Research Update:

Reinsurer Milli Reasurans 'trA+' Turkey National Scale Rating Affirmed

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PRIMARY CREDIT ANALYST

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Overview

- On Dec. 15, 2021, we revised our outlook on Türkiye Is Bankasi AS (Isbank) to negative and affirmed our 'B+' issuer credit and 'trA+' Turkey national scale ratings on Isbank.
- We view Milli Reasurans T.A.S. (Milli Re) as a subsidiary of Isbank with moderately strategic importance, and we cap our rating on Milli Re -by the rating on the parent.
- We have therefore affirmed our 'trA+' rating on Milli Re.
- We do not assign outlooks to our national scale ratings.

Rating Action

On Dec. 15, 2021, S&P Global Ratings affirmed its 'trA+' Turkey national scale rating on Milli Reasurans T.A.S. (Milli Re).

Rationale

The affirmation of the rating on Milli Re follows our affirmation of the long-term local and foreign currency ratings on Isbank, Milli Re's majority shareholder and one of Turkey's leading banks (see "Outlooks On Turkish Banks Now Negative On Increasing Economic And Funding Risks," published Dec. 15, 2021, on RatingsDirect). In our view, Milli Re is a subsidiary of Isbank with moderate strategic importance. As a result, we cap the rating on Milli Re at the same level as that on the parent and we expect the rating on Milli Re to move in a similar direction as our ratings on Isbank.

In the third quarter of 2021, Milli Re's gross premium written increased to Turkish lira (TRY) 1.8 billion (about $201 million), which is about 32% higher than for the same period in 2020. The inflation rate in Turkey over that period was 19.6%. Therefore, real premium growth increased by around 11%. This is due to the higher-than-expected premium income obtained from the local market (owing to the impact of currency movements), as well as inflation-indexed and foreign currency-denominated policies. Total investment income was supported by exposure to foreign currency-denominated bonds, with TRY411 million (about $46 million) generated in the first nine months of 2021. Overall, net profits as of third-quarter 2021 increased to TRY300 million, notwithstanding the high inflation and the prevailing macroeconomic environment.

We could lower or raise our rating on Milli Re if we took a similar action on the parent.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Turkey Outlook Revised To Negative On Uncertain Policy Direction Amid Rising External Risks; Ratings Affirmed, Dec. 10, 2021
- Outlooks On Turkish Banks Now Negative On Increasing Economic And Funding Risks, Dec. 15, 2021

Ratings List

Ratings Affirmed	
Milli Reasurans T.A.S.	
Turkey National Scale	trA+/--/--

Regulatory Disclosures

- Milli Reasurans T.A.S.
- Primary Credit Analyst: Trevor Barsdorf, Associate Director
- Rating Committee Chairperson: Johannes Bender
- Date initial rating assigned: July 25, 2007
- Date of previous review: Feb. 18, 2021

Disclaimers

This rating has been determined by a rating committee based solely on the committee's independent evaluation of the credit risks and merits of the issuer or issue being rated in accordance with S&P Global Ratings published criteria and no part of this rating was influenced by any other business activities of S&P Global Ratings.

This credit rating is solicited. The rated entity did participate in the credit rating process. S&P Global Ratings did have access to the accounts, financial records and other relevant internal, non-public documents of the rated entity or a related third party. S&P Global Ratings has used information from sources believed to be reliable but does not guarantee the accuracy, adequacy, or completeness of any information used.

Materials Used In The Credit Rating Process: Sufficient information in general consists of both (i) financial statements that describe the Issuer's financial condition, results of operations and cash-flows, and (ii) a description of the activities and obligations of the entity including of its governance and legal structure.

This credit rating was disclosed to the rated entity or related third party before being issued.

S&P Global Ratings' regulatory disclosures (PCRs) are published as of a point-in-time, which is current as of the date a Credit Rating Action was last published. S&P Global Ratings updates the PCR for a given Credit Rating to include any changes to PCR disclosures only when a subsequent Credit Rating Action is published. Thus, disclosure information in this PCR may not reflect changes to data within PCR disclosures that can occur over time subsequent to the publication of a PCR but that are not otherwise associated with a Credit Rating Action. Note that there may be instances where the PCR reflects an updated Ratings Model version in business use as of the date of the last Credit Rating Action although use of the updated Ratings Model was deemed unnecessary to produce that Credit Rating Action. For example, this may occur in the case of event-driven reviews where the event being assessed is considered to be not relevant to running the updated Ratings Model version. Note also that, in accordance with applicable regulatory requirements, S&P Global Ratings evaluates the impact of material changes to Ratings Models and, where appropriate, issues revised Credit Ratings where necessitated by the updated Ratings Model.

This rating has been determined by a rating committee based solely on the committee's independent evaluation of the credit risks and merits of the issuer or issue being rated in accordance with S&P Global Ratings published criteria and no part of this rating was influenced by any other business activities of S&P Global Ratings.

Glossary

- Anchor: The starting point for rating an insurer, based on S&P Global Ratings' assessments of the business and financial risk profiles.
- Business risk profile (BRP: Assesses the risk inherent in the insurer's operations and therefore the potential sustainable return to be derived from those operations.
- Capital and earnings: Measure of an insurer's ability to absorb losses.
- Competitive position: An assessment based on an insurer's market or niche position, scale or efficiency of operations, brand name recognition or reputation, and strength of distribution.
- Date initial rating assigned: The date S&P Global Rating's assigned the long-term foreign

currency issuer credit rating on the entity.

- Date of previous review: The date S&P Global Rating's last reviewed the credit rating on the entity.
- Earnings before interest (other than interest on nonrecourse or operational leverage) and taxes. We may apply analytical adjustments for items such as nonrecurring events; realized investment gains/losses; or impairments to goodwill.
- Financial leverage. Financial obligations/(reported equity + financial obligations). We deduct from reported equity any off-balance-sheet pension deficit, net of tax, and any financial obligations included in reported equity, such as preferred stock. We typically include noncontrolling interests as part of reported equity. We may use net assets rather than reported equity, for example in the case of mutual insurers.
- Financial obligations/EBITDA. Determines the number of years of normalized earnings required to pay back debt and is another measure of the sustainability of the level of debt taken on by an insurer.
- Financial risk profile (FRP): The consequence of decisions that management makes in the context of its business risk profile and its risk tolerances.
- Financial strength rating (FSR): A forward-looking opinion about the financial security characteristics of an insurer with respect to its ability to pay under its insurance policies and contracts, in accordance with their terms.
- Fixed-charge coverage. EBITDA/fixed charges. Fixed-charge coverage represents an insurer's ability to service interest on financial obligations out of EBITDA. Fixed charges include total interest expense including interest expense reported as investment expense, lease expense, and preferred stock dividends (tax-adjusted), minus any interest expense on debt that we consider to be nonrecourse or operational leverage.
- High-risk assets: Volatile or illiquid assets.
- Insurance Industry And Country Risk Assessment (IICRA): Addresses the risks typically faced by insurers operating in specific industries and countries, and is generally determined at a country or regional level.
- Intangibles: The sum of goodwill, intangible assets, deferred acquisition costs (DAC), value of in-force, value of business acquired, and deferred tax assets.
- Issuer credit rating (ICR): A forward-looking opinion about an obligor's overall creditworthiness, focusing on its capacity and willingness to meet its financial obligations in full and as they come due.
- Prebonus pretax earnings are the sum of EBITDA and policyholder dividends.
- Return on assets (ROA): Indicates to us how efficiently management uses its assets to generate earnings by comparing EBIT to the two-year average of total assets adjusted. Total assets adjusted is total assets minus reinsurance assets.
- Return on revenue (ROR): EBIT divided by total revenue. Total revenue is the sum of net premiums earned (or net written premium if net earned premium is not available), net investment income, and other income. We remove the effects of realized and unrealized gains or losses from investments and derivatives to provide a more complete picture of an insurer's revenue-generating abilities.
- Risk exposure: Assesses material risks that the capital and earnings analysis does not

incorporate and specific risks that it captures but that could make an insurer's capital and earnings significantly more or less volatile.

- Return on equity (ROE): Reported net income divided by the average of opening and closing reported equity for the year. Reported net income is before remuneration of preferred stock and non-controlling interests. Reported equity includes non-controlling interests and preferred stock.
- Stand-alone credit profile (SACP): S&P Global Ratings' opinion of an insurer's creditworthiness, in the absence of extraordinary intervention from its parent, affiliate, or related government.
- Total adjusted capital (TAC): S&P Global Ratings' measure of the capital an insurer has available to meet capital requirements.
- Total assets are the average of opening and closing total assets (less reinsurance assets) for the year.