core deposits averaged $41.7 billion, and represented 57% of the funds Key used to support earning assets, compared with $37.7 billion and 52% during 2002, and $37.5 billion and 50% during 2001. The composition of Key's deposits is shown in Figure 6, which spans pages 18 and 19.

The increase in the level of Key's core deposits during both 2003 and 2002 was due primarily to higher levels of NOW accounts, money market deposit accounts and noninterest-bearing deposits. These deposits grew because clients showed a preference for investments that provide high levels of liquidity in a low interest rate environment. Additionally, a more aggressive pricing structure implemented in mid-2002 supported the growth in money market deposits. Noninterest-bearing deposits also increased because we intensified our cross-selling efforts, introduced new products, such as free checking, and collected more escrow deposits associated with the servicing of commercial real estate loans. Time deposits decreased by 12% in 2003 and 9% in 2002 in part because, like our competitors, Key reduced the rates paid for them as the Federal Reserve reduced interest rates in general.

Purchased funds, comprising large certificates of deposit, deposits in the foreign branch and short-term borrowings, averaged $14.0 billion during 2003, compared with $15.5 billion during 2002 and $20.0 billion in 2001. Although the volume of large certificates of deposit has remained relatively unchanged from a year ago, deposits in the foreign branch and short-term borrowings both declined. This is attributable in part to reduced funding needs due to core deposit growth, loan sales, slow demand for loans and our decision to scale back or discontinue certain types of lending.

We continue to consider loan sales and securitizations as a funding alternative when market conditions are favorable. Key securitized and sold $998 million of education loans in 2003 and $750 million in 2002.

Key has a program under which deposit balances (above a defined threshold) in certain NOW accounts and noninterest-bearing checking accounts are transferred to money market accounts, thereby reducing the level of deposit reserves required to be maintained with the Federal Reserve. Based on certain limitations, funds are periodically transferred back to the checking accounts to cover checks presented for payment or withdrawals. As a result of this program, average deposit balances for 2003 include demand deposits of $7.3 billion that are classified as money market deposit accounts. In Figure 6, demand deposits continue to be reported as noninterest-bearing checking accounts.

At December 31, 2003, Key had $7.6 billion in time deposits of $100,000 or more. Figure 22 shows the maturity distribution of these deposits.

FIGURE 22. MATURITY DISTRIBUTION OF TIME DEPOSITS OF $100,000 OR MORE

December 31, 2003 *in millions*	**Domestic Offices**	**Foreign Office**	**Total**
Remaining maturity:			
Three months or less	$1,329	$2,754	$4,083
After three through twelve months	1,212	—	1,212
After twelve months	2,350	—	2,350
Total	$4,891	$2,754	$7,645

Capital

Shareholders' equity. Total shareholders' equity at December 31, 2003, was $7.0 billion, up $134 million from the balance at December 31, 2002. Growth in retained earnings and the issuance of common shares out of the treasury stock account in connection with employee stock purchase, dividend reinvestment and stock option programs contributed to the increase. Other factors contributing to the change in shareholders' equity during 2003 are shown in the Consolidated Statements of Changes in Shareholders' Equity presented on page 48.

Share repurchases. In September 2003, the Board of Directors authorized the repurchase of up to 25,000,000 common shares, including 6,264,400 shares authorized (but not repurchased) under an earlier repurchase program. These shares may be repurchased in the open market or through negotiated transactions. During 2003, Key repurchased a total of 11,500,000 of its common shares at an average price per share of $26.33. At December 31, 2003, a remaining balance of 21,000,000 shares may be repurchased under the September 2003 authorization.

At December 31, 2003, Key had 75,394,536 treasury shares. Management expects to reissue those shares from time-to-time to support the employee stock purchase, stock option and dividend reinvestment plans, and for other corporate purposes. During 2003, Key reissued 4,050,599 treasury shares for employee benefit and dividend reinvestment plans.

Capital adequacy. Capital adequacy is an important indicator of financial stability and performance. Overall, Key's capital position remains strong: the ratio of total shareholders' equity to total assets was 8.25% at December 31, 2003, and 8.02% at December 31, 2002. Key's ratio of tangible equity to tangible assets was 6.94% at December 31, 2003, and exceeded management's targeted range of 6.25% to 6.75%. Management believes that Key's strong capital position provides the flexibility to take advantage of investment opportunities and to repurchase shares when appropriate.

Banking industry regulators prescribe minimum capital ratios for bank holding companies and their banking subsidiaries. Note 14 ("Shareholders' Equity"), which begins on page 70, explains the implications of failing to meet specific capital requirements imposed by the banking regulators. Risk-based capital guidelines require a minimum level of capital as a percent of "risk-weighted assets," which is total assets plus certain off-balance sheet items, both adjusted for predefined credit risk factors. Currently, banks and bank holding companies must maintain, at a minimum, Tier 1 capital as a percent of risk-weighted assets of 4.00%, and total capital as a percent of risk-weighted assets of 8.00%. As of December 31, 2003, Key's Tier 1 capital ratio was 8.35%, and its total capital ratio was 12.57%.

Another indicator of capital adequacy, the leverage ratio, is defined as Tier 1 capital as a percentage of average quarterly tangible assets. Leverage ratio requirements vary with the condition of the financial institution. Bank holding companies that either have the highest supervisory rating or have implemented the Federal Reserve's risk-adjusted measure for market risk—as KeyCorp has—must maintain a minimum leverage ratio of 3.00%. All other bank holding companies must maintain a minimum ratio of 4.00%. As of December 31, 2003, Key had a leverage ratio of 8.55%.