

KEYCORP /NEW/
Form 10-Q
November 04, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended

September 30, 2014

Commission File Number 1-11302

Exact name of registrant as specified in its charter:

Ohio

34-6542451

**State or other jurisdiction of
incorporation or organization**

I.R.S. Employer

Identification Number:

**127 Public Square, Cleveland, Ohio
Address of principal executive offices:**

**44114-1306
Zip Code:**

(216) 689-3000

Registrant's telephone number, including area code:

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Shares with a par value of \$1 each
Title of class

866,324,529 Shares
Outstanding at October 31, 2014

Table of Contents**KEYCORP**

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	Page Number
	<u>Consolidated Balance Sheets</u>	
	<u>September 30, 2014 (Unaudited), December 31, 2013, and</u>	
	<u>September 30, 2013 (Unaudited)</u>	1
	<u>Consolidated Statements of Income (Unaudited)</u>	
	<u>Three and nine months ended September 30, 2014, and</u>	
	<u>September 30, 2013</u>	2
	<u>Consolidated Statements of Comprehensive Income (Unaudited)</u>	
	<u>Three and nine months ended September 30, 2014, and</u>	
	<u>September 30, 2013</u>	3
	<u>Consolidated Statements of Changes in Equity (Unaudited)</u>	
	<u>Nine months ended September 30, 2014, and September 30, 2013</u>	4
	<u>Consolidated Statements of Cash Flows (Unaudited)</u>	
	<u>Nine months ended September 30, 2014, and September 30, 2013</u>	5
	<u>Notes to Consolidated Financial Statements (Unaudited)</u>	6
	<u>Note 1. Basis of Presentation</u>	6
	<u>Note 2. Earnings Per Common Share</u>	10
	<u>Note 3. Loans and Loans Held for Sale</u>	11
	<u>Note 4. Asset Quality</u>	13
	<u>Note 5. Fair Value Measurements</u>	28
	<u>Note 6. Securities</u>	45
	<u>Note 7. Derivatives and Hedging Activities</u>	49
	<u>Note 8. Mortgage Servicing Assets</u>	57
	<u>Note 9. Variable Interest Entities</u>	58
	<u>Note 10. Income Taxes</u>	60
	<u>Note 11. Acquisitions and Discontinued Operations</u>	61

Table of Contents

<u>Note 12. Securities Financing Activities</u>	70
<u>Note 13. Employee Benefits</u>	72
<u>Note 14. Trust Preferred Securities Issued by Unconsolidated Subsidiaries</u>	73
<u>Note 15. Contingent Liabilities and Guarantees</u>	74
<u>Note 16. Accumulated Other Comprehensive Income</u>	77
<u>Note 17. Shareholders' Equity</u>	80
<u>Note 18. Line of Business Results</u>	81
<u>Report of Independent Registered Public Accounting Firm</u>	85
Item 2. <u>Management's Discussion & Analysis of Financial Condition & Results of Operations</u>	86
<u>Introduction</u>	
<u>Terminology</u>	86
<u>Selected financial data</u>	87
<u>Forward-looking statements</u>	88
<u>Economic overview</u>	89
<u>Long-term financial goals</u>	90
<u>Strategic developments</u>	90
<u>Demographics</u>	91
<u>Supervision and regulation</u>	93
<u>Regulatory reform developments</u>	93
<u>Regulatory capital rules</u>	93
<u>Liquidity coverage ratio</u>	94
<u>Highlights of Our Performance</u>	95
<u>Financial performance</u>	95
<u>Results of Operations</u>	100
<u>Net interest income</u>	100
<u>Noninterest income</u>	103
<u>Trust and investment services income</u>	105
<u>Investment banking and debt placement fees</u>	105
<u>Service charges on deposit accounts</u>	105
<u>Operating lease income and other leasing gains</u>	105
<u>Cards and payments income</u>	105
<u>Consumer mortgage income</u>	106
<u>Mortgage servicing fees</u>	106
<u>Other income</u>	106
<u>Noninterest expense</u>	106
<u>Personnel</u>	107
<u>Operating lease expense</u>	107
<u>Other expense</u>	107

Table of Contents

<u>Income taxes</u>	107
<u>Line of Business Results</u>	108
<u>Key Community Bank summary of operations</u>	108
<u>Key Corporate Bank summary of operations</u>	109
<u>Other Segments</u>	110
<u>Financial Condition</u>	111
<u>Loans and loans held for sale</u>	111
<u>Commercial loan portfolio</u>	111
<i><u>Commercial, financial and agricultural</u></i>	111
<i><u>Commercial real estate loans</u></i>	112
<i><u>Commercial lease financing</u></i>	113
<u>Commercial loan modification and restructuring</u>	113
<i><u>Extensions</u></i>	114
<i><u>Guarantors</u></i>	115
<u>Consumer loan portfolio</u>	115
<u>Loans held for sale</u>	116
<u>Loan sales</u>	116
<u>Securities</u>	117
<u>Securities available-for-sale</u>	118
<u>Held-to-maturity securities</u>	119
<u>Other investments</u>	120
<u>Deposits and other sources of funds</u>	120
<u>Capital</u>	121
<u>CCAR and capital actions</u>	121
<u>Dividends</u>	121
<u>Common shares outstanding</u>	121
<u>Capital adequacy</u>	122
<u>Risk Management</u>	125
<u>Overview</u>	125
<u>Market risk management</u>	126
<u>Trading market risk</u>	126
<i><u>Management of trading risks</u></i>	126
<i><u>Covered positions</u></i>	126
<i><u>VaR and stressed VaR</u></i>	127
<i><u>Internal capital adequacy assessment</u></i>	128
<u>Nontrading market risk</u>	128
<i><u>Net interest income simulation analysis</u></i>	129
<i><u>Economic value of equity modeling</u></i>	130
<i><u>Management of interest rate exposure</u></i>	130
<u>Liquidity risk management</u>	131
<u>Governance structure</u>	131
<u>Factors affecting liquidity</u>	131
<u>Managing liquidity risk</u>	132
<u>Final U.S. liquidity coverage ratio</u>	132
<u>Long-term liquidity strategy</u>	133

Table of Contents

	<u>Sources of liquidity</u>	133
	<u>Liquidity programs</u>	133
	<u>Liquidity for KeyCorp</u>	133
	<u>Our liquidity position and recent activity</u>	133
	<u>Credit risk management</u>	134
	<u>Credit policy, approval, and evaluation</u>	134
	<u>Allowance for loan and lease losses</u>	135
	<u>Net loan charge-offs</u>	137
	<u>Nonperforming assets</u>	139
	<u>Operational and compliance risk management</u>	141
	<u>Cybersecurity</u>	142
	<u>Critical Accounting Policies and Estimates</u>	142
	<u>European Sovereign and Non-Sovereign Debt Exposures</u>	143
Item 3.	<u>Quantitative and Qualitative Disclosure about Market Risk</u>	144
Item 4.	<u>Controls and Procedures</u>	144
<u>PART II. OTHER INFORMATION</u>		
Item 1.	<u>Legal Proceedings</u>	144
Item 1A.	<u>Risk Factors</u>	144
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	145
Item 6.	<u>Exhibits</u>	145
	<u>Signature</u>	146
	Exhibits	

Throughout the Notes to Consolidated Financial Statements (Unaudited) and Management's Discussion & Analysis of Financial Condition & Results of Operations, we use certain acronyms and abbreviations as defined in Note 1 (Basis of Presentation) that begins on page 11.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Consolidated Balance Sheets**

<i>in millions, except per share data</i>	September 30, 2014 (Unaudited)	December 31, 2013	September 30, 2013 (Unaudited)
ASSETS			
Cash and due from banks	\$ 651	\$ 617	\$ 748
Short-term investments	2,342	5,590	3,535
Trading account assets	965	738	806
Securities available for sale	12,245	12,346	12,606
Held-to-maturity securities (fair value: \$4,911, \$4,617, and \$4,730)	4,997	4,756	4,835
Other investments	822	969	1,007
Loans, net of unearned income of \$685, \$805, and \$827	56,155	54,457	53,597
Less: Allowance for loan and lease losses	804	848	868
Net loans	55,351	53,609	52,729
Loans held for sale	784	611	699
Premises and equipment	832	885	890
Operating lease assets	304	305	293
Goodwill	1,051	979	979
Other intangible assets	126	127	137
Corporate-owned life insurance	3,456	3,408	3,384
Derivative assets	413	407	475
Accrued income and other assets (including \$1 of consolidated LIHTC guaranteed funds VIEs, see Note 9) ^(a)	3,024	3,015	2,747
Discontinued assets (including \$201 of loans in portfolio at fair value)	2,421	4,572	4,838
Total assets	\$ 89,784	\$ 92,934	\$ 90,708
LIABILITIES			
Deposits in domestic offices:			
NOW and money market deposit accounts	\$ 33,941	\$ 33,952	\$ 33,132
Savings deposits	2,390	2,472	2,489
Certificates of deposit (\$100,000 or more)	2,533	2,631	2,698
Other time deposits	3,338	3,648	3,833
Total interest-bearing deposits	42,202	42,703	42,152
Noninterest-bearing deposits	25,697	26,001	25,778
Deposits in foreign office interest-bearing	557	558	605

Total deposits	68,456	69,262	68,535
Federal funds purchased and securities sold under repurchase agreements	657	1,534	1,455
Bank notes and other short-term borrowings	996	343	466
Derivative liabilities	384	414	450
Accrued expense and other liabilities	1,613	1,557	1,375
Long-term debt	7,172	7,650	6,154
Discontinued liabilities	3	1,854	2,037
Total liabilities	79,281	82,614	80,472
EQUITY			
Preferred stock, \$1 par value, authorized 25,000,000 shares:			
7.75% Noncumulative Perpetual Convertible Preferred Stock, Series A, \$100 liquidation preference; authorized 7,475,000 shares; issued 2,904,839, 2,904,839, and 2,904,839 shares			
	291	291	291
Common shares, \$1 par value; authorized 1,400,000,000 shares; issued 1,016,969,905, 1,016,969,905, and 1,016,969,905 shares			
	1,017	1,017	1,017
Capital surplus	3,984	4,022	4,029
Retained earnings	8,082	7,606	7,431
Treasury stock, at cost (148,492,881, 126,245,538, and 119,148,654 shares)	(2,563)	(2,281)	(2,193)
Accumulated other comprehensive income (loss)	(325)	(352)	(369)
Key shareholders' equity	10,486	10,303	10,206
Noncontrolling interests	17	17	30
Total equity	10,503	10,320	10,236
Total liabilities and equity	\$ 89,784	\$ 92,934	\$ 90,708

(a) The assets of the VIEs can only be used by the particular VIE, and there is no recourse to Key with respect to the liabilities of the consolidated LIHTC VIEs.

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents**Consolidated Statements of Income (Unaudited)**

<i>dollars in millions, except per share amounts</i>	Three months ended September 30, 2014		Three months ended September 30, 2013	
	2014	2013	2014	2013
INTEREST INCOME				
Loans	\$ 531	\$ 532	\$ 1,576	\$ 1,619
Loans held for sale	4	5	13	14
Securities available for sale	67	76	210	236
Held-to-maturity securities	25	22	70	60
Trading account assets	6	5	19	15
Short-term investments	2	1	4	4
Other investments	4	6	16	23
Total interest income	639	647	1,908	1,971
INTEREST EXPENSE				
Deposits	28	37	91	124
Federal funds purchased and securities sold under repurchase agreements	1	1	2	2
Bank notes and other short-term borrowings	2	2	6	5
Long-term debt	33	29	98	98
Total interest expense	64	69	197	229
NET INTEREST INCOME	575	578	1,711	1,742
Provision (credit) for loan and lease losses	21	28	37	111
Net interest income (expense) after provision for loan and lease losses	554	550	1,674	1,631
NONINTEREST INCOME				
Trust and investment services income	99	100	291	295
Investment banking and debt placement fees	88	86	271	249
Service charges on deposit accounts	68	73	197	213
Operating lease income and other leasing gains	17	44	81	91
Corporate services income	42	44	125	132
Cards and payments income	42	43	123	122
Corporate-owned life insurance income	26	26	80	87
Consumer mortgage income	3	3	7	16
Mortgage servicing fees	9	15	35	36
Net gains (losses) from principal investing	9	17	60	32
Other income ^(a)	14	8	37	40
Total noninterest income	417	459	1,307	1,313
NONINTEREST EXPENSE				
Personnel	405	414	1,182	1,211

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Net occupancy	66	66	198	202
Computer processing	39	38	118	116
Business services and professional fees	36	37	118	109
Equipment	25	25	73	78
Operating lease expense	11	14	31	37
Marketing	15	16	33	33
FDIC assessment	9	7	21	23
Intangible asset amortization	10	12	29	34
Provision (credit) for losses on lending-related commitments	(2)	3	(2)	11
OREO expense, net	1	1	3	5
Other expense	89	83	251	249
Total noninterest expense	704	716	2,055	2,108
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	267	293	926	836
Income taxes	64	59	232	201
INCOME (LOSS) FROM CONTINUING OPERATIONS	203	234	694	635
Income (loss) from discontinued operations, net of taxes of (\$10), \$21, (\$24), and \$29 (see Note 11) ^(b)	(17)	37	(41)	45
NET INCOME (LOSS) ^(b)	186	271	653	680
Less: Net income (loss) attributable to noncontrolling interests		(1)	6	
NET INCOME (LOSS) ATTRIBUTABLE TO KEY ^(b)	\$ 186	\$ 272	\$ 647	\$ 680
Income (loss) from continuing operations attributable to Key common shareholders	\$ 197	\$ 229	\$ 671	\$ 618
Net income (loss) attributable to Key common shareholders ^(b)	180	266	630	663
Per common share:				
Income (loss) from continuing operations attributable to Key common shareholders	\$.23	\$.25	\$.77	\$.68
Income (loss) from discontinued operations, net of taxes ^(b)	(.02)	.04	(.05)	.05
Net income (loss) attributable to Key common shareholders ^{(b), (c)}	.21	.29	.72	.73
Per common share assuming dilution:				
Income (loss) from continuing operations attributable to Key common shareholders	\$.23	\$.25	\$.76	\$.67
Income (loss) from discontinued operations, net of taxes ^(b)	(.02)	.04	(.05)	.05
Net income (loss) attributable to Key common shareholders ^{(b), (c)}	.21	.29	.71	.72

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Cash dividends declared per common share	\$.065	\$.055	\$.185	\$.16
Weighted-average common shares outstanding (000)	867,350	901,904	875,728	911,918
Effect of convertible preferred stock				
Effect of common share options and other stock awards	6,772	6,349	6,723	5,661
Weighted-average common shares and potential common shares outstanding (000) ^(d)	874,122	908,253	882,451	917,579

- (a) For each of the three months ended September 30, 2014, and September 30, 2013, net securities gains (losses) totaled less than \$1 million. For the three months ended September 30, 2014, and September 30, 2013, we did not have any impairment losses related to securities.
- (b) For the three and nine months ended September 30, 2014, income (loss) from discontinued operations, net of taxes; consolidated net income (loss); earnings per common share from discontinued operations, net of taxes; and consolidated earnings per common share have been revised from our financial results reported on Form 8-K on October 15, 2014. For further information regarding these changes, see KeyCorp's Form 8-K filed on November 4, 2014.
- (c) EPS may not foot due to rounding.
- (d) Assumes conversion of common share options and other stock awards and/or convertible preferred stock, as applicable.

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents**Consolidated Statements of Comprehensive Income (Unaudited)**

<i>in millions</i>	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income (loss) ^(a)	\$ 186	\$ 271	\$ 653	\$ 680
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) on securities available for sale, net of income taxes of (\$20), (\$48), \$14, and (\$135)	(33)	(81)	24	(228)
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of (\$6), \$6, (\$3), and (\$17)	(8)	10	(4)	(29)
Foreign currency translation adjustments, net of income taxes of (\$3), \$1, (\$3), and (\$3)	(9)	2	(12)	(12)
Net pension and postretirement benefit costs, net of income taxes of \$10, \$12, \$13, and \$16	14	18	19	24
Total other comprehensive income (loss), net of tax	(36)	(51)	27	(245)
Comprehensive income (loss)	150	220	680	435
Less: Comprehensive income attributable to noncontrolling interests		(1)	6	
Comprehensive income (loss) attributable to Key	\$ 150	\$ 221	\$ 674	\$ 435

(a) For the three and nine months ended September 30, 2014, income (loss) from discontinued operations, net of taxes; consolidated net income (loss); earnings per common share from discontinued operations, net of taxes; and consolidated earnings per common share have been revised from our financial results reported on Form 8-K on October 15, 2014. For further information regarding these changes, see KeyCorp's Form 8-K filed on November 4, 2014.

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents

Consolidated Statements of Changes in Equity (Unaudited)

<i>dollars in millions, except per share amounts</i>	Key Shareholders Equity						Accumulated		
	Preferred Shares Outstanding (000)	Common Shares Outstanding (000)	Preferred Stock	Common Shares	Capital Surplus	Retained Earnings	Treasury Stock at Cost	Other Comprehensive Income (Loss)	Noncontrolling Interests
BALANCE AT DECEMBER 31, 2012	2,905	925,769	\$ 291	\$ 1,017	\$ 4,126	\$ 6,913	\$ (1,952)	\$ (124)	\$ 38
Net income (loss)						680			
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of (\$135)								(228)	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of (\$17)								(29)	
Foreign currency translation adjustments, net of income taxes of (\$3)								(12)	
Net pension and postretirement benefit costs, net of income taxes of \$16								24	
Deferred compensation					3				
Cash dividends declared on common shares (\$.16 per share)						(145)			
Cash dividends declared on Noncumulative Series A Preferred Stock (\$5.8125 per share)						(17)			
Common shares repurchased		(33,940)					(375)		
Common shares reissued (returned) for stock options and other employee benefit plans		5,992			(100)		134		
Net contribution from (distribution to) noncontrolling interests									(8)
BALANCE AT SEPTEMBER 30, 2013	2,905	897,821	\$ 291	\$ 1,017	\$ 4,029	\$ 7,431	\$ (2,193)	\$ (369)	\$ 30
BALANCE AT DECEMBER 31, 2013	2,905	890,724	\$ 291	\$ 1,017	\$ 4,022	\$ 7,606	\$ (2,281)	\$ (352)	\$ 17

Net income (loss) ^(a)	647	6
Other comprehensive income (loss):		