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Slovenian Insurer Sava Re's Proposed Junior Subordinated, Deferrable Notes Rated 'BBB+'

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- Sava Re, a core company of Sava Insurance Group, plans to issue junior subordinated, deferrable notes to fund general corporate purposes.
- We are assigning our 'BBB+' rating to the proposed notes.
- We expect to classify the proposed notes as having intermediate equity content.

FRANKFURT (S&P Global Ratings) Oct. 7, 2019--S&P Global Ratings today assigned its 'BBB+' long-term issue rating to the proposed subordinated dated Tier 2 notes to be issued by Sava Re d.d. (A/Stable/--), the core operating entity of Slovenia-based Sava Insurance Group. The rating on the proposed notes is subject to confirmation following our receipt of the final terms and conditions.

We expect to classify the notes as having intermediate equity content.

The issue rating on the proposed notes is two notches below the long-term issuer credit rating on Sava. This reflects our standard approach for rating subordinated debt issues. The solvency ratios of the issuer and the consolidated group stood at 293% and 218%, respectively, as of Dec. 31, 2018. We therefore consider the risk of mandatory deferral to be remote and don't believe it is necessary to deduct a further notch for additional nonpayment risk to derive the rating on the notes. The issue rating therefore reflects the notes' subordination and interest deferral features, taking into account our understanding that:

- The notes are subordinated to Sava's policyholders and senior creditors;
- The issuer can choose to defer interest as long as it has not declared or made a dividend or other payment (including payment in relation to redemption or repurchase) on a more junior security in the previous six months;
- Under the notes' terms and conditions, interest deferral is mandatory if a solvency event has occurred, which, under Solvency II, would be a breach of the solvency capital requirement; and
- The notes will be eligible as regulatory solvency tier 2 capital.

The documentation for the proposed notes outlines a 20-year tenor, and Sava has the option to redeem the outstanding notes on the first call date, which is 10 years after issuance. Noteholders will receive the principal amount plus any accrued or deferred interest. Sava will initially pay a fixed annual coupon until the first call date, after which the interest rate will be floating, based on the three-month Euro Interbank Offered Rate plus the margin. There is a moderate step-up of 100 basis points.

Since Sava repaid its debt in full in 2017, its balance sheet has been debt free. With this proposed issuance, we expect the group's fixed-charge coverage will be at around 20x and financial leverage will remain lower than 20% in 2019-2021. The company's current debt level is well within our tolerance for the ratings, and we see a fair amount of remaining debt capacity, if needed. For more details on the rationale for our rating on the group, see "Sava Insurance Group," published Sept. 10, 2019, on RatingsDirect.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Sava Insurance Group, Sept. 10, 2019
- Slovenia-Based Sava Insurance Group 'A' Ratings Affirmed; Outlook Stable, July 30, 2019
- Solvency II Gives European Insurers Room To Issue More Hybrid Debt, But Not Without Risk To The Ratings, May 29, 2019