

Tanner Servicios Financieros S.A.

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Tanner Servicios Financieros S.A.

Credit Highlights

Issuer Credit Rating

BBB-/Negative/--

Key strengths	Key risks
Diversified loan portfolio relative to other nonbank financial institutions (NBFIs).	Concentration in more cyclical sectors compared to universal banks in the country.
Healthy liquidity management and diversified funding base.	Lower income of individuals and somewhat higher corporate leverage in Chile compared to global peers.
Good capitalization.	Political volatility may affect investments and economic growth prospects in the next few years.

The ratings on Tanner reflect its good business position, stemming from its solid presence in the factoring and auto loan segments (its core business). Additionally, Tanner's diversified credit operations in different business lines--factoring, auto loans, corporate credit, and leasing--provides a sustainable revenue base because the company is able to shift growth to products and sectors with better prospects throughout the business cycle.

Capital levels still a credit strength for Tanner. We continue to view Tanner's good capital levels and its low leverage as the main ratings strengths. However, we currently forecast Tanner's capitalization metrics to narrow in coming years, due to high credit growth primarily stemming from the Nissan agreement. Furthermore, Tanner's capitalization metrics could further decline if we revise Chile's Banking Industry Country Risk Assessment (BICRA) to a higher-risk category, because this scenario would imply higher risk weights on the risk-adjusted capital (RAC) ratio. Nonetheless, we expect Tanner to continue prioritizing strong capital levels.

Tanner's risk position continues to moderate our rating on the company, although its origination standards have improved. In the last few years, Tanner has improved its origination standards, particularly in its automobile segment, and reported historically low levels of delinquencies in its auto loans and in its factoring portfolio in December 2020 and the first semester of 2021. Asset quality metrics for Tanner and the system improved, affected by different government support measures related to the pandemic. However, this was partially offset by an increase in its credit portfolio delinquency due to a few punctual cases.

Diversified funding base with maturities dispersed over time. Tanner has a diversified funding structure with access to different sources of funding compared to other finance companies--although it's all wholesale funding. The company also has adequate liquidity management with sufficient liquidity to cover upcoming maturities and adequate procedures in place to preserve liquidity under stressed conditions.

Outlook

The negative outlook on Tanner for the next 18-24 months reflects that of the banking industry, which in turn reflects downside risks until Chile's economy fully recovers and prospects for the medium term become clearer amid the amendment of the constitution, presidential elections, and/or other global developments.

Downside scenario

We could lower the ratings on Tanner if our view of Chile's financial system worsens (resulting in a higher BICRA category [reflecting increased risk] and lower anchors for banks and finance companies).

Upside scenario

We could revise the outlook on Tanner to stable if the current pressures on the financial system decrease, prompting us to revise the negative trend in the economic risk in Chile's BICRA to stable, while all other fundamentals remain unchanged.

Anchor: 'bb+' For NBFIs Operating In Chile

The anchor for Chile-based NBFIs is 'bb+', which incorporates a standard adjustment of three notches below the anchor for banks operating in the country. This adjustment reflects NBFIs' lack of access to the central bank's credit lines, lower regulatory oversight, and higher competitive risk than for banks.

We currently see negative pressures on the NBFIs anchor in Chile, reflecting continuing downside risks until the economic recovery, political uncertainty, and other potential global developments (further waves of COVID-19, additional withdrawals of pension funds, sudden increases in interest rates, etc.). These pressures are also in the context of lower income of individuals and higher leverage of companies in Chile compared to global peers.

(See "Banking Industry Country Risk Assessment: Chile," Aug. 27, 2021.)

Business Position: Diversified Loan Portfolio And Solid Market Position In Its Core Segments

Tanner's business position is supported by its diversified credit operations in factoring, auto loans, corporate credit, and leasing, which diversify its revenue; and its adequate market position in the factoring and auto loans business lines (its core businesses).

Tanner's loan portfolio is more diversified than those of its peers, which mostly focus on one segment. Tanner's loan portfolio is composed of auto loans (44%), factoring (25%), corporate loans (24%), and leasing loans (5%) as of June 2021. By the end of 2021, we expect factoring to represent about a third of the loan portfolio because we expect higher growth in the last quarter (usually the more active period for the segment and considering the forecast rebound in the

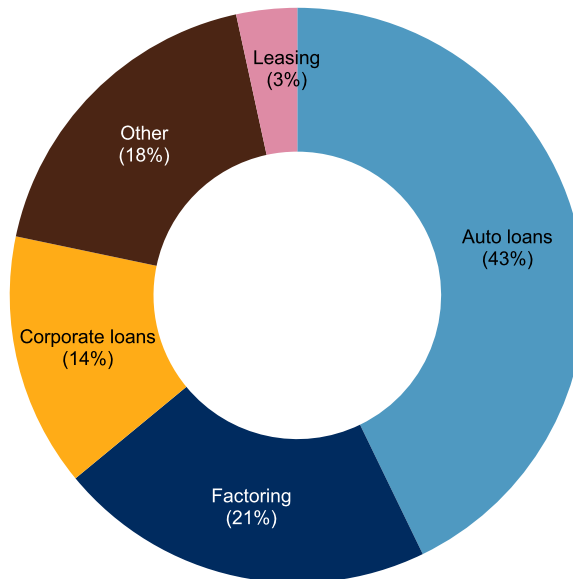
economy in 2021). Auto loans will still represent a large proportion but closer to 40%, driven by growth related to the Nissan agreement and by extraordinary demand of durable goods from individuals due to excess liquidity from pension funds withdrawals.

Additionally, Tanner's subsidiaries--Tanner Corredores de Bolsa (security firm), Tanner Investments, Tanner Corredores de Bolsa de Productos S.A. (security firm), Tanner Asset Management Administradora General de Fondos S.A., and Tanner Corredora de Seguros (insurance brokerage)--also help diversify the company's business lines and revenue.

Chart 1

Operating Revenues Per Segment

First half of 2021

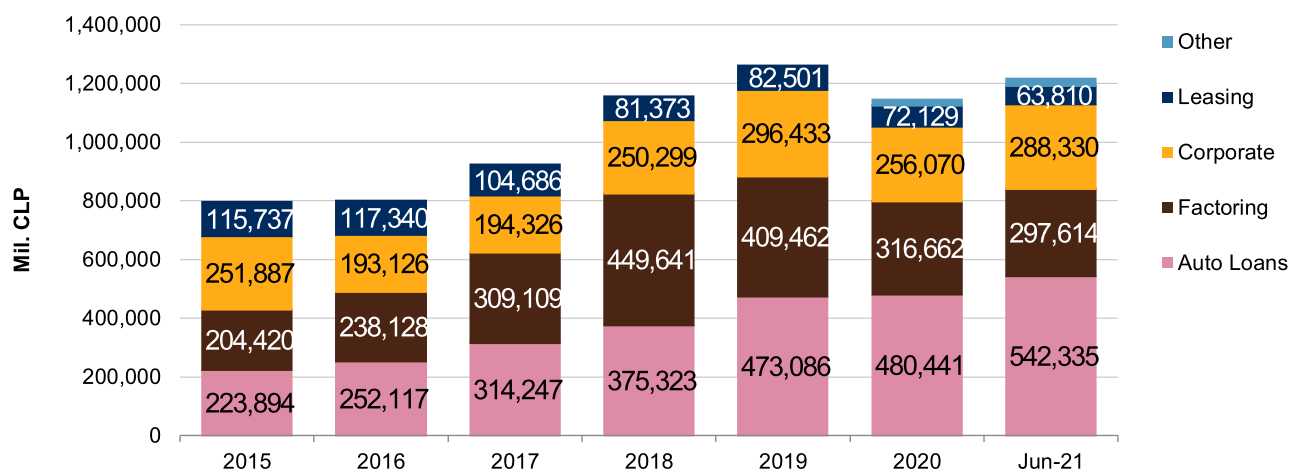


Source: S&P Global Ratings.

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Chart 2

Diversified Loan Portfolio



Source: S&P Global Ratings. CLP--Chilean peso.

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As of June 2021, Tanner was the largest NBFIs in Chile's factoring segment, ranking fifth (including banks) with about 8.1% of market share, and ranking second in the auto loan industry. In December 2019, Tanner announced a financial agreement with Nissan, under which Tanner will finance Nissan car sales for individuals and for Nissan car dealers (auto floor plan). This agreement has helped Tanner strengthen its competitive position in the Chilean auto loan segment, increasing its participation in first-option financings.

Capital And Earnings: Narrowing Capitalization Levels, But Still A Credit Strength

We expect that Tanner's capitalization metrics will decline in upcoming years, with an RAC ratio nearing 15%, as the company increases its leverage. Nonetheless, Tanner has a healthy capital structure, with a comfortable cushion to absorb losses and a policy to preserve capital.

Our RAC ratio forecast incorporates the following base-case scenario assumptions:

- A significant rebound in economic activity in 2021 and more moderate growth in 2022.
- Loan portfolio growth of 25% in 2021 (driven by the recovery in the factoring business) and 15% in 2022-2023.
- ROAA of about 2.2% in 2021 and improving to 2.2%-2.5% in 2022-2023.
- Nonperforming loans (NPLs) of about 2.5% in 2021, in part benefited by the different support measures in the system but they should return to higher but still manageable levels over the medium term.
- A dividend payout of about 30% of results.

Tanner has adequate quality of capital because its capital base mostly consists of common equity. The NBF1 has historically maintained good profitability, with return on average assets at about 2.3% over the last few years. During the first half of 2021, Tanner reported net income of CLP20.4 billion (95% higher than a year before) due to lower capital levels in 2020, higher business volumes, still low funding costs, and lower provisioning.

Table 1

Tanner Servicios Financieros S.A.--Total Adjusted Capital					
(Mil. CLP)	2021*	2020	2019	2018	2017
Common shareholders' equity	333,960.9	316,817.8	304,406.6	281,098.7	268,035.7
Plus: minority interest (equity)	982.6	925.2	2,644.9	2,047.7	1,444.8
Less: revaluation reserves	(3,204.7)	(6,150.1)	576.3	(298.2)	1,259.8
Less: nonservicing intangibles	7,199.6	8,277.2	8,522.2	7,283.2	5,272.3
Intermediate adjusted common equity	330,948.6	315,616.0	297,953.1	276,161.3	262,948.4
Less: DTA arising from temporary differences not convertible into cash or government bonds exceeding 10% of Intermediate ACE	0.0	0.0	170.5	3,661.8	3,596.8
Adjusted common equity	330,948.6	315,616.0	297,782.6	272,499.5	259,351.6
Total Adjusted Capital	330,948.6	315,616.0	297,782.6	272,499.5	259,351.6
Plus: general reserves	18,187.0	22,806.8	28,502.1	26,756.0	24,315.2
Adjusted total equity	349,135.6	338,422.8	326,284.7	299,255.5	283,666.9

*Data as of June 30. CLP--Chilean peso.

Risk Position: Improving Origination Standards

Tanner's risk position reflects that its loan portfolio has higher exposure to more vulnerable and cyclical sectors through its SMEs factoring operations and auto loans compared to the banking industry. Tanner's target clients are SMEs and corporations, while its auto lending mostly focuses on the retail segment.

However, over the years, Tanner has implemented stricter underwriting standards for new loans, enacted stronger monitoring and collection procedures, and changed its charge-off policy. Also, in its auto loans segment Tanner has been focusing on first-option financing and new cars (further boosted by its Nissan agreement), which substantially improved the risk from this segment. Currently about 87% of Tanner's auto loans finance new cars (compared to 60% a year before). In addition, withdrawals of pension funds and other government support measures further improved asset quality metrics in 2020 and 2021. As a result, both Tanner's factoring and automobile portfolio reported historically low delinquencies as of June 2021.

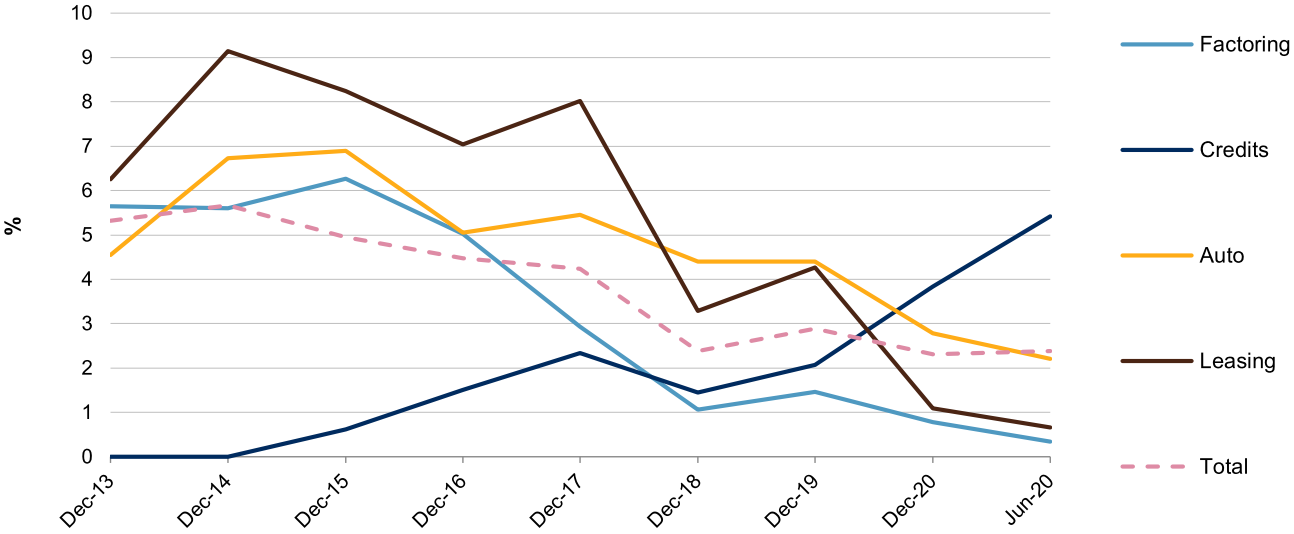
On the other hand, its credit portfolio (about 20% of total loans) has had an increase in delinquency due to a few punctual cases, with NPLs in that portfolio increasing to 5.4% as of June 2021 from 2.9% a year before. Nonetheless, these cases have adequate guarantee coverage.

In general, Tanner has adequate levels of guarantees in all of its portfolio, which helps to keep credit losses under control. Also, Tanner has limited concentration risk: the top 20 largest exposures represented about 23% of total loans and 0.8x total adjusted capital as of June 2021 (compared to 35% and 1.2x, respectively, in 2015). Tanner doesn't have risk from complex operations or significant market risk exposure.

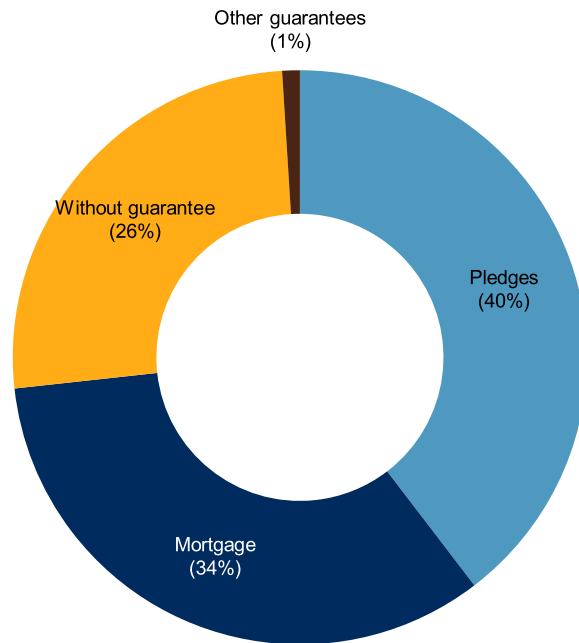
Chart 3

Tanner's Historically Low NPLs Are Offset By Punctual Cases In The Credit Portfolio

NPLs per segment



Source: S&P Global Ratings.
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Chart 4**Corporate Loans And Leasing Portfolio Guarantees**
As of June 2021

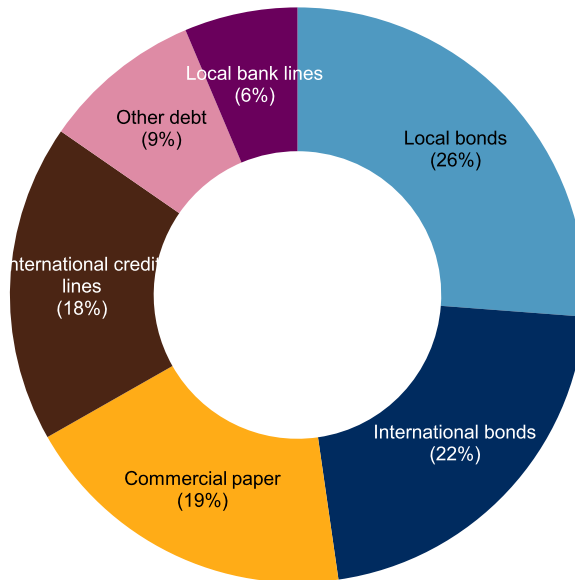
Source: S&P Global Ratings.

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Funding And Liquidity: Diversified Funding Base And Short Tenor Of Assets Compared To Liabilities

Tanner has a well-diversified funding base compared to peers, relatively easy access to multiple sources of debt, and a manageable debt maturity profile. Its stable funding ratio was below 90% at the end of June 2021. However, the mix of international and national bonds, loans from foreign and domestic banks, and commercial paper help offset this ratio. Tanner has a substantial amount of approved banking lines, frequently issues in the domestic market, and has access to international funding through multilateral lines and cross-border issuances. Market debt, including commercial paper and bonds in local and international markets, accounted for 67% of the company's total funding as of June 2021, while the remainder consisted mainly of local bank lines and international lending institutions.

Tanner is consistently looking for new funding sources and new investors to keep a diversified funding base. In the first half of this year, Tanner issued UF2 million in the local market (about \$75 million), did other private placements in the international markets, and secured new lines from multilateral banks lines. Tanner also maintained its stock of commercial paper in the local market for about CLP200.0 billion (about \$250 million). Tanner's next significant maturity is this December, when its CHF125 million notes mature, but the company has already refinanced this.

Chart 5**Funding Structure**
As of June 2021

Source: S&P Global Ratings.

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In our opinion, Tanner has adequate liquidity management and adequate procedures in place to preserve liquidity under stressed conditions. The company has a conservative financing strategy--it plans for liquidity needs several quarters in advance, which we view as positive for NBFIs. Our liquidity assessment incorporates our forecast of positive cash flow under our base-case and stress-test scenarios, considering the shorter duration of assets than liabilities and multiple sources of funding. Both of these factors give Tanner significant flexibility to generate liquidity and adapt to changing economic and credit cycles. Tanner has kept liquidity comfortable since the end of 2019 and during 2020, especially during the more volatile months of the pandemic.

Support: No Uplift To The SACP

Our rating on Tanner is at the same level as the 'bbb-' stand-alone credit profile (SACP) because the company doesn't benefit from external support from either the government or the group.

We consider Tanner's ultimate parent to be Inversiones Bancarias (not rated)--the subsidiary represents 98% of the holding company's consolidated assets. Inversiones Bancarias owns 51% of Tanner's equity.

In 2019, The Capital Group (not rated; minority shareholder with 27% participation) began the process of selling its

stake in Tanner's equity, but this hasn't been completed yet. However, the potential exit of Capital Group wouldn't affect our ratings on Tanner. This is because we don't include any extraordinary support in our rating, because the fund only holds a minority portion of Tanner's equity.

Ratings Score Snapshot

Issuer credit rating	BBB-/Stable/--
SACP	bbb-
Anchor	bb+
Business position	Adequate (0)
Capital and earnings	Very strong (+2)
Risk position	Moderate (-1)
Funding and liquidity	Adequate and adequate (0)
Support	0
GRE support	0
Group support	0
Government support	0
Additional factors	0

Key Statistics

Table 2

Tanner Servicios Financieros S.A.--Business Position					
(Mil. CLP)	2021*	2020	2019	2018	2017
Total assets	1,625,403.8	1,465,796.3	1,610,668.1	1,427,546.2	1,171,845.6
Gross receivables	1,216,383.1	1,145,528.4	1,261,482.1	1,156,635.9	922,357.5
Operating revenues	55,423.3	103,091.9	116,537.6	105,861.6	90,292.6
Net income after extraordinary	20,425.4	27,510.9	32,597.4	29,737.8	25,319.2
% Change in operating revenue	4.9	(11.5)	10.1	17.2	10.0
Net interest margin (%)	9.7	9.4	9.5	10.4	10.6

*Data as of June 30. CLP--Chilean peso.

Table 3

Tanner Servicios Financieros S.A.--Capital, Leverage, And Earnings					
(%)	2021*	2020	2019	2018	2017
Noninterest expenses/operating revenues (%)	46.8	44.7	39.5	41.8	42.5
Net interest income/operating revenues (%)	114.9	119.4	108.8	111.3	111.4
Fee income/operating revenues (%)	(14.1)	(17.9)	(11.3)	(13.4)	(14.2)
Return on average assets (%)	2.6	1.8	2.1	2.3	2.3
Core earnings/average managed assets (%)	2.6	1.8	2.1	2.3	2.3
Common + preferred dividends/net income (%)	40.2	35.0	27.0	24.9	37.3

*Data as of June 30.

Table 4

Tanner Servicios Financieros S.A.--Risk Position					
(%)	2021*	2020	2019	2018	2017
Growth in gross receivables (%) (YoY)	12.6	(9.2)	9.1	25.4	15.3
Nonperforming assets§/receivables + other real estate owned (%)	3.4	2.7	3.7	3.1	4.9
Nonperforming loans/gross receivables	2.4	2.3	2.9	2.4	4.2
Net charge-offs/average gross receivables (%)	1.6	2.0	2.0	2.7	2.0
New loan loss provisions/average gross receivables (%)	1.0	2.0	2.6	2.7	2.8
Loan loss reserves/gross receivables (%)	1.5	2.0	2.3	2.3	2.6
Loan loss reserves/gross nonperforming assets (%)	44.0	72.7	60.5	75.3	53.6

*Data as of June 30. §Nonperforming assets include past-due loans and stock of repossessed assets.

Table 5

Tanner Servicios Financieros S.A.--Funding And Liquidity					
	2021*	2020	2019	2018	2017
Stable funding ratio (%)	62.9	65.8	51.3	55.5	68.9
Liquidity coverage metric (x)	0.4	0.3	0.2	0.2	0.3

*Data as of June 30.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- Criteria | Financial Institutions | General: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of September 8, 2021)*

Tanner Servicios Financieros S.A.

Issuer Credit Rating	BBB-/Negative/--
Senior Unsecured	BBB-

Issuer Credit Ratings History

03-Apr-2020	BBB-/Negative/--
22-Aug-2018	BBB-/Stable/--
04-Aug-2017	BBB-/Negative/--
14-Jul-2017	BBB-/Watch Neg/--

Ratings Detail (As Of September 8, 2021)*(cont.)

27-Jan-2017	BBB-/Negative/--
Sovereign Rating	
Chile	
<i>Foreign Currency</i>	A/Stable/A-1
<i>Local Currency</i>	A+/Stable/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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