

KEYCORP /NEW/
Form 10-Q
August 09, 2006

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**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 June 30, 2006
or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period From _____ To _____
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 No.)

127 Public Square, Cleveland, Ohio

44114-1306

(Address of principal executive offices)

(Zip Code)

(216) 689-6300

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

403,298,128 Shares

(Title of class)

(Outstanding at July 31, 2006)

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

<i>dollars in millions</i>	June 30, 2006 (Unaudited)	December 31, 2005	June 30, 2005 (Unaudited)
ASSETS			
Cash and due from banks	\$ 2,814	\$ 3,108	\$ 2,968
Short-term investments	1,577	1,592	1,845
Securities available for sale	7,140	7,269	7,271
Investment securities (fair value: \$45, \$92 and \$61)	44	91	59
Other investments	1,379	1,332	1,409
Loans, net of unearned income of \$2,078, \$2,153 and \$2,155	67,408	66,478	64,690
Less: Allowance for loan losses	956	966	1,100
Net loans	66,452	65,512	63,590
Loans held for sale	4,189	3,381	3,274
Premises and equipment	557	575	576
Goodwill	1,372	1,355	1,342
Other intangible assets	132	125	101
Corporate-owned life insurance	2,732	2,690	2,639
Derivative assets	1,016	1,039	1,448
Accrued income and other assets	5,390	5,057	4,493
Total assets	\$ 94,794	\$ 93,126	\$ 91,015
LIABILITIES			
Deposits in domestic offices:			
NOW and money market deposit accounts	\$ 25,291	\$ 24,241	\$ 22,071
Savings deposits	1,751	1,840	2,022
Certificates of deposit (\$100,000 or more)	5,224	5,156	5,094
Other time deposits	11,542	11,170	10,794
Total interest-bearing	43,808	42,407	39,981
Noninterest-bearing	13,268	13,335	12,158
Deposits in foreign office ³ / ₄ interest-bearing	3,762	3,023	5,924
Total deposits	60,838	58,765	58,063
Federal funds purchased and securities sold under repurchase agreements	3,654	4,835	2,824
Bank notes and other short-term borrowings	2,360	1,780	3,315
Derivative liabilities	1,156	1,060	1,241
Accrued expense and other liabilities	4,999	5,149	4,632
Long-term debt	14,050	13,939	13,588
Total liabilities	87,057	85,528	83,663

SHAREHOLDERS EQUITY

Preferred stock, \$1 par value; authorized 25,000,000 shares, none issued

Common shares, \$1 par value; authorized 1,400,000,000 shares; issued 491,888,780 shares

Capital surplus	492	492	492
Retained earnings	1,577	1,534	1,504
Treasury stock, at cost (89,217,117, 85,265,173 and 83,657,893 shares)	8,199	7,882	7,574
Accumulated other comprehensive loss	(2,411)	(2,204)	(2,132)
	(120)	(106)	(86)
Total shareholders equity	7,737	7,598	7,352
Total liabilities and shareholders equity	\$ 94,794	\$ 93,126	\$ 91,015

See Notes to Consolidated Financial Statements (Unaudited).

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

	Three months ended June		Six months ended June	
	30,		30,	
<i>dollars in millions, except per share amounts</i>	2006	2005	2006	2005
INTEREST INCOME				
Loans	\$ 1,190	\$ 946	\$ 2,304	\$ 1,831
Loans held for sale	73	53	141	134
Investment securities	1	1	1	2
Securities available for sale	84	80	167	160
Short-term investments	16	12	38	22
Other investments	17	24	42	32
Total interest income	1,381	1,116	2,693	2,181
INTEREST EXPENSE				
Deposits	392	238	735	444
Federal funds purchased and securities sold under repurchase agreements	34	25	68	50
Bank notes and other short-term borrowings	27	19	51	36
Long-term debt	198	141	381	272
Total interest expense	651	423	1,235	802
NET INTEREST INCOME	730	693	1,458	1,379
Provision for loan losses	24	20	63	64
Net interest income after provision for loan losses	706	673	1,395	1,315
NONINTEREST INCOME				
Trust and investment services income	139	135	274	273
Service charges on deposit accounts	77	76	149	146
Investment banking and capital markets income	59	51	119	106
Operating lease income	56	48	108	94
Letter of credit and loan fees	45	47	85	87
Corporate-owned life insurance income	26	24	51	52
Electronic banking fees	27	24	51	46
Net gains from loan securitizations and sales	10	10	20	29
Net securities gains (losses)	4	1	5	(5)
Other income	104	70	166	158
Total noninterest income	547	486	1,028	986
NONINTEREST EXPENSE				
Personnel	431	386	836	776
Net occupancy	61	55	124	146
Computer processing	49	50	105	101

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Operating lease expense	45	40	86	78
Professional fees	40	30	73	58
Marketing	28	34	46	59
Equipment	26	28	52	56
Other expense	136	130	264	248
Total noninterest expense	816	753	1,586	1,522
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	437	406	837	779
Income taxes	129	115	245	224
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	308	291	592	555
Cumulative effect of accounting change, net of tax (see Note 1)			5	
NET INCOME	\$ 308	\$ 291	\$ 597	\$ 555
Per common share:				
Income before cumulative effect of accounting change	\$.76	\$.71	\$ 1.46	\$ 1.36
Net income	.76	.71	1.47	1.36
Income before cumulative effect of accounting change assuming dilution	.75	.70	1.44	1.34
Net income assuming dilution	.75	.70	1.45	1.34
Cash dividends declared	.345	.325	.69	.65
Weighted-average common shares outstanding (000)	404,528	408,754	405,949	408,510
Weighted-average common shares and potential common shares outstanding (000)	410,559	414,309	411,842	414,037

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents**Consolidated Statements of Changes in Shareholders Equity (Unaudited)**

	Common		Capital Retained		Accumulated	
	Share	Common	Surplus	Earnings	Treasury	Other
	Outstanding	Shares	Surplus	Earnings	at Cost	Loss
	(000)	Shares	Surplus	Earnings	at Cost	Loss
						Income
<i>dollars in millions, except per share amounts</i>						
BALANCE AT DECEMBER 31, 2004	407,570	\$ 492	\$ 1,491	\$ 7,284	\$ (2,128)	\$ (22)
Net income				555		\$ 555
Other comprehensive losses:						
Net unrealized losses on securities available for sale, net of income taxes of (\$8) ^a						(16) (16)
Net unrealized losses on derivative financial instruments, net of income taxes of (\$8)						(14) (14)
Foreign currency translation adjustments						(33) (33)
Minimum pension liability adjustment, net of income taxes of (\$1)						(1) (1)
Total comprehensive income						\$ 491
Deferred compensation				26		
Cash dividends declared on common shares (\$0.65 per share)				(265)		
Issuance of common shares and stock options granted under employee benefit and dividend reinvestment plans	3,161		(13)		80	
Repurchase of common shares	(2,500)				(84)	
BALANCE AT JUNE 30, 2005	408,231	\$ 492	\$ 1,504	\$ 7,574	\$ (2,132)	\$ (86)
BALANCE AT DECEMBER 31, 2005	406,624	\$ 492	\$ 1,534	\$ 7,882	\$ (2,204)	\$ (106)
Net income				597		\$ 597
Other comprehensive income (losses):						
Net unrealized losses on securities available for sale, net of income taxes of (\$33) ^a						(55) (55)
Net unrealized gains on derivative financial instruments, net of income taxes of \$5						9 9
Net unrealized losses on common investment funds held in employee welfare benefits trust, net of income taxes						(1) (1)
Foreign currency translation adjustments						33 33
Total comprehensive income						\$ 583
Deferred compensation				19		
				(280)		

Cash dividends declared on common shares (\$.69 per share)						
Issuance of common shares and stock options granted under employee benefit and dividend reinvestment plans	6,048	24			158	
Repurchase of common shares	(10,000)				(365)	
BALANCE AT JUNE 30, 2006	402,672	\$ 492	\$ 1,577	\$ 8,199	\$ (2,411)	\$ (120)

(a) Net of
reclassification
adjustments.

See Notes to Consolidated Financial Statements (Unaudited).

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Table of Contents**Consolidated Statements of Cash Flow (Unaudited)**

	Six months ended June	
<i>in millions</i>	2006	30, 2005
OPERATING ACTIVITIES		
Net income	\$ 597	\$ 555
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	63	64
Depreciation and amortization expense	192	174
Net securities (gains) losses	(5)	5
Net gains from principal investing	(20)	(11)
Net gains from loan securitizations and sales	(20)	(29)
Deferred income taxes	(195)	48
Net (increase) decrease in loans held for sale	(808)	1,079
Net decrease in trading account assets	47	114
Other operating activities, net	(261)	(413)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(410)	1,586