

Yuanta Financial Holdings Co. Ltd.

2011/02/16

Primary Credit Analyst: Eunice Fan; (886) 2 8722-5818, eunice_fan@taiwanratings.com.tw**Secondary Contact:** Eva Chou; (886) 2 8722-5822, eva_chou@taiwanratings.com.tw

Current Ratings (2011/01/19)	Counterparty credit rating:	twA+/Positive/twA-1
Credit Rating History	2011/01/19	twA+/Positive/twA-1
	2007/06/07	twA+/Stable/twA-1
	2006/12/01	twA+/Stable/twA-2
	2005/09/15	twBBB+/Positive/twA-3

Major Rating Factors

Strengths:

- Good capitalization relative to its risk profile
- Good business diversification and dominant market leader in Taiwan's securities industry

Weaknesses:

- Market risk exposure sensitive to the volatile stock market
- Obstacles to significantly strengthen its funding profile due to the wholesale funding nature of its securities-centric operations

Rationale

The ratings on Yuanta Financial Holdings Co. Ltd. (Yuanta FHC) reflect the group's good capitalization and business profile, including business diversification and dominant position in Taiwan's securities market. Several factors offset the holding company's strengths. These include the group's market risk exposure that is sensitive to Taiwan's volatile stock market, and the obstacles the group faces to significantly strengthen its funding profile in light of the wholesale-funding nature of its securities-centric operations. In addition, the ratings reflect Yuanta FHC's relative subordination to its major operating subsidiaries.

The Yuanta FHC group is securities centric, with Yuanta Securities Co. Ltd. (twAA-/Positive/twA-1+) contributing about 52% of the group's consolidated capital, followed by Yuanta Securities Finance Co. Ltd. (Yuanta SFC; twAA-/Positive/twA-1+, 28%), and the remainder largely from Yuanta Commercial Bank (Yuanta Bank; twAA-/Positive/twA-1+, 22%) at the end of September 2010.

The group has a good level of capitalization relative to its risk profile, which is likely to remain good under the group's prudent financial management. Its consolidated ratio of adjusted common equity to adjusted assets was about 17% at the end of September 2010, though this was slight down from 20% at the end of 2009, due to above-average business growth over that period.

Yuanta FHC has good business diversification and clear market leadership in Taiwan's securities industry, mainly via its flagship subsidiary, Yuanta Securities. We expect the group to develop a more balanced business mix with less reliance on the performance of Taiwan's stock market in the next two to three years, given the emerging benefits of domestic market deregulation. This subsidiary has a balanced business structure and strong competitive positions in various securities-related business segments. At the end of September 2010, the group held a 20% and 11% share, respectively, of the domestic margin lending and stock brokerage markets. At the same time, the group also had leading positions in other securities businesses, most importantly in financial advisory, derivatives, and underwriting.

Yuanta FHC group's market risk exposure is sensitive to market volatility due to its securities-centric nature. During 2009-2010, the company's investments in public and private equities and corporate bonds accounted for about 30% of its consolidated capital.

The group also faces difficulties to further improve its funding profile to a strong level, due to the wholesale nature of the securities business. On average, the company funded 57% of its consolidated assets by deposits, 20% by its own capital, 21% by other liabilities, and 2% by repurchase agreements during 2009 and the first nine months of 2010.

Enterprise Risk Management

The Yuanta FHC group has an adequate enterprise risk management (ERM) framework, backed by adequate risk governance and proactive management. The group's overall risk management is highly correlated to that of its core subsidiary, Yuanta Securities, and there is very high integration between Yuanta Securities and the group. Yuanta Bank's ERM is generally adequate, underpinned by senior management's commitment to enhance its risk governance and control processes.

Outlook

The positive outlook reflects our expectation that the Yuanta FHC group's overall credit profile could improve following the improvement in its earnings profile over the next one to two years. We also expect the group's adequate risk management and capitalization to serve as a good buffer to cushion against potential capital market volatility for the relatively high market risk exposure it faces. In addition, we expect the group to remain securities centric for the next one to two years despite its banking subsidiary's above-average growth. In our view, Yuanta FHC is likely to follow prudent business strategies and financial policies in pursuing organic growth as well as through M&A activity.

We may raise the ratings on Yuanta FHC as well as its key subsidiaries if Yuanta Securities' earnings profile strengthens further, supported by its leading market position or good diversification. We may revise the outlook back to stable if we observe a significant weakening in Yuanta Securities' competitiveness or profitability. We may also lower the ratings if the group's overall capitalization or profitability weakens due to its aggressive growth strategy organically or via M&A activity without adequate business/financial risk controls.

Related Criteria And Research

- [Outlook On Yuanta Financial Holding Co. Ltd. And Key Subsidiaries Revised To Positive On Resilient Earnings Profiles; Ratings Affirmed](http://www.taiwanratings.com/en), published on www.taiwanratings.com/en on Jan. 19, 2011
- Criteria | Financial Institutions| General: Group Methodology, published on www.globalcreditportal.com on April 22, 2009
- Criteria | Financial Institutions | General: Assessing Enterprise Risk Management Practices Of Financial Institutions, published on www.globalcreditportal.com on Sept. 22, 2006
- Criteria | Financial Institutions | Broker-Dealers: Rating Securities Companies, published on www.globalcreditportal.com on June 9, 2004

- Criteria | Financial Institutions | Banks: Rating Banks, published on www.globalcreditportal.com on March 18, 2004

Yuanta Financial Holdings Co. Ltd. Financial Statistics					
	--Year ended December 31--				
(Mil. NT\$)	2010*	2009	2008	2007	2006
Asset Quality, Funding, And Liquidity Ratios					
Gross nonperforming assets/customer loans plus other real estate owned	0.67	1.05	1.88	1.33	1.28
Net nonperforming assets/customer loans plus other real estate owned	(1.49)	(0.87)	(0.58)	(0.40)	(0.29)
Loan loss reserves/gross nonperforming assets	316.93	181.63	129.88	129.85	122.31
Loan loss reserves/customer loans	2.14	1.91	2.45	1.73	1.56
New loan loss provisions/average customer loans	0.02	0.19	1.38	1.75	3.42
Net charge-offs/average customer loans	0.21	0.71	0.89	1.82	3.34
Customer deposits/funding base	79.95	84.29	78.99	66.25	72.85
Total loans/customer deposits	80.86	79.70	82.53	94.51	86.47
Total loans/customer deposits plus long-term funds	56.79	54.58	56.89	62.93	72.97
Customer loans (net)/assets (adjusted)	44.02	44.10	45.52	44.60	53.11
Profitability Ratios					
Net interest income/average earning assets	2.13	1.72	2.21	3.13	2.30
Net interest income/revenues	32.08	26.46	37.80	38.43	58.75
Fee income/revenues	42.07	42.48	41.01	41.51	28.92
Market-sensitive income/revenues	11.44	18.16	0.86	3.22	5.43
Personnel expense/revenues	40.64	37.84	39.38	33.16	36.06
Noninterest expenses/revenues	63.55	59.77	66.66	56.76	61.43
New loan loss provisions/revenues	0.21	1.77	14.91	15.71	66.81
Net operating income before loan loss provisions/loan loss provisions	17,734.88	2,271.11	223.56	275.22	57.73
Net operating income after loan loss provisions/revenues	36.24	38.45	18.43	27.53	(28.24)
Pretax profit/revenues	34.57	37.32	11.03	23.48	(29.75)
Tax/pretax profit	20.13	21.50	29.43	1.48	8.02
Core earnings/revenues	29.28	30.43	15.18	27.18	(25.85)
Core earnings/average adjusted assets	1.27	1.46	0.65	1.49	(0.81)
Noninterest expenses/average adjusted assets	2.75	2.87	2.84	3.11	1.92
Core earnings/average risk-weighted assets	N/A	N/A	N/A	N/A	N/A
Core earnings/average adjusted common equity	6.90	7.32	3.36	10.61	(9.49)
Pretax profit/average common equity (%)	7.44	8.34	2.26	8.46	(9.90)
Capital Ratios					
Adjusted common equity/risk assets (%)	N/A	N/A	N/A	N/A	N/A
Tier 1 capital ratio	N/A	N/A	N/A	N/A	N/A
Adjusted total equity/adjusted assets	16.89	20.11	19.75	17.20	8.12
Adjusted total equity/managed assets	16.60	19.81	19.44	16.90	8.09
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	39.68	46.63	44.77	39.63	16.62

Common dividend payout ratio	0.00	99.23	84.03	89.48	0.00
Summary Balance Sheet					
Assets					
Cash and money market instruments	125,026	106,724	68,532	72,946	68,529
Securities	73,750	83,885	141,135	85,340	62,017
Trading securities (marked to market)	43,572	43,682	95,616	50,529	28,727
Nontrading securities	30,178	40,204	45,519	34,810	33,290
Mortgage-backed securities included above	0	0	0	0	0
Loans to banks (net)	0	0	0	0	0
Customer loans (gross)	274,147	238,606	238,721	240,683	229,770
Loan loss reserves	5,862	4,553	5,847	4,161	3,589
Customer loans (net)	268,284	234,053	232,874	236,522	226,181
Earning assets	388,947	356,807	414,087	345,448	299,399
Equity interests/participations (nonfinancial)	6,756	6,345	5,996	5,958	0
Investments in unconsolidated subsidiaries (financial companies)	0	0	0	0	0
Intangibles (nonservicing)	10,432	7,954	8,016	9,443	1,953
Interest-only strips	0	0	0	0	0
Fixed assets	8,707	8,799	7,667	10,989	6,233
Derivatives credit amount	0	0	0	0	0
Accrued receivables	106,886	78,822	40,961	100,260	54,177
All other assets	20,027	12,099	14,447	18,268	8,711
Total assets	619,868	538,681	519,628	539,725	427,801
Intangibles (nonservicing)	10,432	7,954	8,016	9,443	1,953
Minus insurance statutory funds	0	0	0	0	0
Adjusted assets	609,437	530,727	511,612	530,282	425,847
Liabilities					
Total deposits	354,755	312,930	301,108	282,923	292,058
Noncore deposits	15,736	13,555	11,865	28,264	26,328
Core/customer deposits	339,019	299,375	289,242	254,659	265,729
Acceptances	785	835	763	1,549	1,147
Repurchase agreements	12,840	15,209	36,397	32,736	26,951
Other borrowings	56,457	27,023	28,683	68,726	45,776
Other other borrowings	4,627	3,193	3,507	17,020	16,693
Other credit reserves	965	894	770	667	500
Other liabilities	79,907	66,330	43,805	44,028	24,811
Total liabilities	505,709	423,221	411,526	430,630	391,244
Total equity	114,159	115,460	108,102	109,095	36,557
Mandatorily convertible securities	0	0	0	0	0
Limited life preferred and quasi equity	0	0	0	0	0
Enhanced trust preferred	0	0	0	0	0
Minority interest-equity	525	225	230	255	34
Common shareholders' equity (reported)	113,634	115,235	107,873	108,840	36,523
Share capital and surplus	106,586	105,965	106,655	107,618	39,918
Revaluation reserve	814	786	(933)	(153)	16
Retained profits	6,654	8,849	2,365	6,052	(3,312)
Other equity	(421)	(365)	(215)	(4,678)	(99)
Total liabilities and equity	619,868	538,681	519,628	539,725	427,801
Equity Reconciliation Table					
Common shareholders' equity (reported)	113,634	115,235	107,873	108,840	36,523
Plus minority interest (equity)	525	225	230	255	34

Minus dividends (not yet distributed)	0	0	0	0	0
Minus revaluation reserves	(814)	(786)	933	153	(16)
Minus nonservicing intangibles	(10,432)	(7,954)	(8,016)	(9,443)	(1,953)
Minus interest-only strips (net)	0	0	0	0	0
Minus tax loss carryforwards	0	0	0	0	0
Minus postretirement benefit adjustment	0	0	0	0	0
Minus cumulative effect of credit-spread related revaluation of liabilities	N/A	N/A	N/A	N/A	N/A
Minus other adjustments	0	0	0	0	0
Adjusted common equity	102,913	106,720	101,019	99,805	34,588
Plus admissible preferred and hybrids	0	0	0	0	0
Total Adjusted Capital	102,913	106,720	101,019	99,805	34,588
Plus general reserves	0	0	0	0	0
Plus unrealized gains	0	0	0	0	0
Minus equity in unconsolidated subsidiaries	0	0	0	0	0
Minus capital of insurance subsidiaries	0	0	0	0	0
Minus adjustment for securitized assets	0	0	0	(8,593)	0
Adjusted total equity	102,913	106,720	101,019	91,212	34,588
Profit And Loss					
Net interest income	5,960	6,613	8,400	10,080	7,463
Interest income	7,605	9,390	15,686	17,466	13,211
Interest expense	1,645	2,777	7,286	7,386	5,748
Operating noninterest income	12,616	18,376	13,824	16,147	5,240
Fees and commissions	7,814	10,615	9,115	10,888	3,673
Net brokerage commissions	0	0	0	0	0
Trading gains	2,125	4,538	191	843	689
Other market-sensitive income	0	0	0	0	0
Net insurance income	0	0	0	0	0
Equity in earnings of unconsolidated subsidiaries	358	588	603	755	0
Other noninterest income	2,318	2,635	3,914	3,662	877
Operating revenues	18,576	24,989	22,224	26,227	12,703
Noninterest expenses	11,806	14,937	14,814	14,887	7,804
Personnel expenses	7,549	9,456	8,753	8,697	4,580
Other general and administrative expense	3,432	4,432	5,155	5,214	2,517
Net operating income before loss provisions	6,770	10,052	7,410	11,340	4,899
Credit loss provisions (net new)	38	443	3,314	4,120	8,486
Net operating income after loss provisions	6,732	9,610	4,095	7,220	(3,587)
Nonrecurring/special income	0	0	0	0	0
Nonrecurring/special expense	311	284	1,644	1,061	192
Amortization of intangibles	0	0	0	0	0
Impairment of intangibles	0	0	0	0	0
Pretax profit	6,421	9,325	2,451	6,159	(3,779)
Tax expense/credit	1,293	2,004	721	91	(303)
Net income (before minority interest)	5,129	7,321	1,730	6,068	(3,476)
Minority interest in consolidated subsidiaries	0	0	0	0	0
Net income before extraordinary	5,129	7,321	1,730	6,068	(3,476)
Net income after extraordinary	5,129	7,321	1,730	6,068	(3,310)
Core Earnings Reconciliation Table					

Net income (before minority interest)	5,129	7,321	1,730	6,068	(3,476)
Minus nonrecurring/special income	0	0	0	0	0
Plus nonrecurring/special expense	311	284	1,644	1,061	192
Plus or minus tax impact of adjustments	0	0	0	0	0
Plus amortization/impairment of goodwill/intangibles	0	0	0	0	0
Minus preferred dividends	0	0	0	0	0
Plus or minus other earnings adjustments	0	0	0	0	0
Core earnings	5,439	7,605	3,374	7,128	(3,284)
*Nine months ended Sept. 30. NT\$--Taiwan dollar. N/A--Not applicable.					

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