

DBRS Morningstar Changes Trend on Concentra Bank to Stable from Negative, Confirms Ratings

BANKING ORGANIZATIONS

DBRS Limited (DBRS Morningstar) changed the trends on Concentra Bank's (Concentra or the Bank) long-term and short-term ratings to Stable from Negative. DBRS Morningstar also confirmed its ratings on Concentra, including the Bank's Long-Term Issuer Rating at A (low) and Short-Term Issuer Rating at R-1 (low). Concentra's Support Assessment (SA) of SA1 reflects the willingness and ability of Credit Union Central of Saskatchewan (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 Stable trends on Concentra's ratings are based on the outlook for Saskatchewan's Credit Union System (the System), which indirectly owns Concentra through SaskCentral. The trend changes to Stable from Negative reflect DBRS Morningstar's view that, despite remaining uncertainties related to the Coronavirus Disease (COVID-19) pandemic, economic performance and oil prices have rebounded. Although System-wide impairments were elevated in F2020, there has been an improvement in the first nine months of F2021. Concentra is a contingent risk to the System through SaskCentral's ownership, with Concentra's total assets representing a significant 40% of total System assets at September 30, 2021. However, Concentra's credit profile has remained resilient, and its financial performance has shown solid improvement.

RATING DRIVERS

An upgrade of the Bank's ratings would be linked to an improvement in SaskCentral's short-term ratings, which are currently rated R-1 (low) with Stable trends by DBRS Morningstar.

Alternatively, a downgrade of SaskCentral's ratings would negatively affect Concentra's ratings. In addition, DBRS Morningstar's SA would be affected if support from SaskCentral is reduced or is viewed as not sufficiently reliable, which would negatively affect Concentra's ratings. A sustained deterioration in liquidity or an inability to source funding through existing sources, including credit unions, would also lead to a negative rating action.

RATING RATIONALE

Franchise

Concentra's franchise strength is determined by its capacity to provide wholesale banking, capital markets, trust, and consulting services to 223 credit unions across Canada (excluding Desjardins Group), which collectively held assets totalling \$276 billion as of September 30, 2021. 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. While the Bank continues to operate on co-operative principles, excessive reliance on activities that do not provide direct and meaningful benefits to credit unions could have credit implications for DBRS Morningstar's assessment of the Banks' franchise strength.

Earnings

The Bank generates relatively stable recurring earnings, although, as primarily a wholesale bank, profitability is relatively low compared with its peers. Pandemic-related impacts also pressured earnings in F2020; however, net income bounced back in the first nine months of F2021, increasing 147% to \$37.3 million, and was boosted by a 33% year-over-year increase in operating income and net provision reversals of \$6.3 million in the first nine months of F2021. In DBRS Morningstar's view, the Bank has sufficient provision for credit losses coverage under normal operating conditions, but loan losses could rise in the event of a sustained economic downturn.

Risk

Asset quality is generally sound with impaired loans averaging 0.4% of gross loans from 2016 to 2020. Concentra has historically experienced low loan losses with net write-offs-to-net loans at 0.1% for Q3 2021, and it has a history of low loan losses on its residential mortgage portfolio (representing more than 80% of the Bank's total loan portfolio). Positively, the Bank has reduced its commercial loan book over the last three years and has been cautiously increasing its consumer loan exposure. Nevertheless, in DBRS Morningstar's view, the geographic concentration of the Bank's loans in the Prairies (Alberta, Saskatchewan, and Manitoba) as well as large single-party exposures within the commercial-lending portfolio could exacerbate downside pressure on asset quality.

Funding and Liquidity

Concentra derives the majority of its funding from market-based sources, mainly by securitizing insured residential mortgages. Although Concentra's funding position is well managed with good access to market funding and interest rate risk remains manageable, DBRS Morningstar negatively views excessive reliance on wholesale funding. As with other financial institutions, the Bank could experience deposit runoff in the near term as excess savings are gradually channelled to finance domestic consumption and companies increase spending in line with the economic recovery. The Bank's liquidity buffer is solid as liquid assets represented approximately one-third of total assets as of September 30, 2021.

Capitalization

Concentra maintains good levels of capital supported by healthy levels of internal equity generation. The Bank's capitalization remained broadly stable with a Total Capital Ratio of 17.0% at September 30, 2021, well above regulatory minimum requirements of 10.5%. Strong internal equity generation more than offset a marginal increase in risk-weighted assets. The quality of Concentra's capital is solid with more than 75% representing CET1 capital. In DBRS Morningstar's assessment, the Bank's capital cushion is sufficient to absorb stressed level 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 19, 2021; <https://www.dbrsmorningstar.com/research/381742>). 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>).

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
13-Jan-22	Long-Term Issuer Rating	Confirmed	A (low)	Neg	CA
13-Jan-22	Long-Term Issuer Rating	Trend Change	A (low)	Stb	CA
13-Jan-22	Short-Term Issuer Rating	Confirmed	R-1 (low)	Neg	CA
13-Jan-22	Short-Term Issuer Rating	Trend Change	R-1 (low)	Stb	CA
13-Jan-22	Long-Term Deposits	Confirmed	A (low)	Neg	CA
13-Jan-22	Long-Term Deposits	Trend Change	A (low)	Stb	CA
13-Jan-22	Long-Term Senior Debt	Confirmed	A (low)	Neg	CA
13-Jan-22	Long-Term Senior Debt	Trend Change	A (low)	Stb	CA
13-Jan-22	Short-Term Instruments	Confirmed	R-1 (low)	Neg	CA
13-Jan-22	Short-Term Instruments	Trend Change	R-1 (low)	Stb	CA

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