KEYCORP /NEW/
Form 10-K
February 24, 2011

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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

(Mark One)

[ü] Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2010

or

[ ] Transition Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission file number: 1-11302

Exact name of Registrant as specified in its charter:

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

(216) 689-3000

Registrant s Telephone Number, including area code:

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

Title of each class	Name of each exchange on which registered
Common Shares, $1 par value (Common Shares)	New York Stock Exchange
7.750% Non-Cumulative Perpetual Convertible Preferred Stock, Series A	New York Stock Exchange
5.875% Trust Preferred Securities, issued by KeyCorp Capital V, including Junior Subordinated Debentures of KeyCorp and Guarantee of KeyCorp[1]	New York Stock Exchange[2]
	New York Stock Exchange[2]

6.125% Trust Preferred Securities, issued by KeyCorp Capital VI, including Junior Subordinated Debentures of KeyCorp and Guarantee of KeyCorp[1]	
7.000% Enhanced Trust Preferred Securities, issued by KeyCorp Capital VIII, including Junior Subordinated Debentures of KeyCorp and Guarantee of KeyCorp[1]	New York Stock Exchange[2]
6.750% Enhanced Trust Preferred Securities, issued by KeyCorp Capital IX, including Junior Subordinated Debentures of KeyCorp and Guarantee of KeyCorp[1]	New York Stock Exchange[2]
8.000% Enhanced Trust Preferred Securities, issued by KeyCorp Capital X, including Junior Subordinated Debentures of KeyCorp and Guarantee of KeyCorp[1]	New York Stock Exchange[2]

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of voting stock held by nonaffiliates of the Registrant is approximately $6,771,158,151 (based on the June 30, 2010, closing price of Common Shares of $7.69 as reported on the New York Stock Exchange).

As of February 22, 2011, there were 880,468,918 Common Shares outstanding.

Certain specifically designated portions of KeyCorp s definitive Proxy Statement for its 2011 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

KEYCORP

2010 FORM 10-K ANNUAL REPORT
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PART I

ITEM 1. BUSINESS

Forward-looking Statements

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

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

indications of an improving economy may prove to be premature;

the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) will subject us to a variety of new and more stringent legal and regulatory requirements;

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

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

our ability to effectively deal with an economic slowdown or other economic or market difficulty;

adverse changes in credit quality trends;

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

reduction of the credit ratings assigned to KeyCorp and KeyBank;

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

changes in investor sentiment, consumer spending or saving behavior;

our ability to manage liquidity;

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

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

changes in foreign exchange rates;

limitations on our ability to return capital to shareholders and potential dilution of our Common Shares as a result of the United States Department of the Treasury s (the U.S. Treasury) investment under the terms of its Capital Purchase Program (the CPP);

adequacy of our risk management program;

increased competitive pressure due to consolidation;

other new or heightened legal standards and regulatory requirements, practices or expectations;

our ability to timely and effectively implement our strategic initiatives;

increases in Federal Deposit Insurance Corporation (the FDIC) premiums and fees;

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

our ability to attract and/or retain talented executives and employees;

operational or risk management failures due to technological or other factors;

changes in accounting principles or in tax laws, rules and regulations;

adverse judicial proceedings;

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

other risks and uncertainties summarized in Part 1, Item 1A: Risk Factors in this report.

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

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 $91.8 billion at December 31, 2010. KeyCorp is the parent holding company for KeyBank National Association (KeyBank), its principal subsidiary, through which most of our banking services are provided. Through KeyBank and certain other subsidiaries, we provide a wide range of retail and commercial banking, commercial leasing, investment management, consumer finance and investment banking products and services to individual, corporate and institutional clients through two major business segments: Key Community Bank and Key Corporate Bank.

As of December 31, 2010, these services were provided across the country through KeyBank s 1,033 full-service retail banking branches in fourteen states, additional offices, a telephone banking call center services group and a network of 1,531 automated teller machines (ATMs) in fifteen states. Additional information pertaining to our two business segments is included in this report in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (the MD&A), in the Line of Business Results section, and in Note 21 (Line of Business Results) of the Notes to the Consolidated Financial Statements presented in Item 8. Financial Statements and Supplementary Data are incorporated herein by reference. KeyCorp and its subsidiaries had an average of 15,610 full-time equivalent employees for 2010.

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

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

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

Additional Information

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

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

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Our executive offices are located at 127 Public Square, Cleveland, Ohio 44114-1306, and our telephone number is (216) 689-3000. Our website is www.Key.com, and the investor relations section of our website may be reached through www.key.com/ir. We make available free of charge, on or through the investor relations links on our website, annual reports on Form 10-K, quarterly reports on Form 10-Q ,and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the United States Securities and Exchange Commission (the SEC). Also posted on our website, and available in print upon request of any shareholder to our Investor Relations Department, are the charters for our Audit Committee, Compensation and Organization Committee, Executive Committee, Nominating and Corporate Governance Committee, and Risk Management Committee; our Corporate Governance Guidelines; the Code of Ethics governing our directors, officers and employees; our Standards for Determining Independence of Directors; and our Limitation on Luxury Expenditures Policy. Within the time period required by the SEC and the New York Stock Exchange, we will post on our website any amendment to the Code of Ethics and any waiver applicable to any senior executive officer or director. We also make available a summary of filings made with the SEC of statements of beneficial ownership of our equity securities filed by our directors and officers under Section 16 of the Exchange Act.

Shareholders may obtain a copy of any of the above-referenced corporate governance documents by writing to our Investor Relations Department at Investor Relations, KeyCorp, 127 Public Square, Mailcode OH-01-27-1113, Cleveland, Ohio 44114-1306; by calling (216) 689-3000; or by sending an e-mail to investor_relations@keybank.com.

Acquisitions and Divestitures

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

Competition

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

In recent years, mergers and acquisitions have led to greater concentration in the banking industry, placing added competitive pressure on Key s core banking products and services. Consolidation continued during 2010 and led to redistribution of deposits and certain banking assets to larger financial institutions. Financial institutions with liquidity challenges sought mergers and the deposits and certain banking assets of the 157 banks that failed during 2010, representing $96.7 billion in total assets, were redistributed through the FDIC s least-cost resolution process. These factors have intensified the concentration of the industry over the last few years and placed increased competitive pressure on Key s core banking products and services.

Supervision and Regulation

The following discussion addresses elements of the regulatory framework applicable to bank holding companies, financial holding companies and their subsidiaries and provides certain specific information regarding material elements of the regulatory framework applicable to us. This regulatory framework is intended primarily to protect customers and depositors, the Deposit Insurance Fund (the DIF) of the FDIC and the banking system as a whole, rather than for the protection of security holders and creditors. We cannot necessarily predict changes in the applicable laws, regulations and regulatory agency policies, yet such changes may have a material effect on our business, financial condition or results of operations.

General

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

Our bank subsidiaries are also subject to extensive regulation, supervision and examination by applicable federal banking agencies. We operate one full-service, FDIC-insured national bank subsidiary, KeyBank, and one national bank subsidiary whose activities are limited to those of a fiduciary. Both of our national bank subsidiaries and their subsidiaries are subject to regulation, supervision and examination by the Office of the Comptroller of the Currency (the OCC). Because domestic deposits in KeyBank are insured (up to applicable limits) and certain debt obligations of KeyBank and KeyCorp are temporarily guaranteed by the FDIC, the FDIC also has certain regulatory and supervisory authority over KeyBank and KeyCorp under the Federal Deposit Insurance Act (the FDIA).

We also 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. For example, our brokerage and asset management subsidiaries are subject to supervision and regulation by the SEC, the Financial Industry Regulatory Authority and state securities regulators, and our insurance subsidiaries are subject to regulation by the insurance regulatory authorities of the states in which they operate. Our other nonbank subsidiaries are subject to laws and regulations of both the federal government and the various states in which they are authorized to do business.

Capital Actions, Dividend Restrictions and the Supervisory Capital Assessment Program

On November 14, 2008, KeyCorp sold $2.5 billion of Fixed-Rate Cumulative Perpetual Preferred Stock, Series B (the Series B Preferred Stock) and a warrant to purchase 35,244,361 common shares, par value $1.00 (the Warrant), to the U.S. Treasury in conjunction with its CPP. The terms of the transaction with the U.S. Treasury include limitations on our ability to pay dividends and repurchase Common Shares. For three years after the issuance or until the U.S. Treasury no longer holds any Series B Preferred Stock, we will not be able to increase our dividends above the level paid in the third quarter of 2008, nor will we be permitted to repurchase any of its Common Shares or preferred stock without the approval of the U.S. Treasury, subject to the availability of certain limited exceptions (e.g., for purchases in connection with benefit plans).

The Federal Reserve advised in its Supervisory Letter SR 09-4 (revised March 27, 2009) that recipients of CPP funds should communicate reasonably in advance with Federal Reserve staff concerning how any proposed dividends, capital redemptions and capital repurchases are consistent with the requirements of CPP, and related Federal Reserve supervisory policy. Furthermore, the Federal Reserve s Revised Temporary Addendum to SR 09-4 issued in November 2010 (the Revised Addendum), outlined its Supervisory Capital Assessment Program (SCAP) expectations, and clarified that SCAP bank holding companies (BHCs) planned capital actions, including plans to repay any outstanding U.S. government investment in common or preferred shares, requests to increase common stock dividends, reinstate or increase common stock repurchase programs, or make other capital distributions, would be evaluated as part of the supervisory assessment. As with all of the nineteen SCAP BHCs, should we seek to raise our Common Shares dividend following any repayment of the U.S. Treasury, we must consult with the Federal Reserve and demonstrate that such actions are consistent with existing supervisory guidance.

Federal banking law and regulations also limit the amount of dividends that may be paid to us by our bank subsidiaries without regulatory approval. Historically, dividends paid to us by KeyBank have been an important source of cash flow for KeyCorp to pay dividends on our equity securities and interest on its debt. The approval of the OCC is required for the payment of any dividend by a national bank if the total of all dividends declared by the board of directors of such bank in any calendar year would exceed the total of: (i) the bank s net income for the current year plus (ii) the retained net income (as defined and interpreted by regulation) for the preceding two years, less any required transfer to surplus or a fund for the retirement of any preferred stock. In addition, a national bank can pay dividends only to the extent of its undivided profits. Our national bank subsidiaries are subject to these restrictions. During 2010, KeyBank did not pay any dividends to us; nonbank subsidiaries paid us a total of $25 million in dividends. During 2010, KeyBank could not pay dividends to us without prior regulatory approval because KeyBank s net losses of $1.151 billion for 2009 and $1.161 billion for 2008 exceeded KeyBank s net income during 2010. We made capital infusions of $100 million and $1.2 billion for 2010 and 2009, respectively, into KeyBank in the form of cash. At December 31, 2010, we held $3.3 billion in short-term investments, which can be used to pay dividends, service debt, and finance corporate operations.

If, in the opinion of a federal banking agency, a depository institution under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the institution, could include the payment of dividends), the agency may require that such institution cease and desist from such practice. The OCC and the FDIC have indicated that paying dividends that would deplete a depository institution s capital base to an inadequate level would be an unsafe and unsound practice. Moreover, under the FDIA, an insured depository institution may not pay any dividend: (i) if payment would cause it to become less than adequately capitalized or (ii) while it is in default in the payment of an assessment due to the FDIC. For additional information on capital categories see the Regulatory Capital Standards and Related Matters Prompt Corrective Action section below. Also, the federal banking agencies have issued policy statements that provide that FDIC-insured depository institutions and their holding companies should generally pay dividends only out of their current operating earnings.

SCAP

The Federal Reserve s Revised Addendum related to the conduct of SCAP for 2011 requested that each SCAP BHC submit its Comprehensive Capital Plan by January 7, 2011. The Comprehensive Capital Plan requirements include, among other things:

- the incorporation of stress testing with a minimum planning horizon of 24 months;
- a review of planned capital actions and pro forma estimates;
- management s plans for addressing proposed revisions to the regulatory capital framework agreed to by the Basel Committee;
- a transition plan with pro forma estimates of regulatory capital ratios under the Basel III framework over the phase-in period; and
- detail supporting the actions and assumptions to be taken over the entire period necessary for the BHC to meet the fully phased-in 7% Tier 1 common equity target.

Pursuant to the Dodd-Frank Act, the Federal Reserve is required beginning in 2012 to perform an annual supervisory assessment of certain covered BHCs and non-banks, and these same financial companies will be required to conduct semi-annual stress tests. Currently, we conduct stress testing on a quarterly basis. The Dodd-Frank Act also requires the Federal Reserve to issue regulations concerning its supervisory assessment and stress testing by January 2012, which must: (1) prescribe that three scenarios be used in the stress test baseline, adverse, and severely adverse; (2) establish the methodologies for the conduct of the test; (3) establish the form and content of the report required to be submitted to the Federal Reserve and the financial institution s primary regulator; and (4) require companies to publish a summary of the required stress test. These regulations have yet to be issued.

Holding Company Structure

Bank Transactions with Affiliates. Federal banking law and the regulations promulgated thereunder impose qualitative standards and quantitative limitations upon certain transactions by a bank with its affiliates. Transactions covered by these provisions must be on arm s length terms, and cannot exceed certain amounts, determined with reference to the bank s regulatory capital. Moreover, if a loan or other extension of credit, it must be secured by collateral in an amount and quality expressly prescribed by statute. These provisions materially restrict the ability of KeyBank, as a bank, to fund its affiliates including KeyCorp, KeyBanc Capital Markets Inc., any of the Victory mutual funds, and KeyCorp s nonbanking subsidiaries engaged in making merchant banking investments.

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

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Regulatory Capital Standards and Related Matters

Risk-Based and Leverage Regulatory Capital. Federal law defines and prescribes minimum levels of regulatory capital for bank holding companies and their bank subsidiaries. Adequacy of regulatory capital is assessed periodically by the federal banking agencies in the examination and supervision process, and in the evaluation of applications in connection with specific transactions and activities, including acquisitions, expansion of existing activities and commencement of new activities.

Bank holding companies are subject to risk-based capital guidelines adopted by the Federal Reserve. These guidelines establish minimum ratios of qualifying capital to risk-weighted assets. Qualifying capital includes Tier 1 capital and Tier 2 capital. Risk-weighted assets are calculated by assigning varying risk-weights to broad categories of assets and off-balance sheet exposures, based primarily on counterparty credit risk. The required minimum Tier 1 risk-based capital ratio, calculated by dividing Tier 1 capital by risk-weighted assets, is currently 4.00%. The required minimum total risk-based capital ratio is currently 8.00%. It is calculated by dividing the sum of Tier 1 capital and Tier 2 capital (which cannot exceed the amount of Tier 1 capital), after certain deductions, by risk-weighted assets.

Tier 1 capital includes common equity, qualifying perpetual preferred equity (including the Series A Preferred Stock and the Series B Preferred Stock), and minority interests in the equity accounts of consolidated subsidiaries less certain intangible assets (including goodwill) and certain other assets. Tier 2 capital includes qualifying hybrid capital instruments, perpetual debt, mandatory convertible debt securities, perpetual preferred equity not includable in Tier 1 capital, limited amounts of term subordinated debt, and medium-term preferred equity, certain unrealized holding gains on certain equity securities, and the allowance for loan and lease losses, limited as a percentage of net risk-weighted assets.

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

On January 11, 2011, the federal banking agencies published a proposal to revise their market risk capital rules. The proposal would modify the scope of such rules to better capture positions for which the market risk capital rules are appropriate, reduce pro-cyclicality in market risk capital requirements, enhance the rules sensitivity to risks that are not adequately captured under the current regulatory measurement methodologies, and increase transparency through enhanced disclosures. The proposal does not include the methodologies adopted by the Basel Committee on Banking Supervision (the Basel Committee) for calculating the specific risk capital requirements for debt and securitization positions because those methodologies relay on credit ratings, which is impermissible under the Dodd-Frank Act. Consequently, the proposal retains the current specific risk treatment for these positions until the agencies develop alternative standards of creditworthiness as required by the Dodd-Frank Act. At December 31, 2010, we had regulatory capital in excess of all minimum risk-based requirements, including all required adjustments for market risk.

In addition to the risk-based standards, bank holding companies are subject to the Federal Reserve s leverage ratio guidelines. These guidelines establish minimum ratios of Tier 1 risk-based capital to total assets. The minimum leverage ratio, calculated by dividing Tier 1 capital by average total consolidated assets, is 3.00% for bank holding companies that either have the highest supervisory rating or have implemented the Federal Reserve s risk-based capital measure for market risk. All other bank holding companies must maintain a minimum leverage ratio of at least 4.00%. At December 31, 2010, Key had regulatory capital in excess of all minimum leverage capital requirements, and satisfied the SCAP requirements set forth in supervisory guidance.

Our national bank subsidiaries are also subject to risk-based and leverage capital requirements adopted by the OCC, which are substantially similar to those imposed by the Federal Reserve on bank holding companies. At December 31, 2010, each of our national bank subsidiaries had regulatory capital in excess of all minimum risk-based and leverage capital requirements.

In addition to establishing regulatory minimum ratios of capital to assets for all bank holding companies and their bank subsidiaries, the risk-based and leverage capital guidelines also identify various organization-specific factors and risks that are not taken into account in the computation of the capital ratios but that affect the overall supervisory evaluation of a banking organization s regulatory capital adequacy and can result in the imposition of higher minimum regulatory capital ratio requirements upon the particular organization. Neither the Federal Reserve nor the OCC has advised us or any of our national bank subsidiaries of any specific minimum risk-based or leverage capital ratios applicable to us or such national bank subsidiary.

Prompt Corrective Action. The federal banking agencies are required to take prompt corrective action in respect of depository institutions, that do not meet minimum capital requirements under federal law. Such prompt corrective action includes imposing progressively more restrictions on operations, management, and capital distributions as an institution s capital decreases. FDIC-insured depository institutions are grouped into one of five prompt corrective action capital categories well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized using the Tier 1 risk-based, total risk-based, and Tier 1 leverage capital ratios as the relevant capital measures. An institution is considered well

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capitalized if it has a total risk-based capital ratio of at least 10.00%, a Tier 1 risk-based capital ratio of at least 6.00% and a Tier 1 leverage capital ratio of at least 5.00% and is not subject to any written agreement, order or capital directive to meet and maintain a specific capital level for any capital measure. At December 31, 2010, KeyBank was well capitalized under the prompt corrective action standards. Federal law also requires that the bank regulatory agencies implement systems for prompt corrective action for institutions that fail to meet minimum capital requirements within the five capital categories, with progressively more restrictions on operations, management and capital distributions.

Bank holding companies are not grouped into any of the five capital categories applicable to insured depository institutions. If such categories applied to bank holding companies, we believe that KeyCorp would satisfy the well capitalized criteria at December 31, 2010. An institution s prompt corrective action capital category, however, may not constitute an accurate representation of the overall financial condition or prospects of the institution or parent bank holding company, and should be considered in conjunction with other available information regarding the financial condition and results of operations of the institution and its parent bank holding company.

Basel Accords

Overview

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

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

Basel III Capital Framework

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

The Basel III final capital framework, among other things:

introduces as a new capital measure, common equity Tier 1, and specifies that Tier 1 capital consists of common equity Tier 1 and additional Tier 1 capital instruments meeting specified requirements;

when fully phased in on January 1, 2019, will require banks to maintain: (a) a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which effectively results in a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 7%); (b) a Tier 1 capital to risk-weighted assets ratio of at least 6%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation); (c) a minimum ratio of total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and (d) a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (as the average for each quarter of the month-end ratios for the quarter);

provides for a countercyclical capital buffer , generally to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk, that would be a common equity Tier 1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented (potentially resulting in total buffers of between 2.5% and 5%); and the capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of common equity Tier 1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the short fall.

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

The Basel III final framework provides for a number of new deductions from and adjustments to common equity Tier 1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from common equity Tier 1 to the extent that any one such category exceeds 10% of common equity Tier 1 or all such categories in the aggregate exceed 15% of common equity Tier 1. Implementation of the deductions and other adjustments to common equity Tier 1 will begin on January 1, 2014 and will be phased-in over a five-year period (20% per year).

Basel III Liquidity Framework

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

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

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

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

On January 13, 2011, the Basel Committee issued its final minimum requirements to ensure loss absorbency at the point non-viability document. It requires that all non-common Tier 1 and Tier 2 instruments (e.g., non-cumulative perpetual preferred stock and subordinated debt) issued by an internationally active bank must have a provision that such instruments, at the option of the relevant regulator, are to either be written-off or converted into common equity upon the occurrence of certain trigger events. The final loss absorbency requirements specify that instruments issued on or after January 1, 2013, must meet the new criteria to be included in regulatory capital. Instruments issued prior to January 1, 2013, that do not meet the criteria, but that meet all of the entry criteria for additional Tier 1 or Tier 2 capital, will be considered as instruments that no longer qualify as additional Tier 1 or Tier 2 capital and will be phased out from January 1, 2013 in accordance with the Basel III framework. These provisions are similar to the concept set forth in the Dodd-Frank Act of phasing out of trust preferred securities, cumulative preferred securities and certain other securities as Tier 1 capital over a three-year period beginning January 1, 2013, as well as the application of similar capital standards to BHCs as are currently applied to depository institutions.

The U.S. bank regulatory agencies have not yet set forth a formal timeline for a notice of proposed rulemaking or final adoption of regulations responsive to Basel III. However, they have indicated informally that a notice of proposed rulemaking likely will be released in mid-2011, with final amendments to regulations becoming effective in mid-2012. Given our strong capital position, we expect to be able to satisfy the Basel III capital framework should U.S. capital regulations corresponding to it be finalized. While we also have a strong liquidity position, the Basel III liquidity framework could require us and other U.S. banks to initiate additional liquidity management initiatives, including adding additional liquid assets, issuing term debt, and modifying our product pricing for loans, commitments, and deposits. U.S. regulators have indicated that they may elect to make certain refinements to the Basel III liquidity framework. Accordingly, at this point it is premature to assess the impact of the Basel III liquidity framework.

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Federal Deposit Insurance Act

Deposit Insurance Coverage Limits.

Throughout 2010, the FDIC standard maximum depositor insurance coverage limit was $250,000. This limit, which was made permanent by the Dodd-Frank Act, applies per depositor, per insured depository institution, for each account ownership category. Also under the Dodd-Frank Act, as amended by H.R. 6398, the FDIC is required to provide temporary unlimited coverage for qualifying noninterest-bearing transaction accounts, including Interest on Lawyers Trust Accounts. This temporary unlimited coverage is effective from December 31, 2010, through December 31, 2012.

Deposit Insurance Assessments

Substantially all of KeyBank s domestic deposits are insured up to applicable limits by the FDIC. The FDIC assesses an insured depository institution an amount for deposit insurance premiums equal to its deposit insurance assessment base times a risk-based assessment rate. Under the risk-based assessment system in effect during 2010, annualized deposit insurance premium assessments ranged from $.07 to $.775 for each $100 of assessable domestic deposits based on the institution s risk category. This system will remain in effect for the first quarter of 2011. In 2009, the FDIC amended its assessment regulations to require insured depository institutions to prepay, on December 30, 2009, their estimated quarterly assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. KeyBank s assessment prepayment was $539 million. For 2010, our FDIC insurance assessment was $124 million. As of December 31, 2010, we had $388 million of prepaid FDIC insurance assessment recorded on our balance sheet.

The Dodd-Frank Act requires the FDIC to change the assessment base from domestic deposits to average consolidated total assets minus average tangible equity, and requires the DIF reserve ratio to increase to 1.35% by September 30, 2020, rather than 1.15% by December 31, 2016, as previously required. To implement these and other changes to the current deposit insurance assessment regime, the FDIC issued several proposed rules in 2010. On February 7, 2011, the FDIC adopted their final rule on assessments. Under the final rule, which is effective on April 1, 2011, KeyBank s annualized deposit insurance premium assessments would range from $.025 to $.45 for each $100 of its new assessment base, depending on its new scorecard performance incorporating KeyBank s regulatory rating, ability to withstand asset and funding related stress, and relative magnitude of potential losses to the FDIC in the event of KeyBank s failure. We estimate that our 2011 expense for deposit insurance assessments will be $60 to $90 million.

FICO Assessments

All FDIC-insured depository institutions have been required through assessments collected by the FDIC to service the annual interest on certain 30-year noncallable bonds issued by the Financing Corporation (FICO) to fund losses incurred in the 1980s by the former Federal Savings and Loan Insurance Corporation. For 2010, the annualized FICO assessment rate ranged from $.0104 to $.0106 for each $100 of assessable domestic deposits.

Temporary Liquidity Guarantee Program

In 2008, the FDIC implemented its Temporary Liquidity Guarantee Program (the TLGP). The TLGP has two components: a Debt Guarantee Program temporarily guaranteeing the unpaid principal and interest due under a limited amount of quali