

Research Update:

Milli Reasurans T.A.S. Turkey National Scale Rating Affirmed At 'trBBB-'

March 3, 2023

Overview

- Milli Re's capital and earnings could face material volatility in 2023, primarily from the Feb. 6 earthquakes in Turkey.
- However, we believe the company has adequate reinsurance arrangements with large international reinsurers, which will absorb most of these claims; the net impact on Milli Re's shareholder equity, though being material, would be manageable.
- The company continues to remain exposed to high inflation and foreign exchange risk in Turkey that continue to affect its underwriting performance, although strong investment income has helped the company report positive net earnings.
- We affirmed our 'trBBB-' rating on Milli Re.

Rating Action

On March 3, 2023, S&P Global Ratings affirmed its 'trBBB-' Turkey national scale rating on Milli Reasurans T.A.S. (Milli Re).

Rationale

Based on the latest company-provided estimates of losses from the Feb. 6 earthquakes in Turkey, we believe Milli Re's capital and earnings would face significant volatility in 2023. Still, we believe the company has adequate retrocession protection backed by highly rated international reinsurers, which will cover the majority of these claims. Based on initial estimates, the net impact (after retrocession recovery) on Milli Re's books could be €40 million-€50 million. Despite having large retrocession coverage, the net impact on the company is still material enough to cause a deterioration of its capital adequacy. With shareholders' equity of about Turkish lira (TRY) 5 billion (€250 million) as of Dec. 31, 2022, these (net) losses could still erode about 20% of Milli Re's equity in 2023. Also, since these are initial loss estimates and could increase, we will continue to closely monitor the impact on Milli Re's credit quality. We do not expect the losses from Milli Re's subsidiary- Anadolu Anonim Turk Sigorta Sirketi to have a material impact on Milli Re's

PRIMARY CREDIT ANALYST

Sachin Sahni
Dubai
(971) 4-372-7190
sachin.sahni
@spglobal.com

SECONDARY CONTACT

Tatiana Grineva
London
+ 44 20 7176 7061
tatiana.grineva
@spglobal.com

ADDITIONAL CONTACT

Rahul Iyer
Pune
rahul.iyer
@spglobal.com

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creditworthiness considering Anadolu also cedes a significant portion of its earthquake exposure to the international market.

Turkey suffered from high inflation and currency devaluation in 2022. As a result, Milli Re's operating performance worsened in 2022 with a net combined ratio of about 170%, the highest in five years. We forecast that, with inflation lowering to about 40% in 2023 and 18% in 2024, Milli Re will return to reporting net combined ratios within its historical 130%-150% range over 2023-2025. Nevertheless, the company has reported positive net income overall in the past five years, which demonstrates its heavy reliance on investment income. In 2022, it reported a net profit before tax of TRY889 million, mainly from strong investment income supported by the revaluation of its real estate and other financial assets as well as high interest rates.

ESG credit indicators: 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: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- 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

Ratings List

Ratings Affirmed

Milli Reasurans T.A.S.

Issuer Credit Rating

Turkey National Scale trBBB-/--/--

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; or Stockholm (46) 8-440-5914

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