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MEMORANDUM

To: ODOE Energy Facility Siting Council

From: David Skidmore, Chief Audit Executive

Date: May 29, 2023

Re: Key Bank National Association – Credit and Financial Assurance Evaluation

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Summit Wind Farm, LLC requested the Energy Facility Siting Council evaluate the credit worthiness and financial status of Key Bank National Association (Key Bank) for purposes of adding the bank to the agency's list of entities that are approved to provide performance letters of credit.

The Siting Division requested ODOE's Chief Audit Executive complete a credit & financial evaluation of Key Bank. We completed our evaluation using publicly available financial report filings and credit rating agency reports.

Background

The Summit Wind Farm is an approved wind energy generation facility that would consist of up to 72 wind turbines with a peak generating capacity of 194.4 megawatts, located within a site boundary of approximately 11,000 acres. Summit Ridge Wind LLC is a wholly owned subsidiary of Aypa Power LLC.

KeyCorp is the parent company of Key Bank. Key Bank provides a range of commercial banking services, including the issuance of performance Letters of Credit. KeyCorp reported total assets of $197 billion as of March 31,2023 and comprehensive income of $312 million for the 1st quarter 2023. Key Bank reported total assets of $195.1 billion on March 31, 2023, and net income of $400.6 million for the 1st quarter 2023.

Credit Rating

We reviewed the 3 major credit rating agency scores for Key Bank, which revealed investment ratings of "A" or higher. Companies with an investment grade credit rating typically have a low risk of defaulting on their debt and business obligations and can manage economic hardship and remain solvent. The ratings take into consideration a company's current overall financial situation, including the debt it carries, its capital strength, its payment history on debt obligations, its revenues, and its enterprise risk management practices.

Although Key Bank's overall debt repayment rating remains rated as "low risk," macro and bank specific concerns that have resulted in a negative long-term outlook for this regional bank. Those reasons include lower than expected Q1 earnings (one source of capital for banks) a more rate sensitive funding position (higher rates have reduced the value of bank's fixed rate securities and loans, which increases their liquidity and capital risks), existing unrealized losses sitting in its available for sale and hold to maturity portfolios (many banks are carrying larger positions in US securities which have less value in today's high rate environment), and its lower percentage of regulatory capital relative to its peers.

Fitch graded Key's long term outlook as Stable.

Rating Agency	Rating	Long Term Outlook[1]
Standard & Poor's	A- (5.15.23)	Negative
Moody's	A3 (4.21.23)	Negative
Fitch	A- (10.14.22)	Stable

Conclusion

Based on the negative long term outlook assigned by Moody's and Standard and Poor's and the reasons enumerated above, I do not recommend that the Energy Facility Siting Council add Key Bank to the list of approved providers of financial assurance at this time.

cc: Todd Cornett, Assistant Director, Siting Division

Attachment 1: Key Bank – Moody's Credit Rating
Attachment 2: Key Bank – S&P Credit Rating
Attachment 3: Key Bank – Fitch Credit Rating

[1] A "**Stable**" outlook indicates a **low likelihood** of rating change in the next two years. A "**Positive**" outlook indicates a **higher likelihood** of an upward rating revision in the next two years. A "**Negative**" outlook indicates a **higher chance** of a downward rating revision in the next two years.

Fitch Ratings

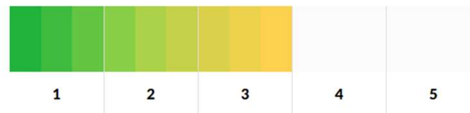
ENTITY

KeyBank National Association

Banks/Global / North America/United States

EU Endorsed, UK Endorsed; Solicited by or on behalf of the issuer (sell side)

ESG RELEVANCE



01 Ratings

RATING	ACTION	DATE	TYPE
A-	Affirmed	14-Oct-2022	Long Term Issuer Default Rating
F1	Affirmed	14-Oct-2022	Short Term Issuer Default Rating
a-	Affirmed	14-Oct-2022	Viability Rating
WD	Withdrawn	14-Oct-2022	Support Rating Floor
WD	Withdrawn	14-Oct-2022	Support Rating
ns	New Rating	14-Oct-2022	Government Support Rating
WD	Withdrawn	25-Jan-2012	Individual Rating

Ratings Key	Outlook	Watch
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

* Ratings displayed in orange denotes EU or UK Unsolicited and Non-Participatory Ratings

Where there was a review with no rating action (Review – No Action), please refer to the "Latest Rating Action Commentary" for an explanation of key rating drivers

*Premium Content is displayed in Fitch Red

LONG TERM ISSUER DEFAULT RATING	SHORT TERM ISSUER DEFAULT RATING	VIABILITY RATING	SUPPORT RATING FLOOR	SUPPORT RATING	GOVERNMENT SUPPORT RATING	INDIVIDUAL RATING

DATE :	14-Oct-2022	01-Nov-2021	07-May-2021	07-Dec-2020	28-Apr-2020	09-Dec-2019	19-Dec-2018	27-Sep-2018
RATING :	A-	A-	A-	A-	A-	A-	A-	A-
ACTION :	Affirmed	Review - No Action	Affirmed	Review - No Action	Affirmed	Affirmed	Review - No Action	Affirmed

02 Rating Actions

RATING ACTION COMMENTARY / FRI 14 OCT, 2022

Fitch Affirms Keycorp at 'A-'; Outlook Stable

RATING ACTION COMMENTARY / FRI 07 MAY, 2021

Fitch Affirms KeyCorp at 'A-'; Outlook Revised to Stable

RATING ACTION COMMENTARY / TUE 28 APR, 2020

Fitch Affirms KeyCorp at 'A-': Outlook Revised to Negative on Coronavirus Impact

Moody's
INVESTORS SERVICE

Ratings & Regulatory

Rating Action

Moody's affirms KeyCorp's ratings; outlook negative

New York, April 21, 2023 -- Moody's Investors Service (Moody's) has today affirmed all long-term and short-term ratings and assessments of KeyCorp (Key, long-term senior unsecured Baa1), including the a3 standalone Baseline Credit Assessment (BCA) of its lead bank, Keybank National Association (long-term deposits A1). At the same time, Moody's changed the rating outlook to negative from stable.

RATINGS RATIONALE

Moody's said the rating action reflects a deterioration in the operating environment and funding conditions for US banks. In response to this, Moody's has lowered the macro profile of the US banking system to 'Strong +' from 'Very Strong –'. The change in funding conditions reflects rising asset liability management challenges at US banks. Specifically, the banking system faces rising funding and profitability pressures related to the significant and rapid tightening in monetary policy, which has led to a reduction in US banking system deposits and higher funding costs. Higher interest rates have also reduced the value of US banks' fixed rate securities and loans which increases their liquidity and capital risks.

At the same time, the rating agency noted that the recent failures of two sizeable US regional banks have shaken depositor confidence, especially among uninsured depositors. While Moody's expects US banks will continue to benefit from Federal Reserve liquidity backstops and Federal Home Loan Bank system funding, these funding sources come at a greater cost and also in most cases have shorter duration than core deposits. Moody's believes that banks which depend on more concentrated or higher levels of uninsured deposits are more exposed to these pressures, especially those with high levels of fixed rate securities and loans.

Furthermore, the rating agency noted that those US regional banks with lower regulatory capital ratios in particular face heightened challenges in this environment. Such banks are allowed to exclude unrealized losses on available-for-sale (AFS) securities from their regulatory capital ratios. Given their smaller capital buffers, in the face of systemwide deposit pressures Moody's expects such banks could become significantly more reliant on higher cost deposits and wholesale borrowing in order to avoid the forced sale of fixed rate securities or loans that could crystallize unrealized losses on those assets and impair their regulatory capital ratios. Moody's believes these challenges are likely to be most acute for banks that also have greater exposures to commercial real estate (CRE) lending, especially construction lending. High interest rates, combined with a significant slowdown in US economic growth and a reduced demand for office space driven by the implications of work-from-home trends are expected to pressure loan asset quality in certain commercial real estate sectors, further pressuring the credit profiles of banks with more significant exposures to those sectors. These developments have lowered the credit profile of US banks, though not all banks equally.

This rating action reflects both Moody's view on the aforementioned macro factors as well as the specific credit considerations of Key. The negative outlook reflects Key's high reliance on more confidence-sensitive funding, its high amount of unrealized losses in its AFS and held-to-maturity (HTM) securities portfolios, as well as a low level of capitalization relative to peers. The ratings affirmation reflects the benefits to creditors from its conservative asset risk profile and sizable liquid resources consisting primarily of US Treasury and Agency securities.

At 31 December 2022, Key's uninsured deposit share totaled 51.8%, which is somewhat above rated US peers, but approximately 70% of total deposits are stable retail, collateralized, or low-cost escrow. As of the same date, Key's market funding, which includes FHLB advances, comprised 14.94% of tangible banking assets, which is above rated peers, and had risen substantially above previous years.

With regard to its liquid assets, at 31 December 2022, Key's cash to total asset ratio was low relative to rated peers at 1.6%. While management has taken actions to strengthen cash, the growth in the bank's cash buffer has come as a result of greater use of market funds. If the bank were to face higher-than-anticipated deposit outflows and liquidity backstops proved insufficient, the bank could need to sell assets, thus resulting in crystalizing unrealized losses on its AFS or HTM securities, which as of December 2022 represented 52% of its Moody's tangible common equity (TCE). Total unrealized securities losses plus 15% of residential mortgages totaled 79% of TCE.

Key's buffers against loss – profitability and capital – are modest relative to peers. Specifically, at 31 December 2022, net income to tangible assets stood at 0.90%. Furthermore, Key could face profitability pressures going forward due to rising deposit costs, potentially higher provisions for credit losses, and the 37% proportion of fixed rate loans on its balance sheet as of year-end 2022. And regarding capital, as of 31 December 2022, Key's Moody's TCE over risk-weighted asset (RWA) ratio totaled 8.4%, a weak level relative to its ratings, which decreased from 9.1% at the end of 2021 and 2020. The bank's common equity tier 1 (CET1) ratio totaled 9.1% on the same date, which is within management's CET1 targeted range of 9.0%-9.5%. The difference is driven by Moody's cap on the contribution of deferred tax assets from unrealized AFS losses.

An area of relative credit strength is the bank's well-diversified loan portfolio. Underwriting and loan portfolio performance have also been strong. Finally, Key's CRE exposure was modest relative to peers, with its CRE at just 117% of TCE and construction loans to TCE of 19% as of 31 December 2022.

OUTLOOK CHANGE TO NEGATIVE FROM STABLE

The change in the outlook for Key to negative from stable reflects Moody's view that the elevated challenges which the current operating environment poses for the bank's funding, profitability, and capital will create additional headwinds, offsetting the otherwise positive credit implications of the bank's strong and diversified loan portfolio as well as solid liquid resources. Also, as part of the outlook, Moody's will monitor any financial policy and regulatory changes that could impact Key.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of Key's ratings is unlikely in the next 12-18 months given the current negative outlook. The bank's ratings outlook could be stabilized if its capitalization improves to at least 9.0% Moody's TCE to RWA, the funding profile and profitability improve, and Moody's will consider that management actions performed so far or planned in the near future to reduce Key's sensitivity to maturity gaps are sufficient to preserve its profitability and capitalization.

In the longer run, Key's BCA and ratings could be upgraded if the use of market funding is reduced, deposit costs and profitability prove to be resilient, capitalization increases from current levels, and credit losses on the loan portfolio do not materialize.

Key's BCA and ratings could be downgraded if the bank's capitalization weakens further from current levels, market funding rises more to fund loan growth, or if liquidity or profitability weakens. Also, the ratings could be downgraded if the deposit base shows signs of eroding markedly, thus triggering asset sales, loss crystallization and a higher reliance on market funding. Ratings could also be downgraded if Moody's considers that management actions taken or envisioned by the bank will not be sufficient to preserve its profitability and capitalization.

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://ratings.moodys.com/api/rmc-documents/71997. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

Source:

https://www.moodys.com/research/Moodys-affirms-KeyCorps-ratings-outlook-negative-Rating-Action--PR_475836

S&P Global
Ratings

15-May-2023 | 17:42 EDT

KeyCorp Outlook Revised To Negative On Potentially Lower Profitability, 'BBB+/A-2' Ratings Affirmed

- We believe that KeyCorp's balance sheet positioning given currently higher interest rates will lead to near-term pressure on profitability amid tougher competition for deposits across regional banks.

- In addition, the bank's capital ratios are at the low end of the peer average and will need to rise if regulators tighten requirements for KeyCorp and its peers.
- We affirmed our 'BBB+/A-2' long- and short-term issuer credit ratings on KeyCorp and our 'A-/A-2' long- and short-term issuer credit ratings on its bank subsidiary. We also revised our outlook to negative from stable on our long-term issuer credit ratings on both entities.
- The negative outlook reflects our view that KeyCorp's profitability could be pressured as its funding costs rise, given the tougher operating environment for regional banks.

NEW YORK (S&P Global Ratings) May 15, 2023--S&P Global Ratings affirmed its 'BBB+/A-2' long- and short-term issuer credit ratings on KeyCorp (Key) and its 'A-/A-2' ratings on its bank subsidiary, KeyBank N.A. At the same time, we revised the outlook on the long-term issuer credit ratings on KeyCorp and KeyBank to negative from stable.

Specifically, we believe that Key's balance sheet positioning amid currently higher interest rates will lead to near-term pressure on profitability as deposit betas (the portion of a change in interest rates that's passed on to depositors) rise and the funding mix shifts toward interest-bearing deposits and wholesale funding. The bank's capital ratios are also at the low end of the peer average and will need to rise if regulators tighten requirements for KeyCorp and its peers.

Specifically, given the rapid rise in rates in 2022, the bank's interest-rate swap and lower-yielding available-for-sale securities portfolio will dampen near-term profitability in our view. Key's net interest margin (NIM) contracted by 26 basis points (bps) to 2.47% in the first quarter of 2023 because of higher funding costs, and its NIM level is below that of peers. Parts of Key's interest-rate swap and Treasury securities portfolio will mature at an accelerating rate in the next two years, which may bolster net interest income and NIM. (Management estimated that these positions reduced NIM by 72 bps in the first quarter.) Nonetheless, we expect costlier wholesale funding to remain a bit elevated than last year and prior to the pandemic, especially if loan growth is towards the high end of management's projected range. Key's ratio of loans to deposits, which increased to 84%

in the first quarter from 73% a year ago, may tighten further. Fee income should also remain subdued, as uncertain market conditions limit capital market income--a primary driver of Key's noninterest income.

The bank reported a CET1 ratio of 9.1% at March 31, 2023, versus higher levels at many peers. Tangible capital metrics have also compressed, particularly given the unrealized losses on Key's available-for-sale securities portfolio. (Its ratio of tangible common equity to tangle assets was 4.6%. Only about 20% of Key's securities portfolio is held-to-maturity.) We think that banks with over $100 billion in assets--such as Key--may ultimately need to include accumulated other comprehensive income (AOCI) in their regulatory capital ratios over time, depending on potential changes to regulations for Category IV banks. Management estimates that about 40% of the bank's AOCI should accrete by the end of 2024, mostly due to maturities and cash flows, which should be supportive of capital metrics over time.

Specifically, deposits increased by 1% from the end of 2022 (non-brokered deposits declined by 2.1%), which we view as largely consistent with that of many peers. Key's deposit base is granular, in our view, with a focus on retail, small business, and wealth clients (more than half of the total), and commercial operating accounts. Available liquidity also covers uninsured and uncollateralized deposits, which represent 34% of total deposits.

Key's investor commercial real estate exposure is limited relative to that of peers, at 13% of total loans. Exposure to office properties is nominal at less than 1% of total loans. Its portfolio of leveraged loans is similarly low, at about 2.2% of total loans.

Source:

https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/2986883