S&P Global
Ratings

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Pozavarovalnica Sava d.d.

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Pozavarovalnica Sava d.d.

SACP* Assessments				SACP*		Support		Ratings
Anchor	a	Modifiers	0	a		0		Financial Strength Rating
Business Risk		ERM and Management	0	Liquidity	0	Group Support	0	A/Stable/--
Strong								
Financial Risk		Holistic Analysis	0	Sovereign Risk	0	Gov't Support	0	
Very Strong								

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Major Rating Factors

Strengths

- Strong competitive position backed by its market position in Slovenia, reinforced by stable international reinsurance business.
- Extremely strong capital adequacy levels.
- Conservative investment portfolio and limited underwriting risk.

Weaknesses

- Limited geographic diversification outside Slovenia of premiums and earnings of its primary insurance business.

Rationale

S&P Global Ratings' issuer credit and financial strength ratings on Pozavarovalnica Sava d.d. (Sava Re) and our financial strength rating on its core subsidiary Zavarovalnica Sava d.d. (formerly Zavarovalnica Maribor d.d.) reflect the group's strong market position in Slovenia, good and stable operating performance, and 'AAA' risk-based capital adequacy according to our capital model, which is also reaffirmed by a Solvency II ratio of 220% at the end of 2017.

In our view, Sava Re's market position as the second-largest insurance group in Slovenia's stable and profitable market allows to the group to display good and stable operating performance while retaining extremely strong capital. Furthermore, the company benefits from solid income from its internationally active reinsurance business.

In 2017, gross premiums written reached €517 million, up from €490 million in 2016. In the first half of 2018 premiums continued to grow and reached €309 million, which was 3.7% more than in the same period in 2017. Sava Re's main domestic peer is the Triglav Group. In our view, despite Sava Re being many times smaller, it compares well with the peer group of companies active in Central and Eastern Europe ,like Austrian UNIQA Insurance Group and Vienna

Insurance Group, and Polish Powszechny Zaklad Ubezpieczen (PZU). We consider that Sava Re's closest reinsurance peer is Spanish Nacional de Reaseguros.

Outlook: Stable

The stable outlook indicates that we do not expect to change our ratings on Sava Re's core operating entities over the next two years. We expect that Sava Re will maintain excess of capital at the 'AAA' level, while continuing to execute its business strategy and expanding profitably. We also expect Sava Re will maintain its conservative underwriting practices in primary and reinsurance business, limiting the impact of catastrophe events via comprehensive reinsurance covers, and maintaining limited investment risk.

Downside scenario

We could lower the ratings if, contrary to our expectations Sava Re's:

- Capital adequacy were to fall below the 'AAA' confidence level for a prolonged period, for example due to a large dividend payment, acquisition, or catastrophe event.
- Risk profile were to weaken as result of significantly higher asset or underwriting risk that leads to volatility of capital and earnings.
- Competitive position were to weaken as a result of significant erosion of volumes or profitability.

Upside scenario

We currently see an upgrade as unlikely because we do not expect a material and sustainable improvement in volumes and earnings from the foreign subsidiaries.

Base-Case Scenario

Macroeconomic Assumptions

- GDP growth in Slovenia of 4.6% in 2018 and 3.6% in 2019.
- Slowly rising interest rates from 2018-2020.

Company-Specific Assumptions

- Capital adequacy to remain extremely strong, above the 'AAA' level of confidence over 2018-2020.
- Growth of premiums in 2018–2020, between 3%-4% per year, triggered by an increase in domestic property/casualty (P/C) operations and growth in the foreign primary insurance operations.
- A combined (loss and expense) ratio of slightly below 95% in 2018, till 2020 declining to around 93%-94%, supported by management's continuous focus on underwriting and cost optimization.
- Net income of at least €33 million in 2018, followed by modest increases to at least €37 million over the coming two years.
- Investment income to remain low due to low interest rate environment and conservative investment portfolio. However, investment income should gradually increase in 2018–2020, reflecting overall increase in interest rates.

Key Metrics

	2020f	2019f	2018f	2017	2016	2015	2014
Gross premiums written (mil. €)	> 560.0	> 545.0	> 530.0	517.2	490.2	486.3	468.2
Net premiums earned (mil. €)	~ 510.0	~ 495.0	~ 480.0	470.9	458.1	447.6	437.6
Net income (mil. €)	> 37.0	> 35.0	> 33.0	31.1	32.9	33.4	30.5
Total reported capital	> 340.0	> 340.0	~ 330.0	316.4	321.0	310.1	300.3
Return on shareholder equity (reported, %)	> 10.0	> 10.0	~ 10.0	10.1	11.3	12.0	11.9
P/C net combined ratio (%)	< 95.0	< 95.0	~ 95.0	94.6	95.5	96.0	96.2
Net investment yield (%)	> 1.7	> 1.7	~ 1.7	1.8	1.9	2.1	2.4
Fixed-charge coverage	0	0	0	66.9	58.3	42.1	33.9
Financial leverage (%)	0	0	0	0	4.9	5.3	6.7
S&P Global Ratings' capital adequacy	Extremely strong	Extremely strong	Extremely strong	Extremely strong	Extremely strong	Extremely strong	Extremely strong

f--Forecast under S&P Global Ratings' base-case scenario. P/C--Property/casualty.

Business Risk Profile: Strong

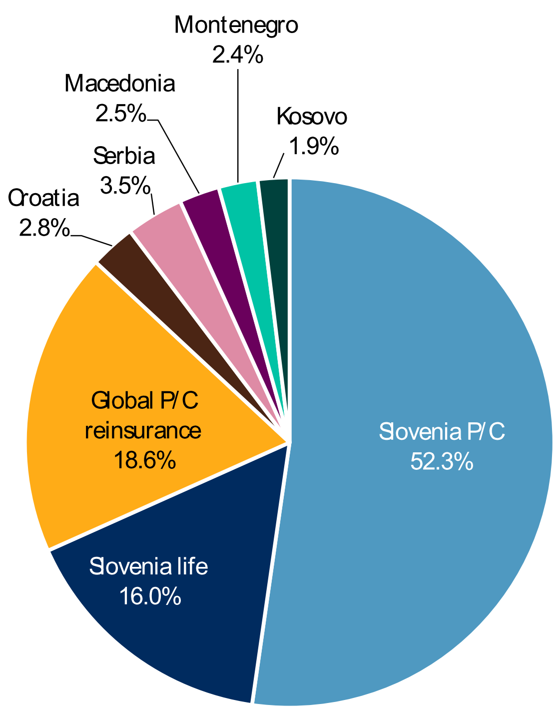
Sava Re is the second-largest insurance group in Slovenia, where it has a well-diversified business mix between P/C and life insurance. The group's premiums and income streams also benefit from further diversification in international reinsurance business. In our view, the main growth potential for the group comes from its operations in number of

Western Balkan countries.

In our view, Sava Re faces intermediate industry and country risk because its businesses are concentrated in Slovenia's P/C and life insurance sectors. We believe that the group benefits from the sector's stable and strong underwriting profitability and high barriers to entry, with favorable macroeconomic conditions and moderately rising wages. Growth prospects for the sector are better than for most of the Western European countries. We consider that the greatest risk for the sector comes from natural catastrophes, where in our view, Slovenia has comparatively high exposure toward hail and earthquake risk.

Chart 1

Breakdown Of Gross Premiums Written At Sava Re Group In 2017



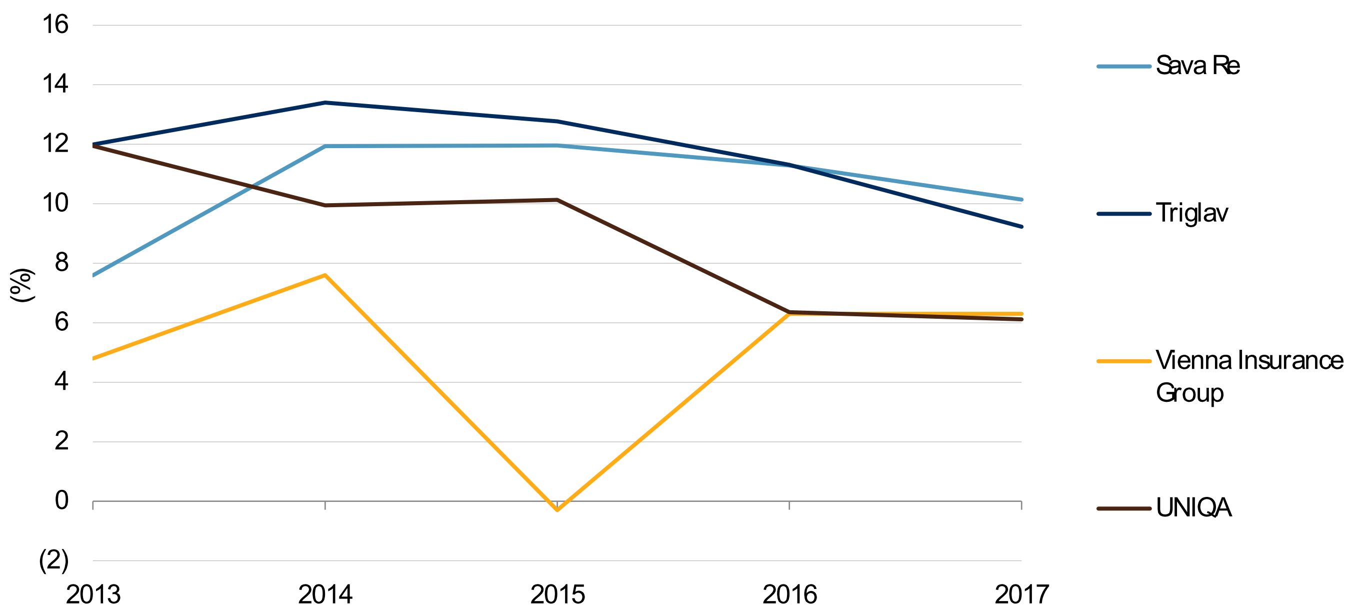
P/C--Property/casualty.

We believe Sava Re has continued to strengthen its business position in its main market of Slovenia since the acquisition and integration of Zavarovalnica Sava (formerly Maribor). The group's gross premium written grew by 5.5% to €517 million in 2017, while the company managed to sustain its improved portfolio pricing. This has led to stable levels of claims over premiums, as well as continuation of conservative reserving. As a result, the combined ratio improved to 94.6% (according to our calculations) at the end of 2017, while life insurance return on assets remained high at around 1.8%. On the group level, profitability as measured by return on equity (ROE) remained stable at 10%. In the first half of 2018, performance slightly deteriorated, with the combined ratio increasing to 97.4% from

92.7% in the first half of 2017, however, this was mainly result of higher losses from domestic natural catastrophes. Nevertheless, we consider that the company's combined ratio in 2018 to remain at around 95%. We do not consider that Sava Re's performance in 2019-2020 would be materially affected by any prospective change in insurance market structure in Slovenia. We also note that Sava Re continues to work on underwriting improvements, while the positive macroeconomic cycle in Slovenia continues, and we think this could allow to Sava Re to further increase its underwriting profitability to around 93%-94% over 2019-2020.

Chart 2

Return On Equity At Sava Re And Some Of Its Peers



The company's operating efficiency improved in 2017. This was mostly driven by Sava Re's continued focus on business optimization after the merger of its Slovenian operations. Nevertheless, the group's expense ratios still remain elevated compared with peers', while business digitization is, in our view, slightly lagging that of larger domestic and some international peers. Nevertheless, we consider that good business growth in the coming years and fast execution of its digitization and modernization strategy will help drive down the expense ratios in the medium term.

Sava Re's reinsurance business continues to diversify the group's premium and income streams. The company's reinsurance business is relatively small compared with larger international reinsurers. Nevertheless, Sava Re is leveraging its established and proven expertise as a service-driven coverage provider for small-to-midsize companies. Sava Re has built long-term relationships with insurance companies that have strong underwriting and management, and a local presence. This allows Sava Re to remain conservative, even during soft market cycles, while retaining profitable and relatively stable operating performance. We expect that Sava Re will continue to prudently build its reinsurance business, which will remain a stable profit contributor and should not increase the group's overall profit volatility.

We expect Sava's overall premiums to grow by around 3%-4% in 2018-2020, growth coming from Slovenia, foreign primary business, and reinsurance business. We continue to consider that direct insurance business in the Western Balkans offers Sava Re the main growth opportunities. During 2017 and the first half 2018, Sava Re announced a number of smaller acquisitions that contributed to its larger scale and a stronger overall position in markets where it was already present. In particular, we see as positive Sava Re's expansion into low-capital-intensive and fee-generating businesses with good growth prospects, such as the recently acquired pension business in Macedonia (on June 30, 2018, accumulated pension assets of around €478 million).

Table 1

Sava Re Competitive Position

(Mil. €)	2017	2016	2015	2014	2013
Gross premiums written	517.2	490.2	486.3	468.2	386.7
Change in gross premiums written (%)	5.51	0.81	3.86	21.1	42.8
Net premiums written	483.0	459.0	455.9	440.8	364.1
Change in net premiums written (%)	5.2	0.7	3.4	21.1	45.5
Net premiums earned	470.9	458.1	447.6	437.6	379.1
Total assets under management	1,482.0	1,455.4	1,388.6	1,223.9	1,147.4
Growth in assets under management (%)	1.8	4.8	13.5	6.7	152.9
P/C: Reinsurance utilization (%)	7.9	7.6	7.5	7.1	6.9

P/C--Property/casualty.

Financial Risk Profile: Very Strong

In our view, Sava Re's capital position is very sound, according to both Solvency II and our risk-based capital model. Stable earnings generation and moderate dividend payments have helped Sava Re's capital increase faster than capital requirements, despite its business growth. Sava Re's lower exposure to risky assets and enhanced catastrophe risk management limit capital and earnings volatility, thereby benefitting the overall financial risk profile.

We expect that Sava Re's consolidated capital adequacy will remain above the 'AAA' level of confidence in our risk-based capital model over 2018-2020. This is based on its core capital and additionally supported by prudent margins on its P/C loss reserves. Sava Re has ongoing capital generation through good profitability and moderate dividend payout at around 40%. In June 2018, Sava Re disclosed that the solvency ratio on Dec. 31, 2017, stood at 220%, based on a standard formula and no use of transitional adjustments.

Although it's allowed by the regulator, Sava Re does not use deferred tax assets in its Solvency II calculations. The acquisitions Sava Re made in 2017 and the first half of 2018 do not impact our view of the company's capital position. We consider that the buying prices for the acquired businesses were moderate, mostly paid out of regular earnings generations. Due to the low-capital-intensity of the business acquired, growth in additional capital requirements remains inside the company's capital limits. This said, we believe Sava Re will retain the 'AAA' capital level, according to our model. We think that Sava Re still has enough headroom for further business enhancements if opportunities arise. We also note that the company currently does not have any hybrid capital outstanding, and as such, we consider that the group retains adequate financial flexibility to issue subordinated debt to cover any potential mid-size or larger acquisitions, if needed.

Even though that there was more intense natural catastrophes in Slovenia in 2017, Sava Re's net income remained resilient at €31.1 million. This translated into 10.1% ROE, which is relatively favorable compared with international peers, in particular given that Sava Re further improved its capital position in 2017 by increasing shareholder equity by €19 million to €316 million (a 6.4% increase over 2016). We expect net income in 2018-2020 to rise to at least €33 million in 2008, growing to at least €37 million in 2020.

Table 3

Sava Re Capitalization And Earnings

(Mil. €)	2017	2016	2015	2014	2013
Common equity	316.1	297.0	286.4	271.5	240.1
Net income	31.1	32.9	33.4	30.5	15.6
Return on shareholder equity (reported, %)	10.1	11.3	12.0	11.9	7.6
P/C net expense ratio (%)	35.7	36.5	35.3	36.6	35.6
P/C net loss ratio (%)	58.9	58.6	60.5	59.5	61.2
P/C net combined ratio (%)	94.6	95.5	96.0	96.2	96.9
Life: Net expense ratio (%)	25.7	26.2	23.6	27.3	34.3

P/C--Property/casualty.

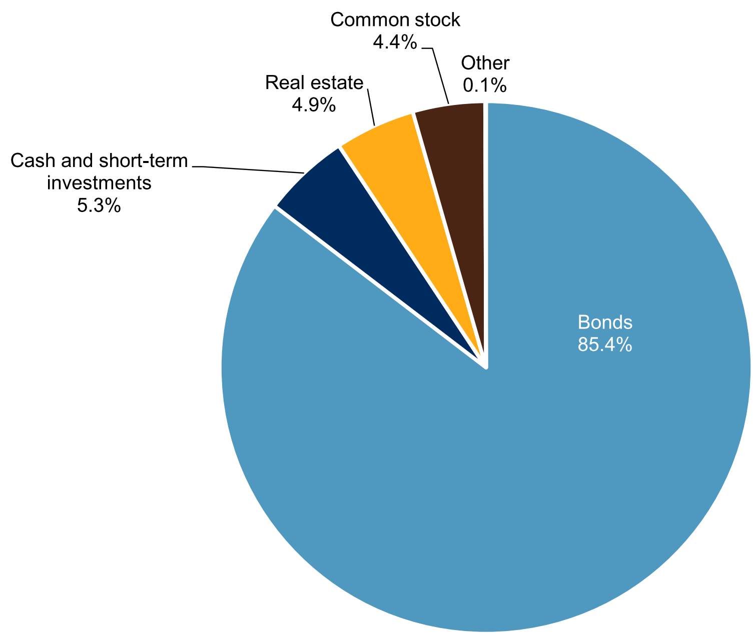
Profitable growth in Slovenia will benefit net income, while reinsurance will remain a stable profit contributor. The overall profitability of foreign primary insurance will remain narrow and not offer material earnings diversification to the group in 2018-2020. However, we expect that Sava Re's recent acquisitions might slightly improve its earnings sustainability in some of markets.

Sava Re materially reduced its investments and underwriting risks in the past few years. We consider the effective reinsurance program to be key factor for the stability of Sava Re's capital and earnings. Moreover, in the past few years, the company has reduced its exposure to potential earnings volatility from natural catastrophes through more conservative underwriting; has further enhanced its use of reinsurance cover; and has maintained a significant amount of prudential margins on its P/C loss reserves. In the international reinsurance business, most of Sava Re's business comes from proportional treaties and the company is prudently limiting peak risks, while claims development in Slovenian primary business remains stable.

The company's investment portfolio is increasingly conservative. The average credit quality in its fixed-income portfolio is at the 'A+' level, while higher-risk assets like equities, property, and speculative-grade securities represent around 40% of the company's total available capital, or around 14% of total invested assets. We see Sava Re's recent move to allocate small part of its asset portfolio into lower risk infrastructure investment to be neutral for prospective investment risks. We do not expect other major changes in Sava Re's investment policy or risk appetite that could affect its risk position.

Chart 3

Sava Re Investment Portfolio Composition In 2017



Other Assessments

Sava Re's enterprise risk management (ERM) practices are adequate, in our view, reflecting the group's alignment in the last few years of its ERM standards with the majority of other Solvency II-regulated insurers in the EU. In our view, its underwriting risk controls are adequate. Sava Re has clear underwriting guidelines and risk limitations (in terms of individual risks and risk accumulations). Natural catastrophe risk is mitigated through substantial retrocession protection, where cover is purchased for at least a one-in-250-year event. We believe it is unlikely that the group will experience losses that are outside its risk tolerances in the next two to three years.

We see favorably Sava Re's clear and credible strategic planning and its conservative financial management. We consider the board experienced and capable of executing the company's business strategy, as shown in merger of the Slovenian and Croatian entities in 2016. We also regard as positive management's increased focus on profitability via tighter cost control, stricter underwriting, implementation of a common information technology platform at the group level, and withdrawal of underperforming business lines.

We continue to regard Sava Re as a government-related entity, chiefly because the Slovenian government is its largest shareholder. Under Slovenia's state asset management strategy, Sava Re is classified as an important asset, implying a high commitment from the state in maintaining its 25% stake in Sava Re. Moreover, in our view, Sava Re plays a key role in protecting Slovenians in a structured way from the impact of catastrophic events, to which the country is exposed. We consider that there is a moderately high likelihood that the government of Slovenia (A+/Positive/A-1) would provide timely and sufficient extraordinary support to Sava Re in the event of financial distress. Although we do not include any notches of uplift for support in the rating, thanks to Sava Re's already high stand-alone credit profile, a change in shareholding would have a negative impact on the ratings if Sava Re were to be taken over by a financially weaker group.

We regard Sava Re's liquidity as exceptional, based on steady premium income and a highly liquid asset portfolio. There are no refinancing concerns, and we believe Sava Re is capable of managing unexpectedly large claims.

Ratings Support Snapshot

Financial Strength Rating	A/Stable/--
Anchor	a
Business Risk Profile	Strong
IICRA	Intermediate risk
Competitive Position	Strong
Financial Risk Profile	Very strong
Capital and Earnings	Very strong
Risk Position	Intermediate
Financial Flexibility	Adequate
Modifiers	
ERM and Management	0
Enterprise Risk Management	Adequate
Management & Governance	Satisfactory
Holistic Analysis	0
Liquidity	Exceptional
Support	
Group Support	0
Government Support	0

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Insurance - Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013

- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 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

- Research Update: Slovenia Outlook Revised To Positive On Robust Economic Dynamics; 'A+' Rating Affirmed, June 15, 2018
- Insurance Industry And Country Risk Assessment: Slovenia Life, Sept. 4, 2017
- Insurance Industry And Country Risk Assessment: Slovenia Property/Casualty, Sept. 4, 2017
- CEE Motor Third-Party Liability Insurance Profitability: The Good, The Bad, And The Ugly, Dec. 12, 2016
- Insurance In Ex-Yugoslavia 25 Years After Dissolution: Is The Gap Closing? Nov. 14, 2016

Ratings Detail (As Of September 7, 2018)	
Operating Companies Covered By This Report	
Pozavarovalnica Sava d.d.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Zavarovalnica Sava d.d.	
Financial Strength Rating	
Local Currency	A/Stable/--
Domicile	Slovenia

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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