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## Summary:
# Pozavarovalnica Sava d.d.

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| | Local Currency |
|---|---|
| **Credit Rating:** | A-/Stable/-- |

## 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 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 stable outlook reflects our expectations 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

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