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

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT

PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended

December 31, 2014

Commission file number: 1-11302

Exact name of Registrant as specified in its charter:

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:	**Zip Code:**

(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	New York Stock Exchange

7.750% Non-Cumulative Perpetual Convertible Preferred Stock, Series A	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes 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.

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	Smaller reporting company
		(Do not check if a smaller reporting company)	

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

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

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

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Forward-looking Statements

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

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

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

¿ unanticipated changes in our liquidity position, including but not limited to, changes in the cost of liquidity, our ability to enter the financial markets and to secure alternative funding sources;

¿ our ability to receive dividends from our subsidiary, KeyBank;

¿ downgrades in our credit ratings or those of KeyBank;

¿ a reversal of the U.S. economic recovery due to financial, political or other shocks;

¿ our ability to anticipate interest rate changes and manage interest rate risk;

¿ deterioration of economic conditions in the geographic regions where we operate;

¿ the soundness of other financial institutions;

¿ our ability to attract and retain talented executives and employees and to manage our reputational risks;

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

¿ increased competitive pressure due to industry consolidation;

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

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

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

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KEYCORP

2014 FORM 10-K ANNUAL REPORT

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PART I

ITEM 1. BUSINESS

Overview

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

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

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

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

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

Important Terms Used in this Report

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

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

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Demographics

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

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

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

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

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

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

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

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Additional Information

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

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

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

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

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Acquisitions and Divestitures

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

Competition

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

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

Executive Officers of KeyCorp

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Supervision and Regulation

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

Overview

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

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

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

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

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

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Regulatory capital and liquidity

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

Regulatory capital requirements prior to January 1, 2015

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

Basel III capital and liquidity frameworks

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

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

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

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

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

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

U.S. implementation of the Basel III capital framework

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

New minimum capital and leverage ratio requirements

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

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

Regulatory Capital Rules

Ratios (including Capital conservation buffer)	**Key December 31, 2014**	**Minimum January 1, 2015**	**Phase-in Period**	**Minimum January 1, 2019**

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

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(a) See Figure 4 entitled GAAP to Non-GAAP Reconciliations, which presents the computation for estimated Common Equity Tier 1. The table reconciles the GAAP performance measure to the corresponding non-GAAP measure, which provides a basis for period-to-period comparisons.

(b) Capital conservation buffer must consist of Common Equity Tier 1 capital. As a standardized approach banking organization, KeyCorp is not subject to the countercyclical capital buffer of up to 2.5% imposed upon an advanced approaches banking organization under the Regulatory Capital Rules.

(c) As a standardized approach banking organization, KeyCorp is not subject to the 3% supplemental leverage ratio requirement, which becomes effective January 1, 2018. Because KeyCorp has less than $700 billion in consolidated total assets and less than $10 trillion in assets under custody, KeyCorp is not subject to the supplemental leverage buffer requirement of at least 2%, which becomes effective January 1, 2018.

Revised prompt corrective action capital category ratios

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

Well Capitalized and Adequately Capitalized Capital Category Ratios Under Prior and

Revised Prompt Corrective Action Rules

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

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

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

We believe that, as of December 31, 2014, KeyBank (consolidated) would have met all revised well capitalized prompt corrective action capital and leverage ratio requirements under the Regulatory Capital Rules if such requirements had been effective at that time. The prompt corrective action regulations, however, apply only to FDIC-insured depository institutions (like KeyBank) and not to BHCs (like KeyCorp). Moreover, since the regulatory capital categories under these regulations serve a limited supervisory function, investors should not use them as a representation of the overall financial condition or prospects of KeyBank.

U.S. implementation of the Basel III liquidity framework

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

KeyBank will not be subject to the LCR or the Modified LCR under the Liquidity Coverage Rules unless the OCC affirmatively determines that application to KeyBank is appropriate in light of its asset size, level of complexity, risk profile, scope of operations, affiliation with foreign or domestic covered entities, or risk to the financial system. The LCR and Modified LCR created by the Liquidity Coverage Rules are also an enhanced prudential liquidity standard consistent with the Dodd-Frank Act.

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

Capital planning and stress testing

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

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

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

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

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

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

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

Dividend restrictions

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

FDIA, Resolution Authority and Financial Stability

Deposit insurance and assessments

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

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

Conservatorship and receivership of insured depository institutions

Upon the insolvency of an insured depository institution, the FDIC will be appointed as receiver or, in rare circumstances, conservator for the insolvent institution under the FDIA. In an insolvency, the FDIC may repudiate or disaffirm any contract to which the institution is a party if the FDIC determines that performance of the contract would be burdensome and that disaffirming or repudiating the contract would promote orderly administration of the institution s affairs. If the contractual counterparty made a claim against the receivership (or conservatorship) for breach of contract, the amount paid to the counterparty would depend upon, among other factors, the receivership (or conservatorship) assets available to pay the claim and the priority of the claim relative to others. In addition, the FDIC may enforce most contracts entered into by the insolvent institution, notwithstanding any provision that would terminate, cause a default, accelerate or give other rights under the contract solely because of the insolvency, the appointment of the receiver (or conservator), or the exercise of rights or powers by the receiver (or conservator). The FDIC may also transfer any asset or liability of the insolvent institution without obtaining approval or consent from the institution s shareholders or creditors. These provisions would apply to obligations and liabilities of KeyCorp s insured depository institution subsidiaries, such as KeyBank, including obligations under senior or subordinated debt issued to public investors.

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Receivership of certain SIFIs

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

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

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

Depositor preference

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

Resolution plans

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

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

Financial Stability Oversight Council

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

The Bank Secrecy Act

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

Other Regulatory Developments under the Dodd-Frank Act

Consumer Financial Protection Bureau

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

Debit Card Interchange

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

Volcker Rule

In December 2013, federal banking regulators issued a joint final rule (the Final Rule) implementing Section 619 of the Dodd-Frank Act, known as the Volcker Rule. The Final Rule prohibits banking entities, such as KeyCorp, KeyBank and their affiliates and subsidiaries, from owning, sponsoring, or having certain relationships with hedge funds and private equity funds (referred to as covered funds) and engaging in short-term proprietary trading of securities, derivatives, commodity futures and options on these instruments.

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

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

Enhanced prudential standards and early remediation requirements

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

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

In March 2014, the Federal Reserve published a final rule to implement certain of these required enhanced prudential standards. The enhanced prudential standards implemented by this final rule were (i) the incorporation of the Regulatory Capital Rules through the Federal Reserve s previously finalized rules on capital planning and stress tests, (ii) liquidity requirements relating to cash flow projections, a contingency funding plan, liquidity risk limits, monitoring liquidity risks (with respect to collateral, legal entities, currencies, business lines, and intraday exposures), liquidity stress testing, and a liquidity buffer, (iii) the risk management framework, the risk committee, and the chief risk officer as well as the corporate governance requirements as they relate to liquidity risk management, including the requirements that apply to the board of directors, the risk committee, senior management, and the independent review function, and (iv) a 15-to-1 debt-to-equity limit for companies that the FSOC determines pose a grave threat to U.S. financial stability. KeyCorp was required to comply with the final rule starting on January 1, 2015.

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

Bank transactions with affiliates

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

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

New assessments, fees and other charges

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

ITEM 1A. RISK FACTORS

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

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

I. Credit Risk

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

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

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

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

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

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

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

Declining asset prices could adversely affect us.

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

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

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

II. Compliance Risk

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

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

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

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

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

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

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

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

III. Operational Risk

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

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

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

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

Third parties perform significant operational services on our behalf. These third-party vendors are subject to similar risks as Key relating to cybersecurity, breakdowns or failures of their own systems or employees. One or more of our vendors may experience a cybersecurity event or operational disruption and, if any such event does occur, it may not be adequately addressed, either operationally or financially, by the third-party vendor. Certain of our vendors may have limited indemnification obligations or may not have the financial capacity to satisfy their indemnification obligations. Financial or operational difficulties of a vendor could also impair our operations if those difficulties interfere with the vendor s ability to serve us. Additionally, some of our outsourcing arrangements are located overseas and, therefore, are subject to risks unique to the regions in which they operate. If a critical vendor is unable to meet our needs in a timely manner or if the services or products provided by such a vendor are terminated or otherwise delayed and if we are not able to develop alternative sources for these services and products quickly and cost-effectively, it could have a material adverse effect on our business. Additionally, regulatory guidance adopted by federal banking regulators in 2013 related to how banks select, engage and manage their outside vendors may affect the circumstances and conditions under which we work with third parties and the cost of managing such relationships.

We are subject to claims and litigation.

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

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

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

We are subject to operational risk.

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

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

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

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

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

IV. Capital and Liquidity Risk

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

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

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

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

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

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

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

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

We are a legal entity separate and distinct from our subsidiaries. With the exception of cash that we may raise from debt and equity issuances, we receive substantially all of our cash flow from dividends by our subsidiaries. Dividends by our subsidiaries are the principal source of funds for the dividends we pay on our equity securities and interest and principal payments on our debt. Federal banking law and regulations limit the amount of dividends that KeyBank (KeyCorp s largest subsidiary) can pay. For further information on the regulatory restrictions on the payment of dividends by KeyBank, see Supervision and Regulation in Item 1 of this report.

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

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

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

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

Our credit ratings affect our liquidity position.

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

V. Market Risk

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

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

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

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

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

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

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

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

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

We have concentrations of loans and other business activities in geographic regions where our bank branches are located Pacific; Rocky Mountains; Indiana; West Ohio/Michigan; East Ohio; Western New York; Eastern New York; and New England and potential exposure to geographic regions outside of our branch footprint. The moderate U.S. economic recovery has been experienced unevenly in the various regions where we operate, and continued improvement in the overall U.S. economy may not result in similar improvement, or any improvement at all, in the economy of any particular geographic region. Adverse conditions in a geographic region such as inflation, unemployment, recession, natural disasters, or other factors beyond our control could impact the ability of borrowers in these regions to repay their loans, decrease the value of collateral securing loans made in these regions, or affect the ability of our customers in these regions to continue conducting business with us.

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

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

The soundness of other financial institutions could adversely affect us.

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

VI. Reputation Risk

Damage to our reputation could significantly harm our businesses.

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

VII. Strategic Risk

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

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

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We operate in a highly competitive industry.

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

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

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

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

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

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

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

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

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

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

VIII. Model Risk

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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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, 2014, Key leased approximately 686,002 square feet of the complex, encompassing the first 23 floors and the 54th through 56th floors of the 57-story Key Tower. As of the same date, KeyBank owned 450 and leased 544 branches. The lease terms for applicable branches are not individually material, with terms ranging from month-to-month to 99 years from inception.

Branches and ATMs by Region

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

ITEM 3. LEGAL PROCEEDINGS

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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

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

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

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

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

Total number of shares repurchased (a)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares th yet be purchased as publicly announced p pro
2,482,427	$ 12.77	2,560,755	21,5

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

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

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

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ITEM 6. SELECTED FINANCIAL DATA

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

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (the MD&A)

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

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Introduction

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

Terminology

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

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

¿ We use the phrase ***continuing operations*** in this document to mean all of our businesses other than the education lending business, Victory, and Austin. The education lending business and Austin have been accounted for as ***discontinued operations*** since 2009. Victory was classified as a ***discontinued operation*** in our first quarter 2013 financial reporting as a result of the sale of this business as announced on February 21, 2013, and closed on July 31, 2013.

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

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

¿ For regulatory purposes, capital is divided into two classes. Federal regulations currently prescribe that at least one-half of a bank or BHC s ***total risk-based capital*** must qualify as ***Tier 1 capital***. Both total and Tier 1 capital serve as bases for several measures of capital adequacy, which is an important indicator of financial stability and condition. As described under the heading Regulatory capital and liquidity Capital planning and stress testing in the section entitled Supervision and Regulation in Item 1 of this report, the regulators are required to conduct a supervisory capital assessment of all BHCs with assets of at least $50 billion, including KeyCorp. As part of this capital adequacy review, banking regulators evaluate a component of Tier 1 capital, known as ***Tier 1 common equity***. The section entitled Capital Capital adequacy in this MD&A provides more information on total capital, Tier 1 capital, and Tier 1 common equity and describes how the three measures are calculated.

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

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Figure 1. Selected Financial Data

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

dilution [b]						
Net income (loss) attributable to Key common shareholders assuming dilution [c]	**.99**	.97	.89	.87	.44	17.6
Cash dividends paid	**.25**	.215	.18	.10	.04	44.3%
Book value at year end	**11.91**	11.25	10.78	10.09	9.52	4.6
Tangible book value at year end	**10.65**	10.11	9.67	9.11	8.45	4.7
Market price at year end	**13.90**	13.42	8.42	7.69	8.85	9.4
Dividend payout ratio	**24.8%**	21.9%	20.2%	11.49%	8.89%	N/A
Weighted-average common shares outstanding (000)	**871,464**	906,524	938,941	931,934	874,748	(.1)
Weighted-average common shares and potential common shares outstanding (000) [d]	**878,199**	912,571	943,259	935,801	878,153	
AT DECEMBER 31.						
Loans	**$ 57,381**	$ 54,457	$ 52,822	$ 49,575	$ 50,107	2.7%
Earning assets	**82,269**	79,467	75,055	73,729	76,211	1.5
Total assets	**93,821**	92,934	89,236	88,785	91,843	.4
Deposits	**71,998**	69,262	65,993	61,956	60,610	3.5
Long-term debt	**7,875**	7,650	6,847	9,520	10,592	(5.8)
Key common shareholders equity	**10,239**	10,012	9,980	9,614	8,380	4.1
Key shareholders equity	**10,530**	10,303	10,271	9,905	11,117	(1.1)
PERFORMANCE RATIOS FROM CONTINUING OPERATIONS						
Return on average total assets	**1.08%**	1.03%	1.03%	1.16%	.66%	N/A
Return on average common equity	**9.01**	8.48	8.25	9.17	5.06	N/A
Return on average tangible common equity [e]	**10.04**	9.45	9.16	10.20	5.73	N/A
Net interest margin (TE)	**2.97**	3.12	3.21	3.16	3.26	N/A
Cash efficiency ratio [e]	**66.1**	67.5	67.4	67.3	67.3	N/A
PERFORMANCE RATIOS FROM CONSOLIDATED OPERATIONS						
Return on average total assets	**.99%**	1.02%	.99%	1.04%	.59%	N/A
Return on average common equity	**8.63**	8.88	8.48	8.79	4.78	N/A
Return on average tangible common equity [e]	**9.61**	9.90	9.42	9.78	5.41	N/A
Net interest margin (TE)	**2.94**	3.02	3.13	3.09	3.16	N/A
Loan to deposit [f]	**84.6**	83.8	85.8	87.0	90.3	N/A
CAPITAL RATIOS AT DECEMBER 31,						
Key shareholders equity to assets	**11.22%**	11.09%	11.51%	11.16%	12.10%	N/A
Key common shareholders equity to assets	**10.91**	10.78	11.18	10.83	9.12	N/A
Tangible common equity to tangible assets [e]	**9.88**	9.80	10.15	9.88	8.19	N/A

Tier 1 common equity [e]	**11.17**	11.22	11.36	11.26	9.34	N/A
Tier 1 risk-based capital	**11.90**	11.96	12.15	12.99	15.16	N/A
Total risk-based capital	**13.89**	14.33	15.13	16.51	19.12	N/A
Leverage	**11.26**	11.11	11.41	11.79	13.02	N/A
TRUST AND BROKERAGE ASSETS						
Assets under management	**$ 39,157**	$ 36,905	$ 34,744	$ 51,732	$ 59,815	N/A
Nonmanaged and brokerage assets	**49,147**	47,418	35,550	30,639	28,069	N/A
OTHER DATA						
Average full-time-equivalent employees	**13,853**	14,783	15,589	15,381	15,610	(2.4)%
Branches	**994**	1,028	1,088	1,058	1,033	(.8)

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

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

(c) EPS may not foot due to rounding.

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(d) Assumes conversion of common share options and other stock awards and/or convertible preferred stock, as applicable.

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

(f) Represents period-end consolidated total loans and loans held for sale (excluding education loans in securitizations trusts for periods prior to 2014) divided by period-end consolidated total deposits (excluding deposits in foreign office).

Economic overview

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

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

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

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

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

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Long-term financial goals

Our long-term financial goals are as follows:

¿ Improve balance sheet efficiency by targeting a loan-to-deposit ratio range of 90% to 100%;

¿ Maintain a moderate risk profile by targeting a net loan charge-off ratio range of .40% to .60%;

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

¿ Generate positive operating leverage and target a cash efficiency ratio of less than 60%; and

¿ Strengthen returns by executing our strategy and target a return on average assets in the range of 1.00% to 1.25%.
Figure 2 shows the evaluation of our long-term financial goals for the three and twelve months ended December 31, 2014.

Figure 2. Evaluation of Our Long-Term Financial Goals

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

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

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

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

Corporate strategy

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

¿ ***Grow profitably*** We will continue to focus on growing revenue and creating a more efficient operating environment. We expect our relationship business model to keep generating organic growth as it helps us expand engagement with existing clients and attract new customers. We will leverage our continuous improvement culture to create a more efficient cost structure that is aligned, sustainable, and consistent with the current operating environment and supports our relationship business model.

¿ ***Acquire and expand targeted relationships*** We have taken purposeful steps to enhance our ability to acquire and expand targeted relationships. Our local delivery of a broad product set and industry expertise allows us to match client needs and market conditions to deliver the best solutions.

¿ ***Effectively manage risk and rewards*** Our risk management activities are focused on ensuring we properly identify, measure, and manage risks across the entire company to maintain safety and soundness and maximize profitability.

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¿ ***Maintain financial strength*** With the foundation of a strong balance sheet, we will remain focused on sustaining strong reserves, liquidity and capital. We will work closely with our Board of Directors and regulators to manage capital to support our clients needs and create shareholder value. Our capital remains a competitive advantage for us.

¿ ***Engage a high performing, talented and diverse workforce*** Every day our employees provide our clients with great ideas, extraordinary service and smart solutions. We will continue to engage our high performing, talented and diverse workforce to create an environment where they can make a difference, own their careers, be respected and feel a sense of pride.

Strategic developments

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

¿ We continued to take actions to drive growth and efficiency. These actions included leadership changes to leverage our alignment, accelerate momentum, and drive growth. We also focused on growing our commercial payments business and maximizing the return from our recent investments, which included the launch of purchase and prepaid cards in the first quarter of 2014. In addition to these new payment products, we continued to invest in, and build out, our online and mobile capabilities. During the first quarter of 2014, we expanded our online account-opening tools to include more products and services. During the second quarter of 2014, we introduced the new KeyBank Hassle-Free Account for banking customers who want straightforward ways to make deposits, track money, obtain cash, and make payments without worrying about potential overdraft fees or other unexpected fees. In addition, as part of our actions to drive efficiency, we closed 34 branches and reduced headcount in our fixed income trading business during 2014.

¿ We also made progress on other strategic initiatives, including improving sales productivity and strengthening our business mix through targeted investments and exiting businesses that are not a strategic fit. Key Community Bank strengthened its sales management process and saw a lift in sales productivity. Key Corporate Bank continued to see growth in new and expanded client relationships. In the first quarter of 2014, we announced that we would be exiting our international leasing operation, which had limited scale and connectivity to our other businesses. This decision was consistent with our commitment to allocate our capital to businesses that fit our strategy and generate appropriate risk-adjusted returns. Late in the third quarter of 2014, we closed the acquisition of Pacific Crest Securities, a leading technology-focused investment bank and capital markets firm. This acquisition underscores our commitment to creating the leading corporate and investment bank serving middle market companies. The transaction brings together two firms with a shared vision of enhancing their differentiation in the market by capitalizing on the convergence of technology across traditional industry verticals.

¿ Our strong risk management practices and a more favorable credit environment resulted in another year of positive credit quality trends. For 2014, net loan charge-offs were .20% of average loans, well below our targeted range, and nonperforming assets decreased 17.9% from the year-ago period.

¿

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

¿ The Board declared a quarterly dividend of $.055 per common share for the first quarter of 2014. Our 2014 capital plan proposed an 18% increase in our quarterly common share dividend to $.065 per share, which was approved by our Board in May 2014. Consistent with the 2014 capital plan, we made a dividend payment of $.065 per share on our common shares during each of the second, third, and fourth quarters of 2014, which brought our annual dividend to $.25 per common share for 2014.

¿ At December 31, 2014, our capital ratios remained strong with a Tier 1 common equity ratio of 11.17%, our loan loss reserves were adequate at 1.38% to period-end loans, and we were core funded with a loan-to-

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

Highlights of Our 2014 Performance

Financial performance

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

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

Figure 3. Results of Operations

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

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

(b) EPS may not foot due to rounding.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Figure 4. GAAP to Non-GAAP Reconciliations

Year ended December 31,

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

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

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

(b) For the years ended December 31, 2014, December 31, 2013, and December 31, 2012, intangible assets exclude $68 million, $92 million, and $123 million, respectively, of period-end purchased credit card receivables.

(c) Net of capital surplus for the years ended December 31, 2014, and December 31, 2013.

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

(e) Other assets deducted from Tier 1 capital and net risk-weighted assets consist of disallowed intangible assets (excluding goodwill) and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at December 31, 2014, December 31, 2013, December 31, 2012, and December 31, 2011. There were disallowed deferred tax assets of $158 million at December 31, 2010.

(f) For the years ended December 31, 2014, December 31, 2013, and December 31, 2012, average intangible assets exclude $79 million, $107 million, and $55 million, respectively, of average purchased credit card receivables.

Figure 4. GAAP to Non-GAAP Reconciliations, continued

Year ended December 31,			
dollars in millions		**2014**	
Common Equity Tier 1 under the Regulatory Capital Rules (estimates)			
Tier 1 common equity under current regulatory rules	**$**	**9,503**	
Adjustments from current regulatory rules to the Regulatory Capital Rules:			
Deferred tax assets and other [(g)]		**(89)**	
Common Equity Tier 1 anticipated under the Regulatory Capital Rules [(h)]	**$**	**9,414**	
Net risk-weighted assets under current regulatory rules	**$**	**85,100**	
Adjustments from current regulatory rules to the Regulatory Capital Rules:			
Loan commitments less than one year		**1,139**	
Past due loans		**129**	
Mortgage servicing assets [(i)]		**484**	
Deferred tax assets [(i)]		**267**	
Other		**1,059**	
Total risk-weighted assets anticipated under the Regulatory Capital Rules [(h)]	**$**	**88,178**	
Common Equity Tier 1 ratio under the Regulatory Capital Rules		**10.68**	%

(g) Includes the deferred tax assets subject to future taxable income for realization, primarily tax credit carryforwards, as well as the deductible portion of purchased credit card receivables.

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

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

Results of Operations

Net interest income

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

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

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

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

¿ interest rate fluctuations and competitive conditions within the marketplace; and

¿ asset quality.

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

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

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

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

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

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

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

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

Total earning assets	**78,091**	**2,578**	**3.30**	75,394	2,643	3.51
Allowance for loan and lease losses	**(818)**			(879)		
Accrued income and other assets	**9,806**			9,662		
Discontinued assets	**3,828**			5,036		
Total assets	**$ 90,907**			$ 89,213		
LIABILITIES						
NOW and money market deposit accounts	**$ 34,283**	**48**	**.14**	$ 32,846	53	.16
Savings deposits	**2,446**	**1**	**.02**	2,505	1	.04
Certificates of deposit ($100,000 or more) [(f)]	**2,616**	**35**	**1.35**	2,829	50	1.76
Other time deposits	**3,495**	**32**	**.91**	4,084	53	1.30
Deposits in foreign office	**615**	**1**	**.23**	567	1	.23
Total interest-bearing deposits	**43,455**	**117**	**.27**	42,831	158	.37
Federal funds purchased and securities sold under repurchase agreements	**1,182**	**2**	**.16**	1,802	2	.13
Bank notes and other short-term borrowings	**597**	**9**	**1.49**	394	8	1.89
Long-term debt [(f), (g)]	**5,161**	**133**	**2.68**	4,184	127	3.28
Total interest-bearing liabilities	**50,395**	**261**	**.52**	49,211	295	.60
Noninterest-bearing deposits	**24,410**			23,046		
Accrued expense and other liabilities	**1,791**			1,656		
Discontinued liabilities [(g)]	**3,828**			4,995		
Total liabilities	**80,424**			78,908		
EQUITY						
Key shareholders equity	**10,467**			10,276		
Noncontrolling interests	**16**			29		
Total equity	**10,483**			10,305		
Total liabilities and equity	**$ 90,907**			$ 89,213		
Interest rate spread (TE)			**2.78 %**			2.91 %
Net interest income (TE) and net interest margin (TE)		**2,317**	**2.97 %**		2,348	3.12 %
TE adjustment [(b)]		**24**			23	

Net interest income, GAAP basis	**$ 2,293**	$ 2,325

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

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

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

(d) Commercial, financial and agricultural average balances include $93 million, $95 million, and $36 million of assets from commercial credit cards for the years ended December 31, 2014, December 31, 2013, and December 31, 2012, respectively.

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

012			2011			2010			Compound Change
terest (a)	Yield/ Rate (a)		Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance (h)	Interest (a), (h)	Yield/ Rate (a), (h)	Average Balance
810	3.83	%	$ 17,507	$ 705	4.03 %	$ 17,500	$ 813	4.64 %	8.6
339	4.43		8,437	380	4.50	10,027	491	4.90	(4.4)
56	4.74		1,677	73	4.36	3,495	149	4.26	(21.2)
187	3.64		5,846	293	5.01	6,754	352	5.21	(8.9)
1,392	3.96		33,467	1,451	4.34	37,776	1,805	4.78	1.0
100	4.86		1,850	97	5.25	1,828	102	5.57	3.8
384	4.03		9,390	387	4.12	9,773	411	4.20	1.1
37	7.81		598	46	7.66	751	57	7.59	(16.8)
421	4.21		9,988	433	4.34	10,524	468	4.45	.2
121	9.53		1,167	113	9.62	1,158	132	11.44	5.3
40	13.99								N/M
97	6.26		1,992	125	6.28	2,497	155	6.23	(18.6)
8	8.14		142	11	7.87	188	15	7.87	(21.0)
105	6.38		2,134	136	6.38	2,685	170	6.34	(18.7)
787	5.16		15,139	779	5.14	16,195	872	5.39	(.2)
2,179	4.33		48,606	2,230	4.59	53,971	2,677	4.96	.6
20	3.45		387	14	3.58	453	17	3.62	4.7
399	3.08		18,766	584	3.20	18,800	646	3.50	(8.3)
69	1.97		514	12	2.35	20	2	10.56	N/M
18	2.48		878	26	2.97	1,068	37	3.47	(2.7)
6	.27		2,543	6	.25	2,684	6	.24	1.5
38	3.27		1,264	42	3.14	1,442	49	3.08	(9.7)
2,729	3.82		72,958	2,914	4.02	78,438	3,434	4.39	(.1)
			(1,250)			(2,207)			(18.0)
			10,341			11,243			(2.7)
			6,247			6,677			(10.5)
			$ 88,296			$ 94,151			(.7)
56	.19		$ 27,001	71	.26	$ 25,712	91	.35	5.9
1	.05		1,958	1	.06	1,867	1	.06	5.6

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

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

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

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

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

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

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

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

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

Noninterest income

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

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

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Figure 7. Noninterest Income

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

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

Figure 8. Dealer Trading and Derivatives Income (Loss)

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

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

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

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

Trust and investment services income

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

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

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

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Figure 9. Assets Under Management

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

Investment banking and debt placement fees

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

Service charges on deposit accounts

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

Operating lease income and other leasing gains

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

Corporate services income

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

Cards and payments income

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

Consumer mortgage income

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

Mortgage servicing fees

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

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Other income

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

Noninterest expense

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

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

Figure 10. Noninterest Expense

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

Total noninterest expense	**$ 2,759**	$ 2,820	$ 2,818	$ (61)	(2.2) %
Average full-time equivalent employees [(a)]	**13,853**	14,783	15,589	(930)	(6.3) %

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

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

<u>Personnel</u>

As shown in Figure 11, personnel expense, the largest category of our noninterest expense, decreased by $18 million, or 1.1%, in 2014 compared to 2013. Declines in net technology contract labor of $17 million, severance of $14 million, and employee benefits of $12 million all contributed to the decrease in personnel expense. These declines were partially offset by increases in incentive compensation of $19 million and stock-based compensation of $9 million related to the performance of our business and the third quarter 2014 acquisition of Pacific Crest Securities.

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

Figure 11. Personnel Expense

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

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

Operating lease expense

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

Intangible asset amortization

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

Other expense

Other expense comprises various miscellaneous expense items such as travel and entertainment, technology service providers, and franchise and business taxes. Other expense declined $4 million, or 1.2%, in 2014 compared to 2013, and $11 million, or 3.2%, in 2013 compared to 2012 due to fluctuations in several of those line items.

Income taxes

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

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

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

Line of Business Results

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

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

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

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

Total	**$ 939**	$ 870	$ 835	$ 69	7.9%

Key Community Bank summary of operations

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

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

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

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

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

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

Figure 13. Key Community Bank

Year ended December 31,				**Change 2014 vs. 2013**	
dollars in millions	**2014**	**2013**	**2012**	**Amount**	**Percent**
SUMMARY OF OPERATIONS					
Net interest income (TE)	**$ 1,448**	$ 1,532	$ 1,537	$ (84)	(5.5) %
Noninterest income	**769**	784	771	(15)	(1.9)
Total revenue (TE)	**2,217**	2,316	2,308	(99)	(4.3)
Provision (credit) for loan and lease losses	**74**	155	150	(81)	(52.3)
Noninterest expense	**1,770**	1,835	1,900		