ALTA Invest

SAVA RE D.D.

5th September 2016

www.sava-re.si

Reinsurance

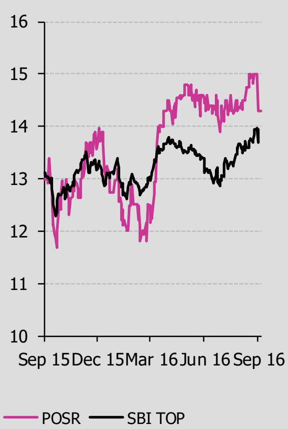
LJSE ticker: POSR
Bloomberg: POSR SV

Target price:
EUR 16.8

Previous target price:
16.0 EUR, BUY (19.5.2016)

Recommendation:
BUY

12 months stock performance in EUR



Second biggest Slovenian and West Balkan insurance Group

Improved profitability

Synergy potentials

Growing dividend

A- rating

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Completion date and time:
6.9.2016 13:40
First release:
6.9.2016 13:50
Market data capture date:
5.9.2016 9:00

Stock data as of 05.09.2016			
Market price (EUR)	14.3	Market Cap (EUR)	235.7
52 week range (EUR)	11.7-15.0	No. of Shares	16.5
Avg. daily trade vol., EUR(k)	33.95	Free float	70%
Average daily % of stock traded	0.015%	Dividend yield	5.6%

Price performance	3 months	12 months	Multiples:	TTM	2016F
price change in %	-2.1%	10.0%	P/E	7.2	6.7
SBI TOP index change in %	5.6%	6.3%	P/B	0.75	0.75
relative to SBI TOP index in %	-7.3%	3.5%	P/GWP	0.45	0.45

Key figures (According to International Accounting Standards) *Consolidated data in EURm*

Income statement: million €	FY2014	FY2015	2016F	2017F	Balance sheet: million €	FY2014	FY2015	TTM
GPW	468.2	486.3	488.8	504.8	Equity Inv.	21.0	18.9	17.8
Growth YoY	21.1%	3.9%	0.5%	3.3%	Fin.assets	982.8	1,023.1	1,019.8
NPE	437.6	447.6	455.9	471.0	Tech.prov.	1,065.7	1,094.7	1,157.1
Growth YoY	15.4%	2.3%	1.9%	3.3%	Equity	269.6	285.4	294.2
Claims paid	257.1	273.1	291.8	301.6	Assets	1,454.4	1,607.3	1,563.7
Claims ratio	58.8%	61.0%	64.0%	64.0%	Inv./Prov.	0.92	0.93	0.88
Net income	30.6	33.4	33.1	26.3	E/A	18.5%	17.8%	18.8%
Growth YoY	433.8%	9.1%	-0.8%	-20.5%	E/Prov.	25.3%	26.1%	25.4%
EPS	1.82	2.03	2.24	1.78	ROE	11.3%	11.7%	10.4%

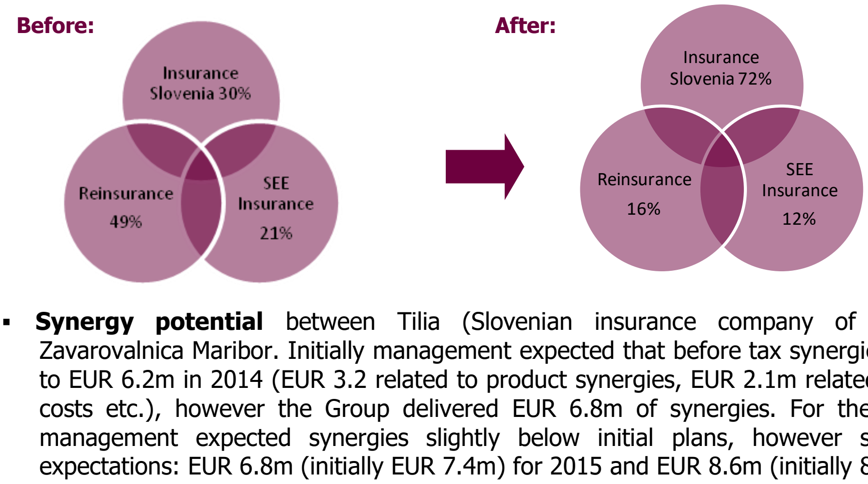
* Financials and valuation multiples are significantly affected by Zavarovalnica Maribor acquisition and consolidation in 2013.

Investment Thesis:

- **Second biggest domestic insurance:** Sava Re Group has a 16.65% market share in Slovenia (2015 data from Slovenian Insurance Association) with 17.65% market share in non-life and 14.17% market share in life insurance. Only Zavarovalnica Triglav is bigger on Slovenian insurance market.

- **Zavarovalnica Maribor acquisition:** In 2013 Sava RE successfully carried out capital increase in the amount of EUR 55m at a price of EUR 7 per share and acquired the remaining 51% stake in Zavarovalnica Maribor (Sava Re already owned 48.86% before 2013). With the acquisition Sava Re Group became the second biggest insurance group in Slovenia and West Balkan region.

  - **Shift in business segment mix.** Namely Sava RE main business shifted from reinsurance to domestic insurance. Slovenian insurance GWP in total gross premiums increased from 30% to 72%. Here we note this is the most profitable segment of Sava RE. SEE insurance share in GWP dropped from 21% to 12%. While this segment is weakest in terms of profitability it still gives an opportunity for long term growth. We view this business mix shift as positive in terms of profitability stabilisation since there is some cyclical mismatch between business segments.



  - **Synergy potential** between Tilia (Slovenian insurance company of Sava RE) and Zavarovalnica Maribor. Initially management expected that before tax synergies would amount to EUR 6.2m in 2014 (EUR 3.2 related to product synergies, EUR 2.1m related to lower labour costs etc.), however the Group delivered EUR 6.8m of synergies. For the following years management expected synergies slightly below initial plans, however still in line with expectations: EUR 6.8m (initially EUR 7.4m) for 2015 and EUR 8.6m (initially 8.7m) for 2016.

The management did not reveal what were the numbers for 2015, however, Sava Re has in 2015 already started making further steps toward optimisation of insurance operations and announced consolidation and centralisation of two Slovenian insurance companies (Zavarovalnica Maribor and Tilia) and two insurers which operate in Croatia (Velebit osiguranje and Velebit životno osiguranje). Combined insurance company will be formed by end of 2016, it will be headquartered in Maribor and will likely operate under one (possibly new) brand name. The management expects that after transition period of 3 years, annual synergies will amount between EUR 5m to EUR 6m. According to management presentation total synergies related to acquisition of Zavarovalnica Maribor and latest centralisations will amount to EUR 56m (period vague).

- **Realistic management guidance.** For 2016 the management guidance is GWP of EUR 487.9m or 0.3% more than in 2015. Weak growth will be mainly due to weak growth on domestic market (partly due to centralisation process) and limited opportunities on reinsurance markets, however, growth should recover on foreign SEE insurance markets. The management expects that net profit will remain at 2015 level and amount to EUR 33.4m. Due to consolidation process expense ratio is likely to increase while investment return could be influenced by low interest rate environment. Group's ROE should remain above long term strategic goal of more than 11%.

  On the long run Sava Re Group expects 2% growth of GWP or EUR 520m of GWP in 2019. This is slightly below 2015 plans when management targeted to reach EUR 500m for 2018.

	2014	2015	Plan 2016	Strategy
Gross premiums written	EUR 468.2m	EUR 486.3m	EUR 487.9m	Growth >2%
Net profit/loss	EUR 31m	EUR 33.4m	EUR 33.4m	
Expense ratio*	32.8%	32.5%	33.2%	
Net claims ratio*	59.4%	61.3%	58.2%	<30%
Combined ratio*	95.5%	95.9%	94.8%	<95%
Investment return**	2.8%	2.4%	2.1%	>1.5%
ROE	11.9%	12.0%	11.6%	>11%

* reinsurance & non-life   ** excluding FX

  Note that although in 1H16 the Group delivered only 43% of total net income 2016 guidance (results are consequently below our expectations), management expressed belief the guidance remains achievable.

- **Dividend initiation & share buyback program.** Dividend policy is tied to consolidated profit while the level of profit payout somewhere around 30%. This translated into EUR 0.55 per share dividend for 2014. However for 2015 the management proposed EUR 0.8 per share - EUR 0.65 gross per share of regular dividend for 2015 and EUR 0.15 gross per share as extraordinary dividend. Current dividend yield is hence at 5.5% out of which 4.5% if we account for ordinary dividend only.

  Additionally in 2014 general assembly authorized the management board of Sava Reinsurance Company to acquire treasury shares. The authorisation is for acquiring up to a total of 1.721.966 shares, representing 10% of the Company's share capital. As of the end of December 2015, Sava Re held 741,521 own shares or 4.303% of all issued shares quarter. Similar to 2014, also in 2016 Sava Re decided to speed up share buyback process with programme for the repurchase of shares outside the regulated market. Existing shareholders were invited to submit their binding offers in the indicative price range between EUR 13.06 to EUR 15.02. In April 2016 the company announced that it purchased 845,599 treasury shares at the price of EUR 15.00 per share for a total amount of EUR 12.7m. Given that Sava Re now owns 1,721,966 of treasury shares, which represents 10 % less one share of the Company's issued shares, the share buyback program hence ended.

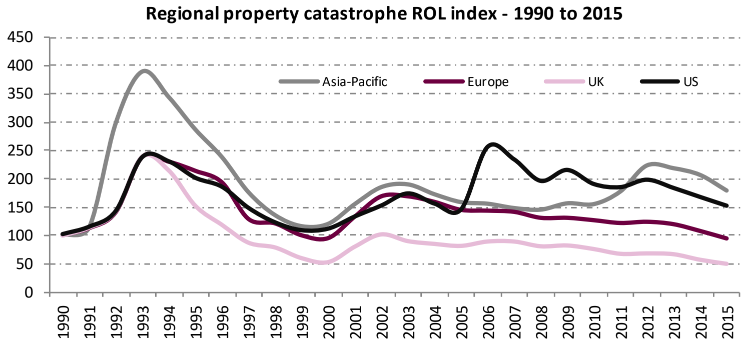
- **Takeover possibility:** While Triglav will be very likely the preferred target for large insurance groups, the acquisition of Sava Re is likely to be much easier since it would be more politically and publicly acceptable. Also free float is vaster. Already in the previous analysis we mentioned that several Slovenian media sources reported that Adris Group in March acquired 4.4% of Sava Re shares and with connected entities reached just below 20% ownership in Slovenian insurance group. In June 2016 the speculation was also officially confirmed with the Announcement of a change in a major holding. Together with its subsidiaries, the Adris Group has in custodial accounts 3,278,049 POSR shares issued by Sava Re, d. d., which represents 19.04% of all shares constituting the issuer's share capital and 21.15% of all issuer's voting shares. According to the latest media speculations Adris Group is seeking to further increase its stake in Sava Re and had already asked for a regulatory approval for owning up to 33% of Sava Re. In the last months Adris already secured the approval for owning up to 20% of Sava Re shares.

Given Sava Re operations, Slovenian insurer could be a good fit for Croatian company which is the main shareholder of the largest Croatian insurer Croatia Osiguranje (62.3%, 28.6% still owned by state and currently on the privatization list) and in 2015 successfully divest tobacco operations to British American Tobacco. We should also note that 25% of issued shares of Sava Re are in ownership of Slovenian state through Slovenian Sovereign Holding, which considers the insurer as important and hence on the long run wishes to maintain at least 25% ownership. Additionally around 12.5% of issued shares are held by state related entities. All in all two shareholder blocks could be established: state on one hand and Adris on the other – sooner or later this deadlock would then need to unfold.

- **The global reinsurance as diversification and guarantee for active risk management:** Although there are pressures on reinsurance pricing, reinsurance operations on foreign markets are giving Sava Re the opportunity to diversify their revenues and is hence less dependent on macroeconomic and political changes in the region. Very important factor in reinsurance is also credit rating, hence Sava Re as a Group has to maintain strong capital position and low risk profile in order to have at least A- rating. After regaining S&P A- rating in July 2015 (they fell below A- rating in 2012), growth on some foreign markets increased substantially, however, future growth will depend on global opportunities. In July 2016 S&P reaffirmed A- ratings with a stable outlook.

- **Reinsurance pricing dynamic is an opportunity for small flexible players:** The situation on the global reinsurance market is still relatively unfavourable at the moment. Large capital inflows and lack of significant catastrophic events affected reinsurance rates which continue to drift lower. According to Guy Carpenter 2014 was the first year of renewal in over a decade where all major regions saw pricing move in the same direction. Downward trend was largely driven by lack of costly CAT events (global insured losses for 2014 fell by 25% YoY and were the lowest in four years) and influx of capital from investors which are hit by ZIRP environment and are searching for yield in alternative segments like reinsurance and reinsurance linked products. Although Guy Carpenter for 2016 indicated that the level of capital on the reinsurance market stabilised, price pressure is still present. There are indications that we will only see moderation in rate declines.

  On the other hand, there are opportunities for smaller reinsurers (especially with diversified GWP source) to be more flexible end exploit different opportunities across the global reinsurance market.



Source: Guy Carpenter

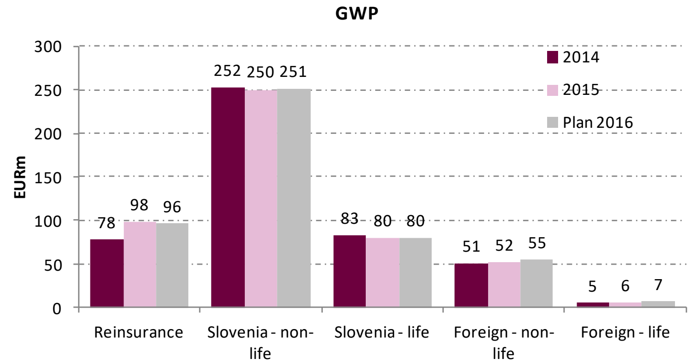
- **Growth through regional presence:** In 2013 and 2014 Sava Re Group generated EUR 56m of GWP in the region (SEE excluding Slovenia), or 12% of total GWP in 2014. Therefore Sava Re Group has, through its subsidiaries, only a small presence in the SEE region, but with a significant growth potential since these markets remain less penetrated in terms of insurance premium as a percentage of GDP, especially when looking at life insurance (for example even though non-life insurance in Slovenia is close to mature European countries, life severely lags).

Ins. premium per capita (EUR)	2010	2011	2012	2013	2014	2015
Kosovo	32.7	43.9	39.2	43.4	44.7	42.8
Macedonia	50.8	52.6	54.2	55.3	59.0	64.2
Serbia	76.4	78.1	75.5	78.8	82.5	89.4
Montenegro	103.6	108.0	111.5	121.3	120.7	128.2
Croatia	288.3	285.9	279.5	278.5	264.6	265.6
Slovenia	1,047.2	1,046.1	1,018.2	960.9	922.5	940.6

Source: Sava Reinsurance Company (Annual report 2015)

For 2015, Sava Re is planning to achieve 10.7% growth in SEE operations and increase GWP to EUR 62.1m.

Management still believes that focusing on these markets is an appropriate long-term growth strategy, however currently growth is more organically-based as Sava Re Group is focused on the consolidation of previous expansion and short term growth potential is offset by current adverse environment (especially for life insurance). Nevertheless, the company is following the M&A market and will consider new acquisitions if there will be some opportunities. In addition to strengthening market presence in Croatia and Serbia, Sava Re is also considering entering some other markets like Bosnia and Albania.



Here we must note that regional drivers for growth of net income are seen from two sources: improving penetration and growth of GWP on one hand and cost rationalizations and increasing economies of scale to improve combined ratios on the other.

Risks:

- **High Slovenian exposure:** Regional diversification of Sava Re Group's investment portfolio is increasing however the core is still mainly allocated in Slovenia and actually intensified with Zavarovalnica Maribor acquisition. The exposure to domestic country is however gradually decreasing and through 2015 lowered from 39.3% to 34.5% of total investment portfolio. It is expected that Sava Re will further decrease exposure to Slovenia with maturities of currently held bonds. Note that although situation in Slovenia calmed down after bank bail outs and normalisation in the European periphery, we cannot ignore any possible extreme scenarios regarding financial conditions in Slovenia, especially in case of new global economic crisis.

Group Portfolio Exposure	2015	2014	2013
EU	48.1%	46.3%	42.2%
Other European countries	9.3%	9.5%	8.8%
Other World countries	8.1%	4.8%	3.2%
Slovenia	34.5%	39.3%	45.7%
Total	100%	100%	100%

Source: Sava Reinsurance Company

- **The region is still unstable and subsidiaries could need capital injections:** Although the region presents an opportunity for above average growth of Sava Re Group, the SEE region is also a highly macroeconomically and politically unstable region with the legal systems and controlling mechanisms still in earlier stages of development (the lag in development varies from country to country). This is clearly visible in profitability levels as the regional companies and subsidiaries are known for having difficulties transferring a potential good top line into a good bottom line (elevated combined ratios). Tight cost control is needed and a better legal framework, which is only slowly improving in the EU conversion processes. Nevertheless, it is expected that results of subsidiaries in Western Balkan region will remain volatile and that possible high growth will have to be supported by capital injections from mother company.

- **Share buybacks:** As we mentioned, Sava Re acquired 1.721.966 own shares, representing 10% less one share of the Company's share capital, however there could be some risks since there are no specifics regarding further plans and possible retiring of acquired shares. Sale of own shares on foreign exchange (as promised during in the process of recapitalisation) would have a negative effect on EPS and book value.

- **The low rate environment:** This could negatively affect long-term investment revenues. Over the last few decades interest rates in OECD countries (with the exception of the rates on the European periphery where also default risk increased – but even here last year brought significant decrease in yields) have been trending downward and negatively affecting investment income from the fixed income part of the portfolio. This is especially affecting the future return on assets that are invested in the current environment (reinvestment activity and growth of premiums). Since it is hard to predict which scenario we will see in the next few years, insurance companies (especially in the life segment) are in a difficult position and have to look for higher interest rates in long-term bonds or keep money in deposits or high quality short-term zero-yield bonds. Although the re-pricing of products can somewhat offset lower investment income, it cannot prevent the overall effect on profitability and also puts pressure on valuations in the insurance industry. In Slovenia situation in the last few years was better, since deposit rates and sovereign yields were slightly elevated, however, with stabilisation of banking sector and ECB moving forward with QE, excess liquidity pushed rates significantly lower. It's also very possible deposit rates will contract further during the year and for institutional clients slide into negative territory.

- **Interest rate risk:** Due to large exposure to bonds, second quarter 2015 exposed risks related to sudden negative moves of interest rates. These risks were recognised already in last few years, however, trends were relatively slow and positively affected valuations either through higher net investment income due to realised gains or through building of fair value reserves which led to higher book value per share. We should note that 2015 events indicated that low liquidity and fear against raising rates can lead to relatively large moves in very short timeframe and can have relatively large negative impact on capital strength of the insurer and also negative effect on the valuations

Yield on 10 year bonds	2Q2016	1Q2016	4Q2015	3Q2015	2Q2015	1Q2015	4Q2014
Slovenia	1.09	1.32	1.69	1.82	2.32	1.11	2.21
Germany	-0.13	0.15	0.63	0.59	0.76	0.18	0.54
Spain	1.26	1.22	1.60	1.73	2.33	1.24	1.89
Italy	1.26	1.22	1.60	1.73	2.33	1.24	1.89
France	0.18	0.49	0.99	0.99	1.20	0.48	0.83
Netherlands	0.09	0.36	0.79	0.78	1.04	0.34	0.69
EUR Europe Corporate IG	0.91	1.17	1.79	1.89	1.89	1.13	1.33
EUR Europe Covered Bonds IG	0.44	0.68	0.98	0.92	1.12	0.60	1.01

Yield on 5 year bonds	2Q2016	1Q2016	4Q2015	3Q2015	2Q2015	1Q2015	4Q2014
Slovenia	0.05	0.30	0.69	0.89	1.23	0.60	1.50
Germany	-0.57	-0.33	-0.05	-0.01	0.08	-0.10	0.02
Spain	0.29	0.28	0.50	0.75	1.25	0.55	0.95
Italy	0.29	0.28	0.50	0.75	1.25	0.55	0.95
France	-0.35	-0.20	0.08	0.22	0.33	0.05	0.18
Netherlands	-0.42	-0.34	-0.04	0.05	0.15	-0.05	0.10
EUR Europe Corporate IG	0.31	0.51	0.93	1.07	1.03	0.67	0.75
EUR Europe Covered Bonds IG	-0.07	0.11	0.36	0.36	0.45	0.19	0.41

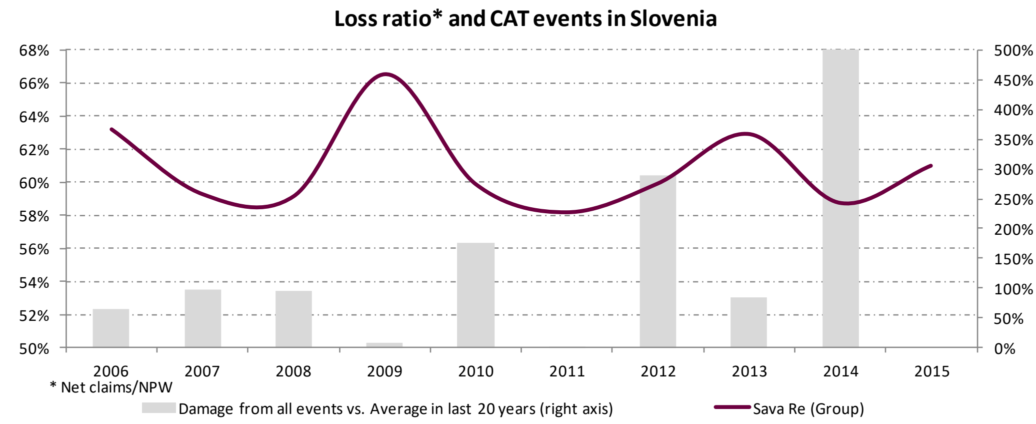
Source: Bloomberg

Interest rate sensitivity analysis for life and non-life for Sava Re:

In EURm		+200 bp			+200 bp	
Type of security	Value	Post-stress value	Change in value	Value	Post-stress value	Change in value
Government bonds	339.0	319.4	-19.6	339.0	368.7	29.8
Corporate bonds	421.2	396.8	-24.4	421.2	448.8	27.6
Total	**760.2**	**716.2**	**-44.0**	**760.2**	**817.6**	**57.4**
Effect on equity		-43.4			56.7	
Effect on the income statement		-0.6			0.7	

Source: Sava RE Annual report 2015

- **Above average loss events:** At the beginning of 2014, Slovenia was hit by sleet combined with freezing rain and frost. Sava Re gross damages from sleet and ice in February amounted to EUR 20m (Zavarovalnica Maribor and Tilia), however, consolidated net effect was EUR 6m. In addition Slovenia was affected also by major floods in autumn 2014. Despite this, results were not significantly affected. Technical result was also relatively strong also due to limited number of small loss events, especially lack of hailstorms, which were much more common in previous years.



Source: Annual reports, SURS, URSZR, Alta

2015 fared much better; nevertheless, trend of ever more frequent weather-related natural catastrophes could significantly impact P&L statements through the rise in claims. In 2016 there were some smaller floods and hail storms, however, we will see in the coming months how those events affected results for current year. Also due to reinsurance segment Sava RE Group is exposed to catastrophe events over the whole world. It's true however that this segment is more diversified which leads to lower exposure to a single event.

- **Alternative investments:** As we mentioned insurance companies are under pressure due to low interest rates, therefore they are searching for alternative investments. In the last year Sava Re also decided to enter this space and on the long run increase its real-estate investments from current 2% to 4% of their financial investment position. We believe that alternative investments are appropriate approach to fight against interest rates especially through investments in real-estate space where post crisis recovery in Slovenia has been very slow. While we are estimating that commercial real estate market is very depressed and a lot of large companies are in financial position which is forcing them to divest real-estate assets, we should also note that there are also some risks related to more active investing in this segment. Illiquidity of real-estates and know-how about managing acquired assets are probably the major threats and only track record will show if Sava Re will be able to achieve higher returns than for instance on global bond markets. Additionally, operating in real-estate space (also in private equity) can be challenging due to asset valuations which are in a lot of cases affected by subjective assumptions. Although we do believe Sava Re will approach every transaction with high level of professionalism there are still risks for misevaluation and for public/media pressures regarding the transaction specifics. Especially later can also affect stock price.

- **Management shake-up:** On Sava Re extraordinary session supervisory board of Sava Reinsurance Company recalled Zvonko Ivanušič from the position of both chairman and member of the Company's management board. Temporary chairman of the management board is now Jošt Dolničar, which was till now a member of the management board. The battle regarding Ivanušič position has been carrying out for several months now (he is accused of overpaying in a specific controversial real estate transaction) and ended with Mr Ivanušič leaving the CEO position and also the company. Nevertheless the General Meeting decided to discharge the management board from liability for the financial year 2015.

  Additionally, there were also apparent changes regarding leadership of newly established insurance company (formed with merger of Zavarovalnica Maribor, Tilia and both Croatian insurers). Initially it was suggested that new insurer will be led by an outsider - Boris Medica, however, it looks that CEO position will be given to David Kastelic which is already heading Zavarovalnica Maribor. All this changes together with Group's CEO shakeups are posing some threats regarding realisation of post-merger synergies. More importantly, this can affect investor sentiment.

ALTA Invest

1H16 Results

Lower investment income and higher provisioning affected profitability

million €	1H15	1H16	YOY	2Q15	1Q16	2Q16	QoQ	YOY
GPW	276.7	280.8	**1.5%**	124.2	153.5	280.8	**82.9%**	**126.2%**
NPE	219.1	226.0	**3.1%**	107.4	111.4	114.6	**2.9%**	**6.7%**
Claims	135.6	131.8	**-2.8%**	61.5	66.5	65.3	**-1.8%**	**6.3%**
*Claims Ratio**	61.9%	58.3%		57.2%	59.7%	57.0%		
Net Expenses	59.8	65.9	**10.2%**	32.1	30.0	35.9	**19.8%**	**12.0%**
*Expense Ratio**	27.3%	29.1%		29.9%	26.9%	31.3%		
Net income	17.1	14.4	**-16.0%**	7.1	7.1	7.2	**1.3%**	**1.7%**
Margin	6.2%	5.1%		5.7%	4.6%	2.6%		

* For this calculation, we use our own ALTA Invest methods, which are not completely comparable to those used by Sava Reinsurance Company.
** Net income for 2013 adjusted for one-time revaluation effect.

Growth of premiums above our expectations.

- Gross premium written amounted to EUR 280.8m, up by 1.5% YoY. GWP for the first half was above our expectations of EUR 273.7m. Premium growth was mainly contributed by Slovenian non-life insurance business (up 2.4% YoY) and non-Slovenian life insurance business (up by 14.8% YoY). Reinsurance premiums on the other hand declined by 1.3 percent. Growth in gross premiums written was largest in Croatia (up 22.3%) and on the Macedonian market (up by 9.2%).
- Net earned premiums amounted to EUR 226.0m, up by 3.1% YoY. Segmentally, in non-life NPE increased by 3.6% YoY, with motor liabilities down 3.4% YoY and land vehicles casco down 3.9% YoY. Fire and natural forces NPE increased by 21% YoY, other damages to property 4.9% YoY etc. Albeit we need to warn that excluding reinsurance, net premiums earned stagnated for non-life insurance business in 1H16 at EUR 138.4m. On the other hand reinsurance NPE surged from EUR 37.6m in 1H15 to EUR 44.4m in 1H16 which contributed to overall growth. Life insurance business also (roughly) stagnated as NPE remained at EUR 43.2m.

Net claims fell, however excluding FX effects loss ratio actually increased due to higher provisioning for future claims.

- Gross claims paid amounted to EUR 127.0m, down 3.4% YoY. Lower gross claims resulted also in lower net claims which amounted to EUR 131.8m and in comparison to the same period last year decreased by 2.8%. Consequently reported loss ratio amounted to 59.7% which is 2.7 percentage points less than in the first half 2015. We should note that last year claims were affected by large FX movements and that excluding currency effects reported net incurred ratio actually increased by 0.4 p.p. Larger net claims and hence ratio is not so much a result of loss events but due to precautionary measures due to soft reinsurance market which resulted in EUR 4.8m (vs release of EUR 0.32m in 1H16) of change in the net provisions for outstanding claims.

	GWP			Gross Claims		
Non-consolidated in EURm	1H16 GWP	1H15 GWP	YoY	1H16 Claims	1H15 Claims	YoY
Reinsurance	91.4	90.3	1.3%	37.9	40.2	-5.7%
Zavarovalnica Maribor (non-life)	111.5	108.6	2.6%	46.3	49.8	-7.2%
Zavarovalnica Tilia (non-life)	43.7	42.9	1.9%	21.5	20.8	3.5%
Sava Montenegro	5.7	5.7	0.8%	1.8	1.7	3.5%
Sava osiguranje, Belgrade	7.3	7.1	2.3%	2.8	2.8	1.7%
Sava osiguruvanje, Skopje	6.3	5.7	9.3%	2.3	2.2	4.1%
Velebit osiguranje	4.6	3.7	24.8%	2.0	1.7	16.9%
Illyria	3.6	4.2	-14.3%	1.9	1.7	9.6%
Zavarovalnica Maribor (life)	35.7	36.4	-2.0%	18.5	21.6	-14.2%
Zavarovalnica Tilia (life)	3.8	4.0	-4.5%	3.6	3.1	14.7%
Velebit životno osiguranje	1.6	1.4	15.6%	0.4	0.3	41.1%
Illyria Life	0.8	0.7	14.3%	0.2	0.1	77.4%
Sava životno osiguranje	0.6	0.6	13.2%	0.2	0.2	-14.5%
Moja naložba	0.7	0.0		0.1	0.0	

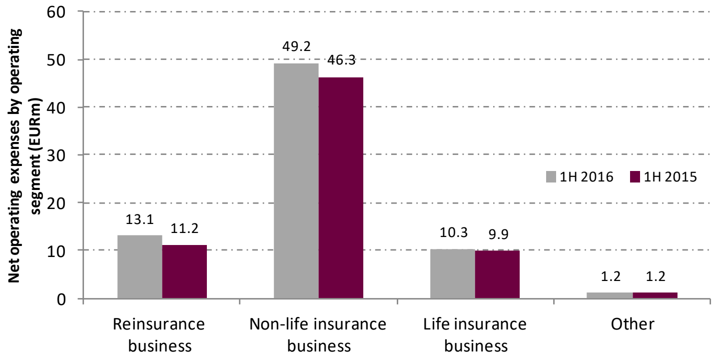
	GWP			Gross Claims		
Consolidated in EUR	1H16 GWP	1H15 GWP	YoY	1H16 Claims	1H15 Claims	YoY
Reinsurance	55.0	55.7	-1.4%	25.8	25.8	0.0%
Non-life insurance	182.4	177.8	2.6%	78.2	80.4	-2.7%
Life insurance	43.4	43.2	0.5%	23.0	25.3	-9.2%
Total	280.8	276.7	1.5%	127.0	131.5	-3.4%

Expense ratio increased due to costs related to higher non-domestic markets and merger activities.

- Reported net expense ratio amounted to 32.7% or up by 1.4 p.p., as opex, including reinsurance commission income, surged by 7.8% YoY to EUR 73.8m. The increase was reported for all segment of the Group Sava Re. According to the commentaries in the report, higher expenses are result of growth on foreign markets and costs associated with the merger.

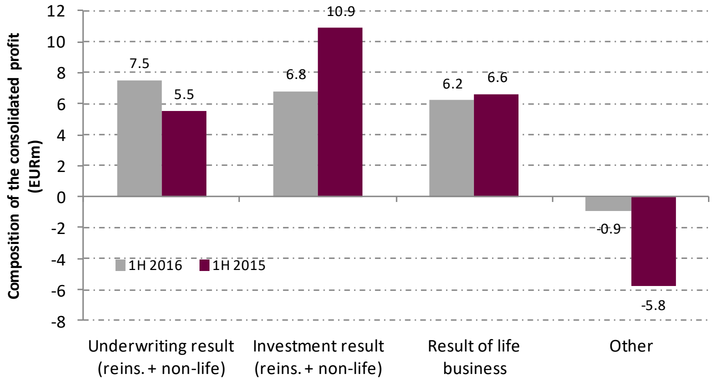
Combined ratio improved, however only due to negative FX effects in 2015.

Net investment income fell, however also due to FX dynamic which affected investment income in 2016.



- Including FX effects net combined ratio stood at 96.1% in 1H16 versus 97.0% in 1H15. Excluding currency movements combined ratio actually increased by 1.5 p.p. YoY.

- Net investment income from its portfolio stood at EUR 11.6m, down 4.1m versus 1H15. Weakness in investment income segment was expected due to current conditions on global and domestic capital market. Return on investment portfolio (EUR 1,060m) was at 2.3% versus 3.2% in same period last year (albeit stagnated at 2.3% excluding FX differences).



- Profit amounted to EUR 14.3m (pre-tax profit at EUR 19.6m), down 16.2% YoY. Consequently Sava RE achieved 42% of our estimated 2016 profit in first halve of the year. However as seasonally 2H is weaker we can deduct results are below our expectations. On the other hand the management estimates that the Group's annual target (EUR 33.4m) can still be reached. Namely management stated that profit was weaker due to a lower profit of the Slovenian non-life insurance segment as a result of a slightly weaker performance of motor insurance business and the establishment of certain technical provisions. Annualized ROE dropped to 9.7%, hence below 10%.

- Shareholders' equity (Equity attributable to owners of the controlling company) is now at EUR 294.2m or 3% more than at the end of 2015. Dividend payout in the amount of EUR 9.1m was offset by mentioned net profit and EUR 9.1m of other comprehensive income (AFS revaluations). Due to mentioned effects and especially due to successful buy back process which was finalized in the second quarter 2016 (outstanding shares decreased by almost 6%) book value per share increased from EUR 17.32 to EUR 18.98.

- In June Sava Re also reported data regarding end of 2015 capital adequacy ratio. The Group held eligible own funds of EUR 403m, of which most were tier 1 funds. The valuation of both assets and liabilities for determining eligible own funds was carried out in accordance with economic principles. The Solvency Capital Requirement of the Group was EUR 200m. The solvency ratio at 31 December 2015 consequently stood at 201%.

- Technical provisions amounted to EUR 1,126.2m which is 5.2% more that in the beginning of the year. That is mostly a result of seasonality where we see increasing level of provisions in the first two quarters and reverse of this trend in the second part of the year.

- Total financial investment totaled EUR 1,012m. In comparison to the end of 2015 the structure remained relatively unchanged.

The consolidated investment portfolio in EURm	30.6.2016	31.12.2015	Index	Structure
Deposits and CDs	33.2	53.1	62.5	3.1
Government bonds	553.8	502.3	110.3	52.2
Corporate bonds	386.0	421.3	91.6	36.4
Shares	17.8	18.9	94.2	1.7
Mutual funds	12.6	12.8	98.7	1.2
Loans granted and other	0.9	1.1	83.2	0.1
Deposits with cedants	7.7	5.7	134.3	0.7
Total financial investments	**1,011.9**	**1,015.1**	**99.7**	**95.4**
Financial investments in associates	0.0	0.0	n.a.	0.0
Investment property	7.9	8.0	98.4	0.7
Cash and cash equivalents	40.7	4.7	863.0	3.8
Total investment portfolio	**1,060.5**	**1,027.8**	**103.2**	**100.0**
Investments for the benefit of life-insurance policyholders who bear the investment risk	214.6	214.2	100.2	
Assets from investment contracts	115.3	111.4	103.5	

Relative valuation:

Trades at a discount...

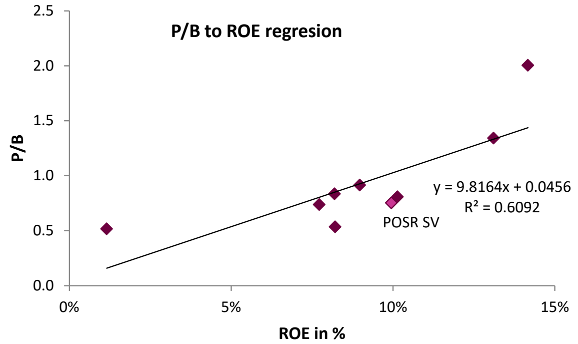
Company name	P/E TTM	P/E 2016F	P/E 2017F	P/B TTM	P/B 2016F	P/B 2017F	ROE TTM TTM	ROE TTM 2016F	ROE TTM 2017F
Zavarovalnica Triglav	7.9	8.4	10.1	0.81	0.82	0.82	10.1%	9.7%	8.1%
PZU SA	14.1	9.7	9.6	2.00	1.71	1.62	14.2%	19.1%	17.4%
Aksigorta	neg.	8.3	5.9	1.76	1.32	1.15	-60.6%	18.3%	21.0%
Generali	9.5	7.5	7.3	0.74	0.70	0.68	7.7%	9.6%	9.5%
VIG	44.4	7.9	7.7	0.51	0.46	0.45	1.2%	6.1%	5.9%
Uniqua	6.5	8.1	7.1	0.53	0.52	0.51	8.2%	6.5%	7.3%
Allianz	10.2	8.8	8.5	0.91	0.88	0.85	9.0%	10.1%	10.2%
Hannover Re	10.2	11.1	11.1	1.34	1.25	1.21	13.1%	11.6%	11.0%
MunichRe	10.1	10.6	10.1	0.83	0.80	0.79	8.2%	7.7%	7.9%
Sava Re	7.6	6.7	8.4	0.75	0.75	0.74	9.9%	11.2%	8.8%
Median	10.2	8.4	8.5	0.83	0.82	0.82	8.2%	9.7%	9.5%

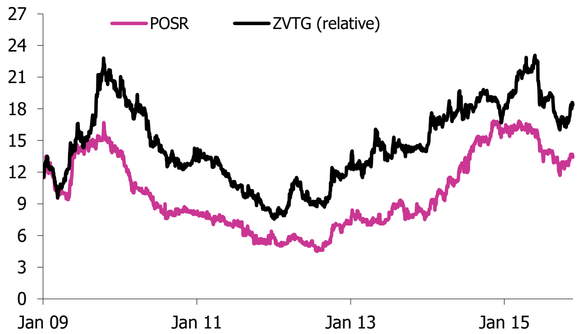
Only dividend yield slightly below average.

Company name	Div. yield (%) TTM	Div. yield (%) 2016F	Div. yield (%) 2017F	Assets/ Equity (%)	Price to GWP	Price to Net Prem. Earned
Zavarovalnica Triglav	10.4	10.8	3.9	5.2	0.60	0.66
PZU SA	7.6	8.2	7.6	9.6	1.23	1.34
Aksigorta	0.0	4.9	6.1	5.8	0.35	0.58
Generali	6.2	7.2	7.7	21.2	0.25	0.27
VIG	3.4	4.9	5.0	10.5	0.25	0.27
Uniqua	8.3	9.2	9.5	10.3	0.31	0.32
Allianz	5.4	5.7	5.9	13.1	0.81	0.89
Hannover Re	5.1	5.0	5.0	7.4	0.67	0.77
MunichRe	5.0	5.3	5.4	8.5	0.52	0.56
Sava Re	9.4	5.6	4.6	5.3	0.45	0.49
Median	5.4	5.7	5.9	9.6	0.52	0.58

* P/E calculated based on sum of quarterly adjusted EPS

Sava Re operates in both, insurance and reinsurance business, but with acquisition of Zavarovalnica Maribor the dominant segment is now insurance business (68% of GWP in Slovenia; 12% in SEE). Nevertheless peer group still consists of the comparable insurers which operate in CEE and SEE countries and reinsurers which collect its premiums mostly in developed countries.





Best local comparison is to Zavarovalnica Triglav since they both changed its focus to profitability a couple of years ago and they both have regional exposure. On the other hand Zavarovalnica Triglav is a bigger insurance company with more exposure on SEE region while Sava Re has relatively more exposure on reinsurance. The comparison is currently more appropriate since the acquired insurance company Zavarovalnica Maribor is fully consolidated in trailing results. We can see that in general Sava Re trades with slight discount to Triglav, however, it also has slightly lower TTM ROE and lower dividend yield. On the other hand we believe that future projections indicates that Sava Re has more potential for profit growth due to synergy potential (plan). We believe that on the long run also dividend yield will be more in line with Triglav. Based on Triglav and above four multiples in the table above (P/E, P/B, P/GWP and P/NPE), target price would be implied at EUR 17.3 and hence 21.1% above current stock price.

Peer valuation target: 16.6 EUR

The peer comparison analysis shows that Sava Re currently trades at discount on all multiples. With slightly higher ROE and also lower dividend yield, Sava Re's discounted ratios probably aren't justified. However, there are risks that growth and cost savings will not be delivered. This will be even more important in a low rate environment which both Slovenian insurers are now facing on the domestic market. Based on our peer group valuation model we derived to a target price of EUR 16.6 per share.

Outlook:

Realistic plans for 2016.

- For 2016, the Sava Re Group is planning to write EUR 487.9m of GWP. This represents a 0.3% growth compared to 2015 and is in line with our expectations. The management guidance for foreign insurance segment growth is 4.8% for non-Slovenian non-life business and 11.7% for non-Slovenian life business. In Slovenia Group's plan is to maintain the current level of premium income. On the presentation the company commented that guidance on the domestic markets is conservative due to the high level of competition and limited market opportunities. In addition growth on domestic life segment will stagnate due to expected policy maturities which will be somewhat offset by newly acquired pension insurance segment. Management also noted that as Group is consolidating and will possibly even rebrand its insurance operations in Slovenia and Croatia. This can consequently result in somewhat lower sales incentive and hence negatively affect domestic insurance GWP for 2016. The management commented that reinsurance market is still soft and that there is still pressure on prices.

  Given the mentioned activities regarding domestic insurance and planned purchase of new premises for the Slovenian part of the group, Sava Re is planning a minor increase in the expense ratio, but a decrease in the incurred loss ratio. Thus they expect that planned combined ratio could fall below 95 percent.

  The Group's net profit target for 2016 is EUR 33.4m (ROE of 11.6%). Although first half profitability was below our expectations, that was partly also due to higher provisioning for possible future claims. We therefore still believe that end of the year result could be in line with our expectations.

Low interest rate environment is likely to pressure income from investments.

- Given the unfavorable development on financial markets we adjusted our expectations regarding investment income for future years. We believe that return on fixed income investments will continue to be under pressure.

Lower expectations regarding expense ratio dynamics.

- We believe that recent shakeups could have negative effects on future strategy and especially regarding cost cutting and other efficiency measures. Accordingly, we believe that dynamic of expense ratio will be less favorable than previously anticipated.

GWP growth in "emerging" SEE will remain volatile.

- Given the dynamic on Sava Re's markets, we believe GWP on the less important markets will remain very volatile and especially in the case of life insurance under significant influence of macroeconomic conditions. It is expected the growth of the insurance market in the region which will be slow and influenced by regulatory environment and marketing approaches. For now we are remaining cautious. However, the dynamic in the first half 2016 was very favorable.

GDP growth in %, constant prices	2014	2015	2016	2017	2018	2019	2020
Slovenia	3.0	2.9	1.9	2.0	1.7	1.5	1.5
Croatia	-0.4	1.6	1.9	2.1	2.2	2.3	2.3
Serbia	-1.8	0.7	1.8	2.3	3.5	3.5	4.0
Bosnia and Herzegovina	1.1	2.8	3.0	3.2	3.7	3.9	4.0
Albania	2.0	2.6	3.4	3.8	4.1	4.1	4.1
FYR Macedonia	3.5	3.7	3.6	3.6	3.7	3.7	3.8
Montenegro	1.8	4.1	4.7	2.5	2.5	2.2	3.8
Kosovo	1.2	3.3	3.4	4.3	4.1	3.7	4.0

Source: IMF April 2016 World Economic Outlook

- Due to global reinsurance operations and hence FX exposure, claims will remain volatile. Due to favorably low level of larger loss events in 2015 in Slovenia, we are also remaining cautious and thereby expect that insurance segment claims ratio is likely to increase in the future years.

Low interest rate will be the greatest challenge.

- Especially on the long run the main question will be how Sava Re will perform in low interest rate environment. Beside portfolio allocation and searching for yield, capital allocation will also be a very important tool to drive valuations into the right direction. Slower growth of insurance and reinsurance premiums and low interest rates are negatively affecting return on equity, hence, we believe that currently relatively aggressive activities of returning capital to shareholders could remain in place also in future years.

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all data in EURm

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	640.6	1378.3	1454.4	1496.0	1504.4	1554.9	1623.4	1692.3	1765.7
Total investment assets	355.4	936.7	979.8	1023.1	1037.8	1073.5	1122.3	1171.3	1223.5
Financial investments in assoc.	55.3	2.9	3.1	0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	1.1	3.4	5.6	4.7	4.2	4.3	4.5	4.7	4.9
Technical reserves	387.2	1017.0	1065.7	1094.7	1106.2	1148.7	1195.1	1243.5	1294.9
Equity	169.3	238.1	269.6	285.4	295.1	300.8	320.2	337.9	356.8

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Gross written premiums	270.8	386.7	468.2	486.3	488.8	504.8	522.3	540.4	559.8
Growth (%)	4.8%	42.8%	21.1%	3.9%	0.5%	3.3%	3.5%	3.5%	3.6%
Net earned premiums	246.2	379.1	437.6	447.6	455.9	471.0	487.4	504.4	522.7
Growth (%)	6.9%	45.5%	21.1%	3.4%	0.9%	3.3%	3.5%	3.5%	3.6%
Net claims	149.9	229.0	257.1	273.1	291.8	301.6	312.3	328.4	340.5
Loss ratio	60.9%	60.4%	58.8%	61.0%	64.0%	64.0%	64.1%	65.1%	65.1%
Expense ratio	32.4%	31.4%	30.8%	28.4%	27.6%	27.0%	26.4%	25.8%	25.2%
Combined ratio	93.3%	91.8%	89.6%	89.4%	91.6%	91.0%	90.5%	90.9%	90.3%
Net investment result	14.5	-2.4	53.5	25.3	21.2	20.5	21.3	22.5	23.6
Profit/(loss) before tax	14.3	8.2	53.8	40.1	40.0	31.9	34.2	32.9	36.3
Net income	12.1	5.7	30.6	33.4	33.1	26.3	28.2	27.1	30.0
Growth (%)	102.5%	-52.8%	433.8%	9.1%	-0.8%	-20.5%	7.2%	-3.8%	10.3%

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
EPS	1.54	0.61	1.78	2.03	2.14	1.70	1.82	1.75	1.93
EPS growth	102.5%	-60.3%	190.2%	14.0%	5.5%	-20.5%	7.2%	-3.8%	10.3%
ROE	7.7%	2.8%	12.1%	12.0%	11.4%	8.8%	9.1%	8.3%	8.6%
ROA	2.0%	0.6%	2.2%	2.3%	2.2%	1.7%	1.8%	1.6%	1.7%
BVPS	21.5	25.4	15.7	17.3	19.0	19.4	20.7	21.8	23.0
Dividenda	0.00	0.00	0.26	0.55	0.80	0.66	0.57	0.61	0.71

Excess Return Valuation:

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Net profit	33.1	26.3	28.2	27.1	30.0	31.4	33.0	34.9	36.9	40.5
Cost of Equity	-26.8	-29.4	-30.0	-31.9	-33.7	-35.1	-36.6	-38.0	-39.3	-40.1
Excess return	6.3	-3.1	-1.7	-4.7	-3.7	-3.7	-3.5	-3.1	-2.4	0.4

Long-term cost of capital	
Equity Invested	269.2
Period PV of Equity Excess Return	-11.1
Terminal PV of Equity Excess Return	2.2
Value of Equity	**260.4**
Equity value per share	**16.8**

Cost of equity	2015	TV
Leveraged beta	1.1	1.1
Risk free rate	0.5%	0.5%
Premiums	8.7%	8.0%
Cost of equity	**10.0%**	**9.2%**
Perpetuity growth rate		**2.0%**

Due to large share buyback ERM target price increased from EUR 15.6 to EUR 16.8.

Based on our excess return model we increased our Sava Re Group's target price from EUR 15.6 to EUR 16.8, with long term cost of equity at 9.2% and long term growth at 2.0%. Given that we slightly lowered our future profit projections, the reason for the increased target price is finalised share buyback program. Beside our ordinary assumption that this target price depends on cost optimisation and on the expectations that management of Sava Re will deliver promised synergies which could offset lower investment income, investors should be also aware that any future indications about floatation of treasury shares. This would result in target price cut.

Implied multiples:

	2016		2017	
	P/B	P/E	P/B	P/E
Current price	0.75	6.69	0.74	8.42
Target price	0.88	7.87	0.87	9.90

Final target price calculation:

Our final target price is therefore set at EUR 16.8 with buy recommendation intact.

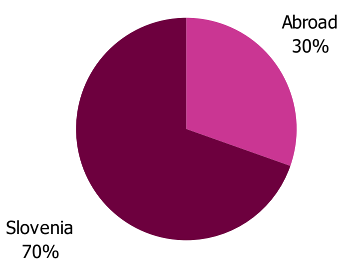
For our final target price we used a combination of relative and excess return valuation model. Since we believe that excess return is more appropriate approach (Sava Re's bussiness model is somewhat unique) we asign 80% weight to excess return valuation and 20% to relative valuation target price. Accordingly we set our new target price at EUR 16.8 which implies that currently Sava Re trades at 14.6% discount to fair value. Hence we are maintaining our recommendation to buy (10% being a border). We note our target price for 2016 implies roughly P/B of 0.88, P/GWP of 0.53 and P/E of 7.9 with Sava Re ROE around 11.4%.

Top5 shareholders:	
SDH	25.0%
Zagrebačka Banka Fid.	14.3%
Sava RE	10.0%
EBRD	6.2%
Raiffaisen Bank Fid.	4.5%

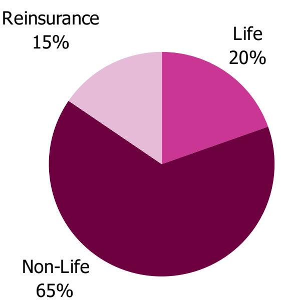
Brief Company profile

Sava Reinsurance Company is the leading Slovenian reinsurer with a 31% domestic market share and is the largest locally-based non-captive reinsurer in the CEE region. Through consolidation of Zavarovalnica Maribor and Tilia it now has a 19.5% market share (1q2016) on the domestic Slovenian insurance market. It also transacts primary insurance business (life and non-life) in Slovenia and the Western Balkans (Croatia, Kosovo, Macedonia, Montenegro, and Serbia). The company has a 38-year history. In 1992 it was only in reinsurance business, but then started to penetrate the insurance market in Slovenia and the Western Balkans. It has 2,553 employees.

Group sales by region (1H2016)



Group sales by segment (1H2016)



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Matej Šimnic, Analyst. On the day of the public release, the author of the recommendation did not held securities of the relevant issuer.

Sašo Stanovnik, Head of research. On the day of the public release, the author of the recommendation did not held securities of the relevant issuer.

First release of the recommendation was performed on 13.04.2010.
Quarterly updates are planned for data, valuation, target price and recommendation.

OTHER INFORMATION

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