

Broker/Dealers  
Taiwan  
Update

## Yuanta Securities Finance Co., Ltd.

### Ratings

<b>Foreign Currency</b>	
Long-Term IDR	BBB+
Short-Term IDR	F2
<b>National</b>	
Long-Term Rating	AA-(tw)
Short-Term Rating	F1(tw)
<b>Individual Rating</b>	
Support Rating	B/C
Support Rating Floor	5
	NF
<b>Sovereign Risk</b>	
Foreign-Currency Long-Term IDR	A+
Local-Currency Long-Term IDR	AA-

### Outlooks

Foreign-Currency Long-Term IDR	Stable
National Long-Term Rating	Stable
Sovereign Foreign-Currency Long-Term IDR	Stable
Sovereign Local-Currency Long-Term IDR	Stable

### Financial Data

Yuanta Securities Finance Co., Ltd.	30 Sep 10	31 Dec 09
Total assets (USDbn)	2.6	2.2
Total assets (TWDbn)	80.9	69.4
Total equity (TWDbn)	32.1	32.2
Net income (TWDbn)	1.4	1.8
ROA (%)	2.47	3.04
ROE (%)	5.71	5.76
Capital adequacy (%)	2,208	1,516

### Analysts

Cherry Huang, CFA  
+886 2 8175 7603  
[cherry.huang@fitchratings.com](mailto:cherry.huang@fitchratings.com)

Sophia Chen, CFA, CPA  
+886 2 8175 7604  
[sophia.chen@fitchratings.com](mailto:sophia.chen@fitchratings.com)

Jonathan Lee  
+886 2 8175 7601  
[jonathan.lee@fitchratings.com](mailto:jonathan.lee@fitchratings.com)

### Related Research

#### Applicable Criteria

- *Global Financial Institutions Rating Criteria (August 2010)*
- *Short-Term Ratings Criteria for Corporate Finance (November 2010)*
- *Rating Criteria for Securities Firms (December 2009)*
- *National Ratings Criteria (January 2010)*

### Rating Rationale

- The ratings of Yuanta Securities Finance Co., Ltd. (YSF) reflect its importance in Taiwan's securities finance market, solid capitalisation and good asset quality. The identical ratings of YSF and Yuanta Securities (YS, Yuanta Group's principal subsidiary) reflect their integrated risk profile and sound financial flexibility.
- To optimise the capital efficiency within the group (eg the securities borrowing regulatory cap for individual investors being higher for the better-capitalised YS than for YSF), YSF transferred the YS-initiated margin loan portfolio back to YS for almost TWD48bn in October 2010.
- YSF will focus on its agency role for third-party securities firms which lack economies of scale in margin lending. YSF's dominance as an agent places it in a better position to acquire new portfolios. In Q310, YSF acquired a TWD4.8bn margin loan portfolio from Fubon Securities Finance.
- YSF managed to deliver reasonable profitability through the market downturn in 2008-2009 due to its size. It reported an ROE of 5.7% in 9M10 (2009: 5.76%). The earnings outlook is stable due to recovering market turnover, YSF's reduced appetite for high-risk assets such as stocks and a portion of operating costs associated with the asset transfer being shifted to YS.
- YSF's credit risk and market risk exposures are moderate, as demonstrated by its limited loss experience during the market downturn. Credit risk, mainly arising from margin lending business, is mitigated through the rigorous selection of eligible securities and stringent margin call practices. Market risk is only modest, as the trading book plus available-for-sale securities makes up 7% of equity at end-Q310.
- YSF's equity/assets ratio rose to over 70% at October 2010 from 39.7% at end-Q310, following the asset transfer to YS. Its equity ratio remained sound at around 57% following the de-capitalisation of TWD16.5bn on 11 January 2011.
- YSF has maintained a good liquidity profile: its liquidity ratio was 169% at end-Q310 and 209% at end-2009. Over 90% of YSF's assets are of good quality and over 80% are reasonably secured (mostly margin loans) which provide sufficient cover for its short-term liabilities. Its ample liquid assets and its stable earnings outlook provide comfort regarding its maturing bonds in the next few years (TWD2.5bn in both 2011 and 2012).

### Support

- Fitch would neither expect state support for Taiwan's securities finance firms nor external support from YSF's parent, Yuanta Financial Holding Co., Ltd. (YFH), as YSF is strongly capitalised.

### Key Rating Drivers

- YSF's rating Outlook is Stable, supported by its strong capitalisation (even post de-capitalisation this January) and stable earnings outlook.

### Profile

YSF, a wholly-owned subsidiary of YFH, is engaged in securities finance business. Following the asset transfer between YSF and YS, YSF had a 6.7% market share in the long-margin market and 5% in the short-margin market as at end-Q310.