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DBRS Confirms Concentra Bank at A (low)/R-1 (low), Stable Trends

BANKING ORGANIZATIONS

DBRS Limited (DBRS) confirmed Concentra Bank's (Concentra or the Bank) long-term ratings at A (low) and short-term ratings at R-1 (low). All trends are Stable. Concentra's Support Assessment (SA) 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) to support Concentra. SaskCentral owns 84% of Concentra and is instrumental in driving business activity and strategy at Concentra. As such, DBRS views Concentra as a supported subsidiary of SaskCentral.

KEY RATING CONSIDERATIONS

The ratings reflect Concentra's utility in providing certain wholesale financial and trust services to the credit union system in Saskatchewan (the System), and more broadly to credit unions across Canada (except Québec). As such, a shift away from these core activities is viewed negatively by DBRS. Although Concentra's financial performance has been robust, a higher risk appetite and increased exposures to Alt-A and consumer lending continues to be an area of concern for DBRS. Concentra's reliance on wholesale deposits — which, in DBRS's view, tend to be less stable than retail deposits — could also pressure liquidity under a stressed scenario.

RATING DRIVERS

Though unlikely over the intermediate term, positive ratings pressure could arise from an upgrade in the ratings of SaskCentral. Conversely, a reduction in SaskCentral's rating would negatively impact Concentra's ratings. A significant increase in Concentra's risk profile due to greater exposure to higher-risk assets at the Bank and its increased reliance on funding that is external to the System could also negatively impact ratings by increasing contingent risk for SaskCentral. In addition, excessive reliance on activities that do not provide direct and meaningful benefits to credit unions could lead to a reduction in DBRS's assessment of the willingness and ability of SaskCentral to support Concentra.

RATING RATIONALE

DBRS views Concentra's interconnectedness to the credit union system in Canada (excluding Québec) as a key driver when assessing the Bank's franchise strength. As an important provider of wholesale financial (including capital markets) and trust services to the majority of credit unions in Canada, Concentra acts as a conduit between a large proportion of the credit union industry in Canada and wholesale financial service providers. These activities are core to Concentra's partnership with credit unions; however, DBRS notes that excessive reliance on stand-alone activities, which could be viewed as competing against the credit union system, could have a negative impact on DBRS's assessment of Concentra's franchise strength.

Concentra generates relatively stable recurring earnings, and although its net interest margin and return on average assets are at the lower end compared with peers, they are reflective of a wholesale financial institution serving the credit union industry. The Bank's cost to income ratio remained elevated in 2018, largely driven by higher spend on initiatives to support a "direct to customer" strategy and talent acquisitions. Nonetheless, Concentra's net income rose 21% in F2018 as a result of a significant reversal in provision for credit losses, reflecting improvement in the credit quality of its commercial portfolio.

Although Concentra's asset quality remains sound, the Bank has been taking on more credit risk over the past several years, including adding more Alt-A mortgages. Moreover, Concentra is currently assessing whether to get into middle market lending, an asset class that Concentra has not previously underwritten. This higher risk appetite could result in higher losses in the event of a sharp and sustained downturn in the economy.

DBRS views Concentra's funding position as well managed with minimal interest rate risk. Primarily, Concentra sources wholesale deposits that it uses to fund the purchase of loans and participate in syndicates. As such, its funding profile is well aligned to its lending activities. The Bank is developing digital banking capabilities that could result in a greater proportion of funding comprising directly sourced retail and commercial deposits, which would be viewed positively by DBRS. In DBRS's assessment, Concentra maintains a sufficient level of liquidity, with a liquid assets-to-total assets ratio of 13% and unencumbered high-quality liquid assets totalling $1.4 billion in F2018.

Concentra's capitalization remains acceptable with reasonable levels of internal equity generation. In F2018, the Bank's total capital ratio and leverage ratio were 16.1% and 4.6%, respectively, with both well above the regulatory minimum requirements.

Notes:
All figures are in Canadian dollars unless otherwise noted.

The applicable methodology is Global Methodology for Rating Banks and Banking Organisations (June 2019), which can be found on dbrs.com under Methodologies and Criteria.

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.dbrs.com.

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

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

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Ratings

Concentra Bank

Date Issued	Debt Rated	Action	Rating	Trend	Issued
25-Sep-19	Long-Term Issuer Rating	Confirmed	A (low)	Stb	CA
25-Sep-19	Short-Term Issuer Rating	Confirmed	R-1 (low)	Stb	CA
25-Sep-19	Long-Term Deposits	Confirmed	A (low)	Stb	CA

Date Issued	Debt Rated	Action	Rating	Trend	Issued
25-Sep-19	Long-Term Senior Debt	Confirmed	A (low)	Stb	CA
25-Sep-19	Short-Term Instruments	Confirmed	R-1 (low)	Stb	CA

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