

Media Release:

# Fubon Securities Co. Ltd. Ratings Affirmed At 'twAA+/twA-1+' On Very Strong Capitalization; Outlook Stable

October 26, 2023

## Overview

- We continue to assess **Fubon Securities Co. Ltd.'s** capitalization as very strong and with an adequate market position following its merger with Jih Sun Securities Co. Ltd.
- We have affirmed our 'twAA+' long-term and 'twA-1+' short-term issuer credit ratings on Fubon Securities.
- The stable rating outlook continues to reflect our view that Fubon Securities will remain a core entity of the parent Fubon Financial Holding Co. Ltd. (Fubon FHC) group and that the ratings will move in line with the consolidated group credit profile.

## Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA+' long-term and 'twA-1+' short-term issuer credit ratings on Fubon Securities. The outlook on the long-term rating is stable.

## Rationale

We forecast Fubon Securities' capitalization will remain very strong over the next one to two years, following its merger with Jih Sun Securities. This is supported by Fubon Securities continued prudent capital management, as shown in stability of its risk-adjusted capital (RAC) ratio above 15% for most of the past few years.

Fubon Securities remains the third largest broker in Taiwan, albeit with an increased market share of 7.8% at the end of June 2023 compared with 4.9% at the end of 2022. This has helped to narrow the gap with the number two broker, KGI Securities Co. Ltd. We believe Fubon Securities will solidify its footing in Taiwan's brokerage market, given its increased clientele post-merger.

The ratings continue to reflect our view of Fubon Securities' core status within the parent Fubon FHC group. The ratings also reflect the company's very strong capitalization, good market position in major product lines, and satisfactory funding and liquidity profile. Counterbalancing these strengths are Fubon Securities' business concentration in Taiwan's capital market as well as reliance on whole funding which is similar to its domestic peers.

### PRIMARY CREDIT ANALYST

**Josephine Ho**  
Taipei  
+886-2-2175-6822  
josephine.ho  
@spglobal.com  
josephine.ho  
@taiwanratings.com.tw

### SECONDARY CONTACT

**Serene Hsieh, FRM, CPA**  
Taipei  
+886-2-2175-6820  
serene.hsieh  
@spglobal.com  
serene.hsieh  
@taiwanratings.com.tw

## Outlook

The stable rating outlook reflects our view that Fubon Securities will remain a core entity of Fubon FHC group; therefore, the ratings on the securities company will move in line with the consolidated group credit profile.

The outlook also reflects our view that Fubon FHC group's flagship entity, **Fubon Life Insurance Co. Ltd.** will continue to dominate the overall group credit profile over the next two years. We anticipate the parent group will manage the impact of market volatility and interest rate changes on its capital and earnings. We also believe the group will fulfill any additional capital requirements for its subsidiaries without materially weakening the group's overall capital and earnings. This could include capital outlays to absorb volatility in the group's investment valuations, support overseas subsidiaries, or to pursue organic asset growth.

### Downside scenario

We could lower the long-term rating on Fubon Securities if we lower our assessment of the group credit profile. This may happen if:

- Fubon Life's risk exposure heightens, which could lead to capital and earnings volatility. This could be due to enlarged exposure to foreign exchange risk, net of effective hedging, or materially and consistently higher investment concentration in the financial sector than the local peer average;
- We revise downward our assessment of Fubon Life's capital and earnings to fair from satisfactory. This is likely if the insurer expands its investment assets or increases its exposure to market volatility beyond our base case. It could also occur if the growth in Fubon Life has materially lower value of in-force than we currently forecast, because value of in-force accounts for a large part of the group's total adjusted capital. We could also revise downward our capital and earnings assessment if Fubon Life expands through mergers and acquisitions beyond our current expectation or its operating performance drops below the domestic industry average; or
- We revise downward our assessment of the consolidated capital and earnings of the group's banking unit, Taipei Fubon Commercial Bank Co. Ltd. to adequate from strong, to reflect aggressive risk accumulation, especially in higher-risk markets such as China or through equity investments. The capital and earnings of the bank may also deteriorate if it has insufficient earnings to fund growth.
- We could also lower the ratings on Fubon Securities if we considered its importance to the group has weakened. However, we believe such a scenario is very unlikely over the next two years.

### Upside scenario

We could raise the long-term rating on Fubon Securities if we raise our assessment of the group credit profile. This could occur if Fubon Life sustainably improves its capital and earnings to qualify for our assessment of strong over the coming two years, coupled with a stable competitive position and stable risk exposure. At the same time, Taipei Fubon Commercial Bank's consolidated credit risk profile would need to remain unchanged.

## Related Criteria & Research

### Related Criteria

- General Criteria: Group Rating Methodology – July 01, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings – April 07, 2017
- General Criteria: National And Regional Scale Credit Ratings Methodology – June 08, 2023
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions – December 09, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology – December 09, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings – October 10, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology – July 20, 2017
- General Criteria: Principles Of Credit Ratings – February 16, 2011

### Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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## Ratings List

### Ratings Affirmed

#### Fubon Securities Co. Ltd.

Issuer Credit Rating	twAA+/Stable/twA-1+
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.taiwanratings.com](http://www.taiwanratings.com) for further information. Complete ratings information is available to subscribers of Rating Research Service at [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw). All ratings affected by this rating action can be found on Taiwan Ratings' public website at [www.taiwanratings.com](http://www.taiwanratings.com).

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