

Research Update:

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

October 3, 2024

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.

PRIMARY CREDIT ANALYST

Camilo Andres Perez
Mexico City
+ 52 55 5081 4446
camilo.perez
@spglobal.com

SECONDARY CONTACT

Sergio A Garibian
Sao Paulo
+ 55 11 3039 9749
sergio.garibian
@spglobal.com

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.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.