

# **focused forward**

2012 KeyCorp Annual Review



KeyCorp, whose history traces back more than 160 years, is one of America's largest bank-based financial services companies. Our strategy is to grow by building enduring relationships through client-focused solutions and extraordinary service.

**Key Community Bank**  
Key Community Bank serves individuals and small to mid-sized businesses through our 14-state branch network across the country, in both eastern and western markets.

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

**2012 Annual Review and Forward-looking Statements**  
The audited consolidated financial statements for KeyCorp and subsidiaries and detailed analytical information are contained in the KeyCorp 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2013.

This Annual Review contains forward-looking statements. For more information regarding certain factors that could cause future results to differ, possibly materially, from historical performance or from those forward-looking statements, see "Forward-looking Statements" on page 1 of our 2012 Annual Report on Form 10-K.

Copies of both our 2012 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, and this 2012 Annual Review are available on our website at [key.com/IR](http://key.com/IR).



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## Focused execution – with rigor, discipline and urgency – is delivering results.

Strategy: Key grows by building enduring relationships through client-focused solutions and extraordinary service.

*Disciplined capital management.* In 2012, Key maintained its peer-leading capital position, ending the year with a Tier 1 common equity ratio of 11.4% and returning 50% of net income to shareholders through the repurchase of common stock and an increase in our dividend. We also used our capital to acquire market share in Western New York and to develop new revenue streams in credit card and other payment products.

### Focused Forward

As we've shown on the cover, the theme of this year's annual review is "Focused Forward," which describes where Key is today – building on our strong foundation and core values to create a top-tier organization that is best equipped to serve our clients, communities and shareholders.

We have realigned ourselves around our core competencies and are now on our journey forward, focusing on strategy execution, growth, efficiency, managing our capital and living our values through corporate responsibility.

**Focused on Execution.** Focused execution is an important part of our culture at Key and is fueled by the dedication, discipline and commitment of our 15,000 colleagues. This is exemplified by our approach to managing risk, capital and expenses. We are also client-focused, and we strive to consistently set the industry standard for client service. Our teams are building momentum by working together across business lines to identify, share and convert new client opportunities.

Our operating gains in 2012 are attributable to the differentiated strategy in our Community and Corporate Banks that truly distinguishes us in the marketplace. Our relationship-based model is what drives Key's value for our clients. And now, thanks to the remarkable talents of our employees, our relationship approach is who we are, hard-wired in our DNA, and integral to our operating culture. We believe in it; we count on it; we deliver it.

We designed our relationship model to further set Key apart from competitors. First and foremost, our employees are central to our distinctive approach. Each day they identify client needs and then work collaboratively across Key's

business lines to deliver to clients an array of financial products that are truly differentiated. This powerful combination of quality service and products produces the kind of readily discernible value that yields long-lasting, multi-service and high-margin relationships.

**50%**

Percentage of 2012 net income returned to shareholders.

**\$60 million**

Annualized cost savings in 2012 related to Key's efficiency initiative.

As part of our strategy execution, we are continually evaluating our businesses and finding ways to make them better. With a mindset of actively managing for growth, we have invested in, reinvented, exited and entered new businesses to strengthen our company going forward. For example, we have invested in payments, online and mobile capabilities and have redefined both our agreement for Key Merchant Services and our commercial real estate platform. We also announced the sale of Victory Capital Management while re-entering the credit card business and acquiring branches in Western New York to gain market share.

To measure our success, and to help spur the drive for continuous improvement, we rely on clients to tell us how we are doing. Key's customer satisfaction levels continue to exceed industry averages according to the American Customer Satisfaction Index. This is consistent with our internal satisfaction surveys indicating that clients are increasingly satisfied with our branch employees and with external recognition we have received for business







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## focused on growth

Being Focused Forward requires directing our time, talent and resources to strengthen our business, grow revenue and improve profitability through enhanced efficiency and effectiveness. This includes focusing on organic growth through acquiring and expanding client relationships as well as identifying specific opportunities to invest in capabilities that strengthen our product offering and franchise. Investing in our payment, channel and technology capabilities accelerates our momentum and enhances our growth trajectory.

### Organic growth

Key's differentiated business model enables us to execute on our strategic priority of organic growth by pairing relationship focus and local delivery with distinctive capabilities and expertise. The breadth of our offering, delivered seamlessly to the client through our collaborative approach, is a significant competitive advantage. Over the last few years, we have continued to invest in our business model, which is centered on targeted client segments, core competencies, and our commitment to leverage alignment across the entire organization for enhanced client impact.

As a result, we have accelerated our revenue growth and strengthened our risk profile. Loan balances and core deposits have grown consistently, demonstrating the impact we are having with our clients by focusing on opportunities where our relationship strategy and distinctive capabilities resonate.

A clear example of this can be seen in our Corporate Bank. Four years ago, we had \$29 billion of loans across various industries and geographies. Many of the clients were more transactional in nature and were not looking for a valued advisor.

*Left: Members of Key's Management Committee: Craig Buffie, Amy Brady, Paul Harris, Beth Mooney, Bill Hartmann, Clark Khayat, Trina Evans. See page 23 for a complete list of Key's Management Committee.*

**five**  
Consecutive quarters  
of average total  
loan growth.

**21%**  
Commercial and industrial  
average loan growth  
in 2012.

Since then, we have become more focused with six targeted industry verticals that align with our core competencies. The result has been a smaller, but much more efficient and profitable, Corporate Bank balance sheet.

### Payments

Our payment products provide another growth opportunity for Key in that they are strong relationship expanders and great sources of fee income. Our clients rely heavily on payment products in their daily operations, from remitting to processing and receiving. That creates importance and value around robust and reliable offerings. Aligned with our client focus, we are driving our payments business through numerous enhancements for both consumer and commercial clients, allowing them to fulfill their payments-related needs in





## **Our commitment to efficiency allows us to do more for our clients by delivering solutions that meet their needs, while aligning our cost structure with the current environment.**

Efficiency ratio target: 60% – 65%

**“Corporate responsibility is central to our values. It is who we are and who we will continue to be.”**

Bruce Murphy

Together, KeyBank Foundation and our employees made over 5,200 grants and contributions exceeding \$18 million for nonprofit agencies in 2012 supporting targeted strategies around economic self-sufficiency, workforce development, and diversity and inclusion. Our employees volunteered a total of 81,000 hours in the communities where we work and live, including more than 500 employee volunteers providing financial education classes to 5,400 clients and non-clients alike.

Our Neighbors Make The Difference® program, where our employees volunteered their time for 1,000 community service projects nationwide, and our Super Refund Saturday program, where employee volunteers prepared more than 1,600 tax returns, which generated approximately \$3.6 million in federal tax refunds to local communities, are two nationally recognized programs highlighting the hard work of our employees.

### **Diversity and inclusion**

Diversity and inclusion are strategic priorities for Key. We believe that a diverse and inclusive workforce and business environment enhance the client experience and shareholder value.

Since 2008 we have spent \$585 million with diverse suppliers, demonstrating the importance of economic inclusion for our company. In 2012 alone, the amount we spent with diverse suppliers was nearly twice the national average.

### **Sustainability**

Key's sustainability program is another way in which we continue to make a difference, with significant progress made over the past year. We have made a strong commitment to being a leader in green building practices and energy management. In 2012, Key achieved approximately \$1.6 million in energy cost savings, with consumption down 8% from the previous year.



**\$1.6 million**

Energy cost savings in 2012.

For the first time in Key's history, we responded to the Carbon Disclosure Project in May of 2012, and received a score of 89 out of 100 for Disclosure, and a Performance score of "B." In every category, Key scored higher than the average among the 52 financial companies that responded.

At Key, we are committed to helping our clients and communities thrive. Corporate responsibility is a proud part of who we are and who we will continue to be going forward. It is central to our character and the values of our company. We strive to positively impact the communities in which we live and work, and we take pride in creating a diverse, inclusive and sustainable workplace. By working together and championing economic vitality in our communities, we can all achieve significant results.

Above: Key's Tiedeman campus was awarded LEED Platinum certification by the U.S. Green Building Council – one of six Key facilities to earn LEED certification in 2012.











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