

DBRS Morningstar Confirms Concentra Bank's Long Term Ratings at A (low), Trend Remains Negative

BANKING ORGANIZATIONS

DBRS Limited (DBRS Morningstar) confirmed Concentra Bank's (Concentra or the Bank) long-term ratings at A (low) and short-term ratings at R-1 (low). The trend on all ratings remains Negative. Concentra's Support Assessment of SA1 reflects the willingness and ability of Credit Union Central of Saskatchewan's (SaskCentral; rated R-1 (low) with a Stable trend by DBRS Morningstar) to support Concentra. SaskCentral owns 84% of Concentra and is instrumental in driving business activity and strategy at Concentra. As such, DBRS Morningstar views Concentra as a supported subsidiary of SaskCentral.

KEY RATING CONSIDERATIONS

The Negative trend on Concentra's long term ratings is based on the outlook for Saskatchewan's credit union system (the System) which indirectly owns Concentra through SaskCentral. The Negative outlook on the System is driven by its substantial exposure to non-agricultural Small & Medium Enterprise (SME) loans. These accounted for about 30% of the System gross loans at the end of F2020. Furthermore, credit unions in Saskatchewan have significant single party exposures in their SME portfolios which heightens credit risk for the System as a whole. The Negative trend also reflects the uncertainty surrounding the extent to which SMEs will recover following removal of the extraordinary support provided by the government in absence of Saskatchewan's economy returning to pre-pandemic economic potential. Furthermore, Concentra also represents a contingent risk to the System through SaskCentral as, at the end of 2020, Concentra's total assets represented 42% of total System assets.

RATING DRIVERS

Given the Negative trend, an upgrade is unlikely at this time. The trend could revert to Stable if there is an improvement in the System's financial performance and asset quality metrics. Conversely, a decrease in DBRS Morningstar's assessment of the willingness and ability of SaskCentral to support Concentra would lead to a ratings downgrade. Furthermore, a sustained deterioration in liquidity or an inability to source funding through existing sources, including credit unions, would also lead to a ratings downgrade.

RATING RATIONALE

Concentra's franchise strength is determined by its capacity to provide wholesale banking, capital markets, trust, and consulting services to 230 credit unions, across Canada (excluding Desjardins Group), which held total assets of \$267 billion as of December 31, 2020. As an important provider of key services to the majority of credit unions in Canada, DBRS Morningstar believes it would be difficult for individual credit unions to find a cost-effective replacement for Concentra. The Bank generates relatively stable recurring earnings, although, as primarily a wholesale bank, profitability is relatively low. While earnings came under pressure in the early part of F2020, the trajectory has been improving following a reversal in provisions for credit losses in Q4 2020. In F2020 net income declined by 16% year over year to \$25.4 million.

Concentra has generally good asset quality with a low history of loan losses on its residential mortgage portfolio. Positively, the Bank has been consistently reducing its commercial loan book over the last two years and has been cautious in increasing its consumer loan exposures. Concentra derives the majority of its funding from market-based sources, mainly by securitizing insured residential

mortgages. Although Concentra maintains good access to market funding and interest-rate risk remains manageable, excessive reliance on wholesale funding is viewed negatively by DBRS Morningstar. Concentra's capitalization declined marginally in 2020, due to strong growth in the residential mortgage book, but remains solid and considerably ahead of regulatory minimums. In DBRS Morningstar assessment, the Bank's capital cushion is sufficient to absorb normal levels of losses.

ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at <https://www.dbrsmorningstar.com/research/373262>.

Notes:

All figures are in Canadian dollars unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (July 08, 2020; <https://www.dbrsmorningstar.com/research/362170>). Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (February 3, 2021; <https://www.dbrsmorningstar.com/research/373262>).

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: <https://www.dbrsmorningstar.com/research/357883>.

The related regulatory disclosures pursuant to the National Instrument 25-101 Designated Rating Organizations are hereby incorporated by reference and can be found on the issuer page at www.dbrsmorningstar.com.

The rated entity or its related entities did participate in the rating process for this rating action. DBRS Morningstar had access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

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Ratings

Concentra Bank

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
01-Apr-21	Long-Term Issuer Rating	Confirmed	A (low)	Neg	CA
01-Apr-21	Short-Term Issuer Rating	Confirmed	R-1 (low)	Neg	CA
01-Apr-21	Long-Term Deposits	Confirmed	A (low)	Neg	CA

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
01-Apr-21	Long-Term Senior Debt	Confirmed	A (low)	Neg	CA
01-Apr-21	Short-Term Instruments	Confirmed	R-1 (low)	Neg	CA

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