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DBRS Assigns Ratings to Unión de Crédito para la Contaduría Pública, S.A. de C.V.

Bloomberg: DBRS Assigns Ratings to UniCCo
Industry Group: Financial Institutions
Sub-Industry: Credit Unions and Building Societies
Region: Canada

DBRS Limited (DBRS) assigned Unión de Crédito para la Contaduría Pública, S.A. de C.V. (UniCCo or the Credit Union) a Long-Term Issuer Rating of BB and a Short-Term Issuer Rating of R-4 on the Global Scale. In addition, DBRS assigned a Long-Term Issuer Rating of A.MX and a Short-Term Issuer Rating of R-1 (low).MX on the National Scale. The trend on all ratings is Stable. DBRS assigned UniCCo a support assessment of SA3, which implies no expectation of timely systemic support.

DBRS's ratings consider UniCCo's niche business-focused franchise in Mexico and its position as the fourth-largest credit union in the country. In addition, UniCCo enjoys steady earnings with a solid funding base and adequate liquidity, while its capitalization is well above regulatory requirements. This view is tempered by the fact that, although UniCCo has an advanced risk management culture and good credit performance, the exposure of the loan portfolio to a few large borrowers does present the Credit Union with concentration risk.

UniCCo was initially established as a credit union for public accountants, but now counts a wide array of professionals as members. With MXN 4.1 billion in assets as of Q3 2017, UniCCo controls around 7% of the assets of the credit union system in Mexico. A key strength of its franchise lies in its focus on commercial lending to its member base of over 4,300 individuals. UniCCo is geographically diversified with approximately 40% of its loans outside of Mexico City, mainly in the surrounding states and the northeast. During the second half of 2016, the Mexican regulator, Comisión Nacional Bancaria y de Valores, authorized the merger of UniCCo with Unión de Crédito S. A. de C. V. (CYMA), a credit union focused on small- and medium-sized enterprises (SMEs). UniCCo began consolidating CYMA's operations in September 2016. The acquisition added MXN 602 million of assets to UniCCo's balance sheet and provided further diversification outside of Mexico City.

Loan products are tailored toward SMEs, with the bulk of the Credit Union's Q3 2017 MXN 2.9 billion portfolio, not including leases, in business loans that are secured by either real estate or other guarantees. As such, UniCCo's credit risk is primarily in business lending and has performed well given the Credit Union's conservative appetite and advanced risk management frameworks. Gross impaired loans-to-gross loans, not including leases, stood at 1.1% in Q3 2017, although a slight increase from the 0.5% level in 2014–2015 due to the integration of CYMA. Nevertheless, asset quality remains better than peers. DBRS notes that UniCCo has further opportunities to grow through acquisition as the credit union sector is fragmented, with 103 credit unions in total, but with over 60% of system assets held by the top ten credit unions. However, should

UniCCo make an acquisition, this does present UniCCo with increased operational risk as it executes and integrates these acquisitions.

UniCCo enjoys a stable earnings base with a high proportion of non-interest income. Unlike its local peers, non-interest income forms approximately 50% of operating revenues due to a portfolio of mainly automotive leases, which DBRS views positively. Meanwhile, according to DBRS's calculations, the net interest margin has been steady over the last five years at an average 2.5%, while net income has experienced sound growth, especially post-CYMA acquisition. With only six offices across the country and with most of the operations centralized at its headquarters, UniCCo has a relatively cost-effective operation, which translates into an efficiency ratio that is consistently under 70%.

Member deposits constitute over 70% of UniCCo's funding base. These are commercial in nature as UniCCo does not accept retail deposits. Half of member deposits are fixed term, while the remainder are predominantly demand deposits that tend to roll over giving the Credit Union a dependable source of funding. In addition, UniCCo has several lines of credit with major commercial banks in Mexico, as well as a MXN 600 million facility with Sociedad Hipotecaria Federal. Furthermore, in December 2017, UniCCo successfully completed its first securitization deal worth MXN 400 million, part of a loan securitization program of up to MXN 2 billion, thus adding another avenue of funding. In DBRS's view, although liquidity levels are adequate at 20% of total assets, the duration mismatch between UniCCo's assets and liabilities could put the Credit Union under stress in the case of any funding pressure.

With a capitalization ratio of 17.92% as of Q3 2017, UniCCo's capital position is well above the regulatory minimum of 8%. In addition, earnings retention has historically been adequate to support UniCCo's loan book growth; however, more aggressive growth targets could require additional capital. Furthermore, DBRS notes that, although UniCCo has built up a sufficient capital cushion to absorb losses, the concentration of its loan book could stress capital levels in case of weakness at one of its large borrowers.

RATING DRIVERS
Although unlikely in the short to medium term, ratings could benefit from the strengthening of UniCCo's franchise as a credit union and commercial lender, while strengthening its earnings capacity and improving its funding profile. On the other hand, ratings could come under pressure if UniCCo experiences substantially higher losses in the loan portfolio as a result of unforeseen weakness in the underwriting and/or risk management processes, or if the loan portfolio becomes further concentrated. Additionally, business diversification that would lead to a significant increase in credit risk could have a negative impact on ratings.

Notes:
All figures are in Mexican pesos unless otherwise noted.

All ratio calculations are according to DBRS definitions.

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 applicable methodology is Global Methodology for Rating Banks and Banking Organisations (May 2017), which can be found on our website under Methodologies.

Lead Analyst: Maria-Gabriella Khoury, Vice President, Canadian Financial Institutions Group
Rating Committee Chair: Roger Lister, Managing Director, Chief Credit Officer, Global Financial Institutions Group and Sovereign Ratings

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.

DBRS will publish a full report shortly that will provide additional analytical detail on this rating action. If you are interested in receiving this report, contact us at info@dbrs.com.

Issuer	Debt Rated	Rating Action	Rating	Trend
Unión de Crédito para la Contaduría Pública, S.A. de C.V.	Long-Term Issuer Rating – Global Scale	New Rating	BB	Stable
Unión de Crédito para la Contaduría Pública, S.A. de C.V.	Long-Term Issuer Rating – National Scale	New Rating	A.MX	Stable
Unión de Crédito para la Contaduría Pública, S.A. de C.V.	Short-Term Issuer Rating – Global Scale	New Rating	R-4	Stable
Unión de Crédito para la Contaduría Pública, S.A. de C.V.	Short-Term Issuer Rating – National Scale	New Rating	R-1 (low).MX	Stable

Contacts

Name: Maria-Gabriella Khoury, CFA
Title: Vice President, Global Financial Institutions Group
Phone number: + 1 (416) 597 7561
E-mail: mkhoury@dbrs.com

Name: Sohail Ahmer, CFA
Title: Vice President, Global Financial Institutions Group
Phone number: + 1 (416) 597 7409

E-mail: sahmer@dbrs.com

Name: Felix Sanchez
Title: Vice President
Phone number: + 52 (55) 9171 1507
E-mail: fsanchez@dbrs.com