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Research Update:

Tanner Banco Digital Assigned 'BBB-' Issuer Credit Rating; Outlook Negative

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Overview

- On Aug. 26, 2024, as part of Tanner's corporate restructuring, the Chilean banking regulator (Comision para el Mercado Financiero--CMF) granted license of existence to Tanner Banco Digital, allowing it to start operating in the next few months.
- We assigned our 'BBB-' rating to Tanner Banco Digital, since we view the recently established entity as a core subsidiary of the Tanner Servicios Financieros group (BBB-/Negative/--) given its critical importance to the group's future business plans.
- Tanner Servicios Financieros' credit profile benefits from good business diversification and market positioning in its core segments, solid capitalization, adequate liquidity management, and a diversified funding base despite its high dependence on wholesale funding. Its asset quality remains pressured, but we expect metrics to recover next year.
- The negative outlook on the new bank reflects that on its parent, which in turn reflects the negative economic risk trend in our Banking Industry Country Risk Assessment (BICRA) on Chile.

Rating Action

On Oct. 3, 2024, S&P Global Ratings assigned its 'BBB-' long-term issuer credit rating to Tanner Banco Digital. The outlook is negative.

Rationale

Our rating on Tanner Banco Digital reflects our belief that it will be the key part of the Tanner Servicios Financieros (TSF) group's conversion to a banking operating model in the next few months and will be crucial for the group's strategic plan. The plan includes gaining market share in the banking industry, complementing the group's product offerings to improve competitiveness, expanding access to capital markets, starting to access different funding sources such as customer deposits, and increasing its operating efficiency and profitability.

As part of its strategic plan, the group established Tanner Banco Digital for legal and regulatory reasons, with the goal of gradually migrating TSF's assets, liabilities, and equity to the bank. We estimate the bank will have roughly 90% of the group's balance sheet when the migration concludes by 2026.

TSF, which has become an operating holding company consolidating the bank, will continue managing the remaining 10% for legal and efficiency reasons, which will mostly consist of a few corporate lending and leasing operations.

During the first months of operations, Tanner Banco Digital will maintain the same business strategy--with similar lending segments and funding composition--as the one TSF has implemented in recent years. However, we think it could grow its product offerings in the next few years, for example by developing digital products.

Our view of Tanner Banco Digital as a core subsidiary of the TSF group also considers the subsidiary's strategic alignment with the group's business and objectives, as well as its integration with the group's risk management practices and infrastructure. We also think the parent will have a strong long-term commitment to the bank and willingness to support it, if needed, given the subsidiary's vital importance to TSF's future business strategy and TSF's sizable equity allocation in the bank.

Our assessment also reflects the close link between the subsidiary and the group's reputation because they share the same name and brand. Our rating on Tanner Banco Digital is the same level as TSF's group credit profile, which is currently 'bbb-', because of its status as a core subsidiary.

TSF's group credit profile reflects our expectation that it will maintain sound capitalization, good business diversification compared with the nonbank financial institution sector, and solid market positions in the factoring and auto loan segments--which are its core businesses. The group has a diverse funding base, with different sources and a manageable maturity profile. It also has proactive asset-liability management and maintains adequate liquidity to meet its short-term needs.

TSF's asset quality metrics will remain strained over the next few months given persistent high credit risks on previously written auto loans and a few problematic corporate loans, although we think the recovery prospects are good (see "Tanner Servicios Financieros S.A.," published Sept. 3, 2024).

TSF's ongoing corporate restructuring doesn't immediately affect its creditworthiness, in our view. As a banking group, it will benefit from a stronger regulatory framework, access to the central bank's liquidity facilities, and higher competitiveness--for example through access to less expensive funding sources.

However, our analysis of the group's market share, business and risk diversification, and funding profile will now consider the banking peers in the Chilean system, which tend to be larger and more diversified.

Outlook

The negative outlook on Banco Tanner Digital for the next 12-24 months reflects that on its parent, TSF, which in turn mirrors downside risks until Chile's economy fully recovers and prospects for the medium term become clearer amid the polarized political landscape or other global developments.

Downside scenario

We could downgrade the bank if we revise the economic risk score in Chile's BICRA to a weaker category. We could also lower the rating if TSF's intrinsic creditworthiness weakens.

Upside scenario

We could revise the outlook on the bank to stable if pressures on the financial system decrease while TSF's fundamentals remain unchanged.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Tanner Servicios Financieros S.A., Sept. 3, 2024

Ratings List

New Rating; CreditWatch/Outlook Action	
Tanner Banco Digital	
Issuer Credit Rating	BBB-/Negative/--

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.