

# Key

2000 KEYCORP ANNUAL REPORT  
Key.com®

## Fulfilling Our Promise

**The Power of "PEG"**

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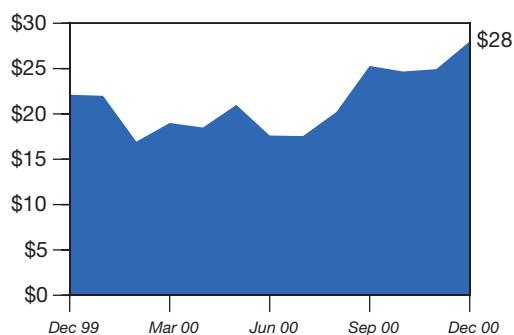


## Financial Highlights



For the second consecutive year, Key, an integrated multiline financial services company, produced more than \$1 billion in net income. Equally important, the company launched a comprehensive, corporate-wide competitiveness initiative that is positioning it well for future growth and profitability. In 2000, shareholders pushed up Key's stock price 27 percent.

### Tracking Key's Stock Price



Achieve  
anything.

*dollars in millions, except per share amounts*

	2000	1999	1998
<b>YEAR ENDED DECEMBER 31,</b>			
Total revenue	<b>\$ 4,924</b>	\$ 5,102	\$ 4,284
Net income	<b>1,002</b>	1,107	996

#### PER COMMON SHARE

Net income	<b>\$ 2.32</b>	\$ 2.47	\$ 2.25
Net income – assuming dilution	<b>2.30</b>	2.45	2.23
Cash dividends	<b>1.12</b>	1.04	.94
Book value at year end	<b>15.65</b>	14.41	13.63
Weighted average common shares (000)	<b>432,617</b>	448,168	441,895
Weighted average common shares and potential common shares (000)	<b>435,573</b>	452,363	447,437

#### AT DECEMBER 31,

Loans	<b>\$66,905</b>	\$64,222	\$62,012
Earning assets	<b>77,316</b>	73,733	70,240
Total assets	<b>87,270</b>	83,395	80,020
Deposits	<b>48,649</b>	43,233	42,583
Total shareholders' equity	<b>6,623</b>	6,389	6,167
Common shares outstanding (000)	<b>423,254</b>	443,427	452,452

#### PERFORMANCE RATIOS

Return on average total assets	<b>1.19%</b>	1.37%	1.32%
Return on average total equity	<b>15.39</b>	17.68	17.97
Efficiency	<b>59.75</b>	59.61	58.74

# COMMENTS FROM THE CHAIRMAN



By **ROBERT W. GILLESPIE**, *Chairman of the Board*

**O**n February 1, I retired as chief executive officer of KeyCorp as part of a planned transition of responsibilities from me to Henry Meyer. I plan to remain as Board chairman until our Annual Shareholders Meeting on May 17. At that time, the Board will name Henry as chairman, in addition to his current responsibilities.

I have spent 33 years with Key. I have enjoyed working with the Board to build our company from a regional, bricks-and-mortar bank, with assets of less than \$9 billion in 1987, when I first became CEO, into an international, technologically driven, multi-line financial services company with assets of \$87 billion. Further, during my tenure as CEO, Key produced an annualized total return to shareholders of 13.59 percent, a better return than the S&P's Regional Bank Index for the same period. I feel privileged to have played a part in this significant growth.

With Key's strategy clearly defined, a simplified organization structure in place and the potential for improved financial performance strengthened as a result of our comprehensive, corporate-wide competitiveness initiative, this was an opportune time to complete the management transition.

Our 2000 results, capped by a record earnings per share performance in the fourth quarter, bode well for Key's ability to achieve our longer-term financial goals. Investors have begun to recognize the significance of these results as Key's share price rose 27 percent in 2000, surpassing the results

of the S&P's Regional Bank Index by 13 percent.

## BRIGHT FUTURE

Looking ahead, I am excited about the future, knowing that we have an outstanding leader in Henry, who, at 51, is clearly capable of driving the company toward our goals of superior financial results and creating value for our shareholders for many years to come.

I have worked with Henry for nearly 30 years. He has been an important member of the management team that built Key and set its future direction. As chief operating officer for the past five years, he has demonstrated both a keen understanding of the industry and our company and has exercised astute business judgment. Most recently, he led the competitiveness initiative I noted earlier, which we believe will have a dramatic impact on the company's performance. All of this makes him the ideal choice to lead us into the next decade.

While my decision to retire was made much easier by having such a capable successor available, it was difficult, nevertheless. It means leaving my day-to-day involvement in an organization with which I have been associated for my entire business career. Through it, I have worked with the finest group of professionals imaginable. In good times and bad, I have marveled at the extraordinary dedication of my fellow employees, and I will miss them very much.

I retire knowing that Key is a strong competitor, dedicated to service and the delivery of high-quality products that are tailored to our clients' increasingly sophisticated needs. Our people are bright, hard-working, ethical and extraordinarily committed to what they do. Key's success is built on their efforts, which leverage our technological and marketing capabilities and sound financial resources.

I am extremely proud of what we have accomplished to date, and look forward with great enthusiasm to the continued progress Henry, our new vice chairman, Tom Stevens, and their team will make to build on that record of achievement.

I also would like to acknowledge and personally thank one of our long-term directors, Thomas A. Commes, The Sherwin-Williams Company's retired president and chief operating officer. Tom will retire from the Board after this year's shareholders meeting. Since 1987, he has provided us with valuable counsel, given freely of his time and contributed significantly to Key's development through his thoughtful insight. His involvement in Key will be missed.

Finally, I would like to take this opportunity to thank our shareholders and a very dedicated and talented Board of Directors for their support over the years. They have stood courageously by the company during its strategic transformation. I know they share my great optimism about Key's future under Henry's guidance and leadership.







2000 KEYCORP ANNUAL REPORT



#### KEYCORP BOARD OF DIRECTORS

ROBERT W. GILLESPIE: Chairman, KeyCorp  
 HENRY L. MEYER III: President and Chief Executive Officer, KeyCorp  
 CECIL D. ANDRUS: Chairman, Andrus Center for Public Policy  
 WILLIAM G. BARES: Chairman, President and Chief Executive Officer,  
 The Lubrizol Corporation  
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#### KEYCORP MANAGEMENT COMMITTEE

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 HENRY L. MEYER III: President and Chief Executive Officer  
 THOMAS C. STEVENS: Vice Chairman, Chief Administrative Officer and Secretary  
 PATRICK V. AULETTA: Executive Vice President, Commercial Banking  
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 KEVIN M. BLAKELY: Executive Vice President and Chief Risk Officer  
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 GEORGE E. EMMONS, JR.: Executive Vice President, Commercial Real Estate  
 LINDA A. GRANDSTAFF: Executive Vice President, Corporate Electronic Services  
 KAREN R. HAEFLING: Executive Vice President and Chief Marketing Officer  
 ROBERT B. HEISLER, JR.: Executive Vice President, 1Key  
 THOMAS E. HELFRICH: Executive Vice President and Chief Human Resources Officer  
 ROBERT G. JONES: President, Key Capital Partners  
 JACK L. KOPNISKY: Senior Executive Vice President, Key Consumer Banking  
 ROBERT G. RICKERT: Executive Vice President and Chief Technology Officer  
 K. BRENT SOMERS: Senior Executive Vice President and Chief Financial Officer

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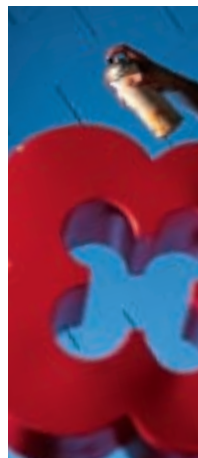
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Through thoughtful adaptation, Key's leaders believe they have created the right operating structure. Their primary goal? To devise an organization that makes it easy for clients to receive integrated financial services. An organization that produces sound financial results for shareholders. An organization that's simple and manageable. Their primary tool? Common sense.



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But is it all working? The strategy. The structure. The focus on taking action. Gauging financial success during a multi-year transformation can be tricky. Investors want managers to squeeze maximum performance out of the old business model, while ushering in the new. Key is measuring up.

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Throughout this report, Key discusses its future performance. While management strives to be as accurate as possible, its projections are not foolproof. Please refer to Key's forward-looking statement disclosure on page 32. It identifies factors that could cause actual results to differ materially from those discussed.



A handwritten signature in black ink that reads "Henry".

By **HENRY L. MEYER III**, *President and Chief Executive Officer*

**T**he first year of the new millennium was pivotal for Key. We made considerable progress in achieving our longer-term strategic objectives, while continuing to produce solid earnings. These results, along with a shift in investor attitudes towards value stocks such as Key, contributed significantly to improved shareholder returns, our highest and most immediate priority during 2000.

Key earned \$2.32 per diluted common share on core net income of \$1.01 billion, compared with \$2.33 per share on earnings of \$1.05 billion in 1999. If you were to exclude the financial effects of divested businesses and Champion Mortgage loan securitization gains, which would better reflect the underlying strength of our core operations, earnings per diluted common share grew nearly 10 percent, from \$2.10 in 1999 to \$2.30 in 2000. Key's core return on average equity was 15.49 percent and core return on average total assets was 1.20 percent.

Key Retail Banking, including our business banking unit, generated 2000 net income of \$387 million, nearly 16 percent above its prior-year results. This group provides branch-based deposit, investment and credit services to individuals and small businesses. The group enjoyed double-digit loan growth and solid growth in fee income, while continuing to reduce its expenses. In addition, deposit growth, which was a priority for us, totaled nearly 6 percent. I am pleased that this group is clearly sustaining the performance improvements it began in 1998.

Key Corporate and Specialty Finance earned \$465 million for the year, compared with \$514 million for 1999. Within the group, Key Corporate Capital, which offers financing, transaction processing and advisory services to corporations, earned \$398 million, up slightly from its performance in 1999. Its solid loan growth was substantially offset by an increased loan loss provision. Key Specialty Finance, which offers non-branch-based financing solutions to consumers, earned \$67 million, compared with \$123 million in 1999. This change also was driven by a higher loan loss provision and significantly lower securitization activity. Most of the latter was due to our decision to retain Champion home equity loans on our balance sheet to help replenish earnings associated with our divested credit card business and Long Island retail franchise.

Key Capital Partners, which provides asset management, brokerage, investment banking and capital markets expertise to individuals, businesses and institutions, earned \$179 million in 2000. This compares favorably with 1999 earnings of \$143 million. The group's performance was the result of strong growth in dealer trading and derivatives income, equity capital gains and higher demand for trust and investment advisory services.

Reflecting the year's favorable results and management's conviction of continued future success, the Board in January 2001 increased our cash dividend by more than 5 percent, for a compounded annual 10-year growth

rate of nearly 10 percent. This action marked the 36th consecutive year we have increased our dividend. In addition, the company repurchased more than 20 million shares of KeyCorp stock in 2000, demonstrating the flexibility made possible by our ability to generate capital.

## STRATEGIC INITIATIVES

During 2000, we acted on several fronts to advance toward our broader strategic goals. The most important of these include increasing the difference between our revenue and expense growth rates; further redeploying resources to our higher-growth, fee-based businesses; and maximizing the earnings potential of lower-growth operations.

In this regard, we continued to acquire businesses that expand our non-banking, fee-based activities. Our purchase of Kansas City-based National Realty Funding L.C. and Dallas-based Newport Mortgage Company, L.P. supplemented the already broad spectrum of products and services we offer to our commercial real estate clients. Our purchase of The Wallach Company, a regional investment banking firm located in Denver, complements and extends the offering of our McDonald Investments subsidiary.

We also began implementing the second phase of a comprehensive, corporate-wide competitiveness initiative, called PEG – or Perform, Excel, Grow. PEG is dramatically reducing our expense base and enhancing our ability to generate revenue. The initiative

identified more than \$260 million in annual savings, \$200 million of which will fall to the bottom line. The remaining \$60 million will fund projects that invest in our technology and operations infrastructure so as to develop further our higher-growth businesses and increase revenue generation. As of this report's publication, over half of the projects that will produce these benefits have been implemented.

In addition, the knowledge we gained from PEG led us to develop a set of internal operating guidelines. Using them, we are moving forward aggressively to cultivate an even more client-focused, relationship-based and service-centered environment through which clients can fully appreciate and take advantage of our diversified array of products and services.

Many of the activities I've mentioned are described in more detail throughout this report, which sports a new format. Our objective is to convey, through easy-to-read articles, a sense of the dramatic changes at Key and our excitement for the future.

## CREDIT QUALITY

As optimistic as we are, we recognize that the business climate of 2001 is far more challenging than last year's, particularly because of industry-wide credit quality issues triggered by a slowing U.S. economy.

Key, like virtually every financial services firm, is feeling the impact. In 2000, our ratio of net charge-offs to average loans increased, driven primarily by the economic slowdown. While the ratio is high by Key's standards, our performance is comparable to the industry's.

Further, we have tightened our underwriting standards. While credit quality

is the industry's "wild card" in 2001, we remain confident in our ability to manage effectively this critically important aspect of our business through this new phase of the business cycle.

## MANAGEMENT CHANGES

I would like to acknowledge and personally thank Bob Gillespie, whom I have worked for and with all of my career. During that time, I have been continually impressed by his innovation, leadership and personal energy.



Bob has been the driving force behind this company's transformation and growth, all the while demonstrating an extraordinary sensitivity to the needs of our customers and communities. In every sense, today's KeyCorp is a testament to his strategic vision.

It has been a pleasure, a privilege and a tremendous learning experience to have worked with him, and I am proud that he and the Board of Directors have demonstrated their confidence in my ability to continue to build our organization.

At the time of Bob's retirement, we also announced the election of Thomas C. Stevens, Key's general counsel and

secretary, as vice chairman and chief administrative officer. Tom's demonstrated skill in resolving complex issues and his comprehensive understanding of our staff operations made him the ideal candidate for his new position. Deputy General Counsel John H. Mancuso succeeds Tom as our general counsel. John has a profound knowledge of Key's legal issues and our organization, which has made for a seamless transition.

During the year, James E. Bennett, senior executive vice president, left Key to pursue an opportunity to run an electronic commerce business. We thank Jim for his strategic insight and business acumen, which have had a significant effect on our company.

## OUTLOOK

Looking ahead, Key expects to do business in a challenging economic environment. How rapid, steep or long the slowdown will be is unknown. Undoubtedly, it will affect everyone in our industry. However, we have a long history of successfully managing our credit quality through all phases of a

business cycle. We have a broad array of products and services available to meet our clients' varied needs. We enjoy diversified revenue streams and are not overly dependent on any one business. Our outstanding professionals, using our new internal operating guidelines, will be pulling together as never before to deliver value to clients and, by extension, to our shareholders.

I thank those shareholders who have stood by us faithfully as we repositioned Key for success in the twenty-first century. It is our objective and commitment to reward that allegiance with superior financial performance in the years to come.







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# Remodeled TO SERVE YOU BETTER

***Ever walk into a store that keeps its doors open while “remodeling to serve you better?” Seems confusing, a bit unsettling. Inevitably, construction work temporarily obscures the substantial benefits of the end result.***

**K**ey, now completing construction work undertaken during the mid-1990s, is no different. It's taken time, but that's because Key isn't simply changing its façade, it's altering the very way it does its business.

Meaning what? The basic concept is to create a new kind of industry player – one capable of responding to all of a client's financial needs in a distinctive way. It involves bringing together, at the right times, all the products and services required to meet the multiple, and often complex, financial needs of an individual, company or other institution. Key is among a relatively small group of established industry players attempting to unlock the value of the concept: higher-growth and diversified revenue streams that should lead to higher returns to shareholders.

*(Continued on page 8)*



# Rocky Mountain High


**F**or the members of Key Equipment Finance (KEF), one of the company's 12 business lines, the notion of scaling mountains to success is as real as the Rockies, which soar majestically above its Boulder, CO, headquarters. This high-growth, high-margin line, which boasts more than \$7 billion in assets and originates in excess of \$3 billion of leases annually, is one of the world's largest bank-affiliated leasing firms.

KEF comprises four units. Its Commercial (corporate) and Express (small ticket) Leasing units meet the needs of growing firms that wish to preserve their cash flow, rather than use it to purchase equipment. Think printing presses, machine tools and photocopiers.

KEF's Municipal and Federal unit does the same for the public sector, e.g., cities, school systems, hospitals and not-for-profit organizations. Think school buses and snow removal equipment.

Another portion of KEF's double-digit growth in both revenues and profits has come from its Global Vendor Services unit. In 1997, Key acquired Leasetec, which specialized in serving high-tech firms – think networking equipment and computer systems. Specifically, Leasetec, recently renamed Global Vendor Services, provided these clients with well-run vendor leasing programs – a rapidly expanding field. Through such programs, companies can attract clients of their own by making their products available without insisting on an associated commitment of capital. The unit's continued success brought the Key name to more than two dozen countries in the Americas, Europe, Asia and the Pacific Rim.

KEF's next frontier lies in offering its proven vendor leasing programs to firms outside of the high-tech sector. It's a far larger market segment, representing assets of about \$100 billion in the U.S. – and it's been growing at a compounded annual rate of 10 percent over the past few years.

"We feel we've conquered many summits involving leasing in the high-tech world," says Paul Larkins, KEF's president and chief executive officer. "Now, our experienced team intends to quickly scale a much larger peak." Bet they'll lease their climbing gear. 

## Remodeled

*(Continued from page 7)*

Of course, what some people call one-stop shopping isn't for everyone. "But people, in both their personal and professional capacities, often tell us that they're looking for a better way to purchase financial services," explains Henry Meyer, Key's newly appointed chief executive officer. "They find it tough and time-consuming to sort through an ever-expanding and sometimes confusing array of financial options. The marketplace needs a branded, approachable and trustworthy company to help people cut through the clutter, purchase

what they need and get on with their lives. This is the void Key intends to fill." In short, Key's strategy is to deliver to clients integrated financial services.

The void itself is a legacy of Depression-era legislation that separated the activities of banking, securities and insurance firms. While boundaries among such firms have blurred over the years, no company has achieved the complete integration made possible formally in March 2000 when the Gramm-Leach-Bliley law became effective. But far-sighted players, Key among them, have been restructuring, or transforming, in anticipation of this important legislative freedom.

Remodeling jobs of this sort are complicated affairs that take years. "Years during which the imperfect process of restructuring can obscure the underlying strength of your company," says Meyer. "But a lot of our shareholders recognize that the industry is changing forever. They know there's a void in the marketplace, and that the first few companies to fill it will have a competitive advantage and generate substantial shareholder wealth. It's a race to the finish. Moving too slowly or quickly can be deadly. We think we've pursued the right combination of marathon and sprint."

*(Continued on page 12)*



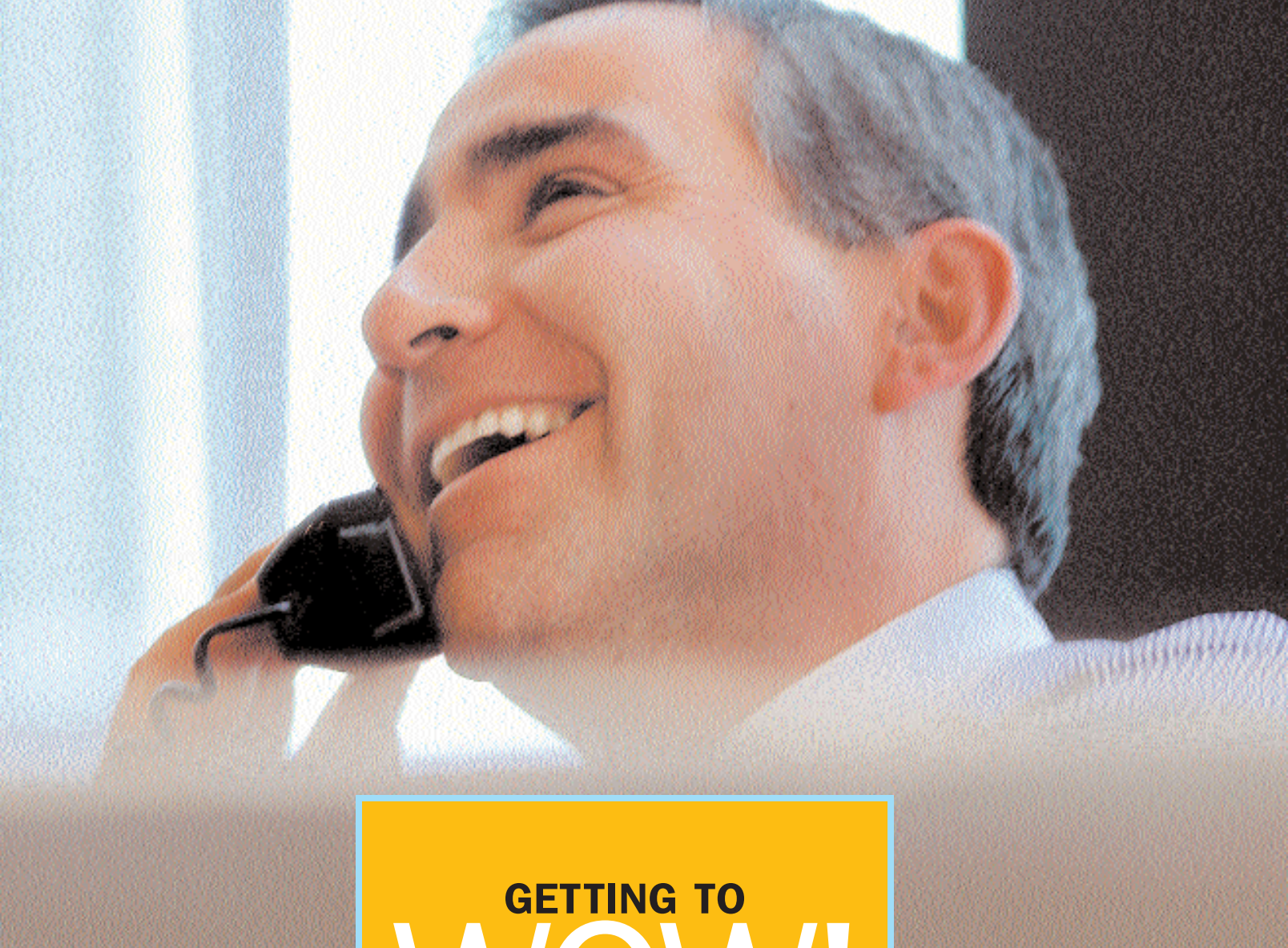
# IT'S NOT JUST ADVERTISING!



**K**aren Haefling is tireless. Good thing too, because, as Key's chief marketing officer, she wages a seemingly endless campaign. Her goal is to help people grasp the power of marketing – especially of branding. "It's not just advertising!" says Haefling.

*(Continued on page 11)*





## GETTING TO WOW!

“My goal is to get people to say ‘Wow!’ when they hear about Key Asset Management (KAM),” says the unit’s President and Chief Executive Officer Rick Buoncore. “If I can do that, I’ll be able to grow the business’

contribution to Key’s net income substantially from its 2000 level of 10 percent. The market currently places a high premium on asset management companies. We want to expand our asset management business to enhance the value of Key’s shares.”

Though “substantial growth” is a tall order, Buoncore is confident that he and his team are up to the challenge. First, earnings of large cap investment management companies are expected to grow at an annual clip of 17 percent over the next five years. Driving that growth are the rise of newly affluent and savvy individual investors, an aging population with a propensity to live longer and an increase in economic productivity, underwritten in large part by the ongoing revolution in technology.

A second promising development is an emerging preference for value, as opposed to growth, investing. A slowing economy and

a retreat from speculative “new economy” stocks have triggered the rediscovery of tried-and-true methods for making sound investments.

Tony Aveni, KAM partner and chief investment officer,


notes, “This new sentiment is showing up loud and clear in market performance data. Two Thousand is the first year since 1993 that value has outperformed growth in a meaningful way. The shift is important because we are a value shop. The market is about to hit our sweet spot.”

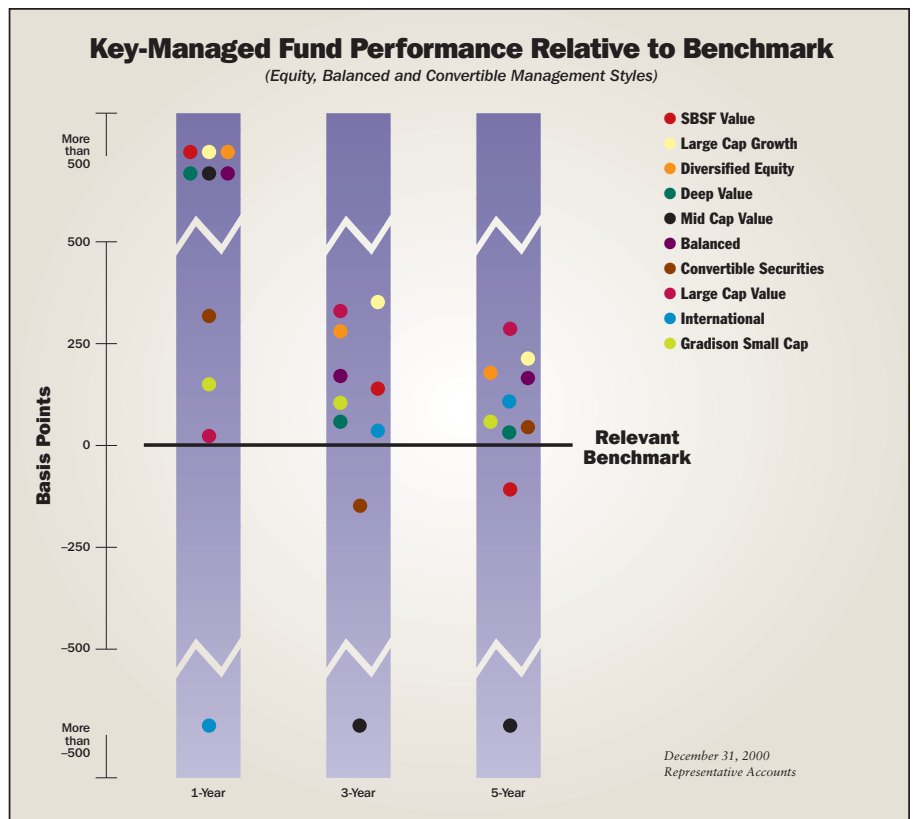
A third factor working in Buoncore’s favor is KAM’s product portfolio. Assets managed in KAM’s Large Cap Value style are a good example. He explains, “Two of the most important measures of performance quality are total return and alpha – the latter tells investors how much reward was generated by its manager given the risk assumed. Over the five years ending December 31, 2000, Large Cap Value produced an annualized total return of 20 percent, compared with the S&P 500 Index, which produced 18 percent, and the S&P Barra Value Index, which produced 17

percent. And our alpha was off the charts – meaning that we delivered outstanding risk-adjusted returns.”

Other KAM investment products sport a similar pedigree. Pointing to a dog-eared chart (pictured at right), Buoncore continues, “Eighty percent of our equity products have outperformed their respective industry benchmarks over the last five years – a fact all the more remarkable because it occurred while investors were passionate about growth stocks.”

Buoncore also believes that Key’s streamlined operating structure will help his business grow. Specifically, “The company’s simplified organization (see “Making Simplicity Pay Off,” page 14) makes it much easier for me to communicate KAM’s value,” he notes. “I can now have discussions with 11 business heads instead of 21.”

While KAM itself has sales professionals, it both leverages and benefits from those in other lines. Given their own lofty sales goals, they’ll want to be certain from the outset that they’re offering clients outstanding asset management products. Fortunately, Buoncore’s got just what they need. But first? Getting 11 people to say “Wow!” 



## Advertising

(Continued from page 9)

“It’s about staking a claim. Great companies use their brands to tell people what they stand for. They also use their brands to establish bonds with their clients that competitors cannot break.” Examples of meaningful brands abound. Maytag® – dependable. Timex® – indestructible. Volvo® – safe.

Moreover, companies that make good on their brand promises do more than just please their clients. They please their shareholders. Numerous studies bear this out. Cap Gemini Ernst & Young, a leading information technology and professional services consulting firm, says that effective branding can increase stock prices in the financial services industry by as much as 7 percent. In other words, brands are golden.

“Branding has become increasingly important in our industry,” Haefling notes. “When you have thousands of firms competing in an industry that has undergone – and continues to experience – tremendous

change, brands matter. A strong one can serve as a beacon for bewildered and time-pressed people. It can help them make sound decisions with minimum hassle.”

The challenge for most financial services firms, or for those in any industry that’s undergone substantial deregulation, for that matter, is that they have to learn how to market. They have to determine which needs they’ll meet and how best to communicate their value. Above all, they must stick with it. Strong brands take years and deep pockets to create, so getting it right the first time is important.

Key has come a long way since 1996, when it began brand-building in earnest.


“Key’s logo – the red key – is now widely recognized in states where we have a branch-based presence,” continues Haefling. “Our focus going forward is to infuse the symbol with meaning. Specifically, we want people to know that Key now is much more than a bank – it’s a full-fledged provider of *integrated* financial services. Further, we want people to know that when they select Key, they’ll find a

partner that will unlock the power of their resources, whatever their aspirations. How so? By coordinating the delivery of a broad range of top-notch financial products and services in a timely fashion.”

In January 2001, Key launched its new brand line, “Achieve anything.” Several months of testing with clients throughout the company’s markets revealed that it captured the essence of Key’s promise. (Examples of three print advertisements appear in this report.)

Says Haefling, “The brand line conveys unlimited possibilities – a ‘swing for the fence’ kind of attitude. It suggests flexibility, creativity and innovation.”

Clients who participated in focus groups had this to say: “‘Things out of reach can become reachable.’ ‘When we win, they win.’ ‘Determined to get you what you need.’ ‘Proactive – very progressive.’”

Haefling, understandably pleased, concludes, “In short, there’s nothing people can’t do when they put their minds to it. The good news is, Key can help them get there.” 



## Remodeled

(Continued from page 8)

Since 1994, when Key arose out of the combination of Cleveland-based Society Corporation and Albany, NY-based KeyCorp, the company's strategic transformation has been relentless.

An important thrust has been to emphasize businesses with higher growth potential, such as equipment finance and asset management (see "Rocky Mountain High," page 8, and "Getting to Wow!," page 10).

To build its presence more rapidly, Key has turned frequently to acquisitions.

For example, the company purchased McDonald & Company Investments, Inc. in late 1998. This union allows Key to offer its retail and institutional clients access to a broad array of capital markets and investment expertise.

At the same time, the company has been divesting less attractive operations. It sold its credit card business in 2000, for example, earning one of the highest premiums ever paid. In doing so, it eliminated its need to feed this scale-intensive business and reduced its exposure to credit risk. It also put itself in a position to be paid by external, best-in-class card suppliers for distributing their product to its clients.

Additionally, it has formed a large number of strategic alliances with respected vendors. Through them, Key has been able to extend the reach of its distribution channels – its arrangement with Costco, a national membership warehouse club, is a good example. It also has used them to enrich its product and service mix quickly and cost-effectively – witness the alliance with InsLogic, a leader in online insurance services.

The chart to the left highlights Key's makeover through its strategic acquisitions, divestitures and alliances.

Key also has been building corporate-wide capabilities to achieve a competitive lead. Specifically, it's been emphasizing the development of superior marketing, technology and sales expertise. "It's Not Just Advertising!," page 9, and "Have You Hugged Your Computer Today?," page 13, illustrate Key's commitment to two of these important disciplines.

Clearly, Key's strategy will benefit clients and shareholders.

Key's basic transformation is largely complete. "At this point, we can offer our clients just about any financial product or service they need, anytime they need it," emphasizes Meyer. "Our focus now is on executing our strategy flawlessly."



## REPRESENTATIVE MILESTONES IN KEY'S EVOLUTION

### ACQUIRING HIGH-GROWTH BUSINESSES

- 1995** – Spears, Benzak, Salomon & Farrell (asset management)
- 1996** – Carleton, McCreary, Holmes & Co. (investment banking)
- 1996** – Knight Insurance Agency (education financing programs)
- 1997** – Leasetec Corporation (equipment leasing)
- 1997** – Champion Mortgage (home equity financing)
- 1998** – McDonald & Company Investments (investment banking and brokerage)
- 2000** – Newport Mortgage Company (commercial real estate)
- 2000** – National Realty Funding (commercial real estate)
- 2001** – The Wallach Company (investment banking)

### DIVESTING LOW-GROWTH OR LOW-RETURN OPERATIONS OR SELECTED SCALE-DRIVEN BUSINESSES

- 1995** – Bond servicing
- 1995** – Residential mortgage loan servicing
- 1996** – Shareholder services
- 1997 and 1998** – 150 branches, including Wyoming franchise
- 1999** – Long Island retail banking franchise
- 2000** – Credit card

### FORMING STRATEGIC ALLIANCES

- 1998** – ARCO (deployment of ATMs at many of this leading gasoline retailer's sites)
- 1998** – Costco (sales of banking products to this national membership warehouse club's small business customers)
- 2000** – Ariba and Xerox Connect (use of the Internet to help middle market clients buy and sell more effectively)
- 2000** – ABN AMRO (provision of enhanced international trade services)
- 2000** – InsLogic Corporation (provision of online insurance products and services)



# HAVE YOU HUGGED YOUR COMPUTER TODAY?

"The Internet is a huge vacuum sucking all the friction out of the economy," Michael Dell, chief executive officer of Dell Computer, told a USA TODAY reporter earlier this year. "Companies that use this to their advantage will be the ones that survive and thrive."

Obviously, the improvement opportunities Dell sees go beyond the marginal variety; they're fundamental, like harnessing electricity. Coupled with abundant evidence that correlates a well-equipped labor force with a lot of high-quality output, it's no wonder that companies intent on creating value for their shareholders want workers who embrace technology.

Key has a history of applying technology to create value. It was the first – and remains the only – bank-based financial services company to offer clients real-time access to account information across all channels. Make a deposit at an ATM, then pick up the phone immediately to check the account's balance and it will reflect the deposit – even if you made the deposit in Portland, ME, and your spouse placed the call from Portland, OR.

The foresight that made this possible – creating a single national computing platform – is the same foresight that allowed Key to save its shareholders an estimated \$10 million when it prepared for Y2K. Compared with peers that had to process the same Y2K modifications to several platforms, Key's job was relatively easy. In addition, Key's simpler computing environment positions it well to administer clients' privacy preferences cost-effectively.

Key also offers its clients a terrific business-to-consumer, or B2C, Internet offering through Key.com.



Recognized repeatedly by external site-evaluation firms, Key.com reflects the company's commitment to be at the forefront of the technology revolution. In addition to attracting new clients to Key – 8 percent of online applicants are new – B2C users, as compared with their off-line counterparts, are four times more loyal to Key, maintain investment balances that are 1.5 times higher and loan balances that are three times higher.

The company also is actively applying its experience with B2C applications to the business-to-business – or B2B – arena. Companies are managing their cash flows through Key's comprehensive Internet-based Key Total

Treasury<sup>SM</sup>, controlling their purchase of products for their offices through KeyProcure, an electronic marketplace, and are automating fully their invoicing and receivables process through Key Total Invoice<sup>SM</sup>, which delivers electronic bill presentment and payment.

Beyond serving clients, the next frontier is Key's business-to-employee, or B2E, applications. Many ideas for promoting the further use of technology by employees are scheduled or under way. It should help that every Key employee will have access to a web-enabled computer by mid-2001.

Ideas focus on eliminating manual operations, such as processing expense reimbursements, and placing online much of the documentation that helps employees do everything from learn how to send e-mails to enroll in benefits programs.

In all, Key estimates that intranet-based B2E ideas will generate annual savings of \$16 million and substantially reduce paper use and manual processing. Makes you want to hug your computer, doesn't it?



22



12



# MAKING *Simplicity*

## LESS IS MORE: *Key Leverages Simplified Organizational Structure*


In addition, company leaders were actively working to alter Key's business mix. This added a bit of zest to their task as they worked thoughtfully through the structural implications of the company's many acquisitions and divestitures (see page 12 for a partial list).

Since 1994, they've come a long way toward creating the right structure. Their vision: To devise something simple and manageable. Something that makes it easy for employees to deliver integrated financial services to clients in a manner that also produces superior financial results for shareholders. Their primary tool? Common sense.

In a nutshell, Key is structured around lines of business. The lines develop business strategy, source top-notch products and services, and sell them to clients. Some lines produce their own products and services; the checking accounts offered by Consumer Banking are a good example. Some lines offer both proprietary and purchased products. For instance, Key Asset Management offers Key's proprietary mutual funds and those from several other leading fund companies. On the other hand, Key's insurance operation sources nearly all of its products externally.

**Key in Perspective: Our Lines of Business**, on the following pages, describes Key's 12 lines, down from 22, thanks to the company's competitiveness initiative (see "Fulfilling Our Promise," page 22). Collectively, the businesses are able to meet the full range of targeted clients' financial needs. Though many of the lines are product-oriented, all are managed with the needs of specific client segments in mind. It's a way of making sure that product sets remain fresh, relevant and profitable. And fewer lines of business make for a simpler management task. It also improves accountability for financial results.

The company's recent creation of a single Consumer Banking organization (see "Wonderfully Simple," page 17) illustrates how clients and shareholders will benefit from Key's simplified structure.

While each line of business is a strong performer in its own right, Key recognizes that the company's full power to serve can be unleashed when line talents are combined. Among its most promising efforts to marshal its collective resources and create value for clients and shareholders is its 1Key BusinessLink Rewards program (see "Pleased to Meet You," page 19). Common sense, indeed. 

Organizational structure. It's a two-edged sword that can either help or hinder employees as they work to implement a company's strategy. Perhaps that's why so many companies tinker with their organizational design. Getting it right can make a big difference in a company's performance. But getting it right is tough. Customer preferences evolve. Managers come and go. Laws and regulations change. Technologies emerge. Strategies shift. Sometimes all at once. And companies are expected to anticipate and adapt to it all at a moment's notice.

Combining companies makes it even tougher. So Key's leaders knew that they had their work cut out for them after the 1994 union of Society and Key. After all, Society was an organization that emphasized lines of business; Key focused on geographies.



# PAY OFF



**Wonderfully Simple** 17

**Pleased to Meet You** 19

**Key in Perspective:  
Our Lines of Business** 20



Combine your monthly  
payments and save!

Insurance advice  
from a name  
you trust

## Key Business Advantage<sup>®</sup>

A simple innovation.  
A real advantage.



A powerful package for small business.  
Great checking and more.

Take the right steps  
toward retirement

***Sometimes, life's best ideas are the simplest.***  
**Think: Ziploc® plastic bags, Post-it® Notes**  
**and keyless remote entry.**

# Wonderfully Simple

Key's corporate-wide competitiveness initiative, also known as PEG – or Perform, Excel, Grow – gave employees a chance to offer up some of their best ideas. Obvious to many was an opportunity to simplify Key by combining the company's Retail Banking and Specialty Finance businesses into a single unit called Consumer Banking. Their idea was to apply to Specialty Finance the winning strategy already at work in Retail.

Retail Banking is Key's largest business, producing 38 percent of the company's earnings in 2000. It currently serves nearly two million households with a wide range of deposit, credit and investment products. Branches, or KeyCenters, located in 13 states, are the most visible of its four major delivery channels – the others being the Internet, ATMs and the telephone. Retail also plays a crucial role in gathering deposits, the company's least expensive form of funding.

Because of its size and importance, Key decided in 1998 that Retail needed to overcome years of sluggish growth. Enter Jack Kopnisky (pictured at left), under whose leadership Retail's net income, excluding divestitures, grew at a compounded annual rate of 16 percent between 1998 and 2000. Deposits, again excluding divestitures, grew by 6 percent over the same period. Such performance is rare in the industry. His strategy?

- Develop enduring relationships with clients by bringing to them, at the right times, all the products and services needed to meet their financial needs. Lifecycle packages play an important role by supplying a suite of products appropriate for various life stages.
- Always deliver a positive service experience – the “Key Difference” – in a profitable manner. The Key Difference is all about bringing a positive, professional, service-oriented attitude to every relationship and striking the right balance between high-touch and high-tech delivery for each client.
- Adapt marketing approaches to the needs of local communities, or “micro-markets” – after all, neighborhoods with lots of young families have different needs than those with many retirees.
- Make performance expectations clear, measure results and hold people accountable.

The other piece of Consumer Banking, Specialty Finance, offers clients loan products through dealers, brokers and various Key channels. More than a quarter of the 1.7 million households it serves are located in areas not served by KeyCenters. In 2000, the business delivered 7 percent of Key's earnings.

Kopnisky, leader of the combined unit, now has two priorities. One, as noted, is to apply Retail's strategy to Key's consumer finance operations. Granted, clients living far from a KeyCenter won't likely use all of the company's products and services. But they, for instance, may enjoy hearing about attractively priced car insurance, sourced by Key, when they're looking for an auto loan. Or, when buying the boat of their dreams, they may be interested in hearing about a home equity line of credit.

Currently, the typical consumer finance customer uses a single product, while retail banking clients use an average of three. Just getting one in four consumer finance clients to buy an additional product could generate incremental earnings of more than \$35 million over five years.

Kopnisky's other priority is to simplify many behind-the-scenes activities. For instance, he's uniting several underwriting departments. He also is pooling the two businesses' marketing and technology resources and focusing them on where they can have the greatest impact. He expects that the union's benefits will begin to materialize in a year's time. Simply wonderful.



once upon a time  
she made up stories sitting on her parents' porch  
she was a princess who lived in a castle

now with an investment plan  
a bookshelf in every room  
a home equity loan  
and a porch of her own

she still believes in fairy tales

**Achieve inspiration.**



No matter the shape, size or scope of your dreams, Key can help you reach them. By combining our resources with yours, they'll not only work harder, but work smarter. Maybe you're ready to make some home improvements. Or you need financial planning to save for college or your retirement. Whatever your financial goal, Key can help you achieve anything. To find out more about what Key can do for you, call 1-800-KEY2YOU® or visit us at Key.com.

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**Achieve anything.**



Joanne Colley never thought she'd grow up to be a matchmaker. But as the director of Key's 1Key BusinessLink Rewards program, she and her crack team find themselves facilitating successful introductions all the time. Getting better acquainted are members of the company's extensive team of sales professionals. The sparks resulting from the introductions generated new revenues of \$42 million for Key during 2000, up from \$26 million in 1999, the program's inaugural year. Moreover, the program emphasizes fee-based products and services, which helps Key boost the percentage of noninterest income comprising its revenue mix, an important strategic goal.

The company launched 1Key BusinessLink Rewards as a pilot soon after its acquisition of McDonald & Company Investments in late 1998. The program essentially pays referral fees to people who identify opportunities beyond their normal scope of responsibility that result in new booked business.

The idea was to ensure that commercial, institutional and affluent clients were exposed to the full range of capabilities made possible by the union. And, while blessed with sales professionals who prided themselves on having deep product and industry expertise, Key wanted to ensure that they were conversant about products and services outside of their immediate professional experience – and were using that knowledge to cross-sell. Key's lines of business are glad to fund the fees, since they are credited with the associated revenues. In 1999, they shelled out \$2.3 million for 355 successful referrals; in 2000, \$3.7 million for 752.

Top performers are inducted into the program's Black Turtleneck Club. Typical are folks such as Susan Steiner and Ernie Vallorz (pictured at right). Steiner, a commercial banker, was approached by her long-term client, a rapidly growing consulting firm. Its founder needed advice on taking his firm to the next level – specifically, to achieve a top position in its market niche. Vallorz, an investment banker, got involved. He listened carefully to the founder's criteria for screening potential merger partners. Vallorz soon returned with a merger candidate list containing a perfect match, which led to a happy marriage. The revenues generated for Key shareholders totaled \$750,000. Later, Steiner also introduced her client to the professionals in Key Asset Management, resulting in a \$9 million investment management account.

And the role of Colley's team? In a nutshell, team members screen incoming referrals for eligible opportunities. Promising leads are then supplied to sales professionals with the appropriate expertise. They, in turn, follow up with the referral sources for more detail. After confirming that the right players are involved, clients or prospects are contacted. New booked business that meets certain size and profitability hurdles, as set by the lines of business, triggers a payout.

Having proved its value to shareholders, clients and employees alike, 1Key BusinessLink Rewards was rolled out corporate-wide in February 2001. Now, every Key employee is eligible to earn referral fees. As before, they can access the program conveniently through the company's intranet or by telephone. As before, they needn't be a product or industry expert to sense an opportunity and take action. And as before, they can, like Colley, add matchmaker to their list of professional qualifications.



# Pleased to Meet You



# KEY IN PERSPECTIVE:

## KEY CORPORATE FINANCE JAMES S. BINGAY

### COMMERCIAL BANKING

### COMMERCIAL REAL ESTATE

### EQUIPMENT FINANCE

### SPECIALIZED INDUSTRIES

### GLOBAL TREASURY MANAGEMENT

Key Corporate Finance offers a complete range of financing, transaction processing and financial advisory services to corporations nationwide. It ranks nationally among the top 10 banks in providing financial services to the media and telecommunications, commercial real estate and healthcare industries. Across Key's 13-state franchise, its commercial banking unit has a dominant market share with middle market and small business segment companies. It operates one of the world's largest bank-affiliated equipment leasing companies, with operations in the Americas, Europe, Asia and the Pacific Rim. Based on total transaction volume, the group is also one of the nation's leading providers of cash management services.

**Companies of all sizes** partner with Key to fuel their business success. For instance, small businesses needing funds look to Key for loans. Rapidly growing firms use its leasing products to finance their equipment needs. Companies wanting to establish a presence and transact business on the Internet benefit from Key's electronic commerce services. Privately held firms turn to Key for advice when considering a change in ownership. Both small and large firms make their cash work hard every day using Key's treasury management services.

- **Commercial Banking** provides financing, cash management and advisory services to four principal segments: Micro Business serves new and small companies, including home-based firms. Business Banking serves businesses with revenues between \$1 million-\$10 million. Middle Market serves companies with revenues between \$10 million-\$250 million. Large Corporate serves some of America's largest and best-known companies.
- **Commercial Real Estate** provides one-stop shopping for developers, mortgage brokers and owner-investors seeking construction and interim lending, permanent debt placements and servicing, and equity and investment banking services.
- **Equipment Finance** leases equipment to growing businesses across the country and internationally. Through its popular vendor leasing program, Key also helps its corporate clients establish leasing options for their customers.

- **Specialized Industries** professionals cater to the unique financial needs of firms operating in the media and telecommunications, healthcare and technology industries. They also provide financing and advisory services to private equity buyout groups and asset-specific structured financing on a cross-border basis. Additionally, loan syndications are arranged with other lenders to reduce Key's risk while providing one-stop financing as an Agent bank.
- **Global Treasury Management** helps clients efficiently manage their corporate funds by providing a wide array of cash management products. Complementing these more traditional products, Key has established a leadership position in the rapidly growing electronic commerce market through its KeyNext business-to-business product unit.

in millions

### Revenue

Net interest income (taxable equivalent) . . . . .	\$ 1,071
Noninterest income . . . . .	385
Total revenue (taxable equivalent) . . . . .	1,456

**Net Income . . . . . \$ 398**

### Average Balances

Loans . . . . .	\$31,564
Total assets . . . . .	33,112
Deposits . . . . .	3,047

*Note: Key Corporate Finance, formerly Key Corporate Capital, now also serves smaller businesses; formerly, they were served by Key Retail Banking. The 2000 financial results displayed here exclude Key's relationships with smaller businesses.*

## KEY'S PRODUCT LINE-UP

- Asset management
- Brokerage
- Cash management
- Checking, savings and CDs
- Credit cards
- Electronic commerce
- Employee benefits
- Equity investments
- Estate planning
- Financial planning
- Insurance and annuities
- International services
- Investment banking
- Leases
- Loans and lines of credit
- Mergers and acquisitions
- Mutual funds
- Online banking and investing
- Payment processing
- Retirement planning
- Safekeeping
- Trust services



# Our Lines of Business

## KEY CONSUMER BANKING

JACK L. KOPNISKY

## KEY CAPITAL PARTNERS

ROBERT T. CLUTTERBUCK

RETAIL  
BANKING

HOME  
EQUITY

CONSUMER  
FINANCE

ASSET  
MANAGEMENT

HIGH  
NET WORTH

EQUITY  
CAPITAL  
MARKETS

BANK  
CAPITAL  
MARKETS

**Key Consumer Banking** is a national organization that offers consumers a full array of deposit, investment, credit and personal finance services. Newly created, it combines the company's retail banking and consumer finance activities. Its focus is on building deep and enduring relationships with clients. Services are delivered through KeyCenters, third-party marketing alliances, call centers and electronic commerce platforms.

**Individuals** work with relationship managers who help them buy or remodel a home, lease a new car, finance their children's education, plan for retirement, insure property, keep valuables safe and efficiently manage routine financial activities, such as paying bills. **Auto, marine and recreation vehicle dealers** benefit from the group's inventory financing capabilities, while **colleges and universities** enjoy financing resources that can help them attract and assist students.

- **Retail Banking** operates 922 KeyCenters with a team of relationship managers, supported by more than 2,400 ATMs, a state-of-the-art telephone call center and a leading-edge Internet banking service, Key.com. Its comprehensive deposit, investment and credit products and personal finance services; distribution channels; and enhanced sales and relationship management systems are the foundation for continued marketplace and financial growth.
- **Home Equity** offers prime and less-than-prime mortgage and home equity loan products, refinancings and jumbo mortgages. For individuals who prefer not to refinance with a traditional bank or who cannot qualify for a standard bank loan, Champion Mortgage can refinance a first mortgage or supply a home equity loan. Key Funding works with dealers and home improvement contractors to provide indirect home equity and home improvement loans.
- **Consumer Finance** encompasses several business activities. Education Resources provides Federal and private loans and payment plan education guidance to families nationwide for private K-12, undergraduate and continuing education programs. Personal Finance offers consumers secured and unsecured loans, including credit card products through a relationship with The Associates. Recreation Lending serves consumers, brokers and more than 1,440 marine and RV dealers in 48 states with prime retail and inventory financing options. AutoFinance provides lending services to car dealers and their customers.

in millions

### Revenue

Net interest income (taxable equivalent) . . . . .	\$ 1,737
Noninterest income . . . . .	472
Total revenue (taxable equivalent) . . . . .	2,209

**Net Income** . . . . . \$ 454

### Average Balances

Loans . . . . .	\$25,844
Total assets . . . . .	28,515
Deposits . . . . .	35,117

*Note: Key Consumer Banking represents the combination of Key Retail Banking and Key Specialty Finance. Until recently, Key Retail Banking served the needs of smaller businesses; they are now served by Key Corporate Finance. The 2000 financial results displayed here reflect Key's relationships with smaller businesses.*

**Key Capital Partners** provides asset management, investment banking, capital markets, insurance and brokerage expertise to clients throughout the U.S. and internationally. It employs a range of distribution outlets, including those of Key's other lines of business. It strives to engineer custom solutions for clients, so that they can adapt to and benefit from today's fast-moving financial markets.

**Companies and institutions** look to this group's professionals for advice and execution when they wish to raise funds in the stock and bond markets, acquire companies, sell parts or all of their businesses, offer competitive pension plans to attract talented employees and manage interest-rate risk. **Affluent individuals and families** rely on the group's advisors to help them build and protect accumulated wealth and navigate often complex administrative issues.

- **Asset Management** professionals manage almost \$70 billion of assets for individuals, companies, not-for-profit organizations and governments, including retirement plans, trusts and foundations. They also manage and sell 31 proprietary mutual funds – the Victory family of funds – ranking Key among the largest of bank-based asset managers.
- **High Net Worth** comprises Key's private banking, private client and insurance activities. Its professionals offer banking, estate planning, financial planning, retirement planning, brokerage and insurance advice and services, and charitable giving counsel to high-net-worth clients.
- **Equity Capital Markets** provides investment banking advice and access to global equity and bond markets for major corporations, institutions and privately held companies through a growing network of offices in major U.S. cities and in London. Its professionals supply advice on mergers and acquisitions, initial public offerings, private placements of securities, syndications, and sales and research.
- **Bank Capital Markets** provides financial risk-management products in the form of derivatives, fixed income and foreign exchange to companies and institutions. It also offers a full range of financial products and advice to public entities, such as city and state governments and educational institutions.

in millions

**Total Trust and Brokerage Assets** . . . . . \$160,000

### Revenue

Net interest income (taxable equivalent) . . . . .	\$ 215
Noninterest income . . . . .	1,045
Total revenue (taxable equivalent) . . . . .	1,260

**Net Income** . . . . . \$ 179

### Average Balances

Loans . . . . .	\$ 5,316
Total assets . . . . .	9,507
Deposits . . . . .	3,453

*Note: Key Capital Partners' net income represents earnings prior to assigning income and expense to other business lines.*



# Fulfilling *our promise to*

**A** sound strategy is critical to a company's success. But possessing the will and discipline to bring it to life and sustain its momentum is just as important. In the end, in fact, it all comes down to execution. That's what will ultimately distinguish the winners from the losers.

Enter PEG – or Perform, Excel, Grow. PEG represented phase two of Key's competitiveness improvement initiative, announced in November 1999. The initiative was designed to permanently and significantly improve the company's long-term performance. During phase one, the company consolidated sites, outsourced activities and reduced management positions – typical restructuring activities. These actions have produced \$100 million in annual savings.

PEG, however, was anything but typical, with process designers insisting that it:

- Question how work gets done, particularly across units,
- involve Key's top executives,
- emphasize revenue growth as well as cost reduction,
- engage every employee in generating and refining improvement ideas,
- hold nothing sacred and
- track implementation to ensure accountability.

To Key's employees – including Bob Gillespie, Key's chairman and, at the time, chief executive officer – the difference was palpable, material and refreshing. Addressing senior managers at a PEG kick-off meeting, Gillespie noted: "As I look back over my many years with this company, two events stand out in my mind. One is Society Corporation's 1979 purchase of Harter Bank in Canton, OH. That transaction marked the beginning of our growth through the acquisition of both bank and non-bank firms.

*(Continued on page 24)*





# ***Perform, Excel, Grow.***

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***“Pegged” for Improvement*** **25**

***Now That’s Client-Focused!*** **26**

***Wait a Minute Mr. Postman*** **27**

## Fulfilling Our Promise

(Continued from page 22)

“The other event that stands out is PEG. All of our energies, until now, have focused on carefully piecing together product and delivery capabilities that would position us to provide integrated financial services to our clients. Those building blocks are now in place. Our business transformation is essentially complete. PEG simply asks us whether we want success badly enough? Do we want to pay the price, to do the things that great companies do to ensure their competitiveness?”

A resounding “yes” was the answer. On September 21, after six months of grueling work, Key announced the results of PEG: More than 2,000 viable ideas representing \$260 million in annual savings (see “‘Pegged’ for Improvement” on the following page). Approximately \$200 million of the savings will fall to the bottom line. Managers will reinvest the remaining \$60 million to enhance the company’s competitive position, fuel higher growth and improve customer service.

PEG also generated ideas representing millions of dollars in revenue growth – some represent pricing refinements, while others involve new or improved product and service features or innovative cross-selling practices.

As of this report’s publication, over half of the projects that will produce these benefits have been implemented.

Moreover, Key executives resolved at the initiative’s start that they would not let PEG distract from employees’ day-to-day efforts to focus on clients and continue driving sales. A review of Key’s many non-PEG accomplishments throughout the year indicate that they kept their promise (see “Now That’s Client-Focused!” page 26). In addition, the company conducted two successful sales blitzes in May and September. In each, sales professionals paired up in teams and called on clients and prospects, generating millions of dollars in sales.

As important, Key leaders sought to perpetuate PEG’s bias for promoting decisive action among employees. Fortunately, as they sifted through the nearly 8,000 ideas submitted by employees, project team members noted several recurring themes for change.

*“All of our energies, until now, have focused on carefully piecing together product and delivery capabilities that would position us to provide integrated financial services to our clients. Those building blocks are now in place.”*

Expressed as operating guidelines, the themes, taken together, represent a great playbook.

Two of the guidelines can be applied by every employee, whether or not they have direct contact with clients. One employee explained them this way:

*Put clients first.* “This is Key’s version of the Golden Rule. Simple. Obvious. Powerful. It asks us to consider matters from the client’s perspective. It asks us to be service-oriented. It asks us to build lasting relationships. Employees who provide super service often remark on how good it makes *them* feel.”

*Deepen client relationships.* “This is cross-selling, plain and simple – but doing so with the client’s needs at the forefront. Cross-selling is our Holy Grail. It asks us to act as if clients of any part of the company are clients of every part

of the company. If I’m a relationship manager opening a deposit account, I should assume automatically that my client has other needs that Key can address – and do something about it.”

The remaining guidelines are primarily the responsibility of company managers. A manager explained them this way:

*Pay for performance.* “Not for tenure. Not for activity. Not for effort. Not for allegiance. But for performance.”

*Embrace technology.* “Abacus, calculator. Candle, lamp. Horse, car. LP, CD. Town hall, chat room. Technology makes a difference. Always has. Always will. Put it to work for you. Don’t be left behind.”

*Keep it simple.* “How many times should a client provide Key with her Social Security number? Once. So don’t ask her for it repeatedly. Get it right. Keep it simple.”

*Focus on growth.* “Growth ensures continued existence. It makes for happy shareholders, clients, employees and communities. Don’t be afraid to redeploy resources, to change. Ask always if you’re contributing to the status quo. If you are, stop. Make something happen. Make something better. It’s an obligation and a privilege.”

*Consolidate staff functions.* “Key is one company, not 12 separate businesses. Delivering integrated financial services requires that all businesses draw on common strengths. Like a strong brand. Shared resources. Universal performance measures.”

“Wait a Minute Mr. Postman,” page 27, describes how one group of employees is applying several of these guidelines to generate additional value for shareholders.






# “Pegged” for IMPROVEMENT

Capturing PEG’s annual savings of \$260 million is critical to Key’s improvement. But unlike some firms that bet the ranch on a few grand slams, Key’s approach was to hit a lot of singles. And in fact, 80 percent of all PEG ideas are worth \$300,000 or less. Most represent plain common sense.

For example: People who sign up for Key’s online banking service receive a debit card that serves, in part, as a means of identity verification. Used to be that a service disclosure statement accompanied all cards mailed to clients. As the online industry matured, regulations governing disclosures changed and the company may now deliver such information electronically. That means mailing 19,000 fewer pieces of paper per month. Good for clients, good for shareholders – to the tune of \$172,000 each year.

Another example. Key’s Loan Services Group found itself handling more than 5,000 calls per month from commercial lending clients. Although it’s a back-office function designed to book and service loans and process payments, the group, by

tradition, had made itself available to help clients in need. Now, more than half – and climbing – of those calls are being redirected to the company’s Business Resource Center. Its professionals are trained not only to address clients’ loan-related questions, but also to cross-sell. Good for clients, and good for \$83,000 in annual savings – before cross-selling.

In addition, PEG inspired Key to examine its use of contract computer programmers. Like most companies, Key has occasionally used contractors for short-term access to specialized skills or to help its own busy staff meet the expanding demands of the information age. Often, though, short-term assignments become drawn out as contractors are asked to stay on and help with other projects – like preparing for Y2K. And in an era where strong technical skills are often in short supply, it can make good sense to keep such staff on board. But it’s also expensive. So Key has begun replacing many contractors with permanent staff. Savings to date? More than \$130,000. 

## ANNUAL REPORT PRODUCTION EXPENSE

dollars in thousands

Activity	1999 (Actual)	2000 (Budgeted)	% Change	Method
Design	\$144	\$109	(24)	<ul style="list-style-type: none"> <li>Competitively bid design firms</li> <li>Use stock art, Key advertisements and economical approaches to photography</li> </ul>
Writing	31	0	(100)	<ul style="list-style-type: none"> <li>Bring in-house</li> </ul>
Printing	335	255	(24)	<ul style="list-style-type: none"> <li>Competitively bid printing firms</li> <li>Use lighter-weight paper</li> <li>Reduce quantity printed</li> </ul>
Distribution	284	164	(42)	<ul style="list-style-type: none"> <li>Package with proxy</li> <li>Use lighter-weight paper</li> <li>Reduce quantity printed</li> </ul>
Other	40	45	13	
Total	\$834	\$573	(31)	

PEG challenged the annual report production team to generate the document more cost-effectively, which it did, shaving expenses by more than 30 percent. Naturally, those same folks wondered if they might not also make it better. More informative. More personal. And fully reflective of the promise inherent in the company’s transformation. Is it better? You be the judge. Let them know what you think. Simply go to [Key.com](http://Key.com) and click on “Contact Us.” Please reference “Key’s 2000 Annual Report” in your comments.

*Key has worked hard to keep its eye on the client, even as it successfully completed its internally focused competitiveness initiative. Contributing to the company's continued growth were a wide range of business activities, examples of which appear below. A quick trip to Key's Investor Relations website at [Key.com](http://Key.com) gives you access to the complete story.*

#### 1Q 2000

Key.com Earns Top-Five Position among Online Banks (*Smart Money*)

Victory National Municipal Bond Fund (Class A) Awarded Certificate for #1 Ranking (Lipper)

Key Introduces Comprehensive Electronic Commerce Program for Middle Market Clients

Key to Expand and Diversify Principal Investing Capabilities

#### 2Q 2000

Key to Enhance Capabilities of Cash Management Website

Key to Ally with ABN AMRO to Enhance International Trade Services

Key AutoFinance and CarDay Join Forces to Offer Auto Financing on the Web

#### 3Q 2000

Key Selects InsLogic Corporation to Provide Online Insurance Products

Key Partners with MasterCard to Offer Debit Card Processing, Nationwide ATM Network

Key Opens Phoenix Commercial Real Estate Office

Key to Introduce Wireless Retail Banking Services

Key Completes First Real Estate Project Compliant with Islamic Precepts

Key Small Business to Launch Online Solution Center

Key to Acquire Newport Mortgage Company  
McDonald Investments among Best for Investment Research by U.S. Fund Managers

Key Asset Management Launches Victory Nasdaq 100 Index® Fund

McDonald Investments Ranked among "Best on The Street" for Investment Research

Key Participates in First Securitization of Commercial Mortgage Loans

Key among Top 5 Financial Services Companies on the Internet (Speer & Associates)

#### 4Q 2000

Key Completes Second Securitization of Commercial Mortgage Loans

Key to Implement e-Marketing Initiative Using MarketSoft

Key to Introduce Aggregation and Notification Services

The Wallach Company Joins Key's McDonald Investments

Key to Offer Customized Retirement Planning in All KeyCenters

#### 1Q 2001

Key Introduces New Equity Product Called "Table Pounders"

Key and TD Waterhouse Create Alliance to Market Home Equity Products Online

Key Introduces "529 Savings" Plans

Key Launches "Achieve Anything" as New Brand Line

Key Asset Management to Manage \$800 Million for Two Prudential Mutual Funds

Victory National Municipal Bond Fund (Class A) Ranked #1 for Year 2000 (Lipper)

Key's McDonald Investments Completes Strong Year of Deal-Making

Key to Use DealForce for Merger and Acquisition Services



**Now  
That's  
Client-  
Focused!**



# Wait a Minute Mr. Postman




*The statement production group's latest acquisition is a machine that can process 24,000 statements per hour. Its predecessor managed just 2,500. In addition, over half of all statements are now printed on both sides – a practice called duplexing. By the end of 2001, all of them will be. That means \$2 million in annual savings for shareholders.*

In a world awash in paper, few people ever stop to think about what it takes to land any particular piece in their mailbox. Or what it costs. A few of those who do, work in Key's statement production area. Led by Allyn Pytel (pictured at left), a team of 200 produces everything from one-page brokerage confirmations to customized trust statements 2,000 pages long. Like other groups in Key's banking services division, Pytel's used the PEG process to explore lots of options for producing a better product at a lower cost.

The team works fast and accurately, while complying with a swarm of complicated disclosure regulations. But just as important, its members continually work smarter: their average cost to print and mail an item keeps falling. In 1999, the average was \$.3949 – even then, an industry leading performance. In 2000, it was \$.3824. In 2001, it's expected to be \$.3769.

While timely, informative statements remain important ways for companies to communicate with clients, just about everything else in the statement production profession is changing. Like regulations. It used to be that companies were required to deliver all information through hard copy. Now these regulations are being relaxed to permit electronic statements. And client preferences. It used to be that the prospect of not receiving a canceled check in physical form was unthinkable. Now, more than 60 percent of Key's consumer banking clients opt for check safe-keeping, which allows the company to store check images. And technology. The advent of imaging as a presentation and storage tool – and the Internet as a delivery channel – is making traditional mail-borne statements obsolete for many people.

Key's assault on statement production efficiency has taken three forms. First, the product itself. As an example, Pytel's team has worked with Key's lines of business to reduce paper stock variety by a factor of 10 in just one year. After all, a statement printed on cream-colored paper says everything that one printed on white paper says. A second advance has been on the people side – namely, on providing incentives for high-throughput and low error rates. Finally, recent upgrades in technology are expected to fuel even greater productivity gains.

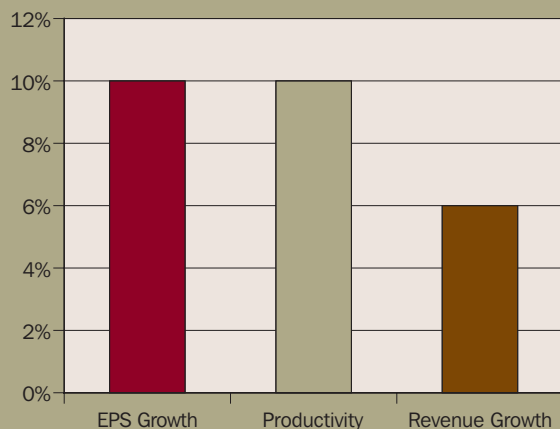
These efforts have saved shareholders more than \$3.7 million over the last two years alone – with \$1.1 million more scheduled for 2001. Such progress is possible only because excellence in statement production is personal – very personal – to team members. In fact, Pytel has taken to reading regularly Key's Securities and Exchange Commission filing Form 10-Q to examine his team's effect on the company's postage expense. His action reflects the group's bias for thinking of statement production as a business. So much so that the group intends to explore selling printing and mailing services to outside firms as capacity becomes available. Something to think about next time you head for your mailbox. 



# TRANSFORMATION Yardstick

## COMPOUNDED ANNUAL GROWTH RATE

1997-2000



### Notes:

Adjusted core EPS excludes significant nonrecurring items, earnings from divested businesses and Champion mortgage loan securitization gains

Productivity = Revenue/Full-time equivalent employees

Core revenues exclude significant nonrecurring items

A look at some performance measures shows that Key's transformation from a regional bricks-and-mortar bank into an international, technologically driven, multiline firm is working.

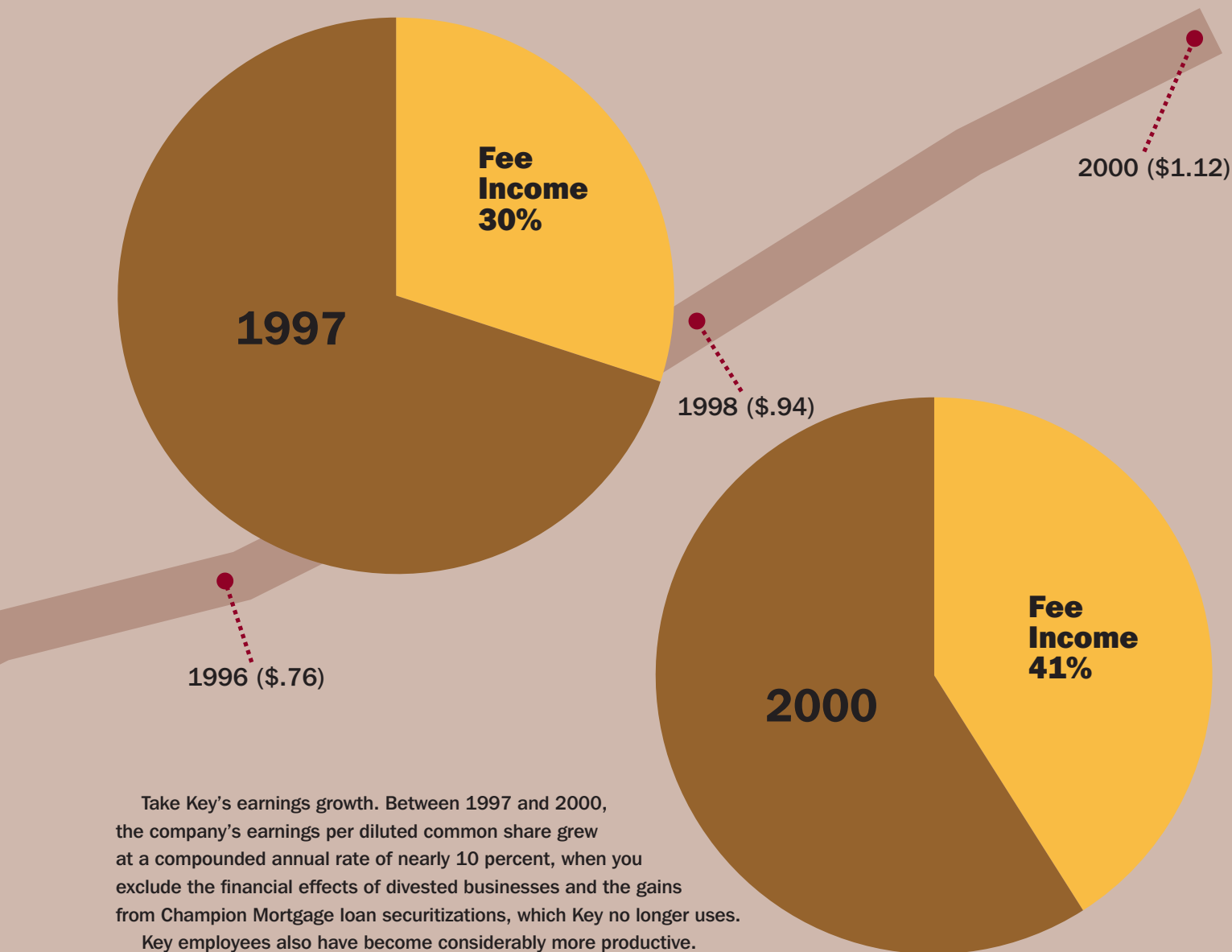
1990 (\$.44)

1992 (\$.49)

1994 (\$.64)

# Dividends Just Keep on Growing!

# Tracking Changes in Key's Revenue Mix



Take Key's earnings growth. Between 1997 and 2000, the company's earnings per diluted common share grew at a compounded annual rate of nearly 10 percent, when you exclude the financial effects of divested businesses and the gains from Champion Mortgage loan securitizations, which Key no longer uses.


Key employees also have become considerably more productive. In 1997, each Key employee supported approximately \$165,000 in revenues. In 2000, that figure had climbed to more than \$222,000, a compounded annual increase of more than 10 percent. The improvement was fueled both by revenue growth and a steady decline in headcount, the latter of which has dropped by 10 percent since the end of 1997.

Of course, Key realizes that it can't save its way to prosperity. It recognizes investors' appropriate focus on revenue growth. Between 1997 and 2000, Key grew core revenues at a compounded annual rate of nearly 6 percent – no small feat in a rapidly changing industry burdened with overcapacity.

Key also has altered its revenue mix significantly. In 1997, noninterest income comprised only 30 percent of core revenues. By the end of 2000, that figure stood at 41 percent. Management's objective is to continue diversifying Key's earnings stream for shareholders and reducing the company's reliance on income from slower-growth, margin-dependent products.

And to top it all off, Key has an enviable record of dividend growth. Thirty-six consecutive years of dividend increases – all the while adapting to meet clients' changing needs and the demands of a deregulating marketplace – place Key in an elite group.





One day, being together  
will be your full-time job.



Achieve  
anything.

At Key PrivateBank, we can help you build the retirement you want. We offer an objective, comprehensive, customized approach to financial planning, which draws upon the best of investment strategy, trust and estate planning, insurance, and more. Be prepared to enjoy the years when your work seems a lot like play. Call us.

**To learn more, contact your Key PrivateBank office, call 1-888-539-7200 or visit [Key.com/privatebank](http://Key.com/privatebank).**

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# KeyConnections

Key is committed to communicating swiftly, accurately and cost-effectively with the investment community and offers a variety of convenient channels to this end.

One of these channels – the Internet – exemplifies how technology is changing the way people live and enhancing value for Key shareholders. Those who choose electronic access help Key reduce printing and postage costs, thereby adding more value to their shares. They also receive information faster.

Key's Investor Relations website at [Key.com](http://Key.com) provides access to an expanding array of useful information and services. Most exciting during 2000 was the initiation of live webcasts, which allow universal access to management's quarterly earnings discussions. The site also provides the slides used during these webcasts and, for several days following the discussion, an audio recording of the proceedings.

In addition, shareholders can now check their accounts online. At [www.key.com/IR](http://www.key.com/IR), clicking on "Computershare" will link Key shareholders to the company's shareholder services provider, which offers share balance and the latest dividend information.

In 2002, shareholders will be able to conduct dividend reinvestment plan (DRIP) transactions, change their addresses and communicate with customer service representatives online. They also will have an opportunity to receive Key's Proxy Statement and Annual Report electronically over the Internet instead of receiving a paper copy. Key again this year encourages shareholders to vote their proxies over the Internet – or by phone – instead of using the paper proxy card.

## ONLINE

[www.key.com](http://www.key.com)

For product, corporate and financial information and news releases

## BY PHONE

Corporate Headquarters	(216) 689-6300
KeyCorp Investor Relations	(216) 689-4221
Annual Report, Form 10-K and other financial reports	(888) 539-3322
Transfer Agent/Registrar and Shareholder Services	(800) 539-7216

## BY MAIL

**Corporate Headquarters**  
KeyCorp  
127 Public Square  
Cleveland, OH 44114-1306

**KeyCorp Investor Relations**  
127 Public Square; OH-01-27-1113  
Cleveland, OH 44114-1306

**Transfer Agent/Registrar and Shareholder Services**  
Computershare Investor Services  
Attn: Shareholder Communications  
P.O. Box A3504  
Chicago, IL 60690-3504

## ANNUAL SHAREHOLDERS MEETING

May 17, 2001, 8:30 a.m.,  
Eastern Daylight Savings Time  
The Forum Conference Center  
1375 East Ninth Street  
Cleveland, OH 44114

## COMMON SHARES

KeyCorp Common Shares are listed on the New York Stock Exchange under the symbol KEY. Anticipated dividend payable dates are the 15th of March, June, September and December.

## QUARTERLY FINANCIAL RELEASES

KeyCorp expects to announce quarterly earnings on the third Tuesday of April, July and October 2001 and January 2002. Any investor desiring a copy of an earnings announcement can obtain one by calling the Financial Report Request Line at (888) 539-3322 or by visiting [www.key.com/IR](http://www.key.com/IR).

KeyCorp supports the National Association of Investors Corporation's (NAIC) "Own Your Share of America" campaign, which encourages individuals to invest in common stock. NAIC is a non-profit organization dedicated to providing individual investors with investment information and education. Please call toll free (877) ASK-NAIC for membership information.



1980  
Conway Brothers

1990  
Conway Companies

2001  
Conway & Webster Inc.



Mergers & Acquisitions

Corporate Finance

Divestitures & Restructuring



At Key, we offer the investment banking resources necessary for your company to achieve a competitive edge. Whether your needs involve mergers, acquisitions, divestitures, raising capital or financial advisory services, no one helps you achieve your long-term goals quite like we do. To provide the expertise and insight you demand, our investment banking teams even focus on specific industries with every transaction led by one of our senior investment bankers. To learn more, call 1-800-KEY-6070 or visit [Key.com](http://Key.com).

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