

DBRS Morningstar Confirms Concentra Bank's Long Term Ratings at A (low), Trend Revised to 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 was revised to Negative from Stable. 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 ratings of SaskCentral are driven by the strength of the System which collectively owns SaskCentral. The negative outlook on the System is based on its substantial exposure to commercial lending (the System has about a 40% provincial market share). These loans are mostly to small and medium sized enterprises that are likely to experience stress given the impact on Saskatchewan's economy from business closures resulting from the Coronavirus Disease (COVID-19) pandemic, as well as the sharp decline in oil prices. Furthermore, Concentra also represents a contingent risk to the System through SaskCentral as, at the end of 2019, Concentra's total assets represented 36% of total System assets. The growth of Concentra's balance sheet over the last few years, including activities not directly driven by the needs of the credit union members, adds to the risk Concentra poses to the System.

RATING DRIVERS

Given the Negative trend, an upgrade is unlikely at this time. DBRS Morningstar could change the trend back to Stable if the Canadian economy is able to reopen and the Province's economic potential approaches pre-crisis levels. Conversely, a reduction in SaskCentral's ratings resulting from the adverse impact of the coronavirus and lower oil prices could negatively affect Concentra's ratings. Furthermore, a sustained deterioration in liquidity or an inability to source funding through existing sources, including credit unions, could lead to a negative rating action. A decrease in DBRS Morningstar's assessment of the willingness and ability of SaskCentral to support Concentra could also lead to negative rating pressure.

RATING RATIONALE

An important source of Concentra's franchise strength is its relationship as a wholesale financial services provider to a large proportion of the credit union industry in Canada. These activities are core to Concentra's partnership with credit unions; however, DBRS Morningstar notes that excessive reliance on stand-alone activities, which could be viewed as competing against the credit union system, in addition to being riskier in nature, could have a negative impact on its assessment of Concentra's franchise strength and ratings. Concentra generates relatively stable recurring earnings, although profitability is at the lower end compared with bank peers. Concentra's asset quality remains sound, but the current uncertain adverse economic environment is likely to exert substantial pressure on credit metrics. In addition, Concentra's funding position could come under pressure if the Bank is unable to rollover wholesale deposits at competitive rates. Although, Concentra maintains a liquidity position well above the regulatory requirements and access to a banking syndicate for cash management and emergency liquidity purposes, its liquidity position could

deteriorate if a substantial portion of its loans require a payment deferral at the same time as it becomes challenging to access wholesale markets. Positively, as a federally regulated bank, Concentra potentially has access to the various liquidity programs announced by the Bank of Canada. Furthermore, in DBRS Morningstar's view, the Bank's F2019 total capital ratio and leverage ratio of 17.9% and 5.2%, respectively, are both well above the regulatory minimum requirements.

ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework and its methodologies can be found at: <https://www.dbrsmorningstar.com/research/357792>.

Notes:

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (June 2019).

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	Issued
06-Apr-20	Long-Term Issuer Rating	Trend Change	A (low)	Neg	CA
06-Apr-20	Short-Term Issuer Rating	Trend Change	R-1 (low)	Neg	CA
06-Apr-20	Long-Term Deposits	Trend Change	A (low)	Neg	CA
06-Apr-20	Long-Term Senior Debt	Trend Change	A (low)	Neg	CA

Date Issued	Debt Rated	Action	Rating	Trend	Issued
06-Apr-20	Short-Term Instruments	Trend Change	R-1 (low)	Neg	CA

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