

Research Update:

Reinsurer Milli Reasurans Turkey National Scale Rating Lowered To 'trA-'

February 18, 2022

Overview

- On Feb. 16, 2022, we lowered our issuer credit rating on Türkiye İş Bankası AS (Isbank) to 'B' from 'B+'. Consequently, we lowered the Turkey national scale rating on Isbank to 'trA-' from 'trA+'.
- We view Milli Reasurans T.A.S. (Milli Re) as a moderately strategically important subsidiary of Isbank. We therefore cap our rating on Milli Re at the level of the rating on its parent.
- As such, we lowered our Turkey national scale rating on Milli Re to 'trA-' from 'trA+'.

Rating Action

On Feb. 18, 2022, S&P Global Ratings lowered its Turkey national scale rating on Milli Reasurans T.A.S. (Milli Re) to 'trA-' from 'trA+'.

Rationale

The rating action follows the lowering of our long-term local and foreign currency ratings on Isbank, Milli Re's parent (see "Two Turkish Banks Downgraded On Higher Stress In Economic Environment And Weakening Capitalization; Outlooks Negative," published Feb. 16, 2022, on RatingsDirect). We view Milli Re as a moderately strategically important subsidiary of Isbank, which is one of Turkey's leading banks and carries near full ownership of Milli Re. As a result, we cap the rating on Milli Re at the level of the rating on its parent, and expect the ratings will move in a similar direction as our ratings on Isbank.

We recognize the potential impact that strong inflationary pressures in Turkey could have on the overall insurance market, in the form of growth and claims. Inflation in Turkey increased 11.1% month on month in January 2022, which pushed the annual figure to 48.7%. We now expect annual inflation to exceed 50% for most of the year (see "Turkey Macroeconomic Update: Higher Inflation, Uncertain Growth Path," Feb. 3, 2022). We expect Milli Re will obtain higher-than-expected premium income from the local market (owing to the impact of currency movements), as well as inflation-indexed and foreign currency-denominated policies. The high

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inflation could weigh on overall profitability, given the impact on claims inflation and cost base. However, we recognize that overall profitability will be supported by investment income given the exposure to foreign currency-denominated bonds.

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

ESG credit indicator: E-3, S-2, G-3

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group 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. 19, 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

- Two Turkish Banks Downgraded On Higher Stress In Economic Environment And Weakening Capitalization; Outlooks Negative, Feb. 16, 2022
- ESG Credit Indicator Report Card: EMEA Insurance, Nov. 29, 2021

Ratings List

Downgraded

	To	From
Milli Reasurans T.A.S.		
Issuer Credit Rating		
Turkey National Scale	trA-/--/--	trA+/--/--

Regulatory Disclosures

Milli Reasurans T.A.S.

- Primary Credit Analyst: Trevor Barsdorf, Associate Director
- Rating Committee Chairperson: Victor Nikolskiy

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- Date initial rating assigned: July 25, 2007
- Date of previous review: Dec. 15, 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.

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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.

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- 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.
- ESG credit indicators: ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.
- 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

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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.

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.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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