25% from a year earlier, but still remained at historically low levels. Existing home sales also remained weak as lower mortgage rates and price discounts were not enough to lure buyers back into the market. In December of 2011 existing home sales increased 4% from the same month a year ago, and the median price of existing homes decreased by 3% over the same period. While remaining historically elevated, the number of new foreclosures decreased 20% in December of 2011 from a year earlier.

The Federal Reserve held the federal funds target rate near zero and took further accommodative monetary policy actions in 2011. The Federal Reserve continued to expand its holdings of Treasury securities during the first half of the year as announced in November of 2010. As the economic outlook weakened in the second half of 2011, the Federal Reserve attempted to increase its transparency in August by stating that it would keep the federal funds rate at exceptionally low levels at least through mid-2013. The Federal Reserve updated this communication in January of 2012 to indicate that conditions are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014. Furthermore, in an attempt to lower longer-term borrowing rates to consumers and businesses, the Federal Reserve announced a program in September dubbed Operation Twist by investors. This program involves the Federal Reserve purchasing $400 billion of U. S. Treasury securities with longer maturities

while selling the same amount of U. S. Treasury securities with shorter maturities. These actions along with the recognition of a weakening global economy contributed to a drop in benchmark term interest rates. The benchmark two-year U.S. Treasury yield declined from 0.60% at December 31, 2010 to 0.24% at December 30, 2011. The ten-year U.S. Treasury yield, which began the year at 3.30%, decreased by 1.42% to close 2011 at 1.88%. The S&P 500 equity index, which had been up over 8% for the year through April of 2011 and then down almost 13% for the year through October of 2011, ended the year approximately unchanged.

Long-term financial goals

Our long-term financial goals are as follows:

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

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

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

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

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

Figure 2 shows the evaluation of our long-term financial goals for the fourth quarter of 2011 and the year ended 2011.

Figure 2. Evaluation of Our Long-Term Financial Goals

KEY Business Model	Key Metrics[a]	4Q11	2011	Targets	Action Plans
Core funded	Loan to deposit ratio [b]	87%	87 %	90-100 %	Leverage intergrated model to grow relationships and loans
					Improve deposit mix
Returning to a moderate risk profile	NCOs to average loans	.86 %	1.11 %	.40-.50 %	Focus on relationship clients
					Exit noncore portfolios
					Limit concentrations
					Focus on risk-adjusted returns
Growing high quality, diverse revenue streams	Net Interest Margin	3.13 %	3.16 %	> 3.50 %	Improve funding mix
					Focus on risk-adjusted returns
	Noninterest income to total revenue	42%	44 %	> 40 %	Grow client relationships
					Leverage Key s total client solutions and cross-selling capabilities
Creating positive operating leverage					Improve efficiency and effectiveness
	Efficiency ratio	73 %	68 %	60 - 65 %	Leverage technology
					Change cost base to more variable from fixed
Executing our strategies	Return on average assets	1.01 %	1.17 %	1.00-1.25 %	Execute our client insight-driven relationship model

Focus on operating leverage
Improved funding mix with lower cost core deposits

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

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

Corporate strategy

We remain committed to enhancing long-term shareholder value by continued execution of our business plan, growing our franchise and being disciplined in our managing of capital. We are achieving this by implementing

Table of Contents

our 2011/2012 strategic priorities. In short, we grow by building enduring relationships through client focused solutions and extraordinary service. Our strategic priorities for enhancing long-term shareholder value are as follows:

¿ ***Grow profitability.*** We continue to focus on increasing revenues and controlling costs. We will continue to leverage technology and grow in ways that are sustainable and consistent with our core relationship strategy to achieve this objective.

¿ ***Acquire and grow relationships.*** By keeping our clients at the center of all we do, we will acquire and retain the right clients, and then fully develop those relationships in ways that are mutually beneficial to both our clients and Key. We will continue to leverage the alignment of our franchise across business lines to support the needs of our clients.

¿ ***Effectively manage risk and reward.*** We will continue to tackle our opportunities with a disciplined approach that effectively balances rewards consistent with our risk appetite. Our employees must have a clear understanding of our risk tolerance with regard to factors such as asset quality, operational risk and liquidity levels to ensure that we operate within our desired risk appetite.

¿ ***Maintain financial strength.*** With the foundation of a strong balance sheet, we will continue to stay focused on sustaining strong reserves, liquidity and capital. We also will balance effective expense control with sound investments to enhance our capabilities and grow our business.

¿ ***Engage a talented and diverse workforce.*** We are committed to investing in our workforce to optimize the talent in our organization. We will continue to stress the importance of training, retaining, developing and challenging our employees. We believe through our employees focused execution we will continue to win with our clients and drive results consistent with our strategic priorities.

Strategic developments

We initiated the following actions during 2011 and 2010 to support our corporate strategy:

¿ We returned to profitability in 2010 and remained profitable throughout 2011. The results for 2011 were primarily due to lower credit costs and an improvement in noninterest expense, as compared to 2010, as our new leadership team implemented their commitment to focused strategy execution.

¿ On January 11, 2012, we signed a purchase and assumption agreement to acquire 37 retail branches in Buffalo and Rochester, NY. The deposits associated with these branches total approximately $2.4 billion, while loans total approximately $400 million. We will use this excess liquidity to fund debt maturities and loan growth. The transaction is expected to close in late second or early third quarter of 2012.

¿ We were recognized in a survey by American Customer Satisfaction Index, published in January of 2012, showing that we are one of only two large banks that improved its overall customer satisfaction score for two consecutive years. Our score is significantly more positive than the banking industry overall.

¿ During 2011, we continued to benefit from improved asset quality. From one year ago, nonperforming loans declined by $341 million to $727 million, and nonperforming assets decreased by $479 million to $859 million. Net charge-offs during 2011 declined to $541 million, or 1.11% of average loan balances, compared to $1.6 billion, or 2.91% of average loan balances during 2010.

¿ At December 31, 2011 our capital ratios remained strong with a Tier 1 common equity ratio of 11.26%, our loan loss reserves were adequate at 2.03% to period-end loans and we were core funded with a loan to deposit ratio of 87%. 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.

¿ For the year ended December 31, 2011, our efficiency ratio was 68%.

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

¿ During March 2011, we completed a $625 million underwritten public offering of 70,621,470 of our Common Shares at a price of $8.85 per share, and a public offering of $1 billion 5.1% Senior Medium-Term Notes, Series I.

¿ In May 2011, our Board of Directors approved an increase in our quarterly cash dividend to $.03 per Common Share or $.12 on an annualized basis. This is a result of our return to sustained profitability, disciplined capital and expense management, and continued improvement in credit quality.

¿ During the second half of 2011, we formalized our Key Employee Promise , which is that Together, we have a strong sense of community where each one of us has the opportunity for personal growth, to do work that matters in a place where results are rewarded. This promise is built on our core values and supports our growth strategy of building enduring relationships through client focused solutions and extraordinary service.

¿ Henry L. Meyer retired on May 1, 2011, and Beth E. Mooney assumed the additional role of Chairman and Chief Executive Officer on that date, and became the first woman CEO of a top 20 U.S. bank. Mooney, who has over 30 years of experience in retail banking, commercial lending, and financing was President and Chief Operating Officer and a member of KeyCorp s Board of Directors.

¿ During 2010, our balance sheet began to reflect strong capital, liquidity and reserve levels. In August 2010, we issued $750 million of five-year senior unsecured debt at the holding company.

Highlights of Our 2011 Performance

Financial performance

For 2011, we announced net income from continuing operations attributable to Key common shareholders of $857 million, or $.92 per Common Share. These results compare to net income from continuing operations attributable to Key common shareholders of $413 million, or $.47 per Common Share, for 2010.

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

Figure 3. Results of Operations

Year ended December 31, *in millions, except per share amounts*	**2011**	2010	2009
SUMMARY OF OPERATIONS			
Income (loss) from continuing operations attributable to Key	**$ 964**	$ 577	$ (1,287)
Income (loss) from discontinued operations, net of taxes [a]	**(44)**	(23)	(48)
Net income (loss) attributable to Key	**$ 920**	$ 554	$ (1,335)
Income (loss) from continuing operations attributable to Key	**$ 964**	$ 577	$ (1,287)
Less: Dividends on Series A Preferred Stock	**23**	23	39
Noncash deemed dividend common shares exchanged for Series A Preferred Stock			114
Cash dividends on Series B Preferred Stock	**31**	125	125
Amortization of discount on Series B Preferred Stock [b]	**53**	16	16
Income (loss) from continuing operations attributable to Key common shareholders	**857**	413	(1,581)
Income (loss) from discontinued operations, net of taxes [a]	**(44)**	(23)	(48)
Net income (loss) attributable to Key common shareholders	**$ 813**	$ 390	$ (1,629)
PER COMMON SHARE - ASSUMING DILUTION			
Income (loss) from continuing operations attributable to Key common shareholders	**$ .92**	$ .47	$ (2.27)
Income (loss) from discontinued operations, net of taxes [a]	**(.05)**	(.03)	(.07)
Net income (loss) attributable to Key common shareholders [c]	**$ .87**	$ .44	$ (2.34)

(a) In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. As a result of these decisions, we have accounted for these businesses as discontinued operations. The loss from discontinued operations for the year ended December 31, 2011, was primarily attributable to fair value adjustments related to the education lending securitization trusts.

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

(c) EPS may not foot due to rounding.

The earnings improvement in 2011 resulted from an improvement in credit quality, expense control and our success in growing our business when compared to 2010. Results in 2009 were adversely impacted by an elevated provision for loan and lease losses, write-offs of certain intangible assets and write-downs of certain commercial real estate related investments.

In 2011, we benefited from the actions taken to strengthen our balance sheet, reduce risk, reposition our business and rebuild capital. Our 2011 full year results, lead us to believe that we have returned to solid and sustainable profitability, reached an inflection point in our loan portfolio, and have established peer leading capital levels.

In 2012, we will continue to focus on cost control efforts as we invest in client facing positions and technology, continue to optimize our non-client facing positions and occupancy costs, expend for marketing where we can deepen client relationships to improve future revenue and implement efficiency initiatives.

The net interest margin from continuing operations was 3.16% for 2011. This was a decrease of ten basis points from 2010. This decrease was primarily attributable to a lower yield on average earning assets compared to the prior year, resulting primarily from the continuation of the low

rate environment. We continue to experience an improvement in the mix of deposits by reducing the level of higher costing certificates of deposit and growing lower costing transaction accounts. This benefit along with reductions in administered rate deposits allowed us to maintain the spread between interest earning assets and our cost of funds during 2011 compared to 2010. Our expectation for 2012 is for the net interest margin to show modest improvement as we continue to anticipate our funding costs to decline.

Average total loans increased $656 million during the fourth quarter, compared to the third quarter of 2011. This represented a 1.4% unannualized increase from the third quarter of 2011, and is the first time we have grown

quarterly average loan balances since the fourth quarter of 2008. The average balances of commercial, financial and agricultural loans increased from $17.4 billion to $18.3 billion, or approximately 5.4% unannualized. This is the third consecutive quarter average growth for the commercial, financial and agricultural portfolio. Our utilization rate of commercial, financial and agricultural loans improved from 44.4% in the third quarter of 2011 to 46.3% in the fourth quarter of 2011. This confirmed our belief that we reached an inflection point for loan growth in the third quarter of 2011.

Our exit loan portfolio accounted for $119 million or, 13.85%, of our nonperforming assets at December 31, 2011 compared to $210 million, or 15.7%, at December 31, 2010, and $599 million, or 23.9%, at December 31, 2009. While we have made progress in decreasing our exit loan portfolio, we believe these loan balances will be running down more slowly in the future due to the longer term nature of these remaining loan portfolios.

Our consolidated average loan to deposit ratio was 87% for the fourth quarter of 2011, compared to 90% for the fourth quarter of 2010. This continued decline was accomplished by growing our noninterest-bearing deposits, NOW and money market accounts, reducing our reliance on wholesale funding, exiting nonrelationship businesses and soft loan demand during the first half of 2011.

We originated new or renewed lending commitments to consumers and businesses of approximately $10.5 billion during the fourth quarter and $36.6 billion for 2011. This annual amount compares to approximately $29.5 billion in 2010, an increase of 24%.

Our trend of improving the mix of deposits continued during 2011 where we experienced a $5.4 billion or 11.9% increase in non-time deposits. Approximately $6.8 billion of our certificates of deposit outstanding at December 31, 2011, will mature over the next four quarters, and included in these totals are approximately $2.5 billion of higher costing certificates of deposit originated prior to 2009. The breakdown of these higher costing certificates of deposits is as follows:

¿ $238 million at a 4.95% cost mature in the first quarter of 2012;

¿ $688 million at a 4.57% cost mature in the second quarter of 2012;

¿ $1.025 billion at a 5.06% cost mature in the third quarter of 2012; and

¿ $529 million at a 4.88% cost mature in the fourth quarter of 2012.

These re-pricing opportunities will continue to benefit our net interest margin.

We experienced an improvement in our asset quality statistics during the fourth quarter of 2011. Net charge-offs declined to $541 million or 1.11% of average loan balances for 2011 as compared to $1.6 billion and 2.91% for 2010. In addition, our nonperforming loans declined to $727 million or 1.47% of period end loans at December 31, 2011 compared to $1.1 billion or 2.13% at December 31, 2010. Our reserve for loan losses stood at $1 billion or 2.03% of period end loans compared to $1.6 billion or 3.20% at December 31, 2010, and represented 138% and 150% coverage of non-performing loans at December 31, 2011 and December 31, 2010, respectively. Also, criticized loans outstanding declined at December 31, 2011 for the 10th consecutive quarter. Information pertaining to our progress in reducing our commercial real estate exposure and our exit loan portfolio is presented in the section entitled Credit risk management. Looking to 2012, we anticipate continued improvement in asset quality, with lower levels of non-performing assets and net charge-offs for the year. Specifically with respect to net charge-offs, during the first half of 2012, we anticipate the amount to be comparable to the second half of 2011.

We anticipate the provision to be less than net charge-offs in 2012. However, we expect that as loan growth continues in 2012, we will migrate during the course of the year for the provision to be closer to the level of net charge-offs. There are a number of variables that impact the ultimate outcome including the composition of the loan portfolio at each quarter-end.

Our tangible common equity ratio and Tier 1 common ratio both remain strong at December 31, 2011, at 9.88% and 11.26% respectively, as compared to 8.19% and 9.34% at December 31, 2010. These have placed us in the top quartile of our peer group on these ratios. We have identified four primary uses of capital. The first is investing in our businesses, supporting our clients and our loan growth. Second is maintaining or increasing our common stock dividend. Third is to return capital in the form of share repurchase to our shareholders. And then fourth is to be disciplined and opportunistic about how we could invest in our franchise to include selective acquisitions over time. The Federal Reserve is currently conducting a review of our Capital Plan under the Comprehensive Capital Analysis and Review (CCAR) process. Until such time as they have completed their review and have no objection to our plan, we are not able to take any further actions to implement our plan. In the event the Federal Reserve would object to our plan, in whole or in part, we may submit a request for reconsideration of our plan within 10 days, which the Federal Reserve is required to respond to within 10 days. In such circumstances, absent receipt of a non-objection following a request for reconsideration, we would be required to re-submit our plan within 30 days. Upon receipt of a re-submitted capital plan, the Federal Reserve has 75 days to notify the BHC of its objection or non-objection. Should we receive an objection, it would likely delay any actions on capital management until later in the calendar year.

On January 11, 2012, we signed a purchase and assumption agreement to acquire 37 retail branches in Buffalo and Rochester, NY. The deposits associated with these branches total approximately $2.4 billion, while loans total approximately $400 million. We plan to use this excess liquidity to fund debt maturities and loan growth.

We are looking for opportunities to rationalize and optimize our existing branch network. In 2012, we plan to build approximately 20 new branches as compared to 40 new branches in 2011. Our focus will shift more toward relocations and consolidations to reposition our branch footprint, into more attractive market areas. Over the last two years, we have built 79 new branches, which net of closures and consolidations resulted in a net addition to our network of 51 branches. In addition, we have renovated approximately 129 branches during this time period. In total, approximately 40% of our branches are either new or have been renovated in the past five years as part of our branch modernization initiative.

Figure 4 presents certain non-GAAP financial measures related to tangible common equity and Tier 1 common equity. The tangible common equity ratio has been a focus for some investors. We believe this ratio may assist investors in analyzing our capital position without regard to the effects of intangible assets and preferred stock.

Traditionally, the banking regulators have assessed bank and bank holding company capital adequacy based on both the amount and the composition of capital, the calculation of which is prescribed in federal banking regulations. Since the commencement of the CCAR process in early 2009, the Federal Reserve has focused its assessment of capital adequacy on a component of Tier 1 risk-based capital known as Tier 1 common equity, a non-GAAP financial measure. Because the Federal Reserve has long indicated that voting common shareholders equity (essentially Tier 1 risk-based capital less preferred stock, qualifying capital securities and noncontrolling interests in subsidiaries) generally should be the dominant element in Tier 1 risk-based capital, this focus on Tier 1 common equity is consistent with existing capital adequacy categories. This increased focus on Tier 1 common equity is also present in the Basel Committee s Basel III guidelines, which U.S. regulators are expected to implement in the near future. The enactment of the Dodd-Frank Act also changes the regulatory capital standards that apply to bank holding companies by requiring regulators to create rules phasing out the treatment of capital securities and cumulative preferred securities as Tier 1 eligible capital. This three year phase-out period, which commences January 1, 2013, will ultimately result in our capital securities being treated only as Tier 2 capital.

Tier 1 common equity is neither formally defined by GAAP nor prescribed in amount by federal banking regulations; this measure is considered to be a non-GAAP financial measure. Since analysts and banking regulators may assess our capital adequacy using tangible common equity and Tier 1 common equity, we believe it is useful to enable investors to assess our capital adequacy on these same bases. Figure 4 also reconciles the GAAP performance measures to the corresponding non-GAAP measures.

Table of Contents

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

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.

Figure 4. GAAP to Non-GAAP Reconciliations

Year ended December 31,

dollars in million, except per share amounts			**2011**			**2010**	
TANGIBLE COMMON EQUITY TO TANGIBLE ASSETS							
Key shareholders equity (GAAP)		**$**	**9,905**		$	11,117	
Less:	Intangible assets		**934**			938	
	Preferred Stock, Series B					2,446	
	Preferred Stock, Series A		**291**			291	
	Tangible common equity (non-GAAP)	**$**	**8,680**		$	7,442	
Total assets (GAAP)		**$**	**88,785**		$	91,843	
Less:	Intangible assets		**934**			938	
	Tangible assets (non-GAAP)	**$**	**87,851**		$	90,905	
Tangible common equity to tangible assets ratio (non-GAAP)			**9.88**	**%**		8.19	%
TIER 1 COMMON EQUITY							
Key shareholders equity (GAAP)		**$**	**9,905**		$	11,117	
Qualifying capital securities			**1,046**			1,791	
Less:	Goodwill		**917**			917	
	Accumulated other comprehensive income (loss) [(a)]		**(72)**			(66)	
	Other assets [(b)]		**72**			248	
	Total Tier 1 capital (regulatory)		**10,034**			11,809	
Less:	Qualifying capital securities		**1,046**			1,791	
	Preferred Stock, Series B					2,446	
	Preferred Stock, Series A		**291**			291	
	Total Tier 1 common equity (non-GAAP)	**$**	**8,697**		$	7,281	
Net risk-weighted assets (regulatory) [(b)]		**$**	**77,214**		$	77,921	
Tier 1 common equity ratio (non-GAAP)			**11.26**	**%**		9.34	%
PRE-PROVISION NET REVENUE							
Net interest income (GAAP)		**$**	**2,267**		$	2,511	
Plus:	Taxable-equivalent adjustment		**25**			26	
	Noninterest income		**1,808**			1,954	
Less:	Noninterest expense		**2,790**			3,034	
Pre-provision net revenue from continuing operations (non-GAAP)		**$**	**1,310**		$	1,457	

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

(b) Other assets deducted from Tier 1 capital and net risk-weighted assets consist of disallowed deferred tax assets of $158 million at December 31, 2010, disallowed intangible assets (excluding goodwill), and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at December 31, 2011.

Results of Operations

Net interest income

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

¿ the volume, pricing, mix and maturity of earning assets and interest-bearing liabilities;

¿ the volume and value of net free funds, such as noninterest-bearing deposits and equity capital;

¿ the use of derivative instruments to manage interest rate risk;

- interest rate fluctuations and competitive conditions within the marketplace; and
- asset quality.

To make it easier to compare results among several periods and the yields on various types of earning assets (some taxable, some not), we present net interest income in this discussion on a taxable-equivalent basis (i.e., as if it were all taxable and at the same taxable 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 six 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 net interest income by average earning assets.

Taxable-equivalent net interest income for 2011 was $2.3 billion, and the net interest margin was 3.16%. These results compare to taxable-equivalent net interest income of $2.5 billion and a net interest margin of 3.26% for the prior year. The decrease in 2011 net interest income is primarily attributable to a lower level of average earning assets compared to the prior year, resulting primarily from pay downs on higher yielding loans, and the continuation of the low rate environment decreasing the value of noninterest bearing liabilities. We continue to experience an improvement in the mix of deposits by reducing the level of higher costing certificates of deposit and growing lower costing transaction accounts. We have also benefitted from pricing reductions on administered rate deposits.

Average earning assets for 2011 totaled $73 billion, which was $5.5 billion, or 7%, lower than the 2010 level. This reduction reflects a $5.4 billion decrease in loans during the year, caused by soft demand for credit, paydowns on our portfolios as commercial clients deleveraged, and the run-off in our exit portfolios.

The size and composition of our loan portfolios were affected by the following actions during 2011, 2010 and 2009:

- We sold $2 billion of commercial real estate loans during 2011 and $1.2 billion during 2010. Since some of these loans have been sold with limited recourse (i.e., there is a risk that we will be held accountable for certain events or representations made in the sales agreements), we established and have maintained a loss reserve in an amount that we believe is appropriate. More information about the related recourse agreement is provided in Note 16 (Commitments, Contingent Liabilities and Guarantees) under the heading Recourse agreement with FNMA.
- In addition to the sales of commercial real estate loans discussed above, we sold other loans totaling $1.5 billion (including $1.4 billion of residential real estate loans) during 2011 and $2 billion (including $1.6 billion of residential real estate loans) during 2010.
- In the fourth quarter of 2009, we transferred loans with a fair value of $82 million from held-for-sale status to the held-to-maturity portfolio as a result of current market conditions and our related plans to restructure the terms of these loans.
- We sold $487 million of education loans (included in discontinued assets on the balance sheet) during 2010. In late September 2009, we decided to exit the government-guaranteed education lending business and have applied discontinued operations accounting to the education lending business for all periods presented in this report. There were no education loans sold during 2011.
- We transferred $193 million of loans ($248 million, net of $55 million in net charge-offs) from the held-to-maturity loan portfolio to held-for-sale status in late September 2009, in conjunction with additional actions taken to reduce our exposure in the commercial real estate and institutional portfolios through the sale of selected assets. Most of these loans were sold during October 2009.

Table of Contents

Figure 5. Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates From Continuing Operations

Year ended December 31,	2011			2010			2009		
dollars in millions	Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance	Interest (a)	Yield/ Rate (a)
ASSETS									
Loans [b],[c]									
Commercial, financial and agricultural	**$ 17,240**	**$ 702**	**4.07 %**	$ 17,500	813	4.64 %	$ 23,181	1,038	4.48 %
Real estate commercial mortgage	**8,437**	**380**	**4.50**	10,027	491	4.90	11,310 (d)	557	4.93
Real estate construction	**1,677**	**73**	**4.36**	3,495	149	4.26	6,206 (d)	294	4.74
Commercial lease financing	**6,113**	**296**	**4.85**	6,754	352	5.21	8,220	369	4.48
Total commercial loans	**33,467**	**1,451**	**4.34**	37,776	1,805	4.78	48,917	2,258	4.61
Real estate residential mortgage	**1,850**	**97**	**5.25**	1,828	102	5.57	1,764	104	5.91
Home equity:									
Key Community Bank	**9,390**	**387**	**4.12**	9,773	411	4.20	10,214	445	4.36
Other	**598**	**46**	**7.66**	751	57	7.59	945	71	7.52
Total home equity loans	**9,988**	**433**	**4.34**	10,524	468	4.45	11,159	516	4.63
Consumer other Key Community Bank	**1,167**	**113**	**9.62**	1,158	132	11.44	1,202	127	10.62
Consumer other:									
Marine	**1,992**	**125**	**6.28**	2,497	155	6.23	3,097	193	6.22
Other	**142**	**11**	**7.87**	188	15	7.87	247	20	7.93
Total consumer other	**2,134**	**136**	**6.38**	2,685	170	6.34	3,344	213	6.35
Total consumer loans	**15,139**	**779**	**5.14**	16,195	872	5.39	17,469	960	5.50
Total loans	**48,606**	**2,230**	**4.59**	53,971	2,677	4.96	66,386	3,218	4.85
Loans held for sale	**387**	**14**	**3.58**	453	17	3.62	650	29	4.37
Securities available for sale [b],[g]	**18,766**	**584**	**3.20**	18,800	646	3.50	11,169	462	4.19
Held-to-maturity securities [b]	**514**	**12**	**2.35**	20	2	10.56	25	2	8.17
Trading account assets	**878**	**26**	**2.97**	1,068	37	3.47	1,238	47	3.83
Short-term investments	**2,543**	**6**	**.25**	2,684	6	.24	4,149	12	.28
Other investments [g]	**1,264**	**42**	**3.14**	1,442	49	3.08	1,478	51	3.11
Total earning assets	**72,958**	**2,914**	**4.02**	78,438	3,434	4.39	85,095	3,821	4.49
Allowance for loan and lease losses	**(1,250)**			(2,207)			(2,273)		
Accrued income and other assets	**10,385**			11,243			12,349		
Discontinued assets education lending business	**6,203**			6,677			4,269		
Total assets	**$ 88,296**			$ 94,151			$ 99,440		
LIABILITIES									
NOW and money market deposit accounts	**$ 27,001**	**71**	**.26**	25,712	91	.35	24,345	124	.51
Savings deposits	**1,958**	**1**	**.06**	1,867	1	.06	1,787	2	.07
	4,931	**149**	**3.02**	8,486	275	3.24	12,612	462	3.66

Certificates of deposit ($100,000 or more) [h]									
Other time deposits	**7,185**	**166**	**2.31**	10,545	301	2.86	14,535	529	3.64
Deposits in foreign office	**807**	**3**	**.30**	926	3	.34	802	2	.27
Total interest-bearing deposits	**41,882**	**390**	**.93**	47,536	671	1.41	54,081	1,119	2.07
Federal funds purchased and securities sold under repurchase agreements	**1,981**	**5**	**.27**	2,044	6	.31	1,618	5	.31
Bank notes and other short-term borrowings	**619**	**11**	**1.84**	545	14	2.63	1,907	16	.84
Long-term debt [h], [i]	**7,293**	**216**	**3.18**	7,211	206	3.09	9,455	275	3.16
Total interest-bearing liabilities	**51,775**	**622**	**1.21**	57,336	897	1.58	67,061	1,415	2.13
Noninterest-bearing deposits	**17,381**			15,856			12,964		
Accrued expense and other liabilities	**2,687**			3,131			4,340		
Discontinued liabilities education lending business [e], [i]	**6,203**			6,677			4,269		
Total liabilities	**78,046**			83,000			88,634		
EQUITY									
Key shareholders equity	**10,133**			10,895			10,592		
Noncontrolling interests	**117**			256			214		
Total equity	**10,250**			11,151			10,806		
Total liabilities and equity	**$ 88,296**			$ 94,151			$ 99,440		
Interest rate spread (TE)			**2.81 %**			2.81 %			2.36 %
Net interest income (TE) and net interest margin (TE)		**2,292**	**3.16 %**		2,537	3.26 %		2,406	2.83 %
TE adjustment [b]		**25**			26			26	
Net interest income, GAAP basis		**$ 2,267**			2,511			2,380	

Prior to the third quarter of 2009, average balances have not been adjusted to reflect our January 1, 2008, adoption of the applicable accounting guidance related to the offsetting of certain derivative contracts on the consolidated balance sheet.

(a) Results are from continuing operations. Interest excludes the interest associated with the liabilities referred to in (e) 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) In late March 2009, Key transferred $1.5 billion of loans from the construction portfolio to the commercial mortgage portfolio in accordance with regulatory guidelines pertaining to the classification of loans that have reached a completed status.

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

Table of Contents

Figure 5. Consolidated Balance Sheets, Net Interest Income and Yields/Rates From Continuing Operations (Continued)

2008			2007			2006			Compound Annual Rate of Change (2006-2011)	
Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance	Interest
$ 26,372	$ 1,446	5.48 %	$ 22,415	$ 1,622	7.23 %	$ 21,679	$ 1,547	7.13 %	(4.5)%	(14.6)%
10,576	640	6.05	8,802	675	7.67	8,167	628	7.68	.7	(9.6)
8,109	461	5.68	8,237	653	7.93	7,802	635	8.14	(26.5)	(35.1)
9,642	(425)	(4.41) (f)	10,154	606	5.97	9,773	595	6.08	(9.0)	(13.0)
54,699	2,122	3.88	49,608	3,556	7.17	47,421	3,405	7.18	(6.7)	(15.7)
1,909	117	6.11	1,525	101	6.64	1,430	93	6.49	5.3	.8
9,846	564	5.73	9,671	686	7.09	10,046	703	7.00	(1.3)	(11.3)
1,171	90	7.67	1,144	89	7.84	925	72	7.77	(8.4)	(8.6)
11,017	654	5.93	10,815	775	7.17	10,971	775	7.07	(1.9)	(11.0)
1,275	130	10.22	1,367	144	10.53	1,639	152	9.26	(6.6)	(5.8)
3,586	226	6.30	3,390	214	6.30	2,896	178	6.16	(7.2)	(6.8)
315	26	8.25	319	28	8.93	285	27	9.33	(13.0)	(16.4)
3,901	252	6.46	3,709	242	6.52	3,181	205	6.44	(7.7)	(7.9)
18,102	1,153	6.37	17,416	1,262	7.25	17,221	1,225	7.11	(2.5)	(8.7)
72,801	3,275	4.50	67,024	4,818	7.19	64,642	4,630	7.16	(5.5)	(13.6)
1,404	76	5.43	1,705	108	6.35	1,187	83	7.01	(20.1)	(29.9)
8,126	406	5.04	7,560	380	5.04	7,125	307	4.26	21.4	13.7
27	4	11.73	36	2	6.68	47	3	7.43	61.4	32.0
1,279	56	4.38	917	38	4.10	857	30	3.51	.5	(2.8)
1,615	31	1.96	846	37	4.34	791	33	4.15	26.3	(28.9)
1,563	51	3.02	1,524	52	3.33	1,362	82	5.78	(1.5)	(12.5)
86,815	3,899	4.49	79,612	5,435	6.82	76,011	5,168	6.79	(.8)	(10.8)
(1,341)			(944)			(946)			5.7	
14,736			12,672			12,881			(4.2)	
4,180			3,544			3,756			10.6	
$ 104,390			$ 94,884			$ 91,702			(.8)%	
$ 26,429	427	1.62	$ 24,070	762	3.17	$ 25,044	710	2.84	1.5 %	(36.9)
1,796	6	.32	1,591	3	.19	1,728	4	.23	2.5	(24.2)
9,385	398	4.25	6,389	321	5.02	5,581	261	4.67	(2.4)	(10.6)
13,300	556	4.18	11,767	550	4.68	11,592	481	4.14	(9.1)	(19.2)
3,501	81	2.31	4,287	209	4.87	2,305	120	5.22	(18.9)	(52.2)
54,411	1,468	2.70	48,104	1,845	3.84	46,250	1,576	3.41	(2.0)	(24.4)
2,847	57	2.00	4,330	208	4.79	2,215	107	4.80	(2.2)	(45.8)
5,931	130	2.20	2,423	104	4.28	2,284	94	4.12	(23.0)	(34.9)
10,392	382	3.94	9,222	493	5.48	10,495	552	5.26	(7.0)	(17.1)

73,581	2,037	2.80	64,079	2,650	4.15	61,244	2,329	3.80	(3.3)	(23.2)
10,596			13,418			12,803			6.3	
6,920			5,969			6,077			(15.1)	
4,180			3,544			3,756			10.6	
95,277			87,010			83,880			(1.4)	
8,923			7,722			7,734			5.6	
190			152			88			5.9	
9,113			7,874			7,822			5.6	
$ 104,390			$ 94,884			$ 91,702			(.8)%	
		1.69 %			2.67 %			2.99 %		
	1,862 (f)	2.15 % (f)		2,785	3.50 %		2,839	3.73 %		(4.2)
	(454)			99			103			(24.7)
	$ 2,316			$ 2,686			$ 2,736			(3.7)%

(f) During the fourth quarter of 2008, our taxable-equivalent net interest income was reduced by $18 million as a result of an agreement reached with the IRS on all material aspects related to the IRS global tax settlement pertaining to certain leveraged lease financing transactions. During the second quarter of 2008, our taxable-equivalent net interest income was reduced by $838 million following an adverse federal court decision on our tax treatment of a leveraged sale-leaseback transaction. During the first quarter of 2008, we increased our tax reserves for certain LILO transactions and recalculated our lease income in accordance with prescribed accounting standards. These actions reduced our first quarter 2008 taxable-equivalent net interest income by $34 million. Excluding all of these reductions, the taxable-equivalent yield on our commercial lease financing portfolio would have been 4.82% for 2008, and our taxable-equivalent net interest margin would have been 3.13%.

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

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

(i) 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.

Table of Contents

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

in millions	2011 vs. 2010 Average Volume	Yield/ Rate	Net Change (a)	2010 vs. 2009 Average Volume	Yield/ Rate	Net Change (a)
INTEREST INCOME						
Loans	**$ (255)**	**$ (192)**	**$ (447)**	$ (614)	$ 73	$ (541)
Loans held for sale	**(2)**	**(1)**	**(3)**	(8)	(4)	(12)
Securities available for sale	**(1)**	**(61)**	**(62)**	273	(89)	184
Held-to-maturity securities	**13**	**(3)**	**10**			
Trading account assets	**(6)**	**(5)**	**(11)**	(6)	(4)	(10)
Short-term investments				(4)	(2)	(6)
Other investments	**(6)**	**(1)**	**(7)**	(1)	(1)	(2)
Total interest income (TE)	**(257)**	**(263)**	**(520)**	(360)	(27)	(387)
INTEREST EXPENSE						
NOW and money market deposit accounts	**4**	**(24)**	**(20)**	7	(40)	(33)
Savings deposits					(1)	(1)
Certificates of deposit ($100,000 or more)	**(109)**	**(17)**	**(126)**	(138)	(49)	(187)
Other time deposits	**(84)**	**(51)**	**(135)**	(128)	(100)	(228)
Deposits in foreign office					1	1
Total interest-bearing deposits	**(189)**	**(92)**	**(281)**	(259)	(189)	(448)
Federal funds purchased and securities sold under repurchase agreements		**(1)**	**(1)**	1		1
Bank notes and other short-term borrowings	**2**	**(5)**	**(3)**	(17)	15	(2)
Long-term debt	**2**	**8**	**10**	(64)	(5)	(69)
Total interest expense	**(185)**	**(90)**	**(275)**	(339)	(179)	(518)
Net interest income (TE)	**$ (72)**	**$ (173)**	**$ (245)**	$ (21)	$ 152	$ 131

(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

Noninterest income for 2011 was $1.8 billion, down $146 million, or 7%, from 2010. In 2010, noninterest income decreased by $81 million, or 4%, compared to 2009.

Noninterest income for 2011 decreased $92 million as compared to 2010, when excluding the gain realized from the sale of Tuition Management Systems along with income generated by the business unit during 2010 totaling $54 million. Operating lease income decreased $51 million due to product run-off. Deposit service charges decreased $20 million during 2011, reflecting the full-year impact of the implementation of Regulation E in the third quarter of 2010. Favorable results from letter of credit and loan fees and net gains from principal investing (including results attributable to noncontrolling interests) were more than offset by declines in trust and investment services income, corporate-owned life insurance income, net securities gains, insurance income and investment banking and capital market income.

Noninterest income for 2010 increased by $205 million as compared to 2009, when excluding the several significant items that affected noninterest income in 2009. In 2009, these items included net gains of $125 million from repositioning of the securities portfolio, $78 million recorded in connection with the exchange of Common Shares for capital securities, $32 million from the sale of our claim associated with the Lehman Brothers bankruptcy and a $105 million gain from the sale of Visa Inc. shares.

As shown in Figure 7, we benefited from a $187 million increase in investment banking and capital market income, $76 million in net gains from loan sales in 2010 compared to a $1 million loss in 2009, and $66 million in net gains from principal investing (including results attributable to noncontrolling interests) in 2010 compared to a $4 million loss in 2009. These favorable results were partially offset by a $79 million decline in net gains on the sale of leased equipment.

Table of Contents

Figure 7. Noninterest Income

Year ended December 31,				Change 2011 vs. 2010	
dollars in millions	**2011**	2010	2009	Amount	Percent
Trust and investment services income	**$ 434**	$ 444	$ 459	$ (10)	(2.3) %
Service charges on deposit accounts	**281**	301	330	(20)	(6.6)
Operating lease income	**122**	173	227	(51)	(29.5)
Letter of credit and loan fees	**213**	194	180	19	9.8
Corporate-owned life insurance income	**121**	137	114	(16)	(11.7)
Net securities gains (losses)	**1**	14	113	(13)	(92.9)
Electronic banking fees	**114**	117	105	(3)	(2.6)
Gains on leased equipment	**25**	20	99	5	25.0
Insurance income	**53**	64	68	(11)	(17.2)
Net gains (losses) from loan sales	**75**	76	(1)	(1)	(1.3)
Net gains (losses) from principal investing	**78**	66	(4)	12	18.2
Investment banking and capital markets income	**134**	145	(42)	(11)	(7.6)
Gain from sale/redemption of Visa Inc. shares			105		
Gain (loss) related to exchange of common shares for capital securities			78		
Other income	**157**	203	204	(46)	(22.7)
Total noninterest income	**$ 1,808**	$ 1,954	$ 2,035	$ (146)	(7.5) %

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 are our largest source of noninterest income. The primary components of revenue generated by these services are shown in Figure 8. The 2011 and 2010 decreases of $10 million, or 2%, and $15 million, or 3%, respectively, are primarily attributable to lower fixed income sales reflected in brokerage commissions and institutional asset management and custody fees. The increase in personal asset management and custody fees is largely offset by the impact of outflows in security lending assets and money market mutual funds reflected in institutional asset management and custody fees.

Figure 8. Trust and Investment Services Income

Year ended December 31,				Change 2011 vs. 2010	
dollars in millions	**2011**	2010	2009	Amount	Percent
Brokerage commissions and fee income	**$ 132**	$ 134	$ 151	$ (2)	(1.5) %
Personal asset management and custody fees	**153**	149	141	4	2.7
Institutional asset management and custody fees	**149**	161	167	(12)	(7.5)
Total trust and investment services income	**$ 434**	$ 444	$ 459	$ (10)	(2.3) %

A significant portion of our trust and investment services income depends on the value and mix of assets under management. At December 31, 2011, our bank, trust and registered investment advisory subsidiaries had assets under management of $51.7 billion, compared to $59.8 billion at December 31, 2010. As shown in Figure 9, the decrease was primarily attributable to reductions in the equity and securities lending portfolios. The decline in the equity portfolio was due in part to asset outflows and market value declines. The decrease in the value of our portfolio of hedge funds is attributable to our second quarter 2009 decision to wind down the operations of Austin (results included in discontinued operations). Our securities lending business has been declining due to our de-emphasis of this business resulting in lower transaction volumes, client departures and fewer assets under management.

50

Table of Contents

Figure 9. Assets Under Management

December 31,					Change 2011 vs. 2010	
dollars in millions	**2011**		**2010**	**2009**	**Amount**	**Percent**
Assets under management by investment type:						
Equity	**$ 30,086**		$ 38,083	$ 36,720	$ (7,997)	(21.0) %
Securities lending	**4,950**		5,716	11,023	(766)	(13.4)
Fixed income	**10,684**		10,191	10,230	493	4.8
Money market	**5,850**		5,544	7,861	306	5.5
Hedge funds[(a)]	**162**		281	1,105	(119)	(42.3)
Total	**$ 51,732**	(b)	$ 59,815	$ 66,939	$ (8,083)	(13.5) %
Proprietary mutual funds included in assets under management:						
Money market	**$ 3,503**		$ 4,047	$ 5,778	$ (544)	(13.4) %
Equity	**6,014**		7,587	7,223	(1,573)	(20.7)
Fixed income	**1,096**		1,007	775	89	8.8
Total	**$ 10,613**		$ 12,641	$ 13,776	$ (2,028)	(16.0) %

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

(b) This figure has been revised from what has previously been disclosed in our earnings release on January 24, 2012.

Service charges on deposit accounts

The decreases in service charges on deposit accounts in both 2011 and 2010 are primarily due to the implementation of Regulation E pursuant to the Electronic Fund Transfer Act of 1978, which went into effect on July 1, 2010 for new clients and August 15, 2010 for our existing clients, partially offset by core deposit account growth.

Operating lease income

Operating lease income recorded in our Equipment Finance line of business decreased $51 million during 2011 and decreased $54 million in 2010 compared to the prior years due to product run-off. Accordingly, as shown in Figure 11, operating lease expense also declined.

Investment banking and capital markets income (loss)

As shown in Figure 10, income from investment banking and capital markets activities decreased $11 million in 2011. Other investment income increased $15 million from 2010 resulting from gains on sale of certain investments made by our Real Estate Capital and Corporate Banking Services line of business in Key Corporate Bank. Dealer trading and derivative losses increased $6 million from 2010 as a decrease in the provision for losses related to customer derivatives was more than offset by an increase related to credit default swap valuation adjustments. Also impacting this line item was a $24 million charge resulting from Visa s late fourth quarter announcement of a planned increase to its litigation escrow deposit. Investment banking income decreased $20 million compared to 2010 due primarily to decreased levels of equity financings and advisor fees.

The 2010 increase, as compared to 2009, was driven by lower losses from changes in the fair value of certain commercial real estate related investments totaling $109 million made by our Real Estate Capital and Corporate Banking Services line of business in Key Corporate Bank. We also experienced a $54 million decrease in losses associated with dealer trading and derivatives due largely to a $36 million decrease in the provision for losses related to customer derivatives and a $14 million decrease related to credit default swap valuation adjustments. Investment banking income also increased $29 million due primarily to increased levels of debt and equity financings.

Table of Contents

Figure 10. Investment Banking and Capital Markets Income (Loss)

Year ended December 31,				**Change 2011 vs. 2010**	
dollars in millions	**2011**	**2010**	**2009**	**Amount**	**Percent**
Investment banking income (loss)	**$ 92**	$ 112	$ 83	$ (20)	(17.9) %
Income (loss) from other investments	**21**	6	(103)	15	250.0
Dealer trading and derivatives income (loss), proprietary [(a), (b)]	**(24)**	(15)	11	(9)	N/M
Dealer trading and derivatives income (loss), non-proprietary [(b)]	**2**	(1)	(81)	3	N/M
Total dealer trading and derivatives income (loss)	**(22)**	(16)	(70)	(6)	N/M
Foreign exchange income (loss)	**43**	43	48		
Total investment banking and capital markets income (loss)	**$ 134**	$ 145	$ (42)	$ (11)	(7.6) %

(a) For the years ended December 31, 2011 and 2010, fixed income and equity securities trading comprise the vast majority of this amount. In both years, income related to foreign exchange and interest rate derivative trading was less than $4 million and was offset by losses from our credit portfolio management activities.

(b) The allocation between proprietary and non-proprietary is made based upon whether the trade is conducted for the benefit of Key or Key s client; rather than based upon the proposed rulemakings under the Volcker Rule. The prohibitions and restrictions on proprietary trading activities contemplated by the Volcker Rule and the rules proposed thereunder are not yet final, and, therefore, the ultimate impact of the rules proposed under the Volcker Rule is not yet known. Fee income or interest income is not included above.

Corporate-owned life insurance income

The $16 million, or 12%, decrease in our 2011 corporate-owned life insurance income results primarily from the impact of a nonrecurring $12 million bonus dividend received in 2010.

Net gains (losses) from loan sales

We sell loans to achieve desired interest rate and credit risk profiles of the overall loan portfolio. Net gains from loan sales remained relatively unchanged during 2011 compared to 2010, while 2009 results were impacted by distressed market conditions. The types of loans sold during 2011 and 2010 are presented in Figure 20.

Net gains (losses) from principal investing

Principal investments consist of direct and indirect investments in predominantly privately-held companies. Our principal investing income is susceptible to volatility since most of it is derived from mezzanine debt and equity investments in small to medium-sized businesses. These investments are carried on the balance sheet at fair value ($709 million at December 31, 2011, and $898 million at December 31, 2010). During the first half of 2011, employees who managed our various principal investments formed two independent entities that will serve as investment managers of these investments going forward. Under this arrangement, which was mutually agreeable to both parties, these individuals are no longer employees of Key. As a result of these changes, which were made during the second quarter of 2011, we deconsolidated certain of these direct and indirect investments totaling $234 million. The net gains (losses) presented in Figure 7 derive from changes in fair values as well as sales of principal investments.

Noninterest expense

As shown in Figure 11, noninterest expense for 2011 was $2.8 billion, down $244 million, or 8%, from 2010. In 2010, noninterest expense declined by $520 million, or 15% from 2009.

In 2011, personnel expense increased by $49 million driven by higher levels of incentive compensation. Nonpersonnel expense decreased $293 million due primarily to a $72 million decrease in the FDIC assessment, a $55 million decrease in net OREO expense, a $48 million decrease in operating lease expense due to product run-off as well as favorable reductions across several expense categories as a result of our expense management efforts. These favorable results were partially offset by the provision for unfunded commitments which was a credit of $28 million in 2011 compared to a credit of $48 million in 2010.

In 2010, personnel expense decreased by $43 million from 2009. Excluding intangible assets impairment charges of $241 million, nonpersonnel expense decreased by $279 million, due primarily to a $53 million decrease in the FDIC deposit insurance assessment, a $53 million decrease in operating lease expense, a $29 million decrease in costs associated with OREO, and a $48 million credit recorded to the provision for losses on lending-related commitments recorded during 2010, compared to a $67 million expense recorded for 2009. More information about the intangible assets impairment charges is provided in this section under the heading Intangible assets impairment.

Figure 11. Noninterest Expense

Year ended December 31,				**Change 2011 vs. 2010**	
dollars in millions	**2011**	**2010**	**2009**	**Amount**	**Percent**
Personnel	**$ 1,520**	$ 1,471	$ 1,514	$ 49	3.3 %
Net occupancy	**258**	270	259	(12)	(4.4)
Operating lease expense	**94**	142	195	(48)	(33.8)
Computer processing	**166**	185	192	(19)	(10.3)
Business services and professional fees	**186**	176	184	10	5.7
FDIC assessment	**52**	124	177	(72)	(58.1)
OREO expense, net	**13**	68	97	(55)	(80.9)
Equipment	**103**	100	96	3	3.0
Marketing	**60**	72	72	(12)	(16.7)
Provision (credit) for losses on lending-related commitments	**(28)**	(48)	67	20	(41.7)
Intangible assets impairment			241		
Other expense	**366**	474	460	(108)	(22.8)
Total noninterest expense	**$ 2,790**	$ 3,034	$ 3,554	$ (244)	(8.0)%
Average full-time equivalent employees[a]	**15,381**	15,610	16,698	(229)	(1.5)%

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

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

Personnel

As shown in Figure 12, personnel expense, the largest category of our noninterest expense, increased by $49 million, or 3%, in 2011, following a $43 million, or 3%, decline in 2010 from 2009. The 2011 increase was due largely to a $40 million increase in incentive compensation accruals on improved profitability. Employee benefits expense increased $5 million due to increased medical plan expenses. Salaries expense increased $6 million due to higher levels of contract labor as the reduction in the number of average full-time equivalent employees offset the impact of base salary increases. Severance expense also increased by $5 million while stock-based compensation decreased by $7 million.

The 2010 decrease was due largely to a $79 million decrease in our employee benefits expense. The employee benefit expense decrease was caused by a decline in pension expense as a result of amending our cash balance pension plan to freeze future service benefit accruals and the resulting change in certain pension plan assumptions. For more information related to our pension plans, see Note 19 (Employee Benefits). The decrease in employee benefits expense was partially offset by $44 million in increased incentive compensation accruals on improved profitability.

Table of Contents

Figure 12. Personnel Expense

Year ended December 31,				Change 2011 vs. 2010	
dollars in millions	**2011**	**2010**	**2009**	**Amount**	**Percent**
Salaries	**$ 919**	$ 913	$ 905	$ 6	.7 %
Incentive compensation	**306**	266	222	40	15.0
Employee benefits	**229**	224	303	5	2.2
Stock-based compensation [(a)]	**45**	52	51	(7)	(13.5)
Severance	**21**	16	33	5	31.3
Total personnel expense	**$ 1,520**	$ 1,471	$ 1,514	$ 49	3.3 %

(a) Excludes directors stock-based compensation of less than $1 million in 2011, $2 million in 2010 and $3 million in 2009 reported as other expense in Figure 11.

Intangible assets impairment

During the third quarter of 2009, we recorded a $45 million charge to write-off intangible assets, other than goodwill, associated with actions taken to cease conducting business in certain equipment leasing markets. During the first quarter of 2009, we determined that the estimated fair value of our Key Corporate Bank reporting unit was less than the carrying amount, reflecting continued weakness in the financial markets. As a result, we recorded a pre-tax noncash accounting charge of $223 million, of which $27 million related to the discontinued operations of Austin. As a result of this charge, all of the goodwill that had been assigned to Key Corporate Bank has been written off.

Operating lease expense

The decrease in operating lease expense in both 2011 and 2010 compared to the prior year is primarily attributable to product run-off. Income related to the rental of leased equipment is presented in Figure 7 as operating lease income.

FDIC Assessment

FDIC assessment expense decreased in 2011 as a result of the change in the calculation method for deposit insurance assessments, as discussed in the Deposits and other sources of funds section under the The Dodd-Frank Act reform of deposit insurance heading. FDIC assessment expense was unfavorably impacted in 2009 primarily by a one time special assessment recorded in the second quarter of 2009. This increase was partially offset by opting out of the Temporary Liquidity Guarantee Program (TLGP), Transaction Account Guarantee (TAG) program effective July 1, 2010.

OREO expense

Improved liquidity for income producing properties that began in 2010 and carried through into 2011 resulted in a $8 million increase in net gains on sale of OREO in 2011 compared to the year ago while valuation write-downs decreased $43 million. OREO expense decreased in 2010 compared to 2009 primarily as a result of $7 million in net gains on sale recorded in 2010 compared to net loss on sales of $26 million in 2009.

Provision (credit) for losses on lending-related commitments

The provision for losses on lending-related commitments fluctuated during the years shown as a result of variability in underlying credit quality and levels of unfunded commitments.

Income taxes

We recorded a tax provision from continuing operations of $369 million for 2011, compared to a tax provision of $186 million for 2010 and a tax benefit of $1.035 billion for 2009. The effective tax rate, which is the provision for income taxes as a percentage of income from continuing

operations before income taxes, was 27.4% for 2011, compared to 23.4% for 2010 and 45.0% for 2009.

Table of Contents

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.

During 2010, we recorded domestic deferred income tax expense of $32 million as the result of management s change in assertion as to indefinitely reinvesting in non-US subsidiaries. In 2009, we recorded a $106 million credit to income taxes, due primarily to the settlement of IRS audits for the tax years 1997-2006. The credit includes a final adjustment of $80 million related to the resolution of certain lease financing tax issues.

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. During the first quarter of 2010, we re-aligned our reporting structure for our business segments. Prior to 2010, Consumer Finance consisted mainly of portfolios that were identified as exit or run-off portfolios and were included in our Key Corporate Bank segment. Effective for all periods presented, we are reflecting the results of these exit portfolios in Other Segments. The automobile dealer floor plan business, previously included in Consumer Finance, has been realigned with the Commercial Banking line of business within the Key Community Bank segment. In addition, other previously identified exit portfolios included in the Key Corporate Bank segment have been moved to Other Segments. Note 21 (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 their respective lines of business, and explains Other Segments and Reconciling Items.

Figure 13 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 13. Major Business Segments - Taxable-Equivalent (TE) Revenue from Continuing Operations and Income (Loss) from Continuing Operations Attributable to Key

Year ended December 31,				**Change 2011 vs. 2010**	
dollars in millions	**2011**	**2010**	**2009**	**Amount**	**Percent**
REVENUE FROM CONTINUING OPERATIONS (TE)					
Key Community Bank	**$ 2,234**	$ 390	$ 2,480	$ (156)	(6.5) %
Key Corporate Bank	**1,569**	1,635	1,563	(66)	(4.0)
Other Segments	**317**	425	298	(108)	(25.4)
Total Segments	**4,120**	4,450	4,341	(330)	(7.4)
Reconciling Items[(a)]	**(20)**	41	100	(61)	(148.8)
Total	**$ 4,100**	$ 4,491	$ 4,441	$ (391)	(8.7) %
INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO KEY					
Key Community Bank	**$ 213**	$ 155	$ (68)	$ 58	37.4 %
Key Corporate Bank	**565**	424	(987)	141	33.3
Other Segments	**181**		(418)	181	N/M
Total Segments	**959**	579	(1,473)	380	65.6
Reconciling Items[(a)]	**5**	(2)	186	7	N/M
Total	**$ 964**	$ 577	$ (1,287)	$ 387	67.1 %

(a)

Reconciling Items for 2009 include a $106 million credit to income taxes, due primarily to the settlement of IRS audits for the tax years 1997-2006. Results for 2009 also include a $32 million ($20 million after tax) gain from the sale of our claim associated with the Lehman Brothers bankruptcy and a $105 million ($65 million after tax) gain from the sale of our remaining equity interest in Visa Inc.

Table of Contents

Key Community Bank summary of operations

As shown in Figure 14, Key Community Bank recorded net income attributable to Key of $213 million for 2011, compared to net income of $155 million for 2010, and a net loss of $68 million for 2009. The increase in 2011 was the result of improvement in the provision for loan and lease losses.

Taxable-equivalent net interest income declined by $130 million, or 8%, from 2010 as a result of a decline in average deposits, and tighter deposit spreads. Average loans and leases declined by $736 million, or 3%, due to reductions in the commercial and home equity portfolios. Additionally, average deposits declined $1.8 billion, or 4%. A $5.4 billion reduction in CD balances were partially offset by growth in noninterest bearing and NOW accounts, which reflects changes in client preferences and liquidity levels among both consumer and business clients. Additionally, higher-priced CDs, originated in prior years, have continued to mature and reprice at prevailing market rates.

Noninterest income decreased by $26 million, or 3%, from 2010, due in part to a decline of $16 million in service charges on deposits from the implementation of Regulation E. Insurance income from the bank-based brokerage (Key Investment Services) also decreased $11 million which is reflective of the current market and interest rate environment. Letter of credit and loan fees also decreased $3 million from 2010. These declines were partially offset by a $4 million increase in trust and investment services income and increased syndication fees which is representative of continued collaboration with Key Corporate Bank. Government pricing controls, which limited debit card interchange fees, effective October 1, 2011, caused a $15 million fourth quarter decrease in debit card income, confirming our previously reported $50 to $60 million estimated annualized decline to our debit interchange revenue stream.

The provision for loan and lease losses declined by $253 million, or 61%, from 2010. Net charge offs have declined $223 million, or 44%, from 2010 as a result of continued progress in the economic environment and further improvement in credit quality of the portfolio.

Noninterest expense remained flat compared to 2010. We experienced a $66 million decline in FDIC deposit insurance premiums, which was partially offset by increases in the provision for unfunded commitments, business services and professional fees reflecting the cost of our third-party mortgage operations, and increased personnel and real estate costs, which were commensurate with a continued investment in our branch network. Over the last two years, we have built 79 new branches; which net of closures and consolidations resulted in a net addition to our network of 51 branches. In addition, we have renovated approximately 129 branches during this time period. In total, approximately 40% of our branches are either new or have been renovated in the past five years as of our branch modernization initiative.

In 2010, the $223 million increase in net income attributable to Key compared to 2009 was due to decreases in the provision for loan and lease losses of $318 million coupled with an increase in noninterest income of $14 million. Taxable-equivalent net interest income decreased $104 million, partially offsetting these positive results.

Figure 14. Key Community Bank

Year ended December 31,				**Change 2011 vs. 2010**	
dollars in millions	**2011**	**2010**	**2009**	**Amount**	**Percent**
SUMMARY OF OPERATIONS					
Net interest income (TE)	**$ 1,488**	$ 1,618	$ 1,722	$ (130)	(8.0) %
Noninterest income	**746**	772	758	(26)	(3.4)
Total revenue (TE)	**2,234**	2,390	2,480	(156)	(6.5)
Provision (credit) for loan and lease losses	**160**	413	731	(253)	(61.3)
Noninterest expense	**1,825**	1,818	1,937	7	.4
Income (loss) before income taxes (TE)	**249**	159	(188)	90	56.6
Allocated income taxes and TE adjustments	**36**	4	(120)	32	800.0
Net income (loss) attributable to Key	**$ 213**	$ 155	$ (68)	$ 58	37.4 %
AVERAGE BALANCES					
Loans and leases	**$ 26,308**	$ 27,044	$ 29,747	$ (736)	(2.7) %
Total assets	**29,744**	30,254	32,564	(510)	(1.7)

Deposits	**47,893**	49,652	52,525	(1,759)	(3.5)
Assets under management at year end	**$ 17,938**	$ 18,788	$ 17,709	$ (850)	(4.5) %

ADDITIONAL KEY COMMUNITY BANK DATA

Year ended December 31, *dollars in millions*	**2011**	2010	2009	**Change 2011 vs. 2010** Amount	Percent
AVERAGE DEPOSITS OUTSTANDING					
NOW and money market deposit accounts	**$ 21,961**	$ 19,682	$ 17,515	$ 2,279	11.6 %
Savings deposits	**1,952**	1,855	1,767	97	5.2
Certificates of deposits ($100,000 or more)	**4,021**	6,065	8,629	(2,044)	(33.7)
Other time deposits	**7,169**	10,497	14,506	(3,328)	(31.7)
Deposits in foreign office	**385**	428	566	(43)	(10.0)
Noninterest-bearing deposits	**12,405**	11,125	9,542	1,280	11.5
Total deposits	**$ 47,893**	$ 49,652	$ 52,525	$ (1,759)	(3.5) %
HOME EQUITY LOANS					
Average balance	**$ 9,390**	$ 9,773	$ 10,214		
Weighted-average loan-to-value ratio (at date of origination)	**70 %**	70 %	70 %		
Percent first lien positions	**53**	53	53		
OTHER DATA					
Branches	**1,058**	1,033	1,007		
Automated teller machines	**1,579**	1,531	1,495		

Key Corporate Bank summary of operations

As shown in Figure 15, Key Corporate Bank recorded net income from continuing operations attributable to Key of $565 million for 2011, compared to net income of $424 million for 2010 and a net loss of $987 million for 2009. The 2011 improvement was primarily due to an increased credit in the provision for loan and lease losses, as lower taxable equivalent net interest income was offset by improvements in noninterest income and noninterest expense.

Taxable-equivalent net interest income declined by $93 million, or 12%, in 2011 compared to 2010. This is primarily due to the deposit and borrowing spread, which declined by $79 million, or 28%. This decline was driven by a reduction in the value of deposits resulting from historically low interest rates and the movement of $1.5 billion in escrow balances out of the Real Estate Capital line of business to a third party in the first quarter of 2011. Average earning assets fell by $3.1 billion, or 14%, due primarily to reductions in the real estate loan portfolios; however, strong commercial loan growth in the second half of 2011 resulted in a $483 million increase in period end loans from December 31, 2010. Lower average earning asset balances were offset by improved earning asset yields and an increase in loan-related interest fees.

Noninterest income increased by $27 million, or 3%, from 2010, due in part to increases of $22 million in letter of credit and loan fees, and $39 million in gains on the disposition of certain investments held by the Real Estate Capital line of business. The growth in noninterest income was offset in part by a $15 million decrease in trust and investment services income related to a reduction in institutional asset management and custody fees and a $25 million decline in operating lease revenue.

The Key Corporate Bank provision for loan and lease losses in 2011 was a credit of $198 million compared to a credit of $28 million in 2010, reflecting lower levels of net loan charge-offs, and a release of loss reserves due to improved credit quality. Net loan charges-offs decreased $469 million from 2010 to $138 million in 2011.

Noninterest expense declined by $121 million, or 12%, from 2010, due primarily to net OREO recoveries recorded in 2011 of $5 million versus $46 million in net OREO expense in 2010. Further expense reductions were realized, including a $21 million decline in operating lease expense on product run-off, a $55 million decline in other various expense categories, and a $16 million decline in internally allocated overhead and support costs. These reductions were partially offset by a $43 million increase in personnel expense.

Table of Contents

The 2010 improvement in net income from continuing operations attributable to Key related to a decrease in the provision for loan losses, an increase in noninterest income, and a decrease in noninterest expense, partially offset by a decrease in net interest income. Taxable-equivalent net interest income declined by $74 million, or 9% in 2010 compared to 2009 due primarily to decreased earning assets. Noninterest income increased $146 million or 21% driven by fair value adjustments on other real estate investments taken in 2009, and increased investment banking and debt placement fees. The provision for loan and lease losses decreased $1.9 billion on improved credit quality. Noninterest expense decreased $251 million or 20% driven by the decreased provision for lending related commitments, a decrease in intangible amortization expense, decreased miscellaneous expense, and the intangible asset impairment charge taken in 2009.

Figure 15. Key Corporate Bank

Year ended December 31,				**Change 2011 vs. 2010**	
dollars in millions	**2011**	**2010**	**2009**	**Amount**	**Percent**
SUMMARY OF OPERATIONS					
Net interest income (TE)	**$ 703**	$ 796	$ 870	$ (93)	(11.7) %
Noninterest income	**866**	839	693	27	3.2
Total revenue (TE)	**1,569**	1,635	1,563	(66)	(4.0)
Provision (credit) for loan and lease losses	**(198)**	(28)	1,826	(170)	N/M
Noninterest expense	**877**	998	1,249	(121)	(12.1)
Income (loss) before income taxes (TE)	**890**	665	(1,512)	225	33.8
Allocated income taxes and TE adjustments	**325**	242	(520)	83	34.3
Net income (loss)	**565**	423	(992)	142	33.6
Less: Net income (loss) attributable to noncontrolling interests		(1)	(5)	1	N/M
Net income (loss) attributable to Key	**$ 565**	$ 424	$ (987)	$ 141	33.3 %
AVERAGE BALANCES					
Loans and leases	**$ 17,402**	$ 20,370	$ 27,235	$ (2,968)	(14.6) %
Loans held for sale	**302**	314	418	(12)	(3.8)
Total assets	**21,547**	24,348	32,965	(2,801)	(11.5)
Deposits	**10,795**	12,235	12,709	(1,440)	(11.8)
Assets under management at year end	**$ 33,794**	$ 41,027	$ 49,230	$ (7,233)	(17.6) %

Other Segments

Other Segments consists of Corporate Treasury, our Principal Investing unit and various exit portfolios that previously were included in the Key Corporate Bank segment. These exit portfolios were moved to Other Segments during the first quarter of 2010. Prior periods have been adjusted to conform to the current reporting of the financial information for each segment.

Other Segments generated net income attributable to Key of $181 million for 2011, compared to net income attributable to Key of less than $1 million for 2010. The 2010 results reflect a $15 million decrease in net interest income and a decrease in the loan loss provision of $278 million offset by various other items.

In 2010, Other Segments generated net income attributable to Key of less than $1 million, compared to a net loss attributable to Key of $418 million for 2009. The 2009 results reflect a $273 million increase in net interest income and a decrease in the loan loss provision of $331 million offset by various other items.

Table of Contents

Financial Condition

Loans and loans held for sale

Figure 16 shows the composition of our loan portfolio at December 31, for each of the past five years.

Figure 16. Composition of Loans

December 31, *dollars in millions*	2011 Amount	2011 Percent of Total	2010 Amount	2010 Percent of Total	2009 Amount	2009 Percent of Total
COMMERCIAL						
Commercial, financial and agricultural	**$ 19,378**	**39.1 %**	$ 16,441	32.8 %	$ 19,248	32.7 %
Commercial real estate:[a]						
Commercial mortgage	**8,037**	**16.2**	9,502	19.0	10,457 [b]	17.8
Construction	**1,312**	**2.6**	2,106	4.2	4,739 [b]	8.1
Total commercial real estate loans	**9,349**	**18.8**	11,608	23.2	15,196	25.9
Commercial lease financing	**6,055**	**12.2**	6,471	12.9	7,460	12.7
Total commercial loans	**34,782**	**70.1**	34,520	68.9	41,904	71.3
CONSUMER						
Real estate residential mortgage	**1,946**	**3.9**	1,844	3.7	1,796	3.1
Home equity:						
Key Community Bank	**9,229**	**18.6**	9,514	19.0	10,048	17.1
Other	**535**	**1.1**	666	1.3	838	1.4
Total home equity loans	**9,764**	**19.7**	10,180	20.3	10,886	18.5
Consumer other Key Community Bank	**1,192**	**2.4**	1,167	2.3	1,181	2.0
Consumer other:						
Marine	**1,766**	**3.6**	2,234	4.5	2,787	4.7
Other	**125**	**.3**	162	.3	216	.4
Total consumer other	**1,891**	**3.9**	2,396	4.8	3,003	5.1
Total consumer loans	**14,793**	**29.9**	15,587	31.1	16,866	28.7
Total loans[c]	**$ 49,575**	**100.0 %**	$ 50,107	100.0 %	$ 58,770	100.0 %

	2008 Amount	2008 Percent of Total	2007 Amount	2007 Percent of Total
COMMERCIAL				
Commercial, financial and agricultural	$ 27,260	37.4 %	$ 24,797	35.2 %
Commercial real estate: [a]				
Commercial mortgage	10,819	14.9	9,630	13.7
Construction	7,717	10.6	8,102	11.5
Total commercial real estate loans	18,536	25.5	17,732	25.2
Commercial lease financing	9,039	12.4	10,176	14.4
Total commercial loans	54,835	75.3	52,705	74.8
CONSUMER				

Real estate residential mortgage		1,908	2.6			1,594	2.3	
Home equity:								
Key Community Bank		10,124	13.9			9,655	13.7	
Other		1,051	1.4			1,262	1.8	
Total home equity loans		11,175	15.3			10,917	15.5	
Consumer other Key Community Bank		1,233	1.7			1,298	1.8	
Consumer other:								
Marine		3,401	4.7			3,637	5.1	
Other		283	.4			341	.5	
Total consumer other		3,684	5.1			3,978	5.6	
Total consumer loans		18,000	24.7			17,787	25.2	
Total loans[c]	$	72,835	100.0	%	$	70,492	100.0	%

(a) See Figure 17 for a more detailed breakdown of our commercial real estate loan portfolio at December 31, 2011.

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

(c) Excludes loans in the amount of $5.8 billion at December 31, 2011, $6.5 billion at December 31, 2010, $3.5 billion at December 31, 2009, $3.7 billion at December 30, 2008, and $331 million at December 31, 2007, related to the discontinued operations of the education lending business.

At December 31, 2011, total loans outstanding were $49.6 billion, compared to $50.1 billion at the end of 2010 and $58.8 billion at the end of 2009. Loans related to the discontinued operations of the education lending business, and excluded from total loans were $5.8 billion at December 31, 2011, $6.5 billion at December 31, 2010, and $3.5 billion at December 31, 2009. Further information regarding our discontinued operations is provided in the section entitled Consumer loan portfolio within this discussion. The decrease in our loans from continuing operations over the past two years reflects reductions in most of our portfolios, with the largest decline experienced in the commercial portfolio.

Commercial loan portfolio

Commercial loans outstanding were $34.8 billion at December 31, 2011, an increase of $262 million, or 1%, since December 31, 2010.

Commercial, financial and agricultural. As shown in Figure 16, our Commercial, Financial and Agricultural loans, also referred to as Commercial and Industrial, represent 39% and 33% of our total loan portfolio at December 31, 2011 and 2010, respectively, and are the largest component of our total loans. The loans are comprised of fixed and variable rate loans to our large, middle market and small business clients. These loans increased $2.9 billion, or 18%, from one year ago.

Commercial real estate loans. Commercial real estate loans represent approximately 19% of our total loan portfolio. These loans include both owner and nonowner-occupied properties and constitute approximately 27% of our commercial loan portfolio. As shown in Figure 16, at December 31, 2011, our commercial real estate portfolio included mortgage loans of $8.0 billion and construction loans of $1.3 billion. The total commercial real estate loans for 2011 and 2010 represent 19% and 23%, respectively, of our total loans. Nonowner-occupied loans represent 12% of our total loans and owner-occupied loans represent 7% of our total loans. The average size of mortgage loans originated during 2011 was $3.8 million, and our largest mortgage loan at December 31, 2011, had a balance of $211 million. At December 31, 2011, our average construction loan commitment was $3.8 million. Our largest construction loan commitment was $56 million at December 31, 2011. Our largest construction loan outstanding was $48.1 million at December 31, 2011.

Our commercial real estate lending business is conducted through two primary sources: our 14-state banking franchise, and Real Estate Capital and Corporate Banking Services, a national line of business within Key Corporate Bank that cultivates relationships 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 56% of our average year-to-date commercial real estate loans during 2011, compared to 60% one year ago. As shown in Figure 17, this loan portfolio is diversified by both property type and geographic location of the underlying collateral. Figure 17 includes commercial mortgage and construction loans in both Key Community Bank and Key Corporate Bank.

Table of Contents

Figure 17. Commercial Real Estate Loans

December 31, 2011	Geographic Region							Percent of		Commercial
dollars in millions	West	Southwest	Central	Midwest	Southeast	Northeast	Total	Total	Construction	Mortgage
Nonowner-occupied:										
Retail properties	$ 341	$ 115	$ 207	$ 208	$ 365	$ 206	$ 1,442	15.4 %	$ 219	$ 1,223
Multifamily properties	194	131	212	312	258	203	1,310	14.0	383	927
Health facilities	110		105	154	164	229	762	8.2		762
Office buildings	118	37	110	168	46	199	678	7.3	84	594
Warehouses	230	34	44	76	106	83	573	6.1	18	555
Residential properties	48	14	25	65	42	46	240	2.6	165	75
Hotels/Motels	71		23	6	81	20	201	2.1	40	161
Land and development	15	13	29	11	30	67	165	1.8	152	13
Manufacturing facilities	1		1	7	65	4	78	.8		78
Other	133	7	274	22	112	90	638	6.8	64	574
Total nonowner-occupied	1,261	351	1,030	1,029	1,269	1,147	6,087	65.1	1,125	4,962
Owner-occupied	1,309	37	331	722	124	739	3,262	34.9	187	3,075
Total	$ 2,570	$ 388	$ 1,361	$ 1,751	$ 1,393	$ 1,886	$ 9,349	100.0 %	$ 1,312	$ 8,037
Nonowner-occupied:										
Nonperforming loans	$ 41	$ 24	$ 2	$ 30	$ 33	$ 44	$ 174	N/M	$ 50	$ 124
Accruing loans past due 90 days or more			21	8	47	10	86	N/M	86	
Accruing loans past due 30 through 89 days	32		1	6		22	61	N/M	6	55

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

During 2011, nonperforming loans related to our nonowner-occupied properties decreased by $234 million attributable to improved asset quality and market conditions. This compares to a decrease of $680 million during 2010.

For the period 2008 2010, the secondary market for income-property loans was severely constrained. During this period of time, we provided interim financing for certain maturing income property loans. Beginning with the second half of 2010 and continuing throughout 2011, market liquidity for income property loans showed significant improvement. Consequently, our clients need for interim financing has diminished and our portfolio of nonowner-occupied income property loans has shown a steady decrease in outstanding principal balances. Since December 31, 2010, our nonowner-occupied commercial real estate portfolio has been reduced by approximately $1.8 billion or 23%.

As shown in Figure 17, at December 31, 2011, 65% of our commercial real estate loans were for nonowner-occupied properties, compared to 68% at December 31, 2010. Approximately 18% and 23% of these loans were construction loans at December 31, 2011 and 2010, respectively. Typically, construction properties are not fully leased at the origination of the loan. The borrower relies upon additional leasing through the life of the loan to provide the cash flow necessary to support debt service payments. Uncertain economic conditions generally slow the execution of new leases and may also lead to the turnover of existing leases, driving rental rates and occupancy rates down. As we have experienced during 2011, we expect vacancy rates for retail, office and industrial space to remain elevated and possibly increase well into 2012.

Commercial real estate fundamentals appear to be approaching bottom, and certain sectors (e.g., apartments) are showing signs of improvement. According to Property and Portfolio Research, Inc., vacancy fell in the third quarter of 2011 in every major property type, but it remained above year-ago levels with the exception of apartments. Rent growth remains flat to negative (again with the exception of apartments), and is at or nearing a trough; however, modest declines are possible over the next year in office, retail, and warehouse property types. Once rents bottom, the anticipated recovery will likely be modest.

If the economic recovery stalls, and/or job growth continues to disappoint, vacancies will remain elevated and downward pressure on rents and net operating income will remain. The resulting effect would likely be most noticeable in the nonowner-occupied properties segment of our commercial real estate loan portfolio, particularly in the retail properties and office buildings components, which comprise 23% of our commercial real estate loans.

Commercial property values peaked in the fall of 2007, having experienced increases of approximately 30% since 2005 and 90% since 2001. The most recent Moody s Real Estate Analytics, LLC Commercial Property Price Index (November 2011) showed a 42% drop in values from the peak in October 2007. As of November 2011, the index was at 111.36%, a 13.7% increase from April 2011. April 2011 was the lowest point since the inception of the index in December of 2000. Market averages obscure divergent trends by asset quality and location. Over the past year, competition for the best assets in the top markets has driven prices higher, while weak demand and continued uncertainty is keeping prices for distressed assets low and keeping trends negative.

If the factors described above result in further weakening in the fundamentals underlying the commercial real estate market (i.e., vacancy rates, the stability of rental income and asset values), leading to reduced cash flow to support debt service payments, our ability to collect such payments and the strength of our commercial real estate loan portfolio could be adversely affected.

Commercial lease financing. We conduct financing arrangements through our Key Equipment Finance line of business and have both the scale and array of products to compete in the equipment lease financing business. Commercial lease financing receivables represented 17% of commercial loans at December 31, 2011, and 19% at December 31, 2010.

Commercial loan modification and restructuring

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

Modifications are negotiated to achieve mutually agreeable terms that maximize loan credit quality while at the same time meeting our clients financing needs. Modifications made to loans of creditworthy borrowers not experiencing financial difficulties and under circumstances where ultimate collection of all principal and interest is not in doubt are not classified as TDRs. In accordance with applicable accounting guidance, TDR classification occurs when the borrower is experiencing financial difficulties and a creditor concession has been granted.

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

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

Figure 18 quantifies restructured loans and TDRs.

Table of Contents

Figure 18. Commercial TDRs by Note Type and Accrual Status

December 31, *in millions*		**2011**		**2010**
Commercial TDRs by Note Type				
Tranche A	**$**	**206**	$	226
Tranche B		**2**		14
Total Commercial TDRs [(a)]	**$**	**208**	$	240
Commercial TDRs by Accrual Status				
Nonaccruing	**$**	**150**	$	148
Accruing		**58**		67
Held for sale				25
Total Commercial TDRs [(a)]	**$**	**208**	$	240
Total Commercial and Consumer TDRs	**$**	**276**	$	297

(a) Prior to 2009, the amounts of TDRs were negligible, and, therefore, we have not included such periods in the figure above.

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

We use an A-B note structure for TDRs, breaking the existing loan into two tranches. This approach has many benefits for us and for our borrowers.

First, we create an A note. As the objective of this TDR note structure is to achieve a fully performing and well-rated A note, we focus on sizing that note to a level that is supported by cash flow available to service debt at current market terms and consistent with our customary underwriting standards. This 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.

Appropriately sized A notes are more likely to return to accrual status, allowing us to resume recognizing interest income. As the borrower s payment performance improves, these restructured notes also will allow for upgraded internal quality risk rating classification. Moreover, the borrower retains ownership and control of the underlying collateral (typically, commercial real estate), the borrower s capital structure is strengthened (often to the point that fresh capital is attracted to the transaction), and local markets are spared distressed/fire sales.

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

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

Table of Contents

Returning an A note to accrual status requires a reasonable level of certainty that the balance of principal and interest is fully collectable over time. To that end, our policy requires a sustained period of timely principal and interest payments. We evaluate primary repayment derived from property cash flow to assess continued sustainability. Secondary repayment (collateral) is appraised to ensure that market value exceeds the carrying value of the A note with a sufficient excess (generally 20%). Although our policy is a guideline, considerable judgment is required to review each borrower s circumstances.

Extensions. Certain commercial loans are modified and extended in the normal course of business for our clients. Project loans are typically refinanced into the permanent commercial loan market at maturity; however, due to the limited sources of permanent commercial mortgage financing available in the market today and the market-wide decline in leasing activity and rental rates, an increased number of loans have been 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 (i.e., amortization, covenants and term) that are appropriate for the risk. Typical enhancements include one or more of the following: principal paydown, increased amortization, additional collateral, increased guarantees, and/or a cash flow sweep. As previously mentioned, some maturing construction loans have automatic extension options built in and in those cases where the borrower qualifies for the extension option, pricing and loan terms cannot be altered. Most project loans by their nature are collateral-dependent as cash flow from the project loans or the sale of the real estate provides for repayment of the loan.

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

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

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

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

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

As of December 31, 2011, we had $119 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

Table of Contents

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 $794 million, or 5%, from one year ago. Most of the decrease is attributable to our exit portfolio, as shown in Figure 39 in the Credit risk management section which decreased by $636 million.

The home equity portfolio is the largest segment of our consumer loan portfolio. Approximately 95% of this portfolio at December 31, 2011 is derived from our Key Community Bank. The remainder of the portfolio, which has been in an exit mode since the fourth quarter of 2007, was originated from the Consumer Finance line of business and is now included in Other Segments. Home equity loans from our Key Community Bank decreased by $285 million, or 3%, over the past twelve months.

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

Figure 19. Home Equity Loans

December 31, *dollars in millions*	**2011**	2010	2009	2008	2007
SOURCES OF YEAR END LOANS					
Key Community Bank	**$ 9,229**	$ 9,514	$ 10,048	$ 10,124	$ 9,655
Other	**535**	666	838	1,051	1,262
Total	**$ 9,764**	$ 10,180	$ 10,886	$ 11,175	$ 10,917
Nonperforming loans at year end	**$ 120**	$ 120	$ 128	$ 91	$ 66
Net loan charge-offs for the year	**130**	175	165	86	33
Yield for the year[a]	**4.34 %**	4.45 %	4.63 %	5.93 %	7.17 %

(a) From continuing operations.

As previously reported, we have experienced a decrease in our consumer loan portfolio. We expect that the portfolio will continue to decrease in future periods as a result of our actions to exit dealer-originated home equity loans and indirect retail lending for marine and recreational vehicle products. We ceased originating new education loans effective December 5, 2009 and account for this business in discontinued operations.

In the latter half of 2010, there was public controversy surrounding the foreclosure practices of large home lenders. Our number of home loan foreclosures is small (the average number of new mortgage foreclosures serviced by Key and third parties, initiated per month, through December 31, 2011, was 121; mortgage loans serviced by Key and third parties outstanding at December 31, 2011, were approximately 223,000 loans) and primarily have occurred in our home equity loan portfolio. A review of our foreclosure processes completed in the first quarter of 2011, did not uncover any material defects in the process of signing and notarizing affidavits.

Loans held for sale

As shown in Note 4 (Loans and Loans Held for Sale), our loans held for sale increased to $728 million at December 31, 2011 from $467 million at December 31, 2010. Loans held for sale related to the discontinued operations of the education lending business, which are excluded from total loans held for sale at December 31, 2010, totaled $15 million. There were no loans held for sale related to the discontinued operations of the education lending business at December 31, 2011.

At December 31, 2011, loans held for sale included $567 million of commercial mortgages which increased by $449 million from December 31, 2010, and $95 million of residential mortgage loans which decreased by $15

Table of Contents

million from December 31, 2010. In the absence of quoted market prices, we use valuation models to measure the fair value of these loans and adjust the amount recorded on the balance sheet if fair value falls below recorded cost. The models are based on third-party data, as well as assumptions related to prepayment speeds, default rates, funding cost, discount rates and other relevant market available inputs. In light of the volatility in the financial markets, we have reviewed our assumptions and determined that they reflect current market conditions. As a result, no significant adjustments to our assumptions were required during 2011.

During 2011, we recorded net unrealized losses of $3.2 million and net realized gains of $17 million on our loans held for sale portfolio. These net gains are reported in net gains (losses) from loan sales on the income statement. We have not been significantly impacted by market volatility in the subprime mortgage lending industry, having exited this business in the fourth quarter of 2006.

Loan sales

As shown in Figure 20, during 2011, we sold $2 billion of commercial real estate loans, $1.4 billion of residential real estate loans, and $118 million of commercial loans. Most of these sales came from the held-for-sale portfolio. Additionally, there were no education loans sold (included in discontinued assets on the balance sheet), from Figure 20. Due to unfavorable market conditions, we have not securitized any education loans since 2006.

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

¿ 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 2011 and 2010.

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

in millions	Commercial	Commercial Real Estate	Commercial Lease Financing	Residential Real Estate	Total
2011					
Fourth quarter	$ 31	$ 500		$ 404	$ 935
Third quarter	23	355		303	681
Second quarter	18	761		250	1,029
First quarter	46	397		438	881
Total	$ 118	$ 2,013		$ 1,395	$ 3,526

2010					
Fourth quarter	$ 171	$ 530	$ 29	$ 525	$ 1,255
Third quarter	105	200	35	372	712
Second quarter	75	336		348	759
First quarter	19	158		328	505
Total	$ 370	$ 1,224	$ 64	$ 1,573	$ 3,231 (a)

(a) Excludes education loans of $487 million sold during 2010 that relate to the discontinued operations of the education lending business. There were no education loans sold during 2011.

Table of Contents

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, *in millions*		**2011**		**2010**		**2009**		**2008**		**2007**
Commercial real estate loans [(a)]	**$**	**99,608**	$	117,071	$	123,599	$	123,256	$	134,982
Education loans [(b)]						3,810		4,267		4,722
Commercial lease financing		**521**		706		649		713		790
Commercial loans		**306**		269		247		208		229
Total	**$**	**100,435**	$	118,046	$	128,305	$	128,444	$	140,723

(a) We acquired the servicing for commercial mortgage loan portfolios with an aggregate principal balance of $3.5 billion during 2011, $1.6 billion during 2010, $7.2 billion during 2009, $1 billion during 2008 and $45.5 billion for 2007.

(b) We adopted new accounting guidance on January 1, 2010, which required us to consolidate our education loan securitization trusts and resulted in the addition of approximately $2.8 billion of assets, and the same amount of liabilities and equity to our balance sheet. Of this amount, $890 million were included in our net risk-weighted assets under current federal banking regulations.

In the event of default by a borrower, we are subject to recourse with respect to approximately $891 million of the $100 billion of loans administered or serviced at December 31, 2011. Additional information about this recourse arrangement is included in Note 16 (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 commercial real estate 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, 2011, approximately 33% 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, 2011 *in millions*		**Within One Year**		**One -Five Years**		**Over Five Years**		**Total**
Commercial, financial and agricultural	$	7,448	$	10,003	$	1,927	$	19,378
Real estate construction		741		431		140		1,312
Real estate residential and commercial mortgage		2,015		4,383		3,585		9,983
	$	10,204	$	14,817	$	5,652	$	30,673
Loans with floating or adjustable interest rates[(a)]			$	12,050	$	3,090	$	15,140
Loans with predetermined interest rates[(b)]				2,767		2,562		5,329
			$	14,817	$	5,652	$	20,469

(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.

Securities

Our securities portfolio totaled $18 billion at December 31, 2011, compared to $22 billion at December 31, 2010. Available-for-sale securities were $16 billion at December 31, 2011, compared to $21.9 billion at December 31,

2010, reflecting the liquidity needs arising from changes in our loan and deposit balances and investments in held-to-maturity securities. Held-to-maturity securities were $2.1 billion at December 31, 2011, compared to $17 million at December 31, 2010, primarily reflecting increases in agency mortgage-backed securities as we continue to prepare for potential future changes in regulatory capital rules. At December 31, 2011, we had $2.1 billion in CMOs in our held-to-maturity securities portfolio.

As shown in Figure 23, all of our mortgage-backed securities are issued by government-sponsored enterprises or GNMA, and are traded in highly liquid secondary markets and recorded on the balance sheet at fair value. For more information about these securities, see Note 6 (Fair Value Measurements) under the heading Qualitative Disclosures of Valuation Techniques.

Figure 23. Mortgage-Backed Securities by Issuer

December 31, *in millions*		**2011**		2010		2009
FHLMC	**$**	**8,984**	$	10,373	$	7,485
FNMA		**5,583**		7,357		4,433
GNMA		**3,464**		4,004		4,516
Total	**$**	**18,031**	$	21,734	$	16,434

Securities available for sale

The majority of our securities available-for-sale portfolio consists of CMOs, which are debt securities secured by a pool of mortgages or mortgage-backed securities. CMOs generate interest income and serve as collateral to support certain pledging agreements. At December 31, 2011, we had $15.9 billion invested in CMOs and other mortgage-backed securities in the available-for-sale portfolio, compared to $21.7 billion at December 31, 2010.

During 2011, we had net gains of $124 million from CMOs and other mortgage-backed securities, of which $126 million were net unrealized gains and $2 million, were net realized losses. The net unrealized gains resulted from a decrease in market interest rates and were recorded in the AOCI component of shareholders equity. We continue to maintain a moderate asset-sensitive interest rate risk position.

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

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

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

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

dollars in millions	U.S. Treasury, Agencies and Corporations	States and Political Subdivisions	Collateralized Mortgage Obligations (a)	Other Mortgage-Backed Securities (a)	Other Securities (b)	Total	Weighted-Average Yield (c)
December 31, 2011							
Remaining maturity:							
One year or less		**$ 1**	**$ 662**			**$ 663**	**4.10 %**
After one through five years		**16**	**14,500**	**$ 738**	**$ 9**	**15,263**	**3.14**
After five through ten years		**46**		**30**		**76**	**5.62**
After ten years				**10**		**10**	**5.34**
Fair value		**$ 63**	**$ 15,162**	**$ 778**	**$ 9**	**$ 16,012**	
Amortized cost		**60**	**14,707**	**715**	**8**	**15,490**	**3.19 %**
Weighted-average yield (c)		**5.95 %**	**3.10 %**	**4.89 %**		**3.19 % (d)**	
Weighted-average maturity		**6.1 years**	**2.1 years**	**2.8 years**	**3.0 years**	**2.1 years**	
December 31, 2010							
Fair value	$ 8	$ 172	$ 20,665	$ 1,069	$ 19	$ 21,933	
Amortized cost	8	170	20,344	998	15	21,535	3.28 %
December 31, 2009							
Fair value	$ 8	$ 83	$ 15,006	$ 1,428	$ 116	$ 16,641	
Amortized cost	8	81	14,894	1,351	100	16,434	3.79 %

(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 $9 million of securities at December 31, 2011, that have no stated yield.

Held-to-maturity securities

Federal Agency CMOs constitute most of our held-to-maturity securities along with foreign bonds and preferred equity securities. The increase in our held-to-maturity securities was a result of purchases of Federal Agency CMOs as we increased this portfolio in response to potential future changes in regulatory capital rules. Figure 25 shows the composition, yields and remaining maturities of these securities.

Figure 25. Held-to-Maturity Securities

dollars in millions	Collateralized Mortgage Obligations	States and Political Subdivisions	Other Securities	Total	Weighted-Average Yield (a)
December 31, 2011					

Remaining maturity:					
One year or less			**$ 9**	**$ 9**	**2.88 %**
After one through five years	**$ 2,091**		**9**	**2,100**	**2.06**
Amortized cost	**2,091**		**18**	**2,109**	**2.06 %**
Fair value	**$ 2,115**		**$ 18**	**$ 2,133**	
Weighted-average yield	**2.05 %**		**3.15 % (b)**	**2.06 % (b)**	
Weighted-average maturity	**2.7 years**		**1.3 years**	**2.7 years**	
December 31, 2010					
Amortized cost		$ 1	$ 16	$ 17	3.71 %
Fair value		1	16	17	
December 31, 2009					
Amortized cost		$ 3	$ 21	$ 24	3.97 %
Fair value		3	21	24	

(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, 2011, that have no stated yield.

Table of Contents

Other investments

Principal investments investments in equity and mezzanine instruments made by our Principal Investing unit represented 61% of other investments at December 31, 2011. 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 ($709 million at December 31, 2011 and $898 million at December 31, 2010). During the first half of 2011, employees who managed our various principal investments formed two independent entities that will serve as investment managers of these investments going forward. Under this arrangement, which was mutually agreeable to both parties, these individuals are no longer employees of Key. As a result of these changes, which were made during the second quarter of 2011, we deconsolidated certain of these direct and indirect investments, totaling $234 million.

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

Most of our other investments are not traded on an active market. We determine the fair value at which these investments should be recorded based on the nature of the specific investment and all available relevant information. Among other things, our 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 and third party data. During 2011, net gains from our principal investing activities (including results attributable to noncontrolling interests) totaled $78 million, which includes $82 million of net unrealized gains. These net gains are recorded as net gains (losses) from principal investing on the income statement.

Deposits and other sources of funds

Domestic deposits are our primary source of funding. During 2011, these deposits averaged $58.5 billion and represented 80% of the funds we used to support loans and other earning assets, compared to $62.5 billion and 80% during 2010. The composition of our average deposits is shown in Figure 5 in the section entitled Net interest income.

The decrease in average domestic deposits during 2011, compared to 2010, was due to a decline in certificates of deposit ($100,000 or more) and other time deposits and was partially offset by an increase in NOW and money market deposit accounts, and noninterest-bearing deposits. The mix of deposits continues to change as higher-costing certificates of deposit mature and re-price to current market rates and clients move their balances to transaction and nonmaturity deposit accounts, such as NOW and money market savings accounts, or look for other alternatives for investing in the current low-rate environment.

Approximately $6.8 billion of our certificates of deposit outstanding at December 31, 2011, mature over the next four quarters, and included in these totals are approximately $2.5 billion of higher costing certificates of deposit originated prior to 2009. The maturities of these certificates of deposit are as follows: $238 million at a 4.95% cost mature in the first quarter of 2012, $688 million at a 4.57% cost mature in the second quarter of 2012, $1 billion at a 5.06% cost mature in the third quarter of 2012, and $529 million at a 4.88% cost mature in the fourth quarter of 2012. These re-pricing opportunities will benefit our net interest margin.

Wholesale funds, consisting of deposits in our foreign office and short-term borrowings, averaged $3.4 billion during 2011, compared to $3.5 billion during 2010. The change from 2010 resulted from a $119 million decrease in foreign office deposits, a $63 million decrease in federal funds purchased and securities sold under agreements to repurchase, and was partially offset by a $74 million increase in bank notes and other short-term borrowings.

Table of Contents

On January 11, 2012, we signed a purchase and assumption agreement to acquire 37 retail branches in Buffalo and Rochester, NY. The deposits associated with these branches total approximately $2.4 billion, while loans total approximately $400 million. We plan to use this excess liquidity to fund debt maturities and loan growth. The transaction is expected to close in late second or early third quarter of 2012.

At December 31, 2011, Key had $4.7 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, 2011

dollars in millions	**Domestic Offices**	**Foreign Offices**	**Total**
Remaining maturity:			
Three months or less	$ 1,066	$ 588	$ 1,654
After three through six months	624		624
After six through twelve months	1,082		1,082
After twelve months	1,339		1,339
Total	$ 4,111	$ 588	$ 4,699

The Dodd-Frank Act s reform of deposit insurance

The amount of deposit insurance coverage for deposits increased permanently from $100,000 to $250,000 per depository, and the coverage for noninterest-bearing demand deposit accounts is unlimited, effective from December 31, 2010 to December 31, 2012, pursuant to the Dodd-Frank Act. Accordingly, since the beginning of 2011, KeyBank again offered noninterest-bearing demand transaction accounts, with unlimited FDIC deposit insurance, similar to when it participated in the TAG program.

Capital

At December 31, 2011, our shareholders equity was $9.9 billion, down $1.2 billion from December 31, 2010. The following discusses certain factors that contributed to the decline. For other factors that contributed to the change, see the Consolidated Statements of Changes in Equity.

As previously reported, on January 1, 2010, we adopted new consolidation accounting guidance which required us to consolidate our education loan securitization trusts (classified as discontinued assets and liabilities). As a result, we consolidated our education loan securitization trusts and made a corresponding $45 million cumulative effect adjustment. That consolidation added $2.8 billion in discontinued assets, and the same amount of liabilities and equity to our balance sheet; loans constituted $2.6 billion of the assets. During the third quarter of 2011, we determined that the $45 million cumulative effect adjustment made related to the consolidation of these trusts on January 1, 2010 was incorrect. Further information regarding this error and its correction is provided in Note 13 (Acquisition, Divestiture and Discontinued Operations).

Comprehensive capital assessment review and redemption notices for certain capital securities

On January 9, 2012, we submitted to the Federal Reserve and provided to the OCC under the Comprehensive Capital Analysis and Review process our 2012-2013 Comprehensive Capital Plan. We are currently awaiting the results of this review.

On June 10, 2011, we submitted to the Federal Reserve and provided to the OCC an updated Comprehensive Capital Plan, which set forth additional capital actions related to redemptions of certain outstanding capital securities. On August 1, 2011, the Federal Reserve informed us that it had no objections to the capital actions set forth in our updated capital plan.

In August 2011, KeyCorp repurchased $22.6 million of capital securities issued by KeyCorp Capital VII. On September 1, 2011, KeyCorp fully redeemed the following capital securities: KeyCorp Capital V, KeyCorp Capital VI, KeyCorp Capital VIII, and Union State Capital I. During the fourth quarter of 2011, capital securities issued by Union State Statutory Trust II and Union State Statutory Trust IV were redeemed on October 31, 2011 and October 7, 2011, respectively.

On October 31, 2011, KeyCorp submitted notice to the property trustee for the redemption in full of the capital securities issued by KeyCorp Capital IX; such capital securities were redeemed on December 15, 2011.

Provisions of the Dodd-Frank Act provide for the phase-out of Tier 1 capital treatment for capital securities beginning in 2013. As a result, the outstanding capital securities will eventually become Tier 2 capital. Management continues to evaluate its options with respect to the remaining outstanding capital securities. A notice of proposed rulemaking related to the implementation of Basel III, which is expected to be published in the first half of 2012. This proposal is expected to include the phase-out of trust preferred securities from Tier 1 capital treatment.

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

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

Dividends

During the first quarter of 2011, we made dividend payments of $31 million to the U.S. Treasury on the Series B Preferred Stock as a participant in the U.S. Treasury s TARP CPP. The repurchase of this Preferred Stock in March 2011 eliminated future quarterly dividends of $31 million, or $125 million on an annual basis.

Also in 2011, we made four quarterly dividend payments of $1.9375 per share or $6 million on our Series A Preferred Stock.

Additionally, during the second quarter of 2011, our Board of Directors approved an increase in our quarterly cash dividend to $.03 per Common Share or $.12 on an annualized basis. We made one quarterly dividend payments of $.01 per share, or $9 million, and three quarterly dividend payments of $.03 per share, or $28 million, on our Common Shares during 2011.

Common Shares outstanding

Our Common Shares are traded on the New York Stock Exchange under the symbol KEY with 33,873 holders of record of our Common Shares at December 31, 2011. Our book value per Common Share was $10.09 based on 953.0 million shares outstanding at December 31, 2011, compared to $9.52 based on 880.6 million shares outstanding at December 31, 2010. At December 31, 2011 our tangible book value per Common Share was $9.11 compared to $8.45 at December 31, 2010.

Figure 44 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, 2006, and assuming reinvestment of dividends) with that of the Standard & Poor s 500 Index and a

Table of Contents

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 (2006 2011)[a]

(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

		2011 Quarters				
in thousands	**2011**	**Fourth**	**Third**	**Second**	**First**	**2010**
Shares outstanding at beginning of period	**880,608**	**952,808**	**953,822**	**953,926**	**880,608**	878,535
Common shares issued	**70,621**				**70,621**	
Shares reissued (returned) under employee benefit plans	**1,779**	**200**	**(1,014)**	**(104)**	**2,697**	2,073
Shares outstanding at end of period	**953,008**	**953,008**	**952,808**	**953,822**	**953,926**	880,608

At December 31, 2011, we had 64.0 million treasury shares, compared to 65.7 million treasury shares at December 31, 2010. During 2011, shares previously issued in conjunction with our employee benefit plans were returned to us. Going forward we expect to reissue treasury shares as needed in connection with stock-based compensation awards and for other corporate purposes.

In the past, we have periodically repurchased Common Shares in the open market or through privately negotiated transactions under a repurchase program authorized by our Board of Directors. The program does not have an expiration date, and we have outstanding Board authority to repurchase 13.9 million shares. We did not repurchase any Common Shares during all of 2011 or 2010 other that the shares acquired from employees in connection with our stock compensation plan. As discussed in further detail in Supervision and Regulation in Item 1, Part I of this report, we are required to annually submit a capital plan to the Federal Reserve setting forth capital actions, including any share repurchases our Board of Directors and management may propose to make during the year. Pursuant to that requirement, we have submitted our capital plan for review to the Federal Reserve that contemplates, among other uses of our capital, potential share repurchases in 2012.

2011 Capital plan and proposed actions

As part of its ongoing supervisory process, the Federal Reserve requires a BHC to submit an annual Comprehensive Capital Plan as well as to update such plan to reflect material changes in a firm s risk profile, business strategies, or corporate structure, including but not limited to changes in planned capital actions. On January 7, 2011, we submitted our 2011-2012 Comprehensive Capital Plan to the Federal Reserve. On March 18, 2011, the Federal Reserve informed us that it had no objection to our Comprehensive Capital Plan following its Comprehensive Capital Analysis and Review (CCAR). On June 10, 2011, we submitted to the Federal Reserve

Table of Contents

and provided to the OCC an updated Comprehensive Capital Plan, which set forth additional capital actions related to redemptions of certain outstanding capital securities. On August 1, 2011**,** the Federal Reserve informed us that it had no objections to the capital actions set forth in our updated capital plan.

Capital adequacy

Capital adequacy is an important indicator of financial stability and performance. All of our capital ratios remain in excess of regulatory requirements at December 31, 2011. Our capital and liquidity are intended to position us well to weather an adverse credit cycle while continuing to serve our clients needs, as well as to adjust to the application of any new regulatory capital standards expected to be promulgated under the Dodd-Frank Act or due to Basel III. Our shareholders equity to assets ratio was 11.16% at December 31, 2011, compared to 12.10% at December 31, 2010. Our tangible common equity to tangible assets ratio was 9.88% at December 31, 2011, compared to 8.19% at December 31, 2010.

Banking industry regulators prescribe minimum capital ratios for bank holding companies and their banking subsidiaries. Risk-based capital guidelines require a minimum level of capital as a percent of risk-weighted assets. Risk-weighted assets consist of total assets plus certain off-balance sheet and market items, subject to adjustment for predefined credit risk factors. Currently, banks and bank holding companies must maintain, at a minimum, Tier 1 capital as a percent of risk-weighted assets of 4.00% and total capital as a percent of risk-weighted assets of 8.00%. We expect U.S. regulators to introduce new regulatory capital guidelines in 2012, responding to both the Dodd Frank Act and Basel III capital directives. As of December 31, 2011, our Tier 1 risk-based capital ratio and our total risk-based capital ratios were 12.99% and 16.51%, respectively, compared to 15.16% and 19.12%, respectively, at December 31, 2010.

Another indicator of capital adequacy, the leverage ratio, is defined as Tier 1 capital as a percentage of average quarterly tangible assets. Bank holding companies that either have the highest supervisory rating or have implemented the Federal Reserve s risk-adjusted measure for market risk as we have must maintain a minimum leverage ratio of 3.00%. All other bank holding companies must maintain a minimum ratio of 4.00%. As of December 31, 2011, our leverage ratio was 11.79% compared to 13.02% at December 31, 2010.

The enactment of the Dodd-Frank Act changes the regulatory capital standards that apply to bank holding companies by requiring regulators to create rules phasing out the treatment of capital securities and cumulative preferred securities being eligible Tier 1 risk-based capital. This three year phase-out period, which commences January 1, 2013, will ultimately result in our capital securities issued by the KeyCorp capital trusts (capital securities) being treated only as Tier 2 capital. These changes in effect apply the same leverage and risk-based capital requirements that apply to depository institutions to BHCs, savings and loan holding companies, and nonbank financial companies identified as systemically important.

As of December 31, 2011, our Tier 1 risk-based capital ratio, leverage ratio, and total risk-based capital ratio were 12.99%, 11.79%, and 16.51%, respectively. The capital securities issued by the KeyCorp capital trusts contribute $1.2 billion or 136, 123, and 136 basis points to our Tier 1 risk-based capital ratio, Tier 1 leverage ratio, and total risk-based capital ratio, respectively, as of December 31, 2011.

Federal bank regulators group FDIC-insured depository institutions into five categories, ranging from well capitalized to critically undercapitalized. A well capitalized institution must meet or exceed the prescribed thresholds of 6.00% for Tier 1 risk-based capital, 5.00% for Tier 1 leverage capital, and 10.00% for total risk-based capital and must not be subject to any written agreement, order or directive to meet and maintain a specific capital level for any capital measure. If these provisions applied to bank holding companies, we would qualify as well capitalized at December 31, 2011. We believe there has not been any change in condition or event since that date that would cause our capital classification to change. Analysis on a pro forma basis, accounting for the phase-out of our capital securities as Tier 1 eligible (and therefore as Tier 2 instead) as of December 31, 2011, also determines that we would qualify as well capitalized under current regulatory guidelines, with the pro forma Tier 1 risk-based capital ratio, pro forma leverage ratio, and pro forma total risk-based capital ratio being

Table of Contents

11.64%, 10.56%, and 16.51%, respectively. The current regulatory defined categories serve a limited supervisory function. Investors should not use our pro forma ratios as a representation of our overall financial condition or prospects of KeyCorp or KeyBank. A discussion of the regulatory capital standards and other related capital adequacy regulatory standards is included in Item 1 in the Supervision and Regulation section.

Traditionally, the banking regulators have assessed bank and bank holding company capital adequacy based on both the amount and composition of capital, the calculation of which is prescribed in federal banking regulations. As a result of the financial crisis, the Federal Reserve has intensified its assessment of capital adequacy on a component of Tier 1 risk-based capital, known as Tier 1 common equity, and its review of the consolidated capitalization of systemically important financial companies, including KeyCorp. The capital modifications mandated by the Dodd-Frank Act and set forth in Basel III, which the Federal Reserve intends to implement in the near term, are consistent with the renewed focus on Tier 1 common equity and the consolidated capitalization of banks, BHCs, and covered nonbank financial companies, which resulted from the financial crisis and, therefore, Tier 1 common equity is neither formally defined by GAAP nor prescribed in amount by federal banking regulations, this measure is considered to be a non-GAAP financial measure. Figure 4 in the Highlights of Our Performance section reconciles Key shareholders equity, the GAAP performance measure, to Tier 1 common equity, the corresponding non-GAAP measure. Our Tier 1 common equity ratio was 11.26% at December 31, 2011, compared to 9.34% at December 31, 2010.

At December 31, 2011, we had a consolidated federal net deferred tax asset of $60 million and a state deferred tax liability of $24 million compared to combined net federal and state deferred tax assets of $442 million at December 31, 2010. Prior to the third quarter of 2009, we had been in a net deferred tax liability position. 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. Based on these restrictions, at December 31, 2011, we had no net deferred tax assets deducted from Tier 1 capital and risk-weighted assets compared to $158 million at December 31, 2010. We anticipate that we will not have a net deferred tax asset disallowed for risk-based capital purposes as we believe we will be in a net deferred tax liability position in the coming quarters.

Basel III

In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation (Basel III). Basel III is a comprehensive set of reform measures designed to strengthen the regulation, supervision and risk management of the banking sector, and introduces for the first time an official definition and guideline for Tier 1 common equity.

Beginning on January 1, 2013, banks with regulators adopting the Basel III capital framework in full would be required to meet the following minimum capital ratios 3.5% common equity Tier 1 to risk-weighted assets, 4.5% Tier 1 capital to risk-weighted assets, and 8.0% total capital to risk-weighted assets. The implementation of the capital conservation buffer will begin on January 1, 2016 at 0.625% and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019). When the requirements for the fully phased-in capital conservation buffer are included, the resulting minimum levels for Tier 1 capital and total risk-based capital will be higher than the U.S. s current well-capitalized minimums. A more thorough discussion of Basel III is included in Item 1 Supervision and Regulation section of this report, including a discussion of the fully phased-in requirements at January 1, 2019.

Given our strong capital position, we expect to be able to satisfy the Basel III capital framework when U.S. capital regulations corresponding to it are finalized. While we also have a strong liquidity position, the Basel III liquidity framework could require us and other U.S. banks to initiate additional liquidity management initiatives, including adding additional liquid assets, issuing term debt, and modifying our product pricing for loans, commitments, and deposits. U.S. regulators have indicated that they may elect to make certain refinements to the Basel III liquidity framework. Accordingly, at this point it is premature to assess the impact of the Basel III liquidity framework. Accordingly, a notice of proposed rulemaking relating to the U.S. implementation of the Basel III liquidity framework is expected in the first half of 2012.

Table of Contents

Figure 29 represents the details of our regulatory capital position at December 31, 2011 and December 31, 2010 under the existing Basel I standards.

Figure 29. Capital Components and Risk-Weighted Assets

December 31,

dollars in millions		**2011**		**2010**
TIER 1 CAPITAL				
Key shareholders equity	**$**	**9,905**	$	11,117
Qualifying capital securities		**1,046**		1,791
Less: Goodwill		**917**		917
Accumulated other comprehensive income [(a)]		**(72)**		(66)
Other assets [(b)]		**72**		248
Total Tier 1 capital		**10,034**		11,809
TIER 2 CAPITAL				
Allowance for losses on loans and liability for losses on lending-related commitments [(c)]		**970**		986
Net unrealized gains on equity securities available for sale				2
Qualifying long-term debt		**1,744**		2,104
Total Tier 2 capital		**2,714**		3,092
Total risk-based capital	**$**	**12,748**	$	14,901
TIER 1 COMMON EQUITY				
Tier 1 capital	**$**	**10,034**	$	11,809
Less: Qualifying capital securities		**1,046**		1,791
Series B Preferred Stock				2,446
Series A Preferred Stock		**291**		291
Total Tier 1 common equity	**$**	**8,697**	$	7,281
RISK-WEIGHTED ASSETS				
Risk-weighted assets on balance sheet	**$**	**61,900**	$	64,477
Risk-weighted off-balance sheet exposure		**15,901**		15,350
Less: Goodwill		**917**		917
Other assets [(b)]		**560**		959
Plus: Market risk-equivalent assets		**1,073**		775
Gross risk-weighted assets		**77,397**		78,726
Less: Excess allowance for loan and lease losses [(c)]		**183**		805
Net risk-weighted assets	**$**	**77,214**	$	77,921
AVERAGE QUARTERLY TOTAL ASSETS	**$**	**86,594**	$	92,562
CAPITAL RATIOS				
Tier 1 risk-based capital		**12.99 %**		15.16 %
Total risk-based capital		**16.51**		19.12
Leverage [(d)]		**11.79**		13.02
Tier 1 common equity		**11.26**		9.34

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

(b) Other assets deducted from Tier 1 capital and risk-weighted assets consist of disallowed deferred tax assets of $158 million at December 31, 2010, disallowed intangible assets (excluding goodwill) and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at December 31, 2011.

(c) The allowance for loan and lease losses included in Tier 2 capital is limited by regulation to 1.25% of the sum of gross risk-weighted assets plus low level exposures and residual interests calculated under the direct reduction method, as defined by the Federal Reserve. The excess allowance for loan and lease losses includes $104 million and $114 million at December 31, 2011 and December 31, 2010, respectively, of allowance classified as discontinued assets on the balance sheet.

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

Table of Contents

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, 2011, is presented in Note 16 (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 16 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, 2011, by the specific time periods in which related payments are due or commitments expire.

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

December 31, 2011 *dollars in millions*	Within 1 year	After 1 through 3 years	After 3 through 5 years	After 5 years	Total
Contractual obligations: [a]					
Deposits with no stated maturity	$ 51,014				$ 51,014
Time deposits of $100,000 or more	3,360	$ 1,076	$ 133	$ 130	4,699
Other time deposits	4,103	1,837	195	108	6,243
Federal funds purchased and securities sold under repurchase agreements	1,711				1,711
Bank notes and other short-term borrowings	337				337
Long-term debt	2,694	1,641	1,786	3,399	9,520
Noncancelable operating leases	115	224	189	306	834
Liability for unrecognized tax benefits	8				8
Purchase obligations:					
Banking and financial data services	15	15	7		37
Telecommunications	33	27			60
Professional services	49	12	10	10	81
Technology equipment and software	27	19	11	5	62
Other	4	5			9
Total purchase obligations	128	78	28	15	249
Total	$ 63,470	$ 4,856	$ 2,331	$ 3,958	$ 74,615
Lending-related and other off-balance sheet commitments:					
Commercial, including real estate	$ 8,761	$ 4,848	$ 6,501	$ 1,469	$ 21,579
Home equity	149	511	706	6,000	7,366
When-issued and to-be-announced securities commitments				117	117
Commercial letters of credit	94	6	24		124
Principal investing commitments	14	11	28	70	123
Liabilities of certain limited partnerships and other commitments	1	6	2	106	115
Total	$ 9,019	$ 5,382	$ 7,261	$ 7,762	$ 29,424

(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 variable (including the occurrence or nonoccurrence of a specified event). These variables, known as

Table of Contents

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 16 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, liquidity, market, compliance, operational, strategic and reputation risks. We must properly and effectively identify, assess, measure, monitor, control and report such risks across the entire enterprise to maintain safety and soundness and maximize profitability. Certain of these risks are defined and discussed in greater detail in the remainder of this section.

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

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

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

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

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

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

Table of Contents

Market risk management

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

Interest rate risk management

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

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

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

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

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

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

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

Typically, the amount of net interest income at risk is measured by simulating the change in net interest income that would occur if the federal funds target rate were to gradually increase or decrease by 200 basis points over

Table of Contents

the next twelve months, and term rates were to move in a similar fashion. In light of the low interest rate environment, beginning in the fourth quarter of 2008, we modified the standard rate scenario of a gradual decrease of 200 basis points over twelve months to a gradual decrease of 25 basis points over two months with no change over the following ten months. After calculating the amount of net interest income at risk to interest rate changes, we compare that amount with the base case of an unchanged interest rate environment. We also perform regular stress tests and sensitivities on the model inputs that could materially change the resulting risk assessments. One set of stress tests and sensitivities assesses the effect of interest rate inputs on simulated exposures. Assessments are performed using different shapes of the yield curve, including a sustained flat yield curve, an inverted slope yield curve, changes in credit spreads, an immediate parallel change in market interest rates and changes in the relationship of money market interest rates. Another set of stress tests and sensitivities assesses the effect of loan and deposit assumptions and assumed discretionary strategies on simulated exposures. Assessments are performed on changes to the following assumptions: the pricing of deposits without contractual maturities, changes in lending spreads, prepayments on loans and securities, other loan and deposit balance shifts, investment, funding and hedging activities, and liquidity and capital management strategies.

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 31 presents the results of the simulation analysis at December 31, 2011 and 2010. At December 31, 2011, our simulated exposure to a change in short-term interest rates was moderately asset sensitive. ALCO policy limits for risk management require the development of remediation plans to maintain residual risk within tolerance if simulation modeling demonstrates that a gradual increase or decrease in short-term interest rates over the next twelve months would adversely affect net interest income over the same period by more than 4%. As shown in Figure 31, we are operating within these limits.

Figure 31. Simulated Change in Net Interest Income

December 31, 2011		
Basis point change assumption (short-term rates)	**-25**	**+200**
ALCO policy limits	**-4.00 %**	**-4.00 %**
Interest rate risk assessment	**-.51 %**	**2.35 %**
December 31, 2010		
Basis point change assumption (short-term rates)	-25	+200
ALCO policy limits	-4.00 %	-4.00 %
Interest rate risk assessment	-.74 %	2.99 %

As interest rates have remained at low levels for an extended period of time, we have gradually shifted from a liability-sensitive position to an asset-sensitive position as a result of balance growth in transaction deposits and declines in loan balances. As the Federal Reserve s FOMC has indicated that it anticipates that economic conditions are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014, we continue to invest available funds and execute hedges to moderate further increases in the asset-sensitive position. These activities will continue to recognize the shift in the mix and maturity of customer deposits. Our current interest rate risk position could fluctuate to higher or lower levels of risk depending on the competitive environment and client behavior that may affect the actual volume, mix, maturity and re-pricing characteristics of

Table of Contents

loan and deposit flows. As changes occur to the configuration of the balance sheet and the outlook for the economy, management evaluates hedging opportunities that would change the reported interest rate risk profile.

The results of additional simulation analyses that make use of alternative interest rate paths and customer behavior assumptions indicate that net interest income improvement in a rising rate environment could be diminished, and actual results may be different than the policy simulation results in Figure 31. Net interest income improvements are highly dependent on the timing, magnitude, frequency and path of interest rate increases and assumption inputs for deposit re-pricing relationships, lending spreads and the balance behavior of transaction accounts.

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

Economic value of equity modeling. EVE complements net interest income simulation analysis since it estimates risk exposure beyond twelve-, twenty-four and thirty-six month horizons. EVE measures the extent to which the economic values of assets, liabilities and off-balance sheet instruments may change in response to fluctuations in interest rates. EVE is calculated by subjecting the balance sheet to an immediate 200 basis point increase or decrease in interest rates, and measuring the resulting change in the values of assets and liabilities under multiple interest rate paths. Under the current level of market interest rates, the calculation of EVE under an immediate 200 basis point decrease in interest rates results in certain interest rates declining to zero and a less than 200 basis point decrease in certain yield curve term points. This analysis is highly dependent upon assumptions applied to assets and liabilities with noncontractual maturities. Those assumptions are based on historical behaviors, as well as our expectations. We develop remediation plans that would maintain residual risk within tolerance if this analysis indicates that our EVE will decrease by more than 15% in response to an immediate 200 basis point increase or decrease in interest rates. We are operating within these guidelines.

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

Figure 32 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 32. Portfolio Swaps by Interest Rate Risk Management Strategy

	December 31, 2011					December 31, 2010	
				Weighted-Average			
dollars in millions	**Notional Amount**	**Fair Value**	**Maturity (Years)**	**Receive Rate**	**Pay Rate**	**Notional Amount**	**Fair Value**
Receive fixed/pay variable conventional A/LM [a]	**$ 9,315**	**$ 29**	**1.9**	**.7 %**	**.3 %**	$ 4,515	$ (11)
Receive fixed/pay variable conventional debt	**5,361**	**499**	**9.2**	**4.2**	**.8**	5,484	390
Pay fixed/receive variable conventional debt	**391**	**(26)**	**7.8**	**.8**	**2.2**	587	5
Foreign currency conventional debt	**554**	**(147)**	**.1**	**1.6**	**.6**	1,092	(241)
Total portfolio swaps	**$ 15,621**	**$ 355**	**4.5**	**1.9 %**	**.5 %**	$ 11,678	$ 143

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

Table of Contents

Derivatives not designated in hedge relationships

Our derivatives that are not designated in hedge relationships are described in Note 8. We use a VAR simulation model to measure the potential adverse effect of changes in interest rates, foreign exchange rates, equity prices and credit spreads on the fair value of this portfolio. Using two years of historical information, the model estimates the maximum potential one-day loss with a 95% confidence level. Statistically, this means that losses will exceed VAR, on average, five out of 100 trading days, or three to four times each quarter.

We manage exposure to market risk in accordance with VAR limits for trading activity that have been approved by the Market Risk Committee which was established as part of our ERM Program. At December 31, 2011, the aggregate one-day trading limit set by the committee was $5.5 million. We are operating within these constraints. During 2011, our aggregate daily average, minimum and maximum VAR amounts were $1.7 million, $1.2 million and $2 million, respectively. In 2010, our aggregate daily average, minimum and maximum VAR amounts were $1.8 million, $1.2 million and $2.5 million, respectively.

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

Liquidity risk management

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

Governance structure

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

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

Factors affecting liquidity

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

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

Managing liquidity risk

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

At December 31, 2011, we have no secured borrowings outstanding. However, we retain the capacity to utilize secured borrowings as a contingent funding source.

We maintain a Contingency Funding Plan that outlines the process for addressing a liquidity crisis. The Plan provides for an evaluation of funding sources under various market conditions. It also assigns specific roles and responsibilities for managing liquidity through a problem period. As part of the Plan, we maintain a liquidity reserve through balances in our liquid asset portfolio. During a problem period, that reserve could be used as a source of funding to provide time to develop and execute a longer term strategy. The liquid asset portfolio at December 31, 2011 totaled $11.2 billion, consisting of $6.4 billion of unpledged securities, $1.9 billion of securities available for secured funding at the Federal Home Loan Bank of Cincinnati and $2.9 billion of net balances of federal funds sold and balances in our Federal Reserve account. The liquid asset portfolio can fluctuate over time due to excess liquidity, heightened risk, or prefunding of expected outflows, such as debt maturities. Additionally, as of December 31, 2011, our unused borrowing capacity secured by loan collateral was $12.3 billion at the Federal Reserve Bank of Cleveland and $4.5 billion at the Federal Home Loan Bank of Cincinnati.

Long-term liquidity strategy

Our long-term liquidity strategy is to be predominantly funded by core deposits. However, wholesale funds may be used to sustain an adequate liquid asset portfolio, meet daily cash demands, and allow management flexibility to execute business initiatives. Key s client-based relationship strategy provides for a strong core deposit base which, in conjunction with intermediate and long-term wholesale funds managed to a diversified maturity structure and investor base, supports our liquidity risk management strategy. We use the loan to deposit ratio as a metric to monitor these strategies. Our target loan-to-deposit ratio is 90-100% (at December 31, 2011 our loan-to-deposit ratio was 87%), 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 funding include customer deposits, wholesale funding, liquid assets, and capital. If the cash flows needed to support operating and investing activities are not satisfied by deposit balances, we rely on

Table of Contents

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. We actively manage liquidity using a variety of nondeposit sources, including short- and long-term debt, and secured borrowings.

Liquidity programs

We have several liquidity programs, which are described in Note 15 (Long-Term Debt), that enable the parent company and KeyBank to raise funds in the public and private markets when the capital markets are functioning normally. The proceeds from most of these programs can be used for general corporate purposes, including acquisitions. Each of the programs is replaced or renewed as needed. There are no restrictive financial covenants in any of these programs.

Liquidity for KeyCorp

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

Our primary tools for assessing parent company liquidity is the net short-term cash position, which measures the ability to fund debt maturing in 24 months or less with existing liquid assets, and a cash coverage metric, which measures the ability to meet all projected obligations over 12 months. Another key measure of parent company liquidity is the liquidity gap, which represents the difference between projected liquid assets and anticipated financial obligations over several time horizons. We generally rely upon the issuance of term debt to manage the liquidity gap within targeted ranges assigned to various time periods. At December 31, 2011, the parent company held $2.1 billion in short-term investments, which we project to be sufficient to meet our projected obligations including the repayment our maturing debt obligations for the periods prescribed by our policies.

Typically, the parent company meets its liquidity requirements through regular dividends from KeyBank. Federal banking law limits the amount of capital distributions that a bank can make to its holding company without prior regulatory approval. A national bank s dividend-paying capacity is affected by several factors, including net profits (as defined by statute) for the two previous calendar years and for the current year, up to the date of dividend declaration. During 2011, KeyBank paid $300 million in dividends to the parent, and nonbank subsidiaries paid the parent $33 million in cash dividends, and $12 million in noncash dividends. During 2011, the parent did not make any capital infusions to KeyBank, compared to $100 million during 2010. Based upon existing regulatory guidance, KeyBank has capacity to pay $1.3 billion in dividends to KeyCorp at January 1, 2012.

During the first quarter of 2011, the parent company completed a $625 million equity offering at a price of $8.85 per Common Share. In conjunction with the equity offering, the parent company issued $1 billion, 5.1% Senior Medium-Term Notes, Series I, during the first quarter of 2011. The proceeds from the sale of Common Shares and medium-term notes were used, along with other available funds, to repurchase the Series B Preferred Stock issued to the U.S. Treasury. The repurchase eliminated future quarterly dividends of $31 million and discount amortization (non-cash) of $4 million, or $140 million on an annual basis, related to these preferred shares.

Our liquidity position and recent activity

Over the past twelve months our liquid asset portfolio, which includes overnight and short-term investments, as well as unencumbered, high quality liquid securities held as protection against a range of potential liquidity stress scenarios, has decreased as a result of capital securities redemptions and net customer loan and deposit flows. However, the liquid asset portfolio still continues to exceed the amount we estimate would be necessary to manage through a liquidity event. Liquidity stress scenarios include the loss of access to either unsecured or secured funding sources, as well as draws on unfunded commitments and significant deposit withdrawals.

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

We generate cash flows from operations, and from investing and financing activities. During 2011, we used the proceeds from our debt and Common Share offerings to repurchase our Series B Preferred Stock issued to the U.S. Treasury as part of the TARP CPP and to pay dividends. As previously noted, the repurchase eliminated future quarterly dividends of $31 million and discount amortization (non-cash) of $4 million, or $140 million on an annual basis, related to these preferred shares.

We have approximately $183 million of cash and cash equivalents and short-term investments in international tax jurisdictions as of December 31, 2011. As we consider alternative long-term strategic and liquidity plans, opportunities to repatriate these amounts would result in approximately $30 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 $51 million. Accordingly, we have included the total amount as a deferred tax liability at December 31, 2011.

The consolidated statements of cash flows summarize our sources and uses of cash by type of activity for each year ended December 31, 2011, and 2010.

Credit ratings

Our credit ratings at December 31, 2011, are shown in Figure 33. We believe that these credit ratings, under normal conditions in the capital markets, will enable the parent company or KeyBank to issue fixed income securities to investors. Conditions in the credit markets have materially improved relative to the disruption experienced between the latter part of 2007 and 2009.

In the fourth quarter of 2010, Moody s (a credit rating agency that rates KeyCorp and KeyBank debt securities) announced a one notch downgrade of KeyBanks s short-term borrowings, senior long-term debt, and subordinated debt. As a result of this decision by Moody s, on March 7, 2011, KeyBank transferred approximately $1.5 billion of certain escrow deposit balances to an acceptably-rated institution resulting in an immaterial impairment of the related mortgage servicing assets. For more information regarding this transfer of escrow deposit balances and the related mortgage servicing assets see Note 9 (Mortgage Servicing Assets). More recently on December 6, 2011, Standard & Poor s announced a ratings review of 31 North American regional banks and their subsidiaries under its new bank ratings criteria announced November 9, 2011. S&P s updated their ratings outlook on both KeyCorp and KeyBank from Stable to Positive, and maintained the ratings for KeyCorp and KeyBank. Additional information on the liquidity risks presented to us in the event of a downgrade of our security ratings is included in Item A: Risk Factors.

Figure 33. Credit Ratings

December 31, 2011	TLGP Debt	Short-Term Borrowings	Senior Long-Term Debt	Subordinated Long-Term Debt	Capital Securities	Series A Preferred Stock
KEYCORP (THE PARENT COMPANY)						
Standard & Poor s	AA+	A-2	BBB+	BBB	BBB-	BBB-
Moody s	Aaa	P-2	Baa1	Baa2	Baa3	Ba1
Fitch	AAA	F1	A-	BBB+	BBB	BBB
DBRS	AAA	R-2(high)	BBB(high)	BBB	BBB	BB(low)
KEYBANK						
Standard & Poor s	AA+	A-2	A-	BBB+	N/A	N/A
Moody s	Aaa	P-2	A3	Baa1	N/A	N/A
Fitch	AAA	F1	A-	BBB+	N/A	N/A
DBRS	AAA	R-1 (low)	A(low)	BBB(high)	N/A	N/A

86

Table of Contents

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 a manageable level.

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

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

We maintain an active concentration management program to encourage diversification in our credit portfolios. For individual obligors, we employ a sliding scale of exposure, known as hold limits, which is dictated by the strength of the borrower. Our legal lending limit is approximately $2 billion for any individual borrower. However, internal hold limits generally restrict the largest exposures to less than 20% of that amount. As of December 31, 2011, we had four client relationships with loan commitments net of credit default swaps of more than $200 million. The average amount outstanding on these four individual net obligor commitments was $120 million at December 31, 2011. In general, our philosophy is to maintain a diverse portfolio with regard to credit exposures.

We actively manage the overall loan portfolio in a manner consistent with asset quality objectives, including the use of credit derivatives primarily credit default swaps to mitigate credit risk. Credit default swaps enable us to transfer a portion of the credit risk associated with a particular extension of credit to a third party. At December 31, 2011, we used credit default swaps with a notional amount of $986 million to manage the credit risk associated with specific commercial lending obligations. We also sell credit derivatives primarily index credit default swaps to diversify and manage portfolio concentration and correlation risks. At December 31, 2011, the notional amount of credit default swaps sold by us for the purpose of diversifying our credit exposure was $360 million. Occasionally, we have provided credit protection to other lenders through the sale of credit default swaps. These transactions with other lenders generated fee income.

Table of Contents

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

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

Selected asset quality statistics for each of the past five years are presented in Figure 34. The factors that drive these statistics are discussed in the remainder of this section.

Figure 34. Selected Asset Quality Statistics from Continuing Operations

Year ended December 31,

dollars in millions	**2011**	2010	2009	2008	2007
Net loan charge-offs	**$ 541**	$ 1,570	$ 2,257	$ 1,131	$ 271
Net loan charge-offs to average loans	**1.11 %**	2.91 %	3.40 %	1.55 %	.41 %
Allowance for loan and lease losses	**$ 1,004**	$ 1,604	$ 2,534	$ 1,629	$ 1,195
Allowance for credit losses [(a)]	**1,049**	1,677	2,655	1,683	1,275
Allowance for loan and lease losses to period-end loans	**2.03 %**	3.20 %	4.31 %	2.24 %	1.70 %
Allowance for credit losses to period-end loans	**2.12**	3.35	4.52	2.31	1.81
Allowance for loan and lease losses to nonperforming loans	**138.10**	150.19	115.87	133.42	174.45
Allowance for credit losses to nonperforming loans	**144.29**	157.02	121.40	137.84	186.13
Nonperforming loans at period end	**$ 727**	$ 1,068	$ 2,187	$ 1,221	$ 685
Nonperforming assets at period end	**859**	1,338	2,510	1,460	762
Nonperforming loans to period-end portfolio loans	**1.47 %**	2.13 %	3.72 %	1.68 %	.97 %
Nonperforming assets to period-end portfolio loans plus OREO and other nonperforming assets	**1.73**	2.66	4.25	2.00	1.08

(a) Includes the allowance for loan and lease losses plus the liability for credit losses on lending-related commitments.

Watch and criticized assets

Watch assets are troubled commercial loans with the potential to deteriorate in quality due to the client s current financial condition and possible inability to perform in accordance with the terms of the underlying contract.

Criticized assets are troubled loans and other assets that show additional signs of weakness that may lead, or have led, to an interruption in scheduled repayments from primary sources, potentially requiring us to rely on repayment from secondary sources, such as collateral liquidation. Criticized loan and lease outstandings showed improvement during 2011 decreasing 39.6% from one year ago.

Allowance for loan and lease losses

At December 31, 2011, the allowance for loan and lease losses was $1 billion, or 2.03% of loans, compared to $1.6 billion, or 3.20%, at December 31, 2010. The allowance includes $51 million that was specifically allocated for impaired loans of $388 million at December 31, 2011, compared to $58 million that was allocated for impaired loans of $621 million one year ago. For more information about impaired loans, see Note 5 (Asset Quality). At December 31, 2011, the allowance for loan and lease losses was 138.10% of nonperforming loans, compared to 150.19% at December 31, 2010.

We estimate the appropriate level of the allowance for loan and lease losses 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, we apply historical loss rates to existing loans with similar risk characteristics and exercise judgment to assess the impact of factors such as changes in economic conditions, changes in credit policies or underwriting standards, and changes in the level of credit risk associated with specific industries and

markets. For all commercial TDRs, regardless of size, as well as impaired commercial

Table of Contents

loans having an outstanding balance greater than $2.5 million, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. 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. The allowance for loan and lease losses at December 31, 2011, represents our best estimate of the losses inherent in the loan portfolio at that date.

As shown in Figure 35, our allowance for loan and lease losses decreased by $600 million, or 37%, during the past twelve months. This contraction was associated with the improvement in credit quality of the loan portfolio, which has trended more favorably along with the decrease in loan levels over the past twelve months. Asset quality is improving and has resulted in favorable risk rating migration and a reduction in our general allowance. Our delinquency trends continue to decline while our roll rates keep improving. We attribute this to a more moderate level of economic activity, more favorable conditions in the capital markets, improvement in client income statements and continued run off in our exit loan portfolio. Our liability for credit losses on lending-related commitments decreased by $28 million to $45 million at December 31, 2011, compared to the same period one year ago. When combined with our allowance for loan and lease losses, our total allowance for credit losses represented 2.12% of loans at the end of 2011 compared to 3.35% at the end of 2010. We expect the allowance to decrease as a percent of total loans during 2012 as a result of anticipated improvement in credit quality.

Figure 35. Allocation of the Allowance for Loan and Lease Losses

er 31,	**2011**			**2010**			**2009**		
n millions	**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**	**Percen Loan Typ Total Lo**
cial, and ral	**$ 334**	**33.2 %**	**39.1 %**	$ 485	30.2 %	32.8 %	$ 796	31.4 %	
cial real									
cial e	**272**	**27.1**	**16.2**	416	25.9	19.0	578	22.8	
tion	**63**	**6.3**	**2.7**	145	9.1	4.2	418	16.5	
mmercial e loans	**335**	**33.4**	**18.9**	561	35.0	23.2	996	39.3	
cial lease g	**78**	**7.8**	**12.2**	175	10.9	12.9	280	11.1	
mmercial	**747**	**74.4**	**70.2**	1,221	76.1	68.9	2,072	81.8	
ate al e	**37**	**3.7**	**3.9**	49	3.1	3.7	30	1.2	
uity:									
nmunity	**103**	**10.2**	**18.6**	120	7.5	19.0	130	5.1	
	29	**2.9**	**1.1**	57	3.5	1.3	78	3.1	
me equity	**132**	**13.1**	**19.7**	177	11.0	20.3	208	8.2	
er other nmunity	**41**	**4.1**	**2.4**	57	3.6	2.3	73	2.9	
er other:									
	46	**4.6**	**3.5**	89	5.5	4.5	140	5.5	
	1	**.1**	**.3**	11	.7	.3	11	.4	
nsumer	**47**	**4.7**	**3.8**	100	6.2	4.8	151	5.9	
nsumer	**257**	**25.6**	**29.8**	383	23.9	31.1	462	18.2	
	$ 1,004	**100.0 %**	**100.0 %**	$ 1,604	100.0 %	100.0 %	$ 2,534	100.0 %	1

2008	**2007**

	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
cial, and ral	$ 572	35.1 %	37.4 %	$ 392	32.8 %	35.2 %
cial real						
cial e	228	14.0	14.9	206	17.2	13.7
tion	346	21.2	10.6	326	27.3	11.5
mmercial e loans	574	35.2	25.5	532	44.5	25.2
cial lease g	148	9.1	12.4	125	10.5	14.4
mmercial	1,294	79.4	75.3	1,049	87.8	74.8
te al e	7	.4	2.6	7	.6	2.3
uity:						
nmunity	61	3.7	13.9	53	4.3	13.7
	69	4.3	1.4	19	1.6	1.8
me equity	130	8.0	15.3	72	5.9	15.5
er other nmunity	51	3.2	1.7	31	2.7	1.8
er other:						
	132	8.1	4.7	28	2.3	5.1
	15	.9	.4	8	.7	.5
nsumer	147	9.0	5.1	36	3.0	5.6
nsumer	335	20.6	24.7	146	12.2	25.2
	$ 1,629	100.0 %	100.0 %	$ 1,195	100.0 %	100.0 %

(a) Excludes allocations of the allowance for loan and lease losses in the amount of $104 million at December 31, 2011, $114 million at December 31, 2010, $157 million at December 31, 2009, $174 million at December 31, 2008, and $5 million at December 31, 2007, related to the discontinued operations of the education lending business.

Table of Contents

Our provision for loan and lease losses was a credit of $60 million for 2011, compared to a provision of $638 million for 2010. Our net loan charge-offs for 2011 exceeded the provision for loan and lease losses by $601 million. The decrease in our provision is due to the improving credit quality we have experienced in most of our loan portfolios and the reduction of our outstanding loan balances. Additionally, we continue to work our exit loans, and reduce exposure in our higher-risk businesses including the residential properties portion of our construction loan portfolio, Marine/RV financing, and other selected leasing portfolios through the sale of certain loans, payments from borrowers or net charge-offs. As these outstanding loan balances decrease, so does their required allowance for loan and lease losses and corresponding provision.

Net loan charge-offs

Net loan charge-offs for 2011 totaled $541 million, or 1.11% of average loans from continuing operations. These results compare to net charge-offs of $1.6 billion, or 2.91%, for the same period last year. Figure 36 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 37.

Over the past twelve months, net charge-offs in the commercial loan portfolio decreased by $912 million. Net charge-offs for this line of business declined by $487 million from 2010. As shown in Figure 39, our exit loan portfolio accounted for $115 million, or 21%, of total net loan charge-offs for 2011. Net charge-offs in the exit loan portfolio decreased by $338 million from 2010, primarily driven by a decrease in net charge-offs in the commercial loan portfolios.

Figure 36. Net Loan Charge-offs from Continuing Operations

Year ended December 31,

dollars in millions	**2011**	2010	2009	2008	2007
Commercial, financial and agricultural	**$ 119**	$ 478	$ 786	$ 278	$ 91
Real estate commercial mortgage	**103**	330	354	82	10
Real estate construction	**56**	336	634	492 (a)	53
Commercial lease financing	**17**	63	106	63	29
Total commercial loans	**295**	1,207	1,880	915	183
Home equity Key Community Bank	**89**	116	93	40	18
Home equity Other	**41**	59	72	46	15
Marine	**48**	86	119	67	21
Other	**68**	102	93	63	34
Total consumer loans	**246**	363	377	216	88
Total net loan charge-offs	**$ 541**	$ 1,570	$ 2,257	$ 1,131	$ 271
Net loan charge-offs to average loans	**1.11 %**	2.91 %	3.40 %	1.55 %	.41 %
Net loan charge-offs from discontinued operations education lending business	**$ 123**	$ 121	$ 143	$ 129	$ 4

(a) During the second quarter of 2008, we transferred $384 million of commercial real estate loans ($719 million of primarily construction loans, net of $335 million in net charge-offs) from the loan portfolio to held-for-sale status.

Table of Contents

Figure 37. Summary of Loan and Lease Loss Experience from Continuing Operations

Year ended December 31,					
dollars in millions	**2011**	**2010**	**2009**	**2008**	**2007**
Average loans outstanding	**$ 48,606**	$ 53,971	$ 66,386	$ 72,801	$ 67,024
Allowance for loan and lease losses at beginning of period	**$ 1,604**	$ 2,534	$ 1,629	$ 1,195	$ 939
Loans charged off:					
Commercial, financial and agricultural	**169**	565	838	332	128
Real estate commercial mortgage	**113**	360	356	83	16
Real estate construction	**83**	380	643	494	54
Total commercial real estate loans [(a), (b)]	**196**	740	999	577	70
Commercial lease financing	**42**	88	128	83	51
Total commercial loans	**407**	1,393	1,965	992	249
Real estate residential mortgage	**29**	36	20	15	6
Home equity:					
Key Community Bank	**100**	123	97	43	21
Other	**45**	62	74	47	16
Total home equity loans	**145**	185	171	90	37
Consumer other Key Community Bank	**45**	64	67	44	31
Consumer other:					
Marine	**80**	129	154	85	33
Other	**9**	15	19	14	9
Total consumer other	**89**	144	173	99	42
Total consumer loans	**308**	429	431	248	116
Total loans charged off	**715**	1,822	2,396	1,240	365
Recoveries:					
Commercial, financial and agricultural	**50**	87	52	54	37
Real estate commercial mortgage	**10**	30	2	1	6
Real estate construction	**27**	44	9	2	1
Total commercial real estate loans[(b)]	**37**	74	11	3	7
Commercial lease financing	**25**	25	22	20	22
Total commercial loans	**112**	186	85	77	66
Real estate residential mortgage	**3**	2	1	1	1
Home equity:					
Key Community Bank	**11**	7	4	3	3
Other	**4**	3	2	1	1
Total home equity loans	**15**	10	6	4	4
Consumer other Key Community Bank	**8**	7	7	6	8
Consumer other:					
Marine	**32**	43	35	18	12
Other	**4**	4	5	3	3
Total consumer other	**36**	47	40	21	15

Total consumer loans	**62**	66	54	32	28
Total recoveries	**174**	252	139	109	94
Net loans charged off	**(541)**	(1,570)	(2,257)	(1,131)	(271)
Provision (credit) for loan and lease losses	**(60)**	638	3,159	1,537	525
Allowance related to loans acquired, net				32	
Foreign currency translation adjustment	**1**	2	3	(4)	2
Allowance for loan and lease losses at end of year	**$ 1,004**	$ 1,604	$ 2,534	$ 1,629	$ 1,195
Liability for credit losses on lending-related commitments at beginning of the year	**$ 73**	$ 121	$ 54	$ 80	$ 53
Provision (credit) for losses on lending-related commitments	**(28)**	(48)	67	(26)	28
Charge-offs					(1)
Liability for credit losses on lending-related commitments at end of the year [(c)]	**$ 45**	$ 73	$ 121	$ 54	$ 80
Total allowance for credit losses at end of the year	**$ 1,049**	$ 1,677	$ 2,655	$ 1,683	$ 1,275
Net loan charge-offs to average loans	**1.11%**	2.91%	3.40%	1.55%	.41
Allowance for loan and lease losses to period-end loans	**2.03**	3.20	4.31	2.24	1.70
Allowance for credit losses to period-end loans	**2.12**	3.35	4.52	2.31	1.81
Allowance for loan and lease losses to nonperforming loans	**138.10**	150.19	115.87	133.42	174.45
Allowance for credit losses to nonperforming loans	**144.29**	157.02	121.40	137.84	186.13
Discontinued operations education lending business:					
Loans charged off	**$ 138**	$ 129	$ 147	$ 131	$ 5
Recoveries	**15**	8	4	2	1
Net loan charge-offs	**$ (123)**	$ (121)	$ (143)	$ (129)	$ (4)

Table of Contents

(a) During the second quarter of 2008, we transferred $384 million of commercial real estate loans ($719 million of primarily construction loans, net of $335 million in net charge-offs) from the loan portfolio to held-for-sale status.

(b) See Figure 17 and the accompanying discussion in the Loans and loans held for sale section for more information related to our commercial real estate portfolio.

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

Nonperforming assets

Figure 38 shows the composition of our nonperforming assets. These assets totaled $859 million at December 31, 2011, and represented 1.73% of portfolio loans, OREO and other nonperforming assets, compared to $1.3 billion, or 2.66%, at December 31, 2010. See Note 1 under the headings Nonperforming Loans , Impaired Loans and Allowance for Loan and Lease Losses for a summary of our nonaccrual and charge-off policies.

Figure 38. Summary of Nonperforming Assets and Past Due Loans from Continuing Operations

December 31, *dollars in millions*	**2011**	**2010**	**2009**	**2008**	**2007**
Commercial, financial and agricultural	**$ 188**	$ 242 (d)	$ 586	$ 415	$ 84
Real estate commercial mortgage	**218**	255	614	128	41
Real estate construction	**54**	241	641	436	415
Total commercial real estate loans (c)	**272**	496	1,255	564 (b)	456
Commercial lease financing	**27**	64	113	81	28
Total commercial loans	**487**	802	1,954	1,060	568
Real estate residential mortgage	**87**	98	73	39	28
Home equity:					
Key Community Bank	**108**	102	107	76	54
Other	**12**	18	21	15	12
Total home equity loans	**120**	120	128	91	66
Consumer other Key Community Bank	**1**	4	4	3	2
Consumer other:					
Marine	**31**	42	26	26	20
Other	**1**	2	2	2	1
Total consumer other	**32**	44	28	28	21
Total consumer loans	**240**	266	233	161	117
Total nonperforming loans	**727**	1,068	2,187	1,221	685
Nonperforming loans held for sale	**46**	106	116	90 (b)	25
OREO	**65**	129	168	107	19
Other nonperforming assets	**21**	35	39	42	33
Total nonperforming assets	**$ 859**	$ 1,338	$ 2,510	$ 1,460	$ 762
Accruing loans past due 90 days or more	**$ 164**	$ 239	$ 331	$ 413	$ 215
Accruing loans past due 30 through 89 days	**441**	476	933	1,230	785
Restructured loans accruing and nonaccruing (a)	**276**	297	364		
Restructured loans included in nonperforming loans (a)	**191**	202	364		
Nonperforming assets from discontinued operations education lending business	**23**	40	14	4	2
Nonperforming loans to year-end portfolio loans	**1.47 %**	2.13 %	3.72 %	1.68 %	.97 %
Nonperforming assets to year-end portfolio loans plus OREO and other nonperforming assets	**1.73**	2.66	4.25	2.00	1.08

(a) Restructured loans (i.e. troubled debt restructurings) are those for which Key, for reasons related to a borrower s financial difficulties, grants a concession to the borrower that it would not otherwise consider. These concessions are made to improve the collectability of the loan and generally take the form of a reduction of the interest rate, extension of the maturity date or reduction in the principal balance.

(b) During the second quarter of 2008, we transferred $384 million of commercial real estate loans ($719 million of primarily construction loans, net of $335 million in net charge-offs) from the loan portfolio to held-for-sale status.

(c) See Figure 17 and the accompanying discussion in the Loans and loans held for sale section for more information related to our commercial real estate portfolio.

(d) Included in the commercial, financial and agricultural portfolio is a $67 million middle market past due credit which was resolved in January 2011.

Table of Contents

As shown in Figure 38, nonperforming assets decreased during 2011, having declined for the past two years. Most of the reduction came from nonperforming loans, nonperforming loans held for sale and OREO in the Commercial Real Estate line of business. As shown in Figure 39, our exit loan portfolio accounted for $119 million, or 14%, of total nonperforming assets at December 31, 2011, compared to $210 million, or 16%, in 2010.

At December 31, 2011, the carrying amount of our commercial nonperforming loans outstanding represented 62% of their original contractual amount owed, total nonperforming loans outstanding represented 70% of their contractual amount owed and total nonperforming assets represented 65% of their original contractual amount owed. At the same date, OREO represented 41% of its original contractual amount owed, while loans held for sale and other nonperforming assets in the aggregate represented 48% of their contractual amount owed.

At December 31, 2011, our 20 largest nonperforming loans totaled $237 million, representing 33% of total loans on nonperforming status from continuing operations as compared to $306 million representing 29%, respectively in the prior year.

Figure 39 shows the composition of our exit loan portfolio at December 31, 2011 and 2010, the net charge-offs recorded on this portfolio, and the nonperforming status of these loans at these dates. The exit loan portfolio represented 8% of total loans and loans held for sale at December 31, 2011 as compared to 11% at December 31, 2010. Additional information about loan sales is included in the Loans and loans held for sale section under Loan sales.

Figure 39. Exit Loan Portfolio from Continuing Operations

	Balance Outstanding		Change 12-31-11 vs. 12-31-10	Net Loan Charge-offs		Balance on Nonperforming Status	
in millions	**12-31-11**	**12-31-10**		**12-31-11**	**12-31-10**	**12-31-11**	**12-31-10**
Residential properties homebuilder	**$ 41**	$ 113	$ (72)	**$ 5**	$ 103	**$ 23**	$ 66
Marine and RV floor plan	**81**	166	(85)	**9**	61	**45**	37
Commercial lease financing [(a)]	**1,669**	2,047	(378)	**7**	133	**7**	46
Total commercial loans	**1,791**	2,326	(535)	**21**	297	**75**	149
Home equity Other	**535**	666	(131)	**41**	59	**12**	18
Marine	**1,766**	2,234	(468)	**48**	86	**31**	42
RV and other consumer	**125**	162	(37)	**5**	11	**1**	1
Total consumer loans	**2,426**	3,062	(636)	**94**	156	**44**	61
Total exit loans in loan portfolio	**$ 4,217**	$ 5,388	$ (1,171)	**$ 115**	$ 453	**$ 119**	$ 210
Discontinued operations education lending business (not included in exit loans above)[(b)]	**$ 5,812**	$ 6,466	$ (654)	**$ 123**	$ 121	**$ 23**	$ 39

(a) Includes the business aviation, commercial vehicle, office products, construction and industrial leases, and Canadian lease financing portfolios; and all remaining balances related to LILO, SILO, service contract leases and qualified technological equipment leases.

(b) Includes loans in Key s education loan securitization trusts.

Table of Contents

Figure 40 shows credit exposure by industry classification in the largest sector of our loan portfolio, commercial, financial and agricultural loans. Since December 31, 2010, total commitments and loans outstanding in this sector have increased by $3.5 billion and $2.9 billion, respectively.

Figure 40. Commercial, Financial and Agricultural Loans

December 31, 2011 *dollars in millions*	**Total Commitments** (a)	**Loans Outstanding**	**Nonperforming Loans Amount**	**Nonperforming Loans Percent of Loans Outstanding**
Industry classification:				
Services	$ 9,127	$ 4,532	$ 22	.5 %
Manufacturing	8,323	3,281	27	.8
Public utilities	4,667	1,002	1	.1
Financial services	3,705	1,917	14	.7
Wholesale trade	3,210	1,490	8	.5
Retail trade	2,047	765	4	.5
Mining	1,617	615	3	.5
Property management	1,363	798	15	1.9
Dealer floor plan	1,340	902	29	3.2
Transportation	1,188	774	29	3.7
Building contractors	1,124	433	19	4.4
Agriculture/forestry/fishing	960	579	16	2.8
Public administration	490	278		
Insurance	439	101		
Communications	347	209		
Individuals	3	2		
Other	1,863	1,700	1	.1
Total	$ 41,813	$ 19,378	$ 188	1.0 %

(a) Total commitments include unfunded loan commitments, unfunded letters of credit (net of amounts conveyed to others) and loans outstanding.

The types of activity that caused the change in our nonperforming loans during 2011 and 2010 are summarized in Figure 41. Loans placed on non-accrual declined nearly $1.4 billion during 2011 as compared to 2010, as market liquidity continued to improve.

Figure 41. Summary of Changes in Nonperforming Loans from Continuing Operations

in millions	**2011**	**2011 Quarters Fourth**	**Third**	**Second**	**First**	**2010**
Balance at beginning of period	**$ 1,068**	**$ 788**	**$ 842**	**$ 885**	**$ 1,068**	$ 2,187
Loans placed on nonaccrual status	**1,267**	**230**	**292**	**410**	**335**	2,663
Charge-offs	**(715)**	**(149)**	**(157)**	**(177)**	**(232)**	(1,822)
Loans sold	**(129)**	**(28)**	**(16)**	**(11)**	**(74)**	(405)
Payments	**(465)**	**(70)**	**(125)**	**(156)**	**(114)**	(737)
Transfers to OREO	**(41)**	**(12)**	**(11)**	**(6)**	**(12)**	(139)
Transfers to nonperforming loans held for sale	**(97)**	**(19)**	**(24)**	**(15)**	**(39)**	(345)
Transfers to other nonperforming assets	**(9)**	**(4)**	**(3)**		**(2)**	(49)
Loans returned to accrual status	**(152)**	**(9)**	**(10)**	**(88)**	**(45)**	(285)
Balance at end of period	**$ 727**	**$ 727**	**$ 788**	**$ 842**	**$ 885**	$ 1,068

Table of Contents

The types of activity that caused the change in our nonperforming loans held for sale during 2011 and 2010 are summarized in Figure 42.

Figure 42. Summary of Changes in Nonperforming Loans Held for Sale from Continuing Operations

		2011 Quarters				
in millions	**2011**	**Fourth**	**Third**	**Second**	**First**	**2010**
Balance at beginning of period	**$ 106**	**$ 42**	**$ 42**	**$ 86**	**$ 106**	$ 116
Transfers in	**97**	**19**	**24**	**15**	**39**	418
Net advances / (payments)	**(41)**	**(3)**	**(5)**	**(13)**	**(20)**	(60)
Loans sold	**(91)**	**(11)**	**(5)**	**(37)**	**(38)**	(280)
Transfers to OREO	**(25)**	**(1)**	**(19)**	**(5)**		(70)
Valuation adjustments	**(6)**		**(1)**	**(4)**	**(1)**	(14)
Loans returned to accrual status / other	**6**		**6**			(4)
Balance at end of period	**$ 46**	**$ 46**	**$ 42**	**$ 42**	**$ 86**	$ 106

Factors that contributed to the change in our OREO during 2011 and 2010 are summarized in Figure 43. As shown in this figure, the decrease in 2011 was attributable to properties acquired through foreclosure or voluntary transfer from the borrower.

Figure 43. Summary of Changes in Other Real Estate Owned, Net of Allowance, from Continuing Operations

		2011 Quarters				
in millions	**2011**	**Fourth**	**Third**	**Second**	**First**	**2010**
Balance at beginning of period	**$ 129**	**$ 63**	**$ 52**	**$ 97**	**$ 129**	$ 168
Properties acquired nonperforming loans	**66**	**13**	**30**	**11**	**12**	209
Valuation adjustments	**(25)**	**(4)**	**(3)**	**(7)**	**(11)**	(68)
Properties sold	**(105)**	**(7)**	**(16)**	**(49)**	**(33)**	(180)
Balance at end of period	**$ 65**	**$ 65**	**$ 63**	**$ 52**	**$ 97**	$ 129

Operational risk management

Like all businesses, we are subject to operational risk, which is the risk of loss resulting from human error or malfeasance, inadequate or failed internal processes and systems, and external events. These events include, among other things, threats to our cybersecurity, as we are reliant upon information systems and the internet to conduct our business activities.

Operational risk also encompasses compliance risk, which is the risk of loss from violations of, or noncompliance with, laws, rules and regulations, prescribed practices, and ethical standards. Due to the passage of the Dodd-Frank Act, large financial companies like Key will be subject to heightened prudential standards and regulation due to their systemic importance. This heightened level of regulation will increase our operational risk. We have created work teams to respond to and analyze the new regulatory requirements imposed upon us and that will be promulgated as a result of the enactment of the Dodd-Frank Act. Resulting operational risk losses and/or additional regulatory compliance costs could take the form of explicit charges, increased operational costs, harm to our reputation or forgone opportunities.

We seek to mitigate operational risk through identification and measurement of risk, alignment of business strategies with risk appetite and tolerance, and a system of internal controls and reporting. We continuously strive to strengthen our system of internal controls to improve the oversight of our operational risk and to ensure compliance with laws, rules and regulations. For example, an operational event database tracks the amounts and sources of operational risk and losses. This tracking mechanism helps to identify weaknesses and to highlight the need to take corrective action. We also rely upon software programs designed to assist in the assessment of operational risk and monitoring our control processes. This technology has enhanced the reporting of the effectiveness of our controls to senior management and the Board of Directors.

Table of Contents

Primary responsibility for managing and monitoring internal control mechanisms lies with the managers of our various lines of business. Our Operational Risk Management function manages the Operational Risk Management Program which provides the framework for the structure, governance, roles and responsibilities as well as the content to manage operational risk for Key. The Operational Risk Committee, a senior management committee, oversees our level of operational risk, and directs and supports our operational infrastructure and related activities. This committee and the Operational Risk Management function are an integral part of our ERM Program. Our Risk Review function periodically assesses the overall effectiveness of our Operational Risk Management Program and our system of internal controls. Risk Review reports the results of reviews on internal controls and systems to senior management and the Audit Committee, and independently supports the Audit Committee s oversight of these controls.

Fourth Quarter Results

Our financial performance for each of the past eight quarters is summarized in Figure 44. Highlights of our results for the fourth quarter of 2011 are summarized below.

Earnings

We had a fourth quarter net income from continuing operations attributable to Key common shareholders of $201 million, or $.21 per common share, compared to a net income from continuing operations attributable to Key common shareholders of $292 million, or $.33 per Common Share, for the fourth quarter of 2010.

The fourth quarter 2011 results were negatively impacted by a $24 million charge resulting from Visa s late fourth quarter announcement of a planned litigation escrow deposit. In addition, Key recorded a $28 million gain on the sale of Tuition Management Systems during the fourth quarter of 2010. Fourth quarter 2011 net income attributable to Key common shareholders was $194 million compared to net income attributable to Key common shareholders of $279 million for the same quarter one year ago.

On an annualized basis, our return on average total assets from continuing operations for the fourth quarter of 2011 was 1.01%, compared to 1.53% for the fourth quarter of 2010. The annualized return on average common equity from continuing operations was 8.26% for the fourth quarter of 2011, compared to 13.71% for the year-ago quarter.

Net interest income

Our taxable-equivalent net interest income was $563 million for the fourth quarter of 2011, and the net interest margin was 3.13%. These results compare to taxable-equivalent net interest income of $635 million and a net interest margin of 3.31% for the fourth quarter of 2010. The decrease in net interest income is attributable to both a decline in earning assets and the net interest margin. The net interest margin has been under pressure as a result of the continuation of the low rate environment contracting the spread between lending rates and funding costs.

Noninterest income

Our noninterest income was $414 million for the fourth quarter of 2011, compared to $526 million for the year-ago quarter. Investment banking and capital markets income decreased $39 million compared to the same period one year ago, which includes a $24 million charge resulting from Visa s late fourth quarter announcement of a planned increase to its litigation escrow deposit. Other income also decreased from the year-ago quarter due to a $28 million gain from the sale of Tuition Management Systems in the fourth quarter of 2010. Also contributing to the decline in noninterest income were decreases in operating lease income of $17 million and net securities gains (losses) of $12 million. Electronic banking fees also declined $13 million as a result of new government pricing controls on debit transactions which were effective October 1, 2011.

Noninterest expense

Our noninterest expense was $717 million for the fourth quarter of 2011, compared to $744 million for the same period last year. The improvement in expense levels resulted from declines of $20 million in FDIC deposit insurance premiums, $10 million in operating lease expense and reductions across several other expense categories. These decreases were partially offset by a $21 million increase in employee benefits expense due to higher medical claims expense compared to the year ago quarter when Key recorded a reduced amount due to favorable experience. In addition, the fourth quarter reflected a credit of $11 million in the provision (credit) for losses on lending-related commitments compared to a credit of $26 million in the same period one year ago.

Provision for loan and lease losses

Our provision for loan and lease losses was a credit of $22 million for the fourth quarter of 2011, compared to a credit of $97 million for the year-ago quarter and a charge of $10 million for the third quarter of 2011. Key s allowance for loan and lease losses was $1 billion, or 2.03% of total period-end loans, at December 31, 2011, compared to 2.35% at September 30, 2011, and 3.20% at December 31, 2010.

Net loan charge-offs for the quarter totaled $105 million, or .86% of average loans. These results compare to $256 million, or 2.00%, for the same period last year and $109 million, or .90%, for the previous quarter. Net loan charge-offs have declined for the last eight consecutive quarters and were less than one percent of average loans for the second consecutive quarter.

Income taxes

For the fourth quarter of 2011, we recorded a tax provision from continuing operations of $69 million compared to a tax provision of $172 million for the fourth quarter of 2010. The effective tax rate for the fourth quarter of 2011 was 25.2% compared with 33.7% for the same quarter one year prior. For the fourth quarter of 2011, the tax rate was lower due to lower pre-tax income and slightly higher tax credits earned during the period. During the fourth quarter of 2010, we recorded domestic deferred income tax expense of $32 million as a result of our change in assertion as to indefinitely reinvesting in non-US subsidiaries.

Table of Contents

Figure 44. Selected Quarterly Financial Data

	2011 Quarters				2010 Quarters			
dollars in millions, except per share amounts	**Fourth**	**Third**	**Second**	**First**	Fourth	Third	Second	First
FOR THE PERIOD								
Interest income	**$ 698**	**$ 705**	**$ 726**	**$ 760**	$ 811	$ 844	$ 861	$ 892
Interest expense	**141**	**156**	**162**	**163**	182	204	244	267
Net interest income	**557**	**549**	**564**	**597**	629	640	617	625
Provision (credit) for loan and lease losses	**(22)**	**10**	**(8)**	**(40)**	(97)	94	228	413
Noninterest income	**414**	**483**	**454**	**457**	526	486	492	450
Noninterest expense	**717**	**692**	**680**	**701**	744	736	769	785
Income (loss) from continuing operations before income taxes	**276**	**330**	**346**	**393**	508	296	112	(123)
Income (loss) from continuing operations attributable to Key	**207**	**234**	**249**	**274**	333	204	97	(57)
Income (loss) from discontinued operations, net of taxes[b]	**(7)**	**(17)**	**(9)**	**(11)**	(13)	15	(27)	2
Net income (loss) attributable to Key	**200**	**217**	**240**	**263**	320	219	70	(55)
Income (loss) from continuing operations attributable to Key common shareholders	**201**	**229**	**243**	**184**	292	163	56	(98)
Income (loss) from discontinued operations, net of taxes[b]	**(7)**	**(17)**	**(9)**	**(11)**	(13)	15	(27)	2
Net income (loss) attributable to Key common shareholders	**194**	**212**	**234**	**173**	279	178	29	(96)
PER COMMON SHARE								
Income (loss) from continuing operations attributable to Key common shareholders	**$ .21**	**$ .24**	**$ .26**	**$ .21**	$ .33	$ .19	$ .06	$ (.11)
Income (loss) from discontinued operations, net of taxes[b]	**(.01)**	**(.02)**	**(.01)**	**(.01)**	(.02)	.02	(.03)	
Net income (loss) attributable to Key common shareholders	**.20**	**.22**	**.25**	**.20**	.32	.20	.03	(.11)
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**.21**	**.24**	**.26**	**.21**	.33	.19	.06	(.11)
Income (loss) from discontinued operations, net of taxes assuming dilution[b]	**(.01)**	**(.02)**	**(.01)**	**(.01)**	(.02)	.02	(.03)	
Net income (loss) attributable to Key common shareholders assuming dilution	**.20**	**.22**	**.25**	**.19**	.32	.20	.03	(.11)
Cash dividends paid	**.03**	**.03**	**.03**	**.01**	.01	.01	.01	.01
Book value at period end	**10.09**	**10.09**	**9.88**	**9.58**	9.52	9.54	9.19	9.01
Tangible book value at period end	**9.11**	**9.10**	**8.90**	**8.59**	8.45	8.46	8.10	7.91
Market price:								
High	**7.89**	**8.48**	**9.10**	**9.77**	8.76	8.91	9.84	8.19
Low	**5.59**	**5.63**	**7.82**	**8.31**	7.45	7.13	7.17	5.55
Close	**7.69**	**5.93**	**8.33**	**8.88**	8.85	7.96	7.69	7.75
Weighted-average common shares outstanding (000)	**948,658**	**948,702**	**947,565**	**881,894**	875,501	874,433	874,664	874,386
Weighted-average common shares and potential common shares outstanding (000)	**951,684**	**950,686**	**952,133**	**887,836**	900,263	874,433	874,664	874,386
AT PERIOD END								
Loans	**$ 49,575**	**$ 48,195**	**$ 47,840**	**$ 48,552**	$ 50,107	$ 51,354	$ 53,334	$ 55,913
Earning assets	**73,729**	**74,167**	**73,447**	**74,593**	76,211	77,681	78,238	79,948
Total assets	**88,785**	**89,262**	**88,782**	**90,438**	91,843	94,043	94,167	95,303

Deposits	**61,956**	**61,032**	**60,410**	**60,810**	60,610	61,418	62,375	65,149
Long-term debt	**9,520**	**10,717**	**10,997**	**11,048**	10,592	11,443	10,451	11,177
Key common shareholders equity	**9,614**	**9,610**	**9,428**	**9,134**	8,380	8,401	8,091	7,916
Key shareholders equity	**9,905**	**9,901**	**9,719**	**9,425**	11,117	11,134	10,820	10,641
PERFORMANCE RATIOS FROM CONTINUING OPERATIONS								
Return on average total assets	**1.01%**	**1.14%**	**1.23%**	**1.32%**	1.53%	.93%	.44%	(.26)%
Return on average common equity	**8.26**	**9.52**	**10.51**	**8.75**	13.71	7.82	2.84	(4.95)
Net interest margin (TE)	**3.13**	**3.09**	**3.19**	**3.25**	3.31	3.35	3.17	3.19
PERFORMANCE RATIOS FROM CONSOLIDATED OPERATIONS								
Return on average total assets	**.91%**	**.98%**	**1.10%**	**1.18%**	1.36%	.93%	.30%	(.23)%
Return on average common equity	**7.97**	**8.82**	**10.12**	**8.23**	13.10	8.54	1.47	(4.85)
Net interest margin (TE)	**3.04**	**3.02**	**3.11**	**3.16**	3.22	3.26	3.12	3.13
Loan to deposit[c]	**87.00**	**85.71**	**86.10**	**90.76**	90.30	91.80	93.43	93.44
CAPITAL RATIOS AT PERIOD END								
Key shareholders equity to assets	**11.16%**	**11.09%**	**10.95%**	**10.42%**	12.10%	11.84%	11.49%	11.17%
Tangible Key shareholders equity to tangible assets	**10.21**	**10.15**	**10.00**	**9.48**	11.20	10.93	10.58	10.26
Tangible common equity to tangible assets[a]	**9.88**	**9.82**	**9.67**	**9.16**	8.19	8.00	7.65	7.37
Tier 1 common equity	**11.26**	**11.28**	**11.14**	**10.74**	9.34	8.61	8.07	7.51
Tier 1 risk-based capital	**12.99**	**13.49**	**13.93**	**13.48**	15.16	14.30	13.62	12.92
Total risk-based capital	**16.51**	**17.05**	**17.88**	**17.38**	19.12	18.22	17.80	17.07
Leverage	**11.79**	**11.93**	**12.13**	**11.56**	13.02	12.53	12.09	11.60
TRUST AND BROKERAGE ASSETS								
Assets under management	**$ 51,732**	**$ 51,584**	**$ 59,253**	**$ 61,518**	$ 59,815	$ 59,718	$ 58,862	$ 66,186
Nonmanaged and brokerage assets	**30,639**	**28,007**	**29,472**	**29,024**	28,069	26,913	27,189	27,809
OTHER DATA								
Average full-time-equivalent employees	**15,381**	**15,490**	**15,349**	**15,301**	15,424	15,584	15,665	15,772
Branches	**1,058**	**1,063**	**1,048**	**1,040**	1,033	1,029	1,019	1,014

(a) See Figure 4 entitled GAAP to Non-GAAP Reconciliations, which presents the computations of certain financial measures to tangible common equity and Tier 1 common equity. The table reconciles the GAAP performance to the corresponding non-GAAP measures, which provides a basis for period-to-period comparisons.

98

Table of Contents

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

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

Critical accounting policies and estimates

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

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

As described below, we rely heavily on the use of judgment, assumptions and estimates to make a number of core decisions. We have reviewed these critical accounting estimates and related disclosures with the Audit Committee.

Allowance for loan and lease losses

The loan portfolio is the largest category of assets on our balance sheet. We consider a variety of data to determine probable losses incurred in the loan portfolio and to establish an allowance that is sufficient to absorb those losses. For example, we apply historical loss rates to existing loans with similar risk characteristics and exercise judgment to assess the impact of factors such as changes in economic conditions, lending policies, underwriting standards, and the level of credit risk associated with specific industries and markets. Other considerations include expected cash flows and estimated collateral values.

For all commercial troubled debt restructurings, regardless of size, as well as all other impaired commercial loans with an outstanding balance greater than $2.5 million, we conduct further analysis to determine the probable loss and assign a specific allowance to the loan if deemed appropriate. For example, a specific allowance may be assigned even when sources of repayment appear sufficient if we remain uncertain that an impaired loan will be repaid in full.

We continually assess the risk profile of the loan portfolio and adjust the allowance for loan and lease losses when appropriate. The economic and business climate in any given industry or market is difficult to gauge and can change rapidly, and the effects of those changes can vary by borrower. However, since our total loan portfolio is well diversified in many respects, and the risk profile of certain segments of the loan portfolio may be improving while the risk profile of others is deteriorating, we may decide to change the level of the allowance for one segment of the portfolio without changing it for any other segment.

In addition to adjusting the allowance for loan and lease losses to reflect market conditions, we also may adjust the allowance because of unique events that are likely to cause actual losses to vary abruptly and significantly from expected losses. For example, class action lawsuits brought against an industry segment (e.g., one that used asbestos in its product) can cause a precipitous deterioration in the risk profile of borrowers doing business in that segment. Conversely, the dismissal of such lawsuits can improve the risk profile. In either case, historical loss rates for that industry segment would not have provided a precise basis for determining the appropriate level of allowance.

Even minor changes in the level of estimated losses can significantly affect management s determination of the appropriate level of allowance because those changes must be applied across a large portfolio. To illustrate, an increase in estimated losses equal to one-tenth of one percent of our consumer loan portfolio as of December 31, 2011, would indicate the need for a $15 million increase in the level of the allowance. The same level of increase in estimated losses for the commercial loan portfolio would result in a $35 million increase in the allowance. Such adjustments to the allowance for loan and lease losses can materially affect financial results. Following the above examples, a $15 million increase in the consumer loan portfolio allowance would have reduced our earnings on an after-tax basis by approximately $9 million, or $.01 per share; a $35 million increase in the commercial loan portfolio allowance would have reduced earnings on an after-tax basis by approximately $22 million, or $.02 per share.

As we make decisions regarding the allowance, we benefit from a lengthy organizational history and experience with credit evaluations and related outcomes. Nonetheless, if our underlying assumptions later prove to be inaccurate, the allowance for loan and lease losses would likely need to be adjusted, possibly having an adverse effect on our results of operations.

Our accounting policy related to the allowance is disclosed in Note 1 under the heading Allowance for Loan and Lease Losses.

Valuation methodologies

We follow the applicable accounting guidance for fair value measurements and disclosures, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In the absence of quoted market prices, we determine the fair value of our assets and liabilities using internally developed models, which are based on third-party data as well as our judgment, assumptions and estimates regarding credit quality, liquidity, interest rates and other relevant market available inputs. We describe our application of this accounting guidance, the process used to determine fair values and the fair value hierarchy in Note 1 under the heading Fair Value Measurements and in Note 6 (Fair Value Measurements).

Valuation methodologies often involve significant judgment, particularly when there are no observable active markets for the items being valued. To determine the values of assets and liabilities, as well as the extent to which related assets may be impaired, we make assumptions and estimates related to discount rates, asset returns, prepayment rates and other factors. The use of different discount rates or other valuation assumptions could produce significantly different results. The outcomes of valuations that we perform have a direct bearing on the recorded amounts of assets and liabilities, including loans held for sale, principal investments, goodwill, and pension and other postretirement benefit obligations.

At December 31, 2011, $18.7 billion, or 21%, of our total assets were measured at fair value on a recurring basis. Substantially all of these assets were classified as Level 1 or Level 2 within the fair value hierarchy. At December 31, 2011, $1.7 billion, or 2%, of our total liabilities were measured at fair value on a recurring basis. Substantially all of these liabilities were classified as Level 1 or Level 2.

At December 31, 2011, $208 million, or .2%, of our total assets were measured at fair value on a nonrecurring basis. Approximately 9% of these assets were classified as Level 1 or Level 2. At December 31, 2011, there were no liabilities measured at fair value on a nonrecurring basis.

A discussion of the valuation methodology applied to our loans held for sale is included in Note 1 under the heading Loans Held for Sale.

Our principal investments include direct and indirect investments, predominantly in privately-held companies. The fair values of these investments are determined by considering a number of factors, including the target company s financial condition and results of operations, values of public companies in comparable businesses,

market liquidity, and the nature and duration of resale restrictions. The fair value of principal investments was $709 million at December 31, 2011. A 10% positive or negative variance in that fair value would have increased or decreased our 2011 earnings by approximately $71 million ($45 million after tax, or $.05 per share).

The valuation and testing methodologies used in our analysis of goodwill impairment are summarized in Note 1 under the heading Goodwill and Other Intangible Assets. The first step in testing for impairment is to determine the fair value of each reporting unit. Our reporting units for purposes of this testing are our two major business segments: Key Community Bank and Key Corporate Bank. Fair values are estimated using comparable external market data (market approach) and discounted cash flow modeling that incorporates an appropriate risk premium and earnings forecast information (income approach). We perform a sensitivity analysis of the estimated fair value of each reporting unit as appropriate. We believe the estimates and assumptions used in the goodwill impairment analysis for our reporting units are reasonable. However, if actual results and market conditions differ from the assumptions or estimates used, the fair value of each reporting unit could change in the future.

The second step of impairment testing is necessary only if the carrying amount of either reporting unit exceeds its fair value, suggesting goodwill impairment. In such a case, we would estimate a hypothetical purchase price for the reporting unit (representing the unit s fair value) and then compare that hypothetical purchase price with the fair value of the unit s net assets (excluding goodwill). Any excess of the estimated purchase price over the fair value of the reporting unit s net assets represents the implied fair value of goodwill. An impairment loss would be recognized as a charge to earnings if the carrying amount of the reporting unit s goodwill exceeds the implied fair value of goodwill. Due to the economic uncertainty experienced since 2007, we have conducted quarterly reviews of the applicable goodwill impairment indicators and evaluated the carrying amount of our goodwill, as necessary. At December 31, 2011, the Key Community Bank reporting unit had $917 million in goodwill, while the Key Corporate Bank reporting unit had no recorded goodwill.

As a result of our sale of Tuition Management Systems in December 2010, customer relationship intangible assets of $15 million were written off against the purchase price to determine the net gain during 2010. During 2009, we recorded noncash charges for intangible assets impairment of $241 million ($192 million after tax, or $.28 per common share). See Note 10 (Goodwill and Other Intangible Assets) for a summary of the events that resulted in these charges.

The primary assumptions used in determining our pension and other postretirement benefit obligations and related expenses, including sensitivity analysis of these assumptions, are presented in Note 19 (Employee Benefits).

When potential asset impairment is identified, we must exercise judgment to determine the nature of the potential impairment (i.e., temporary or other-than-temporary) to apply the appropriate accounting treatment. For example, unrealized losses on securities available for sale that are deemed temporary are recorded in shareholders equity; those deemed other-than-temporary are recorded in either earnings or shareholders equity based on certain factors. Additional information regarding temporary and other-than-temporary impairment on securities available for sale at December 31, 2011, is provided in Note 7 (Securities).

Derivatives and hedging

We use primarily interest rate swaps to hedge interest rate risk for asset and liability management purposes. These derivative instruments modify the interest rate characteristics of specified on-balance sheet assets and liabilities. Our accounting policies related to derivatives reflect the current accounting guidance, which provides that all derivatives should be recognized as either assets or liabilities on the balance sheet at fair value, after taking into account the effects of master netting agreements. Accounting for changes in the fair value (i.e., gains or losses) of a particular derivative depends on whether the derivative has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship.

Table of Contents

The application of hedge accounting requires significant judgment to interpret the relevant accounting guidance, as well as to assess hedge effectiveness, identify similar hedged item groupings, and measure changes in the fair value of the hedged items. We believe our methods of addressing these judgments and applying the accounting guidance are consistent with both the guidance and industry practices. However, interpretations of the applicable accounting guidance continue to change and evolve. In the future, these evolving interpretations could result in material changes to our accounting for derivative financial instruments and related hedging activities. Although such changes may not have a material effect on our financial condition, a change could have a material adverse effect on our results of operations in the period in which it occurs. Additional information relating to our use of derivatives is included in Note 1 under the heading Derivatives and Note 8 (Derivatives and Hedging Activities).

Contingent liabilities, guarantees and income taxes

Note 16 (Commitments, Contingent Liabilities and Guarantees) summarizes contingent liabilities arising from litigation and contingent liabilities arising from guarantees in various agreements with third parties under which we are a guarantor, and the potential effects of these items on the results of our operations. We record a liability for the fair value of the obligation to stand ready to perform over the term of a guarantee, but there is a risk that our actual future payments in the event of a default by the guaranteed party could exceed the recorded amount. See Note 16 for a comparison of the liability recorded and the maximum potential undiscounted future payments for the various types of guarantees that we had outstanding at December 31, 2011.

It is not always clear how the Internal Revenue Code and various state tax laws apply to transactions that we undertake. In the normal course of business, we may record tax benefits and then have those benefits contested by the IRS or state tax authorities. We have provided tax reserves that we believe are adequate to absorb potential adjustments that such challenges may necessitate. However, if our judgment later proves to be inaccurate, the tax reserves may need to be adjusted, which could have an adverse effect on our results of operations and capital.

Additionally, we conduct quarterly assessments that determine the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded. The available evidence used in connection with these assessments includes taxable income in prior periods, projected future taxable income, potential tax-planning strategies and projected future reversals of deferred tax items. These assessments are subjective and may change. Based on these criteria, and in particular our projections for future taxable income, we currently believe that it is more-likely-than-not that we will realize our net deferred tax asset in future periods. However, if our assessments prove incorrect, it could have a material adverse effect on our results of operations in the period in which they occur. For further information on our accounting for income taxes, see Note 12 (Income Taxes).

During 2011, we did not significantly alter the manner in which we applied our critical accounting policies or developed related assumptions and estimates.

Table of Contents

European Sovereign Debt Exposures

Our total European sovereign and non-sovereign debt exposure is presented in Figure 45.

Figure 45. European Sovereign and Non-sovereign Debt Exposures

Year ended December 31, 2011 *in millions*		**Short-and Long-Term Commercial Total** [(a)]	**Foreign Exchange and Derivatives with Collateral** [(b)]	**Net Exposure**
France:				
	Sovereigns			
	Non-sovereign financial institutions		$ 1	$ 1
	Non-sovereign non-financial institutions	$ 78		78
	Total	78	1	79
Germany:				
	Sovereigns			
	Non-sovereign financial institutions		3	3
	Non-sovereign non-financial institutions	447		447
	Total	447	3	450
Greece:				
	Sovereigns			
	Non-sovereign financial institutions			
	Non-sovereign non-financial institutions			
	Total			
Iceland:				
	Sovereigns			
	Non-sovereign financial institutions			
	Non-sovereign non-financial institutions			
	Total			
Ireland:				
	Sovereigns			
	Non-sovereign financial institutions			
	Non-sovereign non-financial institutions	8		8
	Total	8		8
Italy:				
	Sovereigns			
	Non-sovereign financial institutions			
	Non-sovereign non-financial institutions	46		46
	Total	46		46
Netherlands:				
	Sovereigns			
	Non-sovereign financial institutions			
	Non-sovereign non-financial institutions	262		262
	Total	262		262
Portugal:				
	Sovereigns			
	Non-sovereign financial institutions			
	Non-sovereign non-financial institutions			
	Total			
Spain:				
	Sovereigns			
	Non-sovereign financial institutions			
	Non-sovereign non-financial institutions	53		53
	Total	53		53
Switzerland:				
	Sovereigns			
	Non-sovereign financial institutions		4	4
	Non-sovereign non-financial institutions	147		147
	Total	147	4	151

United Kingdom:			
Sovereigns			
Non-sovereign financial institutions		3	3
Non-sovereign non-financial institutions	231		231
Total	231	3	234
Other Europe: [c]			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions	70		70
Total	70		70
Total Europe:			
Sovereigns			
Non-sovereign financial institutions		11	11
Non-sovereign non-financial institutions	1,342		1,342
Total	1,342	11	1,353

(a) This represents our outstanding leases.

(b) These represent contracts to hedge our balance sheet asset and liability needs, and to accommodate our clients trading and/or hedging needs. Our derivative mark-to-market exposures are calculated and reported on a daily basis. These exposures are largely covered by cash or highly marketable securities collateral with daily collateral calls.

Table of Contents

(c) Other Europe consists of the following countries: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Finland, Hungary, Lithuania, Luxembourg, Malta, Norway, Poland, Romania, Russia, Slvoakia, Slovenia, Sweden, and Ukraine. Over 85% of our exposure in other Europe is in Belgium, Finland and Sweden.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information included under the caption Risk Management Market risk management in the MD&A beginning on page 80 is incorporated herein by reference.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial performance for each of the past eight quarters is summarized in Figure 44 contained in the Fourth Quarter Results section in the MD&A.

	Page Number
Management s Annual Report on Internal Control Over Financial Reporting	106
Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting	107
Report of Independent Registered Public Accounting Firm	108
Consolidated Balance Sheets	109
Consolidated Statements of Income	110
Consolidated Statements of Changes in Equity	111
Consolidated Statements of Cash Flows	112
Notes to Consolidated Financial Statements	113
Note 1. Summary of Significant Accounting Policies	113
Note 2. Earnings Per Common Share	126
Note 3. Restrictions on Cash, Dividends and Lending Activities	127
Note 4. Loans and Loans Held for Sale	128
Note 5. Asset Quality	129
Note 6. Fair Value Measurements	139
Note 7. Securities	150
Note 8. Derivatives and Hedging Activities	152
Note 9. Mortgage Servicing Assets	160
Note 10. Goodwill and Other Intangible Assets	161
Note 11. Variable Interest Entities	162
Note 12. Income Taxes	165
Note 13. Acquisition, Divestiture and Discontinued Operations	167
Note 14. Short-Term Borrowings	172
Note 15. Long-Term Debt	173
Note 16. Commitments, Contingent Liabilities and Guarantees	175
Note 17. Capital Securities Issued by Unconsolidated Subsidiaries	179
Note 18. Stock-Based Compensation	181
Note 19. Employee Benefits	185
Note 20. Shareholders Equity	194
Note 21. Line of Business Results	196
Note 22. Condensed Financial Information of the Parent Company	201

Table of Contents

Management s Annual Report on Internal Control Over Financial Reporting

We are responsible for the preparation, content and integrity of the financial statements and other statistical data and analyses compiled for this annual report. The financial statements and related notes have been prepared in conformity with U.S. generally accepted accounting principles and reflect our best estimates and judgments. We believe the financial statements and notes present fairly our financial position, results of operations and cash flows in all material respects.

We are responsible for establishing and maintaining a system of internal control that is designed to protect our assets and the integrity of our financial reporting. This corporate-wide system of controls includes self-monitoring mechanisms and written policies and procedures, prescribes proper delegation of authority and division of responsibility, and facilitates the selection and training of qualified personnel.

All employees are required to comply with our code of ethics. We conduct an annual certification process to ensure that our employees meet this obligation. Although any system of internal control can be compromised by human error or intentional circumvention of required procedures, we believe our system provides reasonable assurance that financial transactions are recorded and reported properly, providing an adequate basis for reliable financial statements.

The Board of Directors discharges its responsibility for our financial statements through its Audit Committee. This committee, which draws its members exclusively from the outside directors, also hires the independent registered public accounting firm.

Management s Assessment of Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over our financial reporting. We have assessed the effectiveness of our internal control and procedures over financial reporting using criteria described in Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, we believe we maintained an effective system of internal control over financial reporting as of December 31, 2011. Our independent registered public accounting firm has issued an attestation report, dated February 27, 2012, on our internal control over financial reporting, which is included in this annual report.

Beth E. Mooney

Chairman, Chief Executive Officer and President

Jeffrey B. Weeden

Chief Financial Officer

Report of Independent Registered Public Accounting Firm

on Internal Control over Financial Reporting

Shareholders and Board of Directors

KeyCorp

We have audited KeyCorp s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). KeyCorp s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, KeyCorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of KeyCorp as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2011, and our report dated February 27, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio

February 27, 2012

Table of Contents

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

KeyCorp

We have audited the accompanying consolidated balance sheets of KeyCorp and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of KeyCorp s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of KeyCorp and subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), KeyCorp s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 27, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio

February 27, 2012

Table of Contents

Consolidated Balance Sheets

December 31, *in millions, except per share data*	**2011**	**2010**
ASSETS		
Cash and due from banks	**$ 694**	$ 278
Short-term investments	**3,519**	1,344
Trading account assets	**623**	985
Securities available for sale	**16,012**	21,933
Held-to-maturity securities (fair value: $2,133 and $17)	**2,109**	17
Other investments	**1,163**	1,358
Loans, net of unearned income of $1,388 and $1,572	**49,575**	50,107
Less: Allowance for loan and lease losses	**1,004**	1,604
Net loans	**48,571**	48,503
Loans held for sale	**728**	467
Premises and equipment	**944**	908
Operating lease assets	**350**	509
Goodwill	**917**	917
Other intangible assets	**17**	21
Corporate-owned life insurance	**3,256**	3,167
Derivative assets	**945**	1,006
Accrued income and other assets (including $82 of consolidated LIHTC guaranteed funds VIEs, see Note 11)[a]	**3,077**	3,876
Discontinued assets (including $2,761 of consolidated education loan securitization trust VIEs at fair value, see Note 11)[a]	**5,860**	6,554
Total assets	**$ 88,785**	$ 91,843
LIABILITIES		
Deposits in domestic offices:		
NOW and money market deposit accounts	**$ 27,954**	$ 27,066
Savings deposits	**1,962**	1,879
Certificates of deposit ($100,000 or more)	**4,111**	5,862
Other time deposits	**6,243**	8,245
Total interest-bearing	**40,270**	43,052
Noninterest-bearing	**21,098**	16,653
Deposits in foreign office interest-bearing	**588**	905
Total deposits	**61,956**	60,610
Federal funds purchased and securities sold under repurchase agreements	**1,711**	2,045
Bank notes and other short-term borrowings	**337**	1,151
Derivative liabilities	**1,026**	1,142
Accrued expense and other liabilities	**1,763**	1,931
Long-term debt	**9,520**	10,592
Discontinued liabilities (including $2,549 of consolidated education loan securitization trust VIEs at fair value, see Note 11)[a]	**2,550**	2,998
Total liabilities	**78,863**	80,469
EQUITY		
Preferred stock, $1 par value, authorized 25,000,000 shares:		
7.75% Noncumulative Perpetual Convertible Preferred Stock, Series A, $100 liquidation preference; authorized 7,475,000 shares; issued 2,904,839 and 2,904,839 shares	**291**	291
Fixed-Rate Cumulative Perpetual Preferred Stock, Series B, $100,000 liquidation preference; authorized and issued 25,000 shares		2,446
Common shares, $1 par value; authorized 1,400,000,000 shares; issued 1,016,969,905 and 946,348,435 shares	**1,017**	946
Common stock warrant		87

Capital surplus		**4,194**		3,711
Retained earnings		**6,246**		5,557
Treasury stock, at cost (63,962,113 and 65,740,726 shares)		**(1,815)**		(1,904)
Accumulated other comprehensive income (loss)		**(28)**		(17)
Key shareholders equity		**9,905**		11,117
Noncontrolling interests		**17**		257
Total equity		**9,922**		11,374
Total liabilities and equity	**$**	**88,785**	$	91,843

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

See Notes to Consolidated Financial Statements.

Table of Contents

Consolidated Statements of Income

Year ended December 31, *dollars in millions, except per share amounts*	2011	2010	2009
INTEREST INCOME			
Loans	**$ 2,206**	$ 2,653	$ 3,194
Loans held for sale	**14**	17	29
Securities available for sale	**583**	644	460
Held-to-maturity securities	**12**	2	2
Trading account assets	**26**	37	47
Short-term investments	**6**	6	12
Other investments	**42**	49	51
Total interest income	**2,889**	3,408	3,795
INTEREST EXPENSE			
Deposits	**390**	671	1,119
Federal funds purchased and securities sold under repurchase agreements	**5**	6	5
Bank notes and other short-term borrowings	**11**	14	16
Long-term debt	**216**	206	275
Total interest expense	**622**	897	1,415
NET INTEREST INCOME	**2,267**	2,511	2,380
Provision (credit) for loan and lease losses	**(60)**	638	3,159
Net interest income (expense) after provision for loan and lease losses	**2,327**	1,873	(779)
NONINTEREST INCOME			
Trust and investment services income	**434**	444	459
Service charges on deposit accounts	**281**	301	330
Operating lease income	**122**	173	227
Letter of credit and loan fees	**213**	194	180
Corporate-owned life insurance income	**121**	137	114
Net securities gains (losses)[a]	**1**	14	113
Electronic banking fees	**114**	117	105
Gains on leased equipment	**25**	20	99
Insurance income	**53**	64	68
Net gains (losses) from loan sales	**75**	76	(1)
Net gains (losses) from principal investing	**78**	66	(4)
Investment banking and capital markets income (loss)	**134**	145	(42)
Gain from sale/redemption of Visa Inc. shares			105
Gain related to exchange of common shares for capital securities			78
Other income	**157**	203	204
Total noninterest income	**1,808**	1,954	2,035
NONINTEREST EXPENSE			
Personnel	**1,520**	1,471	1,514
Net occupancy	**258**	270	259
Operating lease expense	**94**	142	195
Computer processing	**166**	185	192
Business services and professional fees	**186**	176	184
FDIC assessment	**52**	124	177
OREO expense, net	**13**	68	97
Equipment	**103**	100	96
Marketing	**60**	72	72
Provision (credit) for losses on lending-related commitments	**(28)**	(48)	67
Intangible asset impairment			241
Other expense	**366**	474	460

Total noninterest expense		**2,790**		3,034		3,554
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		**1,345**		793		(2,298)
Income taxes		**369**		186		(1,035)
INCOME (LOSS) FROM CONTINUING OPERATIONS		**976**		607		(1,263)
Income (loss) from discontinued operations, net of taxes of ($26), ($14) and ($28) (see Note 13)		**(44)**		(23)		(48)
NET INCOME (LOSS)		**932**		584		(1,311)
Less: Net income (loss) attributable to noncontrolling interests		**12**		30		24
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	**$**	**920**	$	554	$	(1,335)
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**857**	$	413	$	(1,581)
Net income (loss) attributable to Key common shareholders		**813**		390		(1,629)
Per common share:						
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.92**	$	.47	$	(2.27)
Income (loss) from discontinued operations, net of taxes		**(.05)**		(.03)		(.07)
Net income (loss) attributable to Key common shareholders [c]		**.87**		.45		(2.34)
Per common share assuming dilution:						
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.92**	$	.47	$	(2.27)
Income (loss) from discontinued operations, net of taxes		**(.05)**		(.03)		(.07)
Net income (loss) attributable to Key common shareholders [c]		**.87**		.44		(2.34)
Cash dividends declared per common share	**$**	**.10**	$	.04	$	.0925
Weighted-average common shares outstanding (000) [b]		**931,934**		874,748		697,155
Weighted-average common shares and potential common shares outstanding (000)		**935,801**		878,153		697,155

(a) Key did not have impairment losses related to securities recognized in earnings in 2011 and 2010. Impairment losses and the portion of those losses recorded in equity as a component of AOCI on the balance sheet totaled $11 million and $3 million, respectively, for 2009.

(b) Assumes conversion of stock options and/or Preferred Series A, as applicable.

(c) EPS may not foot due to rounding.

See Notes to Consolidated Financial Statements.

Table of Contents

Consolidated Statements of Changes in Equity

	Key Shareholders Equity										
dollars in millions, except per share amounts	**Preferred Shares Outstanding (000)**	**Common Shares Outstanding (000)**	**Preferred Stock**	**Common Shares**	**Common Stock Warrant**	**Capital Surplus**	**Retained Earnings**	**Treasury Stock, at Cost**	**Accumulated Other Comprehensive Income (Loss)**	**Noncontrolling Interests**	**Comprehensive Income (Loss)**
BALANCE AT DECEMBER 31, 2008	6,600	495,002	$ 3,072	$ 584	$ 87	$ 2,553	$ 6,727	$ (2,608)	$ 65	$ 201	
Net income (loss)							(1,335)			24	$ (1,311)
Other comprehensive income (loss):											
Net unrealized gains (losses) on securities available for sale, net of income taxes of ($5)									(1)		(1)
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of ($77)									(124)		(124)
Net unrealized gains (losses) on common investments held in employee welfare benefits trust, net of income taxes									1		1
Net contribution to noncontrolling interests										45	45
Foreign currency translation adjustments									45		45
Net pension and postretirement benefit costs, net of income taxes									11		11
Total comprehensive income (loss)											$ (1,334)
Deferred compensation						15					
Cash dividends declared on common shares ($.0925 per share)							(54)				
Cash dividends declared on Noncumulative Series A Preferred Stock ($7.75 per share)							(34)				
Cash dividends accrued on Cumulative Series B Preferred Stock (5% per annum)							(125)				
Amortization of discount on Series B Preferred Stock			16				(16)				
Common shares issued		205,439		205		781					
Common shares exchanged for Series A Preferred Stock	(3,670)	46,602	(367)	29		(167)	(5)	508			
Common shares exchanged for capital securities		127,616		128		634					

Common shares reissued for stock options and other employee benefit plans		3,876				(82)		120			
BALANCE AT DECEMBER 31, 2009	2,930	878,535	$ 2,721	$ 946	$ 87	$ 3,734	$ 5,158	$ (1,980)	$ (3)	$ 270	
Cumulative effect adjustment to beginning balance of Retained Earnings							45 [(a)]				
Net income (loss)							554			30	$ 584
Other comprehensive income (loss):											
Net unrealized gains (losses) on securities available for sale, net of income taxes of $69									116		116
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of ($63)									(106)		(106)
Net distribution from noncontrolling interests										(43)	(43)
Foreign currency translation adjustments									4		4
Net pension and postretirement benefit costs, net of income taxes									(28)		(28)
Total comprehensive income (loss)											$ 527 [(a)]
Deferred compensation						19					
Cash dividends declared on common shares ($.04 per share)							(36)				
Cash dividends declared on Noncumulative Series A Preferred Stock ($7.75 per share)							(23)				
Cash dividends accrued on Cumulative Series B Preferred Stock (5% per annum)							(125)				
Amortization of discount on Series B Preferred Stock			16				(16)				
Common shares reissued for stock options and other employee benefit plans		2,073				(42)		76			
BALANCE AT DECEMBER 31, 2010	2,930	880,608	$ 2,737	$ 946	$ 87	$ 3,711	$ 5,557	$ (1,904)	$ (17)	$ 257	
Correction of an error in cumulative effect adjustment							**(30)[(b)]**				
Net income (loss)							**920**			**12**	**$ 932**
Other comprehensive income (loss):											
Net unrealized gains (losses) on securities available for sale, net of income taxes of $46									**77**		**77**
Net unrealized gains (losses) on derivative											

financial instruments, net of income taxes of ($6)									**(10)**		**(10)**
Net distribution from noncontrolling interests										**(252)**	**(252)**
Foreign currency translation adjustments									**(4)**		**(4)**
Net pension and postretirement benefit costs, net of income taxes									**(74)**		**(74)**
Total comprehensive income (loss)											**$ 669**
Deferred compensation						**(2)**					
Cash dividends declared on common shares ($.10 per share)							**(94)**				
Cash dividends declared on Noncumulative Series A Preferred Stock ($7.75 per share)							**(23)**				
Cash dividends accrued on Cumulative Series B Preferred Stock (5% per annum)							**(31)**				
Series B Preferred Stock - TARP redemption	**(25)**		**(2,451)**				**(49)**				
Repurchase of common stock warrant					**(87)**	**17**					
Amortization of discount on Series B Preferred Stock			**4**				**(4)**				
Common shares issuance		**70,621**		**71**		**533**					
Common shares reissued for stock options and other employee benefit plans		**1,779**				**(65)**		**89**			
Other			**1**								
BALANCE AT DECEMBER 31, 2011	**2,905**	**953,008**	**$ 291**	**$ 1,017**		**$ 4,194**	**$ 6,246**	**$ (1,815)**	**$ (28)**	**$ 17**	

(a) The $45 million cumulative effect adjustment on January 1, 2010 was erroneously shown as a component of Comprehensive Income (Loss) and has been removed for financial reporting presentation. Therefore, Total Comprehensive Income (Loss) was previously shown as $572 million and has now been reflected at $527 million for financial reporting presentation purposes.

(b) Corrects the cumulative effect adjustment made to beginning retained earnings on January 1, 2010 related to the consolidation of the student loan securitization trusts in discontinued operations. See Note 13 (Acquisition, Divestiture and Discontinued Operations) for more information.

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Year ended December 31, *in millions*	**2011**	**2010**	**2009**
OPERATING ACTIVITIES			
Net income (loss)	**$ 932**	$ 584	$ (1,311)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Provision (credit) for loan and lease losses	**(60)**	638	3,159
Depreciation and amortization expense	**270**	330	389
FDIC (payments) net of FDIC expense	**46**	105	(466)
Deferred income taxes (benefit)	**(310)**	80	(878)
Net losses (gains) and writedown on OREO	**9**	60	86
Expense (income) on trading credit default swaps	**41**	23	37
Provision (credit) for losses on LIHTC guaranteed funds	**(5)**	8	17
Provision (credit) for customer derivative losses	**(21)**	4	40
Net losses (gains) from loan sales	**(75)**	(76)	1
Net losses (gains) from principal investing	**(78)**	(66)	4
Provision (credit) for losses on lending-related commitments	**(28)**	(48)	67
Losses (gains) on leased equipment	**(25)**	(20)	(99)
Net securities losses (gains)	**(1)**	(14)	(113)
Gain from sale/redemption of Visa Inc. shares			(105)
Gain related to exchange of common shares for capital securities			(78)
Gain from sale of Key s claim associated with the Lehman Brothers bankruptcy			(32)
Intangible assets impairment			241
Net decrease (increase) in loans held for sale excluding loan transfers from continuing operations	**(163)**	383	295
Net decrease (increase) in trading account assets	**362**	224	71
Other operating activities, net	**996**	509	995
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**1,890**	2,724	2,320
INVESTING ACTIVITIES			
Proceeds from sale/redemption of Visa Inc. shares			105
Net decrease (increase) in short-term investments	**(2,175)**	399	3,478
Purchases of securities available for sale	**(624)**	(9,914)	(15,501)
Proceeds from sales of securities available for sale	**1,667**	142	2,970
Proceeds from prepayments and maturities of securities available for sale	**5,000**	4,685	4,275
Purchases of held-to-maturity securities	**(2,175)**	(2)	(6)
Proceeds from prepayments and maturities of held-to-maturity securities	**83**	6	7
Purchases of other investments	**(138)**	(190)	(177)
Proceeds from sales of other investments	**90**	216	41
Proceeds from prepayments and maturities of other investments	**111**	133	70
Net decrease (increase) in loans, excluding acquisitions, sales and transfers	**(303)**	5,850	11,066
Proceeds from loan sales	**143**	620	380
Purchases of premises and equipment	**(158)**	(156)	(229)
Proceeds from sales of premises and equipment	**1**	3	16
Proceeds from sales of other real estate owned	**120**	182	114
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**1,642**	1,974	6,609
FINANCING ACTIVITIES			
Net increase (decrease) in deposits	**1,346**	(4,961)	444
Net increase (decrease) in short-term borrowings	**(1,148)**	1,114	(7,952)
Net proceeds from issuance of long-term debt	**1,031**	797	763
Payments on long-term debt	**(2,215)**	(1,657)	(3,726)
Net proceeds from issuance of common shares and preferred stock	**604**		986
Series B Preferred Stock TARP redemption	**(2,500)**		
Repurchase of common stock warrant	**(70)**		
Tax benefits over (under) recognized compensation cost for stock-based awards			(5)
Cash dividends paid	**(164)**	(184)	(213)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(3,116)**	(4,891)	(9,703)

NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	**416**	(193)	(774)
CASH AND DUE FROM BANKS AT BEGINNING OF YEAR	**278**	471	1,245
CASH AND DUE FROM BANKS AT END OF YEAR	**$ 694**	$ 278	$ 471
Additional disclosures relative to cash flows:			
Interest paid	**$ 605**	$ 879	$ 1,489
Income taxes paid (refunded)	**(305)**	(164)	(121)
Noncash items:			
Loans transferred to portfolio from held for sale			$ 199
Loans transferred to held for sale from portfolio	**$ 98**	$ 407	311
Loans transferred to other real estate owned	**49**	210	264

See Notes to Consolidated Financial Statements.

Table of Contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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

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

ABO: Accumulated benefit obligation.

AICPA: American Institute of Certified Public Accountants.

ALCO: Asset/Liability Management Committee. ALLL: Allowance for loan and lease losses.

A/LM: Asset/liability management.

AOCI: Accumulated other comprehensive income (loss).

APBO: Accumulated postretirement benefit obligation.

Austin: Austin Capital Management, Ltd.

BHCs: Bank holding companies.

CCAR: Comprehensive Capital Analysis and Review CMO: Collateralized mortgage obligation.

Common Shares: Common Shares, $1 par value.

CPP: Capital Purchase Program of the U.S. Treasury. DIF: Deposit Insurance Fund.

Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

ERISA: Employee Retirement Income Security Act of 1974.

ERM: Enterprise risk management.

EVE: Economic value of equity.

FASB: Financial Accounting Standards Board.

FDIC: Federal Deposit Insurance Corporation.

Federal Reserve: Board of Governors of the Federal Reserve System.

Moody s: Moody s Investors Service, Inc.

N/A: Not applicable.

NASDAQ: National Association of Securities Dealers Automated Quotation System.

N/M: Not meaningful.

NOW: Negotiable Order of Withdrawal.

NYSE: New York Stock Exchange.

OCI: Other comprehensive income (loss).

OREO: Other real estate owned.

OTTI: Other-than-temporary impairment.

QSPE: Qualifying special purpose entity.

PBO: Projected Benefit Obligation.

S&P: Standard and Poor s Ratings Services, a Division of The

McGraw-Hill Companies, Inc.

SCAP: Supervisory Capital Assessment Program administered by the Federal Reserve.

SEC: U.S. Securities & Exchange Commission.

Series A Preferred Stock: KeyCorp s 7.750% Noncumulative

Perpetual Convertible Preferred Stock, Series A. Series B Preferred Stock: KeyCorp s Fixed-Rate Cumulative

Perpetual Preferred Stock, Series B issued to the U.S. Treasury under the CPP.

SILO: Sale in, lease out transaction.

FHLMC: Federal Home Loan Mortgage Corporation. FNMA: Federal National Mortgage Association.

FVA: Fair Value of pension plan assets.

GAAP: U.S. generally accepted accounting principles. GNMA: Government National Mortgage Association. IRS: Internal Revenue Service.

ISDA: International Swaps and Derivatives Association.

KAHC: Key Affordable Housing Corporation. LIBOR: London Interbank Offered Rate.

LIHTC: Low-income housing tax credit.

LILO: Lease in, lease out transaction.

SPE: Special purpose entity.

TAG: Transaction Account Guarantee program of the FDIC.

TARP: Troubled Asset Relief Program.

TDR: Troubled debt restructuring.

TE: Taxable equivalent.

TLGP: Temporary Liquidity Guarantee Program of the FDIC.

U.S. Treasury: United States Department of the Treasury.

VAR: Value at risk.

VEBA: Voluntary Employee Beneficiary Association. VIE: Variable interest entity.

XBRL: eXtensible Business Reporting Language.

Organization

We are one of the nation s largest bank-based financial services companies, with consolidated total assets of $89 billion at December 31, 2011. Through KeyBank and other subsidiaries, we provide a wide range of retail and commercial banking, commercial leasing, investment management, consumer finance, and investment banking products and services to individual, corporate and institutional clients. As of December 31, 2011, KeyBank operated 1,058 full service retail banking branches in 14 states, a telephone banking call center services group and 1,579 automated teller machines in 15 states. Additional information pertaining to Key Community Bank and Key Corporate Bank, our two business segments, is included in Note 21 (Line of Business Results).

Use of Estimates

Our accounting policies conform to GAAP and prevailing practices within the financial services industry. We must make certain estimates and judgments when determining the amounts presented in our consolidated financial statements and the related notes. If these estimates prove to be inaccurate, actual results could differ from those reported.

Basis of Presentation

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

The consolidated financial statements include any voting rights entities in which we have a controlling financial interest. In accordance with the applicable accounting guidance for consolidations, we consolidate a VIE if we have: (i) a variable interest in the entity; (ii) the power to direct activities of the VIE that most significantly impact the entity s economic performance; and (iii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE (i.e., we are considered to be the primary beneficiary). Variable interests can include equity interests, subordinated debt, derivative contracts, leases, service agreements, guarantees, standby letters of credit, loan commitments, and other contracts, agreements and financial instruments. See Note 11 (Variable Interest Entities) for information on our involvement with VIEs.

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

Effective January 1, 2010, we prospectively adopted new accounting guidance that changes the way we account for securitizations and SPEs by eliminating the concept of a QSPE and changing the requirements for derecognition of financial assets. In adopting this guidance, we had to analyze our existing QSPEs for possible consolidation. As a result, we consolidated our education loan securitization trusts and made a corresponding $45 million cumulative effect adjustment. That consolidation added $2.8 billion in discontinued assets, and the same amount of liabilities and equity to our balance sheet; loans constituted $2.6 billion of the assets. During the third quarter of 2011, we determined that the previous $45 million adjustment was incorrect. Further information regarding this error and its correction is provided in Note 13 (Acquisition, Divestiture and Discontinued Operations). For additional information related to the consolidation of our education loan securitization trusts, see Note 11 and Note 13.

In preparing these financial statements, subsequent events were evaluated through the time the financial statements were issued. Financial statements are considered issued when they are widely distributed to all shareholders and other financial statement users, or filed with the SEC.

Business Combinations

We account for our business combinations using the acquisition method of accounting. Under this accounting method, the acquired company s net assets are recorded at fair value at the date of acquisition, and the results of operations of the acquired company are combined with Key s results from that date forward. Acquisition costs are expensed when incurred. The difference between the purchase price and the fair value of the net assets acquired (including-intangible assets with finite lives) is recorded as goodwill. Our accounting policy for intangible assets is summarized in this note under the heading Goodwill and Other Intangible Assets.

Statements of Cash Flows

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

Trading Account Assets

Trading account assets are debt and equity securities, as well as commercial loans that we purchase and hold but intend to sell in the near term. These assets are reported at fair value. Realized and unrealized gains and losses on trading account assets are reported in investment banking and capital markets income (loss) on the income statement.

Securities

Securities available for sale. These are securities that we intend to hold for an indefinite period of time but that may be sold in response to changes in interest rates, prepayment risk, liquidity needs or other factors. Securities available for sale are reported at fair value. Unrealized gains and losses (net of income taxes) deemed temporary are recorded in equity as a component of AOCI on the balance sheet. Unrealized losses on equity securities deemed other-than-temporary, and realized gains and losses resulting from sales of securities using the specific identification method are included in net securities gains (losses) on the income statement. Unrealized losses on debt securities deemed other-than-temporary are included in net securities gains (losses) on the income statement or in AOCI in accordance with the applicable accounting guidance, as further described under the heading Other-than-Temporary Impairment in this note and in Note 7 (Securities).

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

Held-to-maturity securities. These are debt securities that we have the intent and ability to hold until maturity. Debt securities are carried at cost and adjusted for amortization of premiums and accretion of discounts using the interest method. This method produces a constant rate of return on the adjusted carrying amount.

Other securities held in the held-to-maturity portfolio consist of foreign bonds, capital securities and preferred equity securities.

Other-than-Temporary Impairments

If the amortized cost of a debt security is greater than its fair value and we intend to sell it, or more-likely-than-not will be required to sell it, before the expected recovery of the amortized cost, then the entire impairment is recognized in earnings. If we have no intent to sell the security, or it is more-likely-than-not that we will not be required to sell it, before expected recovery, then the credit portion of the impairment is recognized in earnings, while the remaining portion attributable to factors such as liquidity and interest rate changes is recognized in equity as a component of AOCI on the balance sheet. The credit portion is equal to the difference between the cash flows expected to be collected and the amortized cost of the debt security.

Generally, if the amortized cost of an equity security is greater than its fair value, the difference is considered to be other-than-temporary.

Table of Contents

Other Investments

Principal investments investments in equity and mezzanine instruments made by our Principal Investing unit represented 61% and 66% of other investments at December 31, 2011 and 2010, respectively. They include both direct investments (investments made in a particular company), and indirect investments (investments made through funds that include other investors). Principal investments predominantly are made in privately-held companies and are carried at fair value ($709 million at December 31, 2011, and $898 million at December 31, 2010). During the first half of 2011, employees who managed our various principal investments formed two independent entities that will serve as investment managers of these investments going forward. Under this arrangement, which was mutually agreeable to both parties, these individuals are no longer employees of Key. As a result of these changes, which were made during the second quarter of 2011, we deconsolidated certain of these direct and indirect investments, totaling $234 million since we no longer have the power to direct the activities that most significantly impact the economic performance of these investment entities. Changes in fair values and realized gains and losses on sales of principal investments are reported as net gains (losses) from principal investing on the income statement.

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. The carrying amounts of the investments carried at cost are adjusted for declines in value if they are considered to be other-than-temporary. These adjustments are included in investment banking and capital markets income (loss) on the income statement.

Loans

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

Direct financing leases are carried at the aggregate of the lease receivable plus estimated unguaranteed residual values, less unearned income and deferred initial direct fees and costs. Unearned income on direct financing leases is amortized over the lease terms using a method approximating the interest method that produces a constant rate of return. Deferred initial direct fees and costs are amortized over the lease terms as an adjustment to the yield.

Leveraged leases are carried net of nonrecourse debt. Revenue on leveraged leases is recognized on a basis that produces a constant rate of return on the outstanding investment in the leases, net of related deferred tax liabilities, during the years in which the net investment is positive.

The residual value component of a lease represents the fair value of the leased asset at the end of the lease term. We rely on industry data, historical experience, independent appraisals and the experience of the equipment leasing asset management team to value lease residuals. Relationships with a number of equipment vendors give the asset management team insight into the life cycle of the leased equipment, pending product upgrades and competing products.

In accordance with applicable accounting guidance for leases, residual values are reviewed at least annually to determine if an other-than-temporary decline in value has occurred. In the event of such a decline, the residual value is adjusted to its fair value. Impairment charges are included in noninterest expense, while net gains or losses on sales of lease residuals, are included in other income on the income statement.

Loans Held for Sale

Our loans held for sale at December 31, 2011 and December 31, 2010 are disclosed in Note 4 (Loans and Loans Held for Sale). These loans, which we originated and intend to sell, are carried at the lower of aggregate cost or fair value. Fair value is determined based on available market data for similar assets, expected cash flows, appraisals of underlying collateral or credit quality of the borrower. If a loan is transferred from the loan portfolio to the held-for-sale category, any write-down in the carrying amount of the loan at the date of transfer is recorded as a charge-off. Subsequent declines in fair value are recognized as a charge to noninterest income. When a loan is placed in the held-for-sale category, we stop amortizing the related deferred fees and costs. The remaining unamortized fees and costs are recognized as part of the cost basis of the loan at the time it is sold.

Nonperforming Loans

Nonperforming loans are loans for which we do not accrue interest income and include commercial and consumer loans, as well as current year TDRs and nonaccruing TDR loans from prior years. Nonperforming loans do not include loans held for sale.

We generally will stop accruing interest on a loan (i.e., designate the loan nonaccrual) when the borrower s payment is 90 days past due for a commercial loan or 120 days past due for a consumer loan, unless the loan is well-secured and in the process of collection. Loans also are placed on nonaccrual status when payment is not past due but we have serious doubts about the borrower s ability to comply with existing repayment terms. Once a loan is designated nonaccrual (and as a result impaired), the interest accrued but not collected generally is charged against the allowance for loan and lease losses, and payments subsequently received generally are applied to principal. However, if we believe that all principal and interest on a nonaccrual loan ultimately are collectible, interest income may be recognized as received.

Commercial loans generally are charged off in full or charged down to the fair value of the underlying collateral when the borrower s payment is 180 day past due. Our charge-off policy for most consumer loans is similar but takes effect when payments are 120 days past due. Home equity and residential mortgage loans generally are charged down to the fair value of the underlying collateral when payment is 180 days past due. Impaired loans and other nonaccrual loans are returned to accrual status if we determine that both principal and interest are collectible. This generally requires a sustained period of timely principal and interest payments.

Impaired Loans

A nonperforming loan is considered to be impaired and assigned a specific reserve when, based on current information and events, it is probable that we will be unable to collect all amounts due (both principal and interest) according to the contractual terms of the loan agreement.

All commercial TDRs regardless of size and all impaired commercial loans with an outstanding balance greater than $2.5 million are individually evaluated for impairment. Nonperforming loans below the above stated dollar threshold and smaller-balance homogeneous loans (residential mortgage, home equity loans, marine, etc) are aggregated and collectively evaluated for impairment. The amount of the reserve is estimated based on the criteria outlined in the Allowance for Loan and Lease Losses section of this note.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses represents our estimate of probable credit losses inherent in the loan portfolio at the balance sheet date. We establish the amount of this allowance by analyzing the quality of the loan portfolio at least quarterly, and more often if deemed necessary. When developing and documenting our methodology to determine the ALLL, we segregate our loan portfolio between commercial and consumer loans. We believe these

Table of Contents

portfolio segments represent the most appropriate level for determining our historical loss experience as well as the level at which we monitor credit quality and risk characteristics of the portfolios. Commercial loans, which generally have larger individual balances, comprise a significant portion of our total loan portfolio whereas the consumer portfolio includes smaller balance, homogeneous loans.

We estimate the appropriate level of our allowance for loan and lease losses by applying expected loss rates to existing loans with similar risk characteristics. Expected loss rates for commercial loans are derived from a statistical analysis of our historical default and loss severity experience. The analysis utilizes probability of default and loss given default to assign loan grades using our internal risk rating system. Our expected loss rates are reviewed quarterly and updated as necessary. As of December 31, 2011, the probability of default ratings were based on our default data for the period from January 2008 through September 2011 that encompassed the last downturn period as well as some of our more recent credit experience. Additional adjustment to expected loss rates is based on calculated estimates of the average time period from initial loss indication to the initial loss recorded for an individual loan.

Expected loss rates for consumer loans are derived from a statistical analysis of our historical default and loss severity experience. Consumer loans are analyzed quarterly in homogeneous product type pools that share similar attributes and are assigned an expected loss rate which represents expected losses over the next 12 months. One year is also the estimate of the average time period from initial loss indication to initial loss recorded. Therefore, no further adjustment to the expected loss rate is required.

The ALLL may be adjusted to reflect our current assessment of many qualitative factors which may not be directly measured in the statisitcal analysis of expected loss including:

¿ changes in national and local economic and business conditions;

¿ changes in the experience, ability and depth of our lending management and staff, in lending policies, or in the mix and volume of the loan portfolio;

¿ trends in past due, nonaccrual and other loans; and

¿ external forces, such as competition, legal developments and regulatory guidelines.

For all impaired commercial loans with an outstanding balance greater than $2.5 million, we conduct further analysis to determine the probable amount of loss and assign a specific allowance to the loan, if deemed appropriate. All commercial loan TDRs, regardless of size, are evaluated for impairment individually to determine the probable loss content and are assigned a specific loan allowance if deemed appropriate. We estimate the extent of impairment by comparing the carrying amount 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. We may assign a specific allowance even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. Consumer loan TDRs are assigned a loss rate that reflects the current assessment of that category of consumer loans to determine the appropriate allowance level.

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

Liability for Credit Losses on Lending-Related Commitments

The liability for credit losses inherent in lending-related commitments, such as letters of credit and unfunded loan commitments, is included in accrued expense and other liabilities on the balance sheet. This liability totaled $45 million at December 31, 2011, and $73 million at December 31, 2010. We establish the amount of this allowance by considering both historical trends and current market conditions quarterly, or more often if deemed necessary.

Loan Securitizations

In the past, we securitized education loans when market conditions were favorable. A securitization involves the sale of a pool of loan receivables to investors through either a public or private issuance (generally by a QSPE) of asset-backed securities. The securitized loans are removed from the balance sheet, and a gain or loss is recorded when the combined net sales proceeds and residual interests, if any, differ from the loans allocated carrying amounts. We have not securitized any education loans since 2006. Effective December 5, 2009, we ceased originating education loans.

Effective January 1, 2010, we prospectively adopted new accounting guidance that changes the way we account for securitizations and SPEs by eliminating the concept of a QSPE and changing the requirements for derecognition of financial assets. In adopting this guidance, we had to analyze our existing QSPEs for possible consolidation. As a result, we consolidated our education loan securitization trusts and made a corresponding $45 million cumulative effect adjustment. That consolidation added $2.8 billion in discontinued assets, and the same amount of liabilities and equity to our balance sheet; loans constituted $2.6 billion of the assets. During the third quarter of 2011, we determined that the previous $45 million adjustment was incorrect. Further information regarding this error and its correction is provided in Note 13 (Acquisition, Divestiture and Discontinued Operations). For additional information related to the consolidation of our education loan securitization trusts, see Note 11 (Variable Interest Entities) and Note 13.

In past securitizations, we generally retained an interest in the securitized loans in the form of an interest-only strip, residual asset, servicing asset or security. A servicing asset was recorded if we purchased or retained the right to service securitized loans, and received servicing fees that exceeded the going market rate. Our accounting for servicing assets is discussed below under the heading Servicing Assets. All other retained interests from education loan securitizations held by us on or before December 31, 2009, were accounted for as debt securities and have been classified as discontinued assets on the balance sheet.

Servicing Assets

We service commercial real estate loans. Servicing assets related to all commercial real estate loan servicing totaled $173 million at December 31, 2011, and $196 million at December 31, 2010, and are included in accrued income and other assets on the balance sheet.

Servicing assets and liabilities purchased or retained initially are measured at fair value, if practical. When no ready market value (such as quoted market prices, or prices based on sales or purchases of similar assets) is available to determine the fair value of servicing assets, fair value is determined by calculating the present value of future cash flows associated with servicing the loans. This calculation is based on a number of assumptions, including the market cost of servicing, the discount rate, the prepayment rate and the default rate.

We remeasure our servicing assets using the amortization method at each reporting date. The amortization of servicing assets is determined in proportion to, and over the period of, the estimated net servicing income, and is recorded in other income on the income statement.

Servicing assets are evaluated quarterly for possible impairment. This process involves classifying the assets based on the types of loans serviced and their associated interest rates, and determining the fair value of each class. If the evaluation indicates that the carrying amount of the servicing assets exceeds their fair value, the carrying amount is reduced through a charge to income in the amount of such excess and the establishment of a valuation allowance. Any impairment of servicing assets recorded for the years ended December 31, 2011, 2010 and 2009 was not material in amount. Additional information pertaining to servicing assets is included in Note 9 (Mortgage Servicing Assets).

Table of Contents

Premises and Equipment

Premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation and amortization. We determine depreciation of premises and equipment using the straight-line method over the estimated useful lives of the particular assets. Leasehold improvements are amortized using the straight-line method over the terms of the leases. Accumulated depreciation and amortization on premises and equipment totaled $1.1 billion at December 31, 2011, and $1 billion at December 31, 2010.

Goodwill and Other Intangible Assets

Goodwill represents the amount by which the cost of net assets acquired in a business combination exceeds their fair value. Other intangible assets primarily are the net present value of future economic benefits to be derived from the purchase of core deposits. Other intangible assets are amortized on either an accelerated or straight-line basis over periods ranging from ten to thirty years. Goodwill and other types of intangible assets deemed to have indefinite lives are not amortized.

Relevant accounting guidance provides that goodwill and certain other intangible assets must be subjected to impairment testing at least annually. We perform goodwill impairment testing in the fourth quarter of each year. Our reporting units for purposes of this testing are our two business segments, Key Community Bank and Key Corporate Bank. Because the strength of the economic recovery remained uncertain during 2011, we continued to monitor the impairment indicators for goodwill and other intangible assets, and to evaluate the carrying amount of these assets quarterly.

The first step in goodwill impairment testing is to determine the fair value of each reporting unit. This amount is estimated using comparable external market data (market approach) and discounted cash flow modeling that incorporates an appropriate risk premium and earnings forecast information (income approach). We perform a sensitivity analysis of the estimated fair value of each reporting unit, as appropriate. If the carrying amount of a reporting unit exceeds its fair value, goodwill impairment may be indicated. In such a case, perform a second step of goodwill impairment testing and we would estimate a hypothetical purchase price for the reporting unit (representing the unit s fair value) and then compare that hypothetical purchase price with the fair value of the unit s net assets (excluding goodwill). Any excess of the estimated purchase price over the fair value of the reporting unit s net assets represents the implied fair value of goodwill. If the carrying amount of the reporting unit s goodwill exceeds the implied fair value of goodwill, the impairment loss represented by this difference is charged to earnings.

Additional information pertaining to goodwill and other intangible assets is included in Note 10 (Goodwill and Other Intangible Assets).

Internally Developed Software

We rely on company personnel and independent contractors to plan, develop, install, customize and enhance computer systems applications that support corporate and administrative operations. Software development costs, such as those related to program coding, testing, configuration and installation, are capitalized and included in accrued income and other assets on the balance sheet. The resulting asset ($54 million at December 31, 2011, and $52 million at December 31, 2010) is amortized using the straight-line method over its expected useful life (not to exceed five years). Costs incurred during the planning and post-development phases of an internal software project are expensed as incurred.

Software that is no longer used is written off to earnings immediately. When we decide to replace software, amortization of the phased-out software is accelerated to the expected replacement date.

Derivatives

In accordance with applicable accounting guidance, all derivatives are recognized as either assets or liabilities on the balance sheet at fair value.

Accounting for changes in fair value (i.e., gains or losses) of derivatives differs depending on whether the derivative has been designated and qualifies as part of a hedge relationship, and further, on the type of hedge relationship. For derivatives that are not designated as hedging instruments, any gain or loss is recognized immediately in earnings. A derivative that is designated and qualifies as a hedging instrument must be designated as a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation. We do not have any derivatives that hedge net investments in foreign operations.

A fair value hedge is used to limit exposure to changes in the fair value of existing assets, liabilities and commitments caused by changes in interest rates or other economic factors. The effective portion of a change in the fair value of a fair value hedge is recorded in earnings at the same time as a change in fair value of the hedged item, resulting in no effect on net income. The ineffective portion of a change in the fair value of such a hedging instrument is recognized in other income on the income statement, with no corresponding offset.

A cash flow hedge is used to minimize the variability of future cash flows that is caused by changes in interest rates or other economic factors. The effective portion of a gain or loss on a cash flow hedge is recorded as a component of AOCI on the balance sheet, and reclassified to earnings in the same period in which the hedged transaction affects earnings. The ineffective portion of a cash flow hedge is included in other income on the income statement.

Hedge effectiveness is determined by the extent to which changes in the fair value of a derivative instrument offset changes in the fair value or cash flows attributable to the risk being hedged. If the relationship between the change in the fair value of the derivative instrument and the change in the hedged item falls within a range considered to be the industry norm, the hedge is considered highly effective and qualifies for hedge accounting. A hedge is ineffective if the relationship between the changes falls outside the acceptable range. In that case, hedge accounting is discontinued on a prospective basis. Hedge effectiveness is tested at least quarterly.

Additional information regarding the accounting for derivatives is provided in Note 8 (Derivatives and Hedging Activities).

Offsetting Derivative Positions

In accordance with the applicable accounting guidance, we take into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts held with a single counterparty on a net basis, and to offset the net derivative position with the related collateral when recognizing derivative assets and liabilities. Additional information regarding derivative offsetting is provided in Note 8.

Repurchase agreements

We enter into repurchase and reverse repurchase agreements primarily to acquire securities to cover short positions, to accommodate customers financing needs, and to settle other securities obligations. Repurchase and reverse repurchase agreements are accounted for as collateralized financing transactions and recorded on our balance sheet at the amounts at which the securities will be subsequently sold or repurchased. The value of our repurchase and reverse repurchase agreements is based on the valuation of the underlying securities as further described under the Other assets and liabilities heading in Note 6 (Fair Value Measurements). Additional information regarding these agreements is provided under the Accounting Guidance Pending Adoption at December 31, 2011 heading of this note.

Table of Contents

Noncontrolling Interests

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

Guarantees

In accordance with the applicable accounting guidance, we recognize liabilities, which are included in accrued expense and other liabilities on the balance sheet, for the fair value of our obligations under certain guarantees issued.

If we receive a fee for a guarantee requiring liability recognition, the amount of the fee represents the initial fair value of the stand ready obligation. If there is no fee, the fair value of the stand ready obligation is determined using expected present value measurement techniques, unless observable transactions for comparable guarantees are available. The subsequent accounting for these stand ready obligations depends on the nature of the underlying guarantees. We account for our release from risk under a particular guarantee when the guarantee expires or is settled, or by a systematic and rational amortization method, depending on the risk profile of the guarantee.

Additional information regarding guarantees is included in Note 16 (Commitments, Contingent Liabilities and Guarantees) under the heading Guarantees.

Fair Value Measurements

We follow the applicable accounting guidance for fair value measurements and disclosures for all applicable financial and nonfinancial assets and liabilities. This guidance defines fair value, establishes a framework for measuring fair value, expands disclosures about fair value measurements, and applies only when other guidance requires or permits assets or liabilities to be measured at fair value; the guidance does not expand the use of fair value to any new circumstances.

Accounting guidance defines fair value as the price to sell an asset or transfer a liability in an orderly transaction between market participants in our principal market. In other words, fair value represents an exit price at the measurement date. Market participants are buyers and sellers who are independent, knowledgeable, and willing and able to transact in the principal (or most advantageous) market for the asset or liability being measured. Current market conditions, including imbalances between supply and demand, are considered in determining fair value.

We value our assets and liabilities based on the principal market where each would be sold (in the case of assets) or transferred (in the case of liabilities). The principal market is the forum with the greatest volume and level of activity. In the absence of a principal market, valuation is based on the most advantageous market (i.e., the market where the asset could be sold at a price that maximizes the amount to be received or the liability transferred at a price that minimizes the amount to be paid). In the absence of observable market transactions, we consider liquidity valuation adjustments to reflect the uncertainty in pricing the instruments.

In measuring the fair value of an asset, we assume the highest and best use of the asset by a market participant not just the intended use to maximize the value of the asset. We also consider whether any credit valuation adjustments are necessary based on the counterparty s credit quality.

Table of Contents

When measuring the fair value of a liability, we assume that the transfer will not affect the associated nonperformance risk. Nonperformance risk is the risk that an obligation will not be satisfied, and encompasses not only our own credit risk (i.e., the risk that we will fail to meet our obligation), but also other risks such as settlement risk (i.e., the risk that upon termination or sale, the contract will not settle). We consider the effect of our own credit risk on the fair value for any period in which fair value is measured.

There are three acceptable techniques for measuring fair value: the market approach, the income approach and the cost approach. The appropriate technique for valuing a particular asset or liability depends on the exit market, the nature of the asset or liability being valued, and how a market participant would value the same asset or liability. Ultimately, selecting the appropriate valuation method requires significant judgment, and applying the valuation technique requires sufficient knowledge and expertise.

Valuation inputs refer to the assumptions market participants would use in pricing a given asset or liability. Inputs can be observable or unobservable. Observable inputs are assumptions based on market data obtained from an independent source. Unobservable inputs are assumptions based on our own information or assessment of assumptions used by other market participants in pricing the asset or liability. Our unobservable inputs are based on the best and most current information available on the measurement date.

All inputs, whether observable or unobservable, are ranked in accordance with a prescribed fair value hierarchy that gives the highest ranking to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest ranking to unobservable inputs (Level 3). Fair values for assets or liabilities classified as Level 2 are based on one or a combination of the following factors: (i) quoted market prices for similar assets or liabilities; (ii) observable inputs, such as interest rates or yield curves; or (iii) inputs derived principally from or corroborated by observable market data. The level in the fair value hierarchy ascribed to a fair value measurement in its entirety is based on the lowest level input that is significant to the measurement. We consider an input to be significant if it drives 10% or more of the total fair value of a particular asset or liability. Assets and liabilities may transfer between levels based on the observable and unobservable inputs used at the valuation date, as the inputs may be influenced by certain market conditions.

Typically, assets and liabilities are considered to be fair valued on a recurring basis if fair value is measured regularly. However, if the fair value measurement of the instrument does not necessarily result in a change in the amount recorded on the balance sheet, assets and liabilities are considered to be fair valued on a nonrecurring basis. This generally occurs when the entity applies accounting guidance that requires assets and liabilities to be recorded at the lower of cost or fair value, or assessed for impairment.

At a minimum, we conduct our valuations quarterly. Additional information regarding fair value measurements and disclosures is provided in Note 6 (Fair Value Measurements).

Revenue Recognition

We recognize revenues as they are earned based on contractual terms, as transactions occur, or as services are provided and collectibility is reasonably assured. Our principal source of revenue is interest income, which is recognized on an accrual basis primarily according to nondiscretionary formulas in written contracts, such as loan agreements or securities contracts.

Stock-Based Compensation

Stock-based compensation is measured using the fair value method of accounting; the measured cost is recognized over the period during which the recipient is required to provide service in exchange for the award. We estimate expected forfeitures when stock-based awards are granted and record compensation expense only for awards that are expected to vest.

Table of Contents

We recognize compensation cost for stock-based, mandatory deferred incentive compensation awards using the accelerated method of amortization over a period of approximately four years (the current year performance period and a three-year vesting period, which generally starts in the first quarter following the performance period).

Employee stock options typically become exercisable at the rate of 33-1/3% per year or 25% per year for option grants in 2011, beginning one year after the grant date. Options expire no later than ten years after their grant date. We recognize stock-based compensation expense for stock options with graded vesting using an accelerated method of amortization.

We use shares repurchased under a repurchase program (treasury shares) for share issuances under all stock-based compensation programs other than the discounted stock purchase plan. Shares issued under the stock purchase plan are purchased on the open market.

We estimate the fair value of options granted using the Black-Scholes option-pricing model, as further described in Note 18 (Stock-Based Compensation).

Marketing Costs

We expense all marketing-related costs, including advertising costs, as incurred.

Accounting Guidance Adopted in 2011

Improving disclosures about fair value measurements. In January 2010, the FASB issued accounting guidance that requires new disclosures regarding certain aspects of an entity s fair value measurements and clarifies existing fair value disclosure requirements. Most of these new disclosures were required for interim and annual reporting periods beginning after December 15, 2009 (effective January 1, 2010, for us), but, the disclosures regarding purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements were effective for interim and annual periods beginning after December 15, 2010 (effective January 1, 2011, for us). The required disclosures are provided in Note 6.

Credit quality disclosures. In July 2010, the FASB issued new accounting guidance that requires additional disclosures about the credit quality of financing receivables (i.e., loans) and the allowance for credit losses. Most of these additional disclosures were required for interim and annual reporting periods ending on or after December 15, 2010 (effective December 31, 2010, for us). Specific items regarding activity that occurred before the issuance of this accounting guidance, such as the allowance rollforward disclosures, were required for periods beginning after December 15, 2010 (January 1, 2011, for us). The required disclosures are provided in Note 5 (Asset Quality).

Troubled debt restructurings. In April 2011, the FASB issued accounting guidance to assist creditors in evaluating whether a modification or restructuring of a loan is a TDR. It clarifies existing guidance on whether the creditor has granted a concession and whether the debtor is experiencing financial difficulties, which are the two criteria used to determine whether a modification or restructuring is a TDR. This accounting guidance also requires additional disclosures regarding TDRs. It was effective for the first interim or annual period beginning after June 15, 2011 (effective July 1, 2011, for us) and is applied retrospectively for all modifications and restructurings that have occurred from the beginning of the annual period of adoption (2011 for us). The required disclosures are provided in Note 5. Adoption of this accounting guidance did not have a material effect on our financial condition or results of operations.

Accounting Guidance Pending Adoption at December 31, 2011

Fair value measurement. In May 2011, the FASB issued accounting guidance that changes the wording used to describe many of the current accounting requirements for measuring fair value and disclosing information about fair value measurements. This accounting guidance clarifies the FASB s intent about the application of existing

fair value measurement requirements. It is effective for the interim and annual periods beginning on or after December 15, 2011 (effective January 1, 2012, for us), with early adoption prohibited. We do not expect the adoption of this accounting guidance to have a material effect on our financial condition or results of operations.

Presentation of comprehensive income. In June 2011, the FASB issued new accounting guidance that will require all nonowner changes in shareholders equity to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This new accounting guidance does not change any of the components that are currently recognized in net income or comprehensive income. It will be effective for public entities for interim and annual periods beginning after December 15, 2011 (effective January 1, 2012, for us). Early adoption is permitted. In December 2011, the FASB deferred the requirement in this accounting guidance that companies present reclassification adjustments for each component of AOCI in both net income and other comprehensive income on the face of the financial statements. In the meantime, companies are required to either present amounts reclassified out of AOCI on the face of the financial statements or disclose those amounts in the notes to the financial statements. During the deferral period, there is no requirement to separately present or disclose the reclassification adjustments in net income. We do not expect the adoption of this accounting guidance to have a material effect on our financial conditions or results of operations.

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

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

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

Table of Contents

2. Earnings Per Common Share

Our basic and diluted earnings per Common Share are calculated as follows:

Year ended December 31, *dollars in millions, except per share amounts*		**2011**		**2010**		**2009**
EARNINGS						
Income (loss) from continuing operations	**$**	**976**	$	607	$	(1,263)
Less: Net income (loss) attributable to noncontrolling interests		**12**		30		24
Income (loss) from continuing operations attributable to Key		**964**		577		(1,287)
Less: Dividends on Series A Preferred Stock		**23**		23		39
Noncash deemed dividend common shares exchanged for Series A Preferred Stock						114
Cash dividends on Series B Preferred Stock [(b)]		**31**		125		125
Amortization of discount on Series B Preferred Stock[(b)]		**53**		16		16
Income (loss) from continuing operations attributable to Key common shareholders		**857**		413		(1,581)
Income (loss) from discontinued operations, net of taxes[(a)]		**(44)**		(23)		(48)
Net income (loss) attributable to Key common shareholders	**$**	**813**	$	390	$	(1,629)
WEIGHTED-AVERAGE COMMON SHARES						
Weighted-average common shares outstanding (000)		**931,934**		874,748		697,155
Effect of dilutive convertible preferred stock, common stock options and other stock awards (000)		**3,867**		3,405		
Weighted-average common shares and potential common shares outstanding (000)		**935,801**		878,153		697,155
EARNINGS PER COMMON SHARE						
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.92**	$	.47	$	(2.27)
Income (loss) from discontinued operations, net of taxes [(a)]		**(.05)**		(.03)		(.07)
Net income (loss) attributable to Key common shareholders[(c)]		**.87**		.45		(2.34)
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**$**	**.92**	$	.47	$	(2.27)
Income (loss) from discontinued operations, net of taxes [(a)]		**(.05)**		(.03)		(.07)
Net income (loss) attributable to Key common shareholders assuming dilution [(c)]		**.87**		.44		(2.34)

(a) In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. As a result of these decisions, we have accounted for these businesses as discontinued operations. The loss from discontinued operations for the year ended December 31, 2011, was primarily attributable to fair value adjustments related to the education lending securitization trusts.

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

(c) EPS may not foot due to rounding.

Table of Contents

3. Restrictions on Cash, Dividends and Lending Activities

Federal law requires a depository institution to maintain a prescribed amount of cash or deposit reserve balances with its Federal Reserve Bank. KeyBank maintained average reserve balances aggregating $240 million in 2011 to fulfill these requirements.

Capital distributions from KeyBank and other subsidiaries are our principal source of cash flows for paying dividends on our common and preferred shares, servicing our debt and financing corporate operations. 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 2011, KeyBank paid KeyCorp a total of $300 million in dividends; nonbank subsidiaries paid KeyCorp a total of $33 million in cash dividends and noncash dividends of $12 million. Based upon existing regulatory guidance, KeyBank has capacity to pay $1.3 billion in dividends to KeyCorp at January 1, 2012. During 2011, KeyCorp did not make capital infusions to KeyBank. At December 31, 2011, KeyCorp held $2.1 billion in short-term investments, which can be used to pay dividends, service debt and finance corporate operations.

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

Table of Contents

4. Loans and Loans Held for Sale

Our loans by category are summarized as follows:

December 31, *in millions*		**2011**		**2010**
Commercial, financial and agricultural	**$**	**19,378**	$	16,441
Commercial real estate:				
Commercial mortgage		**8,037**		9,502
Construction		**1,312**		2,106
Total commercial real estate loans		**9,349**		11,608
Commercial lease financing		**6,055**		6,471
Total commercial loans		**34,782**		34,520
Residential-Prime Loans:				
Real estate residential mortgage		**1,946**		1,844
Home equity:				
Key Community Bank		**9,229**		9,514
Other		**535**		666
Total home equity loans		**9,764**		10,180
Total residential-prime loans		**11,710**		12,024
Consumer other Key Community Bank		**1,192**		1,167
Consumer other:				
Marine		**1,766**		2,234
Other		**125**		162
Total consumer other		**1,891**		2,396
Total consumer loans		**14,793**		15,587
Total loans [(a)]	**$**	**49,575**	$	50,107

(a) Excludes loans in the amount of $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.

We use interest rate swaps, which modify the repricing characteristics of certain loans, to manage interest rate risk. For more information about such swaps, see Note 8 (Derivatives and Hedging Activities).

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

December 31, *in millions*		**2011**		**2010**
Commercial, financial and agricultural	**$**	**19**	$	196
Real estate commercial mortgage		**567**		118
Real estate construction		**35**		35
Commercial lease financing		**12**		8

Real estate residential mortgage	**95**	110
Total loans held for sale [(a)]	**$ 728**	$ 467

(a) Excluded at December 31, 2010, are loans held for sale in the amount of $15 million related to the discontinued operations of the education lending business. There were no loans held for sale in the discontinued operations of the education lending business at December 31, 2011.

Our summary of changes in loans held for sale follows:

December 31, *in millions*	2011	2010
Balance at beginning of the year	**$ 467**	$ 443
New originations	**3,982**	3,058
Transfers from held to maturity, net	**90**	376
Loan sales	**(3,721)**	(3,209)
Loan draws (payments), net	**(60)**	(120)
Transfers to OREO / valuation adjustments	**(30)**	(81)
Balance at end of year	**$ 728**	$ 467

Commercial and consumer leasing financing receivables primarily are direct financing leases, but also include leveraged leases. The composition of the net investment in direct financing leases is as follows:

December 31, *in millions*	2011	2010
Direct financing lease receivables	**$ 4,143**	$ 4,612
Unearned income	**(368)**	(472)
Unguaranteed residual value	**308**	380
Deferred fees and costs	**31**	44
Net investment in direct financing leases	**$ 4,114**	$ 4,564

At December 31, 2011, minimum future lease payments to be received are as follows: 2012 $1.4 billion; 2013 $1.0 billion; 2014 $624 million; 2015 $368 million; 2016 217 million; and all subsequent years $477 million. The allowance related to lease financing receivables is $78 million at December 31, 2011.

5. Asset Quality

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

Our nonperforming assets and past due loans were as follows:

December 31, *in millions*		**2011**		**2010**
Total nonperforming loans	**$**	**727**	$	1,068
Nonperforming loans held for sale		**46**		106
OREO		**65**		129
Other nonperforming assets		**21**		35
Total nonperforming assets	**$**	**859**	$	1,338
Restructured loans included in nonperforming loans [(a)]	**$**	**191**	$	202
Restructured loans with a specifically allocated allowance [(b)]		**50**		57
Specifically allocated allowance for restructured loans [(c)]		**10**		18
Accruing loans past due 90 days or more	**$**	**164**	$	239
Accruing loans past due 30 through 89 days		**441**		476

(a) A loan is restructured (i.e., troubled debt restructurings), for reasons related to the borrower s financial difficulties, and we grant a concession that we would not otherwise have considered. To improve the collectability of the loan, typical concessions include reducing the interest rate, extending the maturity date or reducing the principal balance.

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

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

Table of Contents

At December 31, 2011, the approximate carrying amount of our commercial nonperforming loans outstanding represented 62% of their original contractual amount, total nonperforming loans outstanding represented 70% of their original contractual amount owed, and nonperforming assets in total were carried at 65% of their original contractual amount.

At December 31, 2011, our twenty largest nonperforming loans totaled $237 million, representing 33% of total loans on nonperforming status from continuing operations. At December 31, 2010, the twenty largest nonperforming loans totaled $306 million in nonperforming loans representing 29% of total loans on nonperforming status.

At December 31, 2011, we did not have any significant commitments to lend additional funds to borrowers with loans on nonperforming status. The amount by which nonperforming loans and loans held for sale, reduced expected interest income was $31 million for the year ended December 31, 2011, and $22 million for the year ended December 31, 2010.

The following tables set forth a further breakdown of impaired loans, evaluated for specific reserves, as of December 31, 2011 and 2010:

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

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

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

Table of Contents

December 31, 2010 *in millions*	Recorded Investment (a)	Unpaid Principal Balance (b)	Specific Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial, financial and agricultural	$ 61	$ 133		$ 66
Commercial real estate:				
Commercial mortgage	162	310		166
Construction	166	404		219
Total commercial real estate loans	328	714		385
Commercial lease financing				
Total commercial loans	389	847		451
Real estate residential mortgage				2
Total loans with no related allowance recorded	389	847		453
With an allowance recorded:				
Commercial, financial and agricultural	89	133	$ 26	237
Commercial real estate:				
Commercial mortgage	86	130	18	237
Construction	45	85	7	184
Total commercial real estate loans	131	215	25	421
Commercial lease financing	12	18	7	17
Total commercial loans	232	366	58	675
Real estate residential mortgage				3
Consumer other:				
Other				3
Total consumer indirect loans				3
Total loans with an allowance recorded	232	366	58	681
Total	$ 621	$ 1,213	$ 58	$ 1,134

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

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

For the years ended December 31, 2011 and 2010, interest income recognized on the outstanding balances of accruing impaired loans totaled $4 million and $6 million, respectively.

At December 31, 2011, aggregate restructured loans (accrual, nonaccrual, and held-for-sale loans) totaled $276 million, while at December 31, 2010, total restructured loans totaled $297 million. Although we added $182 million in restructured loans during the last 12 months, aggregate restructured loans decreased as a result of $203 million in payments and charge-offs.

Table of Contents

A further breakdown of restructured loans (TDRs) included in nonperforming loans by loan category as of

December 31, 2011, follows:

December 31, 2011 *dollars in millions*	**Number of loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	13	$ 71	$ 39
Commercial real estate:			
Real estate commercial mortgage	15	120	91
Real estate construction	5	24	11
Total commercial real estate loans	20	144	102
Commercial lease financing	147	18	7
Total commercial loans	180	233	148
Real estate residential mortgage	90	12	11
Home equity:			
Key Community Bank	41	5	5
Other	40	1	1
Total home equity loans	81	6	6
Consumer other Key Community Bank	7		
Consumer other:			
Marine	57	27	26
Other	22		
Total consumer other	79	27	26
Total consumer loans	257	45	43
Total nonperforming TDRs	437	278	191
Prior-year accruing:[(a)]			
Commercial, financial and agricultural	1	8	4
Commercial real estate:			
Real estate commercial mortgage	3	31	22
Real estate construction	3	39	19
Total commercial real estate loans	6	70	41
Commercial lease financing	159	17	13
Total commercial loans	166	95	58
Real estate residential mortgage	54	6	6
Home equity:			
Key Community Bank	62	6	6
Other	71	3	2
Total home equity loans	133	9	8
Consumer other Key Community Bank	14		
Consumer other:			
Marine	102	12	11
Other	31	2	2
Total consumer other	133	14	13
Total consumer loans	334	29	27
Total prior-year accruing TDRs	500	124	85
Total TDRs	937	$ 402	$ 276

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

We classify loan modifications as TDRs when a borrower is experiencing financial difficulties and we have granted a concession to the borrower. All commercial loan TDRs, regardless of size, are evaluated for impairment individually to determine the probable loss content and

are assigned a specific loan allowance if the ALLL deems it appropriate. Consumer loan TDRs are assigned a loss rate that reflects the current assessment of that category of consumer loans to determine the appropriate allowance level. The financial effects of TDRs are reflected in the components that comprise the allowance for loan and lease losses in either the amount of charge-offs or loan loss provision and ultimate allowance level. There were no significant payment defaults during calendar year 2011 relating to loans that were designated as TDRs during calendar year 2010.

Table of Contents

Our loan modifications are handled on a case by case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet our client s financial needs. A majority of our concessions granted to borrowers are in the form of interest rate reductions. Other concession types include forgiveness of principal and other modifications of loan terms. Consumer loan concessions include Home Affordable Modification Program (HAMP) loans that have successfully completed the required trial period under HAMP and were permanently modified. HAMP loans that were in a trial period of approximately $4 million at December 31, 2011 were not material to our TDR or Non Performing Loan totals, and therefore have not been included in our December 31, 2011 TDR amounts.

The following table shows the concession types for our commercial accruing and nonaccruing TDRs.

December 31, *dollars in millions*	**2011**	2010
Interest rate reduction	**$ 177**	$ 188
Forgiveness of principal	**23**	38
Other modification of loan terms	**8**	14
Total	**$ 208**	$ 240
Total commercial and consumer TDRs	**$ 276**	$ 297
Total commercial TDRs to total commercial loans	**.60 %**	.70 %
Total commercial TDRs to total loans	**.42**	.48
Total commercial loans	**$ 34,782**	$ 34,520
Total loans	**49,575**	50,107

Our policies for our commercial and consumer loan portfolios for determining past due loans, placing loans on nonaccrual, applying payments on nonaccrual loans and resuming accrual of interest are disclosed in Note 1 (Summary of Significant Accounting Policies) under the heading Nonperforming Loans.

At December 31, 2011, approximately $48.2 billion, or 97%, of our total loans are current compared to $48.3 billion or 96% at December 31, 2010. At December 31, 2011 total past due loans and nonperforming loans of $1.3 billion represent approximately 3% of total loans compared to $1.8 billion, or 4% of total loans, at December 31, 2010.

The following aging analysis as of December 31, 2011 and 2010, of past due and current loans provides further information regarding Key s credit exposure.

December 31, 2011 *in millions*	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 and Greater Days Past Due**	**Nonperforming Loans**	**Total Past Due and Nonperforming Loans**	**Total Loans**
LOAN TYPE							
Commercial, financial and agricultural	$ 19,136	$ 25	$ 17	$ 12	$ 188	$ 242	$ 19,378
Commercial real estate:							
Commercial mortgage	7,680	57	18	64	218	357	8,037
Construction	1,225	6	1	26	54	87	1,312
Total commercial real estate loans	8,905	63	19	90	272	444	9,349
Commercial lease financing	5,920	71	21	16	27	135	6,055
Total commercial loans	$ 33,961	$ 159	$ 57	$ 118	$ 487	$ 821	$ 34,782
Real estate residential mortgage	$ 1,816	$ 21	$ 13	$ 9	$ 87	$ 130	$ 1,946
Home equity:							

Key Community Bank	9,004	64	34	19	108	225	9,229
Other	497	14	8	4	12	38	535
Total home equity loans	9,501	78	42	23	120	263	9,764
Consumer other Key Community Bank	1,168	9	6	8	1	24	1,192
Consumer other:							
Marine	1,678	37	15	5	31	88	1,766
Other	119	2	2	1	1	6	125
Total consumer other	1,797	39	17	6	32	94	1,891
Total consumer loans	$ 14,282	$ 147	$ 78	$ 46	$ 240	$ 511	$ 14,793
Total loans	$ 48,243	$ 306	$ 135	$ 164	$ 727	$ 1,332	$ 49,575

December 31, 2010 *in millions*	Current	30-59 Days Past Due	60-89 Days Past Due	90 and Greater Days Past Due	Nonperforming Loans	Total Past Due and Nonperforming Loans	Total Loans
LOAN TYPE							
Commercial, financial and agricultural	$ 16,049	$ 35	$ 22	$ 93	$ 242	$ 392	$ 16,441
Commercial real estate:							
Commercial mortgage	9,158	33	16	40	255	344	9,502
Construction	1,796	27	4	38	241	310	2,106
Total commercial real estate loans	10,954	60	20	78	496	654	11,608
Commercial lease financing	6,316	64	17	10	64	155	6,471
Total commercial loans	$ 33,319	$ 159	$ 59	$ 181	$ 802	$ 1,201	$ 34,520
Real estate residential mortgage	$ 1,698	$ 25	$ 12	$ 11	$ 98	$ 146	$ 1,844
Home equity:							
Key Community Bank	9,282	69	37	24	102	232	9,514
Other	615	17	10	6	18	51	666
Total home equity loans	9,897	86	47	30	120	283	10,180
Consumer other Key Community Bank	1,139	9	6	9	4	28	1,167
Consumer other:							
Marine	2,117	48	20	7	42	117	2,234
Other	154	3	2	1	2	8	162
Total consumer other	2,271	51	22	8	44	125	2,396
Total consumer loans	$ 15,005	$ 171	$ 87	$ 58	$ 266	$ 582	$ 15,587
Total loans	$ 48,324	$ 330	$ 146	$ 239	$ 1,068	$ 1,783	$ 50,107

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

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

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

Table of Contents

Credit quality indicators for our commercial and consumer loan portfolios based on bond rating, regulatory classification and payment activity as of December 31, 2011 and 2010, are as follows:

Commercial Credit Exposure

Credit Risk Profile by Creditworthiness Category [(a)]

December 31,

in millions

	Commercial, financial and agricultural		RE Commercial		RE Construction		Commercial Lease		Total	
RATING [(b)]	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
AAA AA	**$ 121**	$ 99	**$ 3**	$ 2	**$ 3**		**$ 650**	$ 658	**$ 777**	$ 759
A	**885**	704	**61**	85	**3**	$ 4	**1,159**	1,245	**2,108**	2,038
BBB BB	**16,347**	12,386	**6,061**	6,125	**784**	829	**3,812**	3,796	**27,004**	23,136
B	**803**	1,282	**622**	1,349	**185**	383	**252**	395	**1,862**	3,409
CCC C	**1,222**	1,970	**1,290**	1,941	**337**	890	**182**	377	**3,031**	5,178
Total	**$ 19,378**	$ 16,441	**$ 8,037**	$ 9,502	**$ 1,312**	$ 2,106	**$ 6,055**	$ 6,471	**$ 34,782**	$ 34,520

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

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

Consumer Credit Exposure

Credit Risk Profile by Regulatory Classifications [(a)]

December 31,

in millions

	Residential Prime	
GRADE	**2011**	**2010**
Pass	**$ 11,471**	$ 11,765
Special Mention		
Substandard	**239**	259
Total	**$ 11,710**	$ 12,024

Credit Risk Profile Based on Payment Activity [(a)]

December 31,	Consumer Key Community Bank		Consumer Marine		Consumer Other		Total	
in millions	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**

Performing	**$**	**1,191**	$	1,163	**$**	**1,735**	$	2,192	**$**	**124**	$	160	**$**	**3,050**	$	3,515
Nonperforming		**1**		4		**31**		42		**1**		2		**33**		48
Total	**$**	**1,192**	$	1,167	**$**	**1,766**	$	2,234	**$**	**125**	$	162	**$**	**3,083**	$	3,563

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

We estimate the appropriate level of the allowance for loan and lease losses on at least a quarterly basis. The methodology is described in Note 1 (Summary of Significant Accounting Policies) under the headings Allowance for Loan and Lease Losses. We apply historical loss rates to existing loans with similar risk characteristics as noted in the credit quality indicator table above; and exercise judgment to assess the impact of factors such as changes in economic conditions, changes in credit policies or underwriting standards, and changes in the level of credit risk associated with specific industries and markets. For all commercial TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance greater than $2.5 million, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. We estimate the extent of impairment by comparing the carrying amount of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral or the loan s observable market price. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. The allowance for loan and lease losses at December 31, 2011, represents our best estimate of the probable credit losses inherent in the loan portfolio at that date.

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

Commercial loans generally are charged off in full or charged down to the fair value of the underlying collateral when the borrower s payment is 180 days past due. Our charge-off policy for most consumer loans is similar but takes effect when payments are 120 days past due. Home equity and residential mortgage loans generally are charged down to the fair value of the underlying collateral when payment is 180 days past due.

At December 31, 2011, the allowance for loan and lease losses was $1.0 billion, or 2.03% of loans compared to $1.6 billion, or 3.20% of loans, at December 31, 2010. At December 31, 2011, the allowance for loan and lease losses was 138.10% of nonperforming loans compared to 150.19% at December 31, 2010.

A summary of the allowance for loan and lease losses at the end of the past three years is presented in the table below:

Year ended December 31, *in millions*	**2011**	**2010**	**2009**
Balance at beginning of period continuing operations	**$ 1,604**	$ 2,534	$ 1,629
Charge-offs	**(715)**	(1,822)	(2,396)
Recoveries	**174**		