

Summary:

Pozavarovalnica Sava d.d.

Primary Credit Analyst:

Marco Sindaco, London +44 (0)20 7176 7095; Marco_Sindaco@standardandpoors.com

Secondary Contact:

Tatiana Grineva, London (44) 20-7176-7061; tatiana_grineva@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Pozavarovalnica Sava d.d.

Local Currency

Credit Rating: A-/Negative/--

Rationale

The ratings on Slovenia-based reinsurer Pozavarovalnica Sava, d.d., the parent and major operating company of the Sava Re Group (Sava Re), reflects Sava Re's good competitive stemming from a diversified portfolio, well balanced between primary and reinsurance premium income, and strong capitalization. These strengths are offset, however, by Sava Re's modest underwriting performance and its lack of a strong position in at least one sizable and stable insurance market.

The 'A-' ratings are based on the Sava Re's notional group operating ratings (NGOR), which we assess at 'bbb+', plus one notch of uplift reflecting the "moderately high" likelihood of extraordinary support from the Slovenian government (A+/Negative/A-1) in the event of financial distress. In accordance with our criteria for government-related entities (GREs), we consider Sava Re's role to be "important" for the Slovenian government and the link between them to be "strong" (see "General Criteria: Rating Government-Related Entities: Methodology And Assumptions," Dec. 9, 2010).

Sava Re's competitive position is good, supported by a sizable insurance portfolio, equally balanced between domestic Slovenian and nondomestic premium income and well balanced between primary and reinsurance premium income (53% and 47% respectively, including intra-group reinsurance, or 65% and 35% respectively, excluding intra-group reinsurance). Sava Re's competitive position is enhanced by its well-known brand name in the Balkan region.

Capitalization at Sava Re is strong, reflecting strong capital adequacy (according to Standard & Poor's risk-adjusted capital model), conservative reinsurance protection, and good reserving. Overall, capital adequacy continued to show some capital redundancy at the 'A' level at year-end 2010. The deterioration of €1.4 million in the available for sale (AFS) reserve and revaluation reserves and the acquisition of €11.2 million minority capital in the Kosovo subsidiaries (Illyria and Illyria Life) were offset by higher retained profits and lower capital requirements for market and credit risks.

Operating performance is good, based on Sava Re's historically consistent, if relatively modest, level of underwriting profitability. In 2010, Sava Re reported a profit of €5.5 million in 2010 (loss of €28.2 million in 2009), and a net combined ratio (total net claims incurred and net expenses divided by net premium earned) of 100.6% (110.7% in 2009). The combined ratio improved in 2010 because the claims environment in Slovenia was more benign and management successfully implemented profitability enhancement measures. The positive trend continued in the first six months of 2011, when Sava Re reported a combined ratio of 97.4%.

Sava Re's overall competitive position is constrained by its small size in absolute terms in the global reinsurance market. It is also dependent on one minority-owned subsidiary Zavarovalnica Maribor (Maribor; not rated) to provide some 37% of the total inward reinsurance premiums. The competitive position is limited by the lack of a

strong position in at least one sizable and stable direct insurance market.

Outlook

The negative outlook reflects the negative outlook on the Republic of Slovenia and the possibility that, according to our GRE criteria, we will lower the ratings on Sava Re by one notch if we were to lower the ratings on the Republic of Slovenia to 'A' (see "Rating Government-Related Entities: Methodology And Assumptions").

We expect that Sava Re will maintain its strong capitalization and report a combined ratio below 98% for full-year 2011. We also expect Sava Re's business to grow by around 3% in 2011, propelled by its international reinsurance and direct insurance businesses. Notwithstanding the expected improvement in technical performance, we believe Sava Re's overall earnings will remain modest, with an average return on equity (ROE) below 7% over the next three to five years. Over the same period, we expect Sava Re to maintain strong levels of capital adequacy.

We could raise our rating if the group were to increase its control over Maribor, improving its operating performance and competitive position without compromising capitalization. We could also raise our ratings if the acquisitions in the Western Balkans were to contribute significantly to the overall profitability, leading to a sustainable ROE above 7%.

Rating downside could occur if there were to be a significant deterioration in earnings and/or capitalization.

The ratings on Sava Re could also change if the ratings on Slovenia were to change. Likewise, we could also take ratings action in accordance with any changes in or our view of the company's role for, and its link with, the Slovenian government.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal.

- Counterparty Credit Ratings And The Credit Framework, April 14, 2004
- Interactive Ratings Methodology, April 22, 2009
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Additional Contact:

Insurance Ratings Europe; Insurancelnteractive_Europe@standardandpoors.com

Copyright © 2012 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, 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.

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 acknowledgement 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 nonpublic 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.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.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.standardandpoors.com/usratingsfees.