

KEYCORP /NEW/
Form 10-Q
May 03, 2018
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 March 31, 2018

Commission File Number 001-11302

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 44114-1306
Address of principal executive offices: 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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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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	1,061,663,471 shares
Title of class	Outstanding at April 30, 2018

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KEYCORP

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PART I. FINANCIAL INFORMATION

Item 2. Management's Discussion & Analysis of Financial Condition & Results of Operations

Introduction

This section reviews the financial condition and results of operations of KeyCorp and its subsidiaries for the quarterly periods ended March 31, 2018, and March 31, 2017. Some tables may include additional periods to comply with disclosure requirements or to illustrate trends in greater depth. When you read this discussion, you should also refer to the consolidated financial statements and related notes in this report. The page locations of specific sections and notes that we refer to are presented in the Table of Contents.

References to our "2017 Form 10-K" refer to our Form 10-K for the year ended December 31, 2017, which has been filed with the SEC and is available on its website (www.sec.gov) and on our website (www.key.com/ir).

Terminology

Throughout this discussion, references to "Key," "we," "our," "us," and similar terms refer to the consolidated entity consisting of KeyCorp and its subsidiaries. "KeyCorp" refers solely to the parent holding company, and "KeyBank" refers to KeyCorp's subsidiary bank, KeyBank National Association.

We want to explain some industry-specific terms at the outset so you can better understand the discussion that follows.

We use the phrase continuing operations in this document to mean all of our businesses other than the education lending business and Austin. The education lending business and Austin have been accounted for as discontinued operations since 2009.

Our exit loan portfolios are separate from our discontinued operations. These portfolios, which are in a run-off mode, stem from product lines we decided to cease because they no longer fit with our corporate strategy. These exit loan portfolios are included in Other Segments.

We engage in capital markets activities primarily through business conducted by our Key Corporate Bank segment. These activities encompass a variety of products and services. Among other things, we trade securities as a dealer, enter into derivative contracts (both to accommodate clients' financing needs and to mitigate certain risks), and conduct transactions in foreign currencies (both to accommodate clients' needs and to benefit from fluctuations in exchange rates).

For regulatory purposes, capital is divided into two classes. Federal regulations currently prescribe that at least one-half of a bank or BHC's total risk-based capital must qualify as Tier 1 capital. Both total and Tier 1 capital serve as bases for several measures of capital adequacy, which is an important indicator of financial stability and condition. As described under the heading "Regulatory capital requirements – Capital planning and stress testing" in the section entitled "Supervision and Regulation" that begins on page 8 of our 2017 Form 10-K, the regulators are required to conduct a supervisory capital assessment of all BHCs with assets of at least \$50 billion, including KeyCorp. As part of this capital adequacy review, banking regulators evaluate a component of Tier 1 capital, known as Common Equity Tier 1, under the Regulatory Capital Rules. The "Capital" section of this report under the heading "Capital adequacy" provides more information on total capital, Tier 1 capital, and the Regulatory Capital Rules, including Common Equity Tier 1, and describes how these measures are calculated.

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The acronyms and abbreviations identified below are used in the Management’s Discussion & Analysis of Financial Condition & Results of Operations as well as in the Notes to Consolidated Financial Statements (Unaudited). You may find it helpful to refer back to this page as you read this report.

ALCO: Asset/Liability Management Committee.	KAHC: Key Affordable Housing Corporation.
ALLL: Allowance for loan and lease losses.	KBCM: KeyBanc Capital Markets, Inc.
A/LM: Asset/liability management.	KCC: Key Capital Corporation.
AOCI: Accumulated other comprehensive income (loss).	KCDC: Key Community Development Corporation.
APBO: Accumulated postretirement benefit obligation.	KEF: Key Equipment Finance.
ASC: Accounting Standards Codification.	KMS: Key Merchant Services, LLC.
Austin: Austin Capital Management, Ltd.	KPP: Key Principal Partners.
BHCs: Bank holding companies.	KREEC: Key Real Estate Equity Capital, Inc.
Board: KeyCorp Board of Directors.	LCR: Liquidity coverage ratio.
Cain Brothers: Cain Brothers & Company, LLC.	LIBOR: London Interbank Offered Rate.
CCAR: Comprehensive Capital Analysis and Review.	LIHTC: Low-income housing tax credit.
CMBS: Commercial mortgage-backed securities.	LTV: Loan-to-value.
CME: Chicago Mercantile Exchange.	Moody’s: Moody’s Investor Services, Inc.
CMO: Collateralized mortgage obligation.	MRM: Market Risk Management group.
Common Shares: KeyCorp common shares, \$1 par value.	N/A: Not applicable.
DIF: Deposit Insurance Fund of the FDIC.	NASDAQ: The NASDAQ Stock Market LLC.
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.	NAV: Net asset value.
EBITDA: Earnings before interest, taxes, depreciation, and amortization.	N/M: Not meaningful.
EPS: Earnings per share.	NOW: Negotiable Order of Withdrawal.
ERISA: Employee Retirement Income Security Act of 1974.	NPR: Notice of proposed rulemaking.
ERM: Enterprise risk management.	NYSE: New York Stock Exchange.
EVE: Economic value of equity.	OCC: Office of the Comptroller of the Currency.
FASB: Financial Accounting Standards Board.	OCI: Other comprehensive income (loss).
FDIC: Federal Deposit Insurance Corporation.	OREO: Other real estate owned.
Federal Reserve: Board of Governors of the Federal Reserve System.	OTTI: Other-than-temporary impairment.
FHLB: Federal Home Loan Bank of Cincinnati.	PBO: Projected benefit obligation.
FHLMC: Federal Home Loan Mortgage Corporation.	PCI: Purchased credit impaired.
FICO: Fair Isaac Corporation.	S&P: Standard and Poor’s Ratings Services, a Division of The McGraw-Hill Companies, Inc.
First Niagara: First Niagara Financial Group, Inc. (NASDAQ: FNFG).	SEC: U.S. Securities and Exchange Commission.
FNMA: Federal National Mortgage Association, or Fannie Mae.	Series A Preferred Stock: KeyCorp’s 7.750% Noncumulative Perpetual Convertible Preferred Stock, Series A.
FSOC: Financial Stability Oversight Council.	TCJ Act: Tax Cuts and Jobs Act.
GAAP: U.S. generally accepted accounting principles.	TDR: Troubled debt restructuring.
GNMA: Government National Mortgage Association, or Ginnie Mae.	TE: Taxable-equivalent.
HelloWallet: HelloWallet, LLC.	U.S. Treasury: United States Department of the Treasury.
ISDA: International Swaps and Derivatives Association.	VaR: Value at risk.
	VEBA: Voluntary Employee Beneficiary Association.
	VIE: Variable interest entity.

Forward-looking statements

From time to time, we have made or will make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements do not relate strictly to historical or current facts.

Forward-looking statements usually can be identified by the use of words such as “goal,” “objective,” “plan,” “expect,” “assume,” “anticipate,” “intend,” “project,” “believe,” “estimate,” or other words of similar meaning. Forward-looking statements provide our current expectations or forecasts of future events, circumstances, results or aspirations. Our disclosures in this report contain forward-looking statements. We may also make forward-looking

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statements in other documents filed with or furnished to the SEC. In addition, we may make forward-looking statements orally to analysts, investors, representatives of the media, and others.

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

- deterioration of commercial real estate market fundamentals;
- defaults by our loan counterparties or clients;
- adverse changes in credit quality trends;
- declining asset prices;
- our concentrated credit exposure in commercial and industrial loans;
- the extensive regulation of the U.S. financial services industry;
- changes in accounting policies, standards, and interpretations;
- operational or risk management failures by us or critical third parties;
- breaches of security or failures of our technology systems due to technological or other factors and cybersecurity threats;
- negative outcomes from claims or litigation;
- failure or circumvention of our controls and procedures;
- the occurrence of natural or man-made disasters, conflicts, or terrorist attacks, or other adverse external events;