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Ratings

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Sava Insurance Group

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Sava Insurance Group

Anchor	a
Business Risk	**Strong**
Competitive position	Strong
IICRA	Intermediate
Financial Risk	**Very Strong**
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a

+

Support	0
Group support	0
Government support	0

=

A/Stable/--
Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

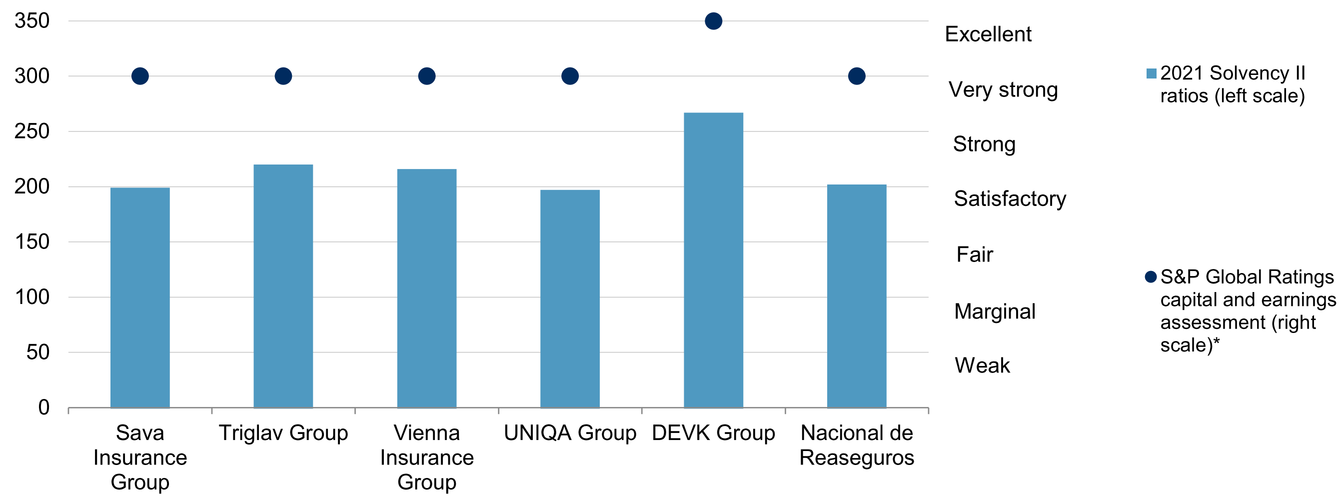
Key strengths	Key risks
Established market credentials backed by its No.2 market position in Slovenia, with some additional diversification via the international reinsurance business.	Compared with higher-rated peers, lower geographic diversification of revenue and net income outside Slovenia.
Solid capital buffers, at the 'AAA' level, coupled with a conservative investment strategy and limited underwriting risk.	
Prudent underwriting combined with conservative reinsurance protection and prudent investment strategy, which support operating performance.	

With successful consolidation of NLB Vita, Sava Insurance Group (Sava) has solidified its domestic market position in the Slovenian insurance market. We believe that Sava's robust balance sheet, solidified domestic position with improved scale and diversification, and continued solid risk controls will safeguard continued stable business development domestically and internationally. Sava's acquisitions and operational adjustments made in the past two years, as well as continued good overall underwriting controls, will help the group retain good top- and bottom-line performance during motor lines claim frequency normalization and impact of higher overall inflation on claims and costs. We believe the group will continue to use its solid credentials to tap profitable growth opportunities in domestic and international insurance and reinsurance markets. Overall, we expect premiums growth will remain solid in 2022 at around 5%-7%, and then to gradually moderate toward longer-term growth of 3%-5% over 2023-2024.

Capitalization remains one of Sava's key rating strengths. The group maintains buffers above the 'AAA' level in our capital model. Sava's robust capitalization and its strong and stable earnings enable it to maintain capital at sound levels. Due to the conservative asset structure, and favorable capital structure mainly composed from shareholder equity, we do not consider that recent capital market volatility had a significant impact on Sava's capital position. We assume that the company could use some of its capital buffers to overcome moderate deterioration in economic and capital markets conditions or for faster business expansion if opportunities would appear. However, we expect the group will maintain capitalization at least in the 'AA' range of our insurance capital model over the next two to three years.

Chart 1

Sava Capital Adequacy Is Comparable With Peers'



Source: S&P Global Ratings based on the respective companies 2021 SFCR reports. Solvency 2 ratio without transitionals.

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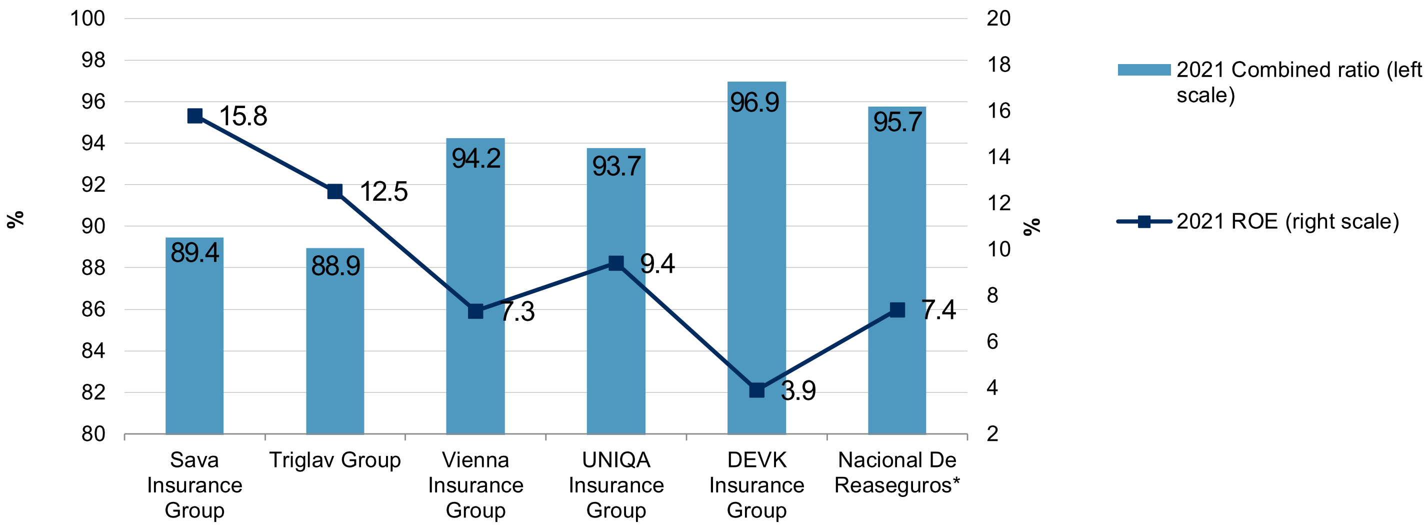
Sava's full year 2021 and mid-year 2022 performance remained resilient, and compares well with that of its Europe, Middle East, and Africa (EMEA) peer group. The group's 2021 net income further strengthened via its consolidation of NLB Vita and through ongoing business profitability, while also observing some frequency benefit from lockdowns in 2021. Overall, the group reported a strong return on equity (ROE) of 15.8% in 2021. We expect the frequency benefit to disappear in 2022, leading to normalization of group performance. This said, we expect the group's performance to remain solid thanks to the robust performance of Slovenian primary insurance operations. Sava benefits from a strong household position in Slovenia enabling timely price adjustments through which to retain overall solid underwriting performance. With a mid-year 2022 combined (profit and loss) ratio of 92.3% and net income of €28.9 million, the group is well positioned to reach its 2022 performance targets of above €60 million. For 2023-2024, we expect resilient performance, backed by sound underwriting results, with a combined ratio at or below 94% and net income of €53 million-€65 million.

Chart 2

Sava's Operating And Underwriting Performance Compares Well With International Peers'



*Combined ratio as reported. ROE--Return on equity. Source: S&P Global Ratings. EMEA--Europe, Middle East, and Africa. Source: S&P Global Ratings.

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Outlook: Stable

The stable outlook on Sava's core operating entities reflects our expectation that the group's management will continue to implement its strategy of solid operating performance and profitable growth, while further diversifying premiums and solidifying its income streams. Despite expected moderating macroeconomic conditions, we expect Sava to sustain a strong balance sheet with at least very strong capitalization and strong and stable earnings over the next two years, enabling the company to continue developing its domestic and foreign operations.

Downside scenario

We could lower the rating in the next two years if Sava's competitive position were to weaken because of significantly eroded volumes or prolonged negative profitability trends, triggered, for example, by external conditions that would also derail sound macroeconomic development in Slovenia.

Upside scenario

We are unlikely to take a positive rating action in the next two years. An upgrade would be contingent on the group further improving its competitive position, which could occur, for example, if sustainable economic growth propels Slovenia's income in GDP per capita terms further toward the eurozone average and strengthens prospects for profitable domestic growth, which we do not foresee over the next 12-24 months.

Key Assumptions

- After strong growth in 2021 at 8.1%, we expect the Slovenian economy to expand by 3.9% for 2022 and by 2.5% in 2023 on the back of rising inflation.
- Unemployment to remain low at about 4%-5% through 2022-2023.
- Inflation to peak at 7.7% in 2022 and then gradually reduce to 4.7% for 2023 and 2.5% for 2024.
- We expect some increase of interest rates in the eurozone, however, remaining at relatively low levels.

Sava Insurance Group--Key Metrics

(Mil. €)	2023f	2022f	H1 2022*	2021	2020	2019	2018	2017
Gross premiums written (mil. €)	~780	~760	433.0	729.9	679.7	598.5	546.3	517.2
Net premiums earned (mil. €)	~740	~720	339.7	686.5	635.4	548.0	504.7	470.9
Net income (mil. €)	53-65	~60	28.9	76.2	56.4	50.2	43.0	31.1
Return on shareholder equity (reported, %)	9-12	9-12	13.4	15.8	13.3	13.8	13.1	10.1
P/C net combined ratio (%)	<94	<94	93.2	89.4	93.6	95.7	93.0	94.8
Net investment yield (%)	1.2-1.9	1.0-1.7	N/A	1.3	1.4	1.7	1.7	1.8
Fixed-charge coverage	27-30	~30	N/A	36.9	25.7	101.8	2,128.4	66.9
Financial leverage (%)	13-15	~15	N/A	13.8	15.0	17.8	0.1	0.0
S&P capital adequacy	At least very strong	At least very strong	At least very strong	Excellent	Excellent	Excellent	Excellent	Excellent

*Return on equity and property/casualty (P/C) net combined ratio is based on trailing 12 months. N/A--Not applicable. H1--First half. f--Forecast under S&P Global Ratings' base-case scenario.

Business Risk Profile: Strong

Sava is the second-largest multiline insurance group in Slovenia with a market share of about 20% and is also the fourth-largest asset manager. It also has international reinsurance operations, mainly focused on Asia and EMEA, and some primary insurance operations in the Adriac region (the area of former Yugoslavia). Sava has a proven track record of profitable business growth, with an average five-year combined ratio of 93.4%, which enables the group to continue generating strong earnings. That said, compared with higher-rated peers', Sava's premiums and net income are more reliant on the domestic market's development.

In our view, the insurance sector in Slovenia in 2021 performed well and underwriting performance improved, which allowed further profit growth. We believe that Slovenia's life and property/casualty (P/C) sectors will continue to benefit from strong and sustainable performance, on account of disciplined underwriting with good underwriting controls. In our view, Sava's strong domestic market position, through its entity Zavarovalnica Sava d.d. (financial strength rating: A/Stable/--), continues to enable to source attractive underwriting performance in both the P/C and life segments. In 2021 a large proportion of group earnings (€58.1 million) originated from these operations, which, in our view, will remain the group's key strength. The direct insurance business in the Adria region--Sava--is well represented in smaller, less developed regional markets including North Macedonia, Montenegro, and Kosovo. It offers the group long-term growth opportunities and is striving to enhance its small position in larger markets like Croatia and Serbia.

In the international reinsurance business, Sava is leveraging its established and proven expertise as a service-driven coverage provider, through which it has built strong and stable relationships with its cedents. In 2021, the international reinsurance operating performance improved with the combined ratio improving to 95% after COVID-19 related losses in 2020. We note that the 2021 underwriting result was protected by robust reinsurance protection which limited the impact from natural catastrophe losses from the 2021 summer floods in Central Europe. We expect that Sava's reinsurance operations in 2022-2024 will continue to grow, further solidifying its geographic footprint in EMEA while retaining solid position in Asian markets. Overall, we believe that the group's reinsurance operations are able to source good and stable earnings with which reinsurance operations will remain an additional business diversifier for the group.

The group's primary insurance operations remained resilient in 2021, outperforming peers, thanks to Sava's larger proportion of business in motor lines, which experienced lower frequencies during COVID-19-related lockdown measures. We note that the group in 2021 still observed positive top- and bottom-line developments from its first-time consolidation of life insurance operations of NLB Vita. Overall, the group's combined ratio further improved and reached a historical low at 89.4% at year-end 2021, while in the first half of 2022 it remained solid at 92.3%. We expect that in the remainder of 2022 and in 2023-2024, the group's underwriting performance will see limited impact from normalization of claims frequencies, higher inflation, and increasing wage and other costs. This said, we believe that performance in the next few years will remain at comparably solid levels, with the combined ratio expected to remain solid at around its five-year average. We note that the group already started to adjust pricing toward the end of the first half of 2022 to reflect higher inflation. This in our view will help the group retain resilient underwriting performance. We also expect that the underwriting and investment risk appetites will remain stable. We note that increased scale and tight cost controls in 2021 and the first half of 2022 allowed Sava to progress with several strategic investments in digitalization and modernization of operations. We believe that the group is willing and able to maintain claims and costs under control which will support the group's future operating performance. In our view, Sava will also continue to use its robust balance sheet for further profitable growth, especially in the primary insurance markets, international reinsurance businesses, and asset management. Furthermore, rising interest rates will gradually offer some improvement of investment results. Overall, we expect continued comparably strong and stable performance in 2022-2024, with an ROE of about 9%-13%.

Sava's robust growth momentum continued in 2021 and the first half of 2022, with the group reporting 7.4% and 4.5% growth of gross written premiums to €730 million in 2021 and €433 million in the first half of 2022. Growth in 2021 was notably supported by the first-time consolidation of NLB Vita, although Sava also continued to see some organic premium growth in its own primary and reinsurance operations, driven mainly by rates hardening. Price increases continued in the first half of 2022 with increase in that period coming from price adjustments in its primary operations and growth in new risks, while also reinsurance operations displaying growth. Overall, we expect that premiums growth will remain solid in 2022 at around 5%-7%, and then gradually moderate toward longer-term growth of 3%-5%

over 2023-2024, driven by moderating economic development and expected lower inflation, as well as stabilization of claims frequencies. We expect that Sava will continue to leverage its sound balance sheet for any profitable business opportunities that may arise.

Financial Risk Profile: Very Strong

Sava's financial profile underpins its strong and resilient balance sheet againwith a robust capital position based on our capital model and Solvency II. We believe that the group's sound operating performance will support moderate dividend payments and growth financing. In our view, underwriting and investment risks and funding structure support the very strong financial risk profile.

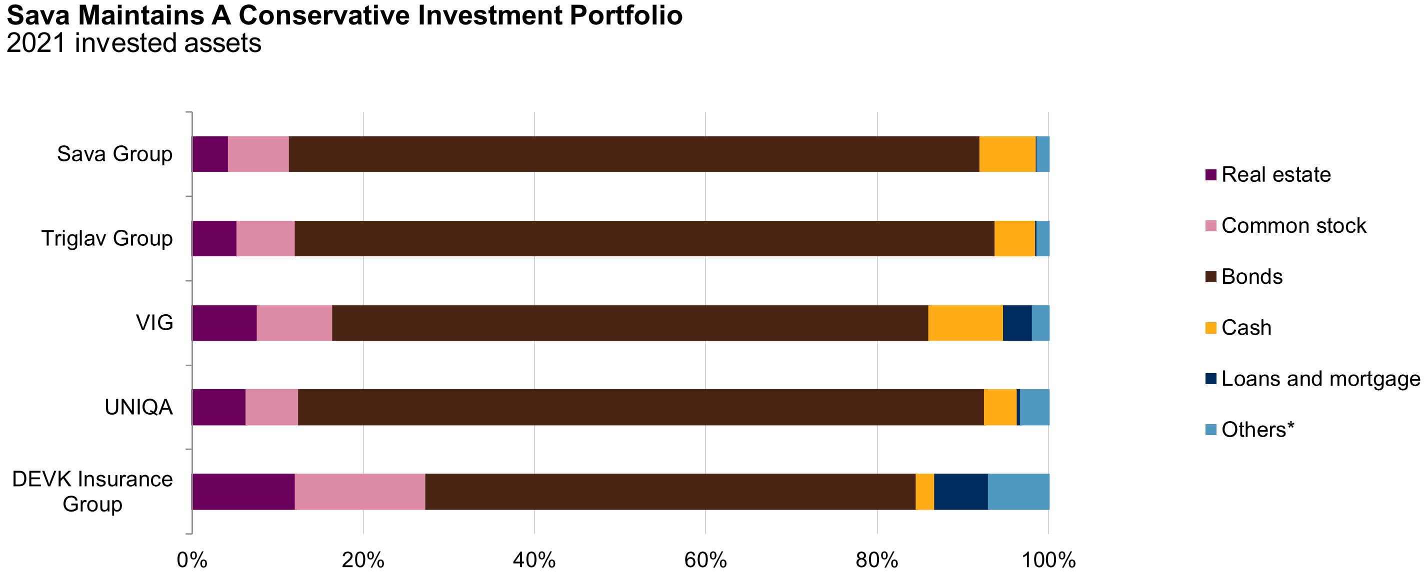
In 2021 Sava's capital position remained above the 'AAA' level according to our risk-based capital model. Our favorable view of the group's capitalization is further supported by Sava's strong Solvency II ratio of 198% at year-end 2021 and 196% on March 31, 2022, based on a standard formula and no use of transitional adjustments. We note that the group distributed moderate dividends in 2022, in accordance with its strategy, and we expect these to continue in the coming years. We believe the solid capital level and conservative asset allocation allowed Sava to weather capital markets volatility in the first half of 2022. We also note that the impact of market volatility on Sava's capital was comparably limited as the group's capital structure mainly depends on hard forms of capital like shareholders' equity, additionally supported by prudent margins on its P/C loss reserves.

Sava's risk profile has remained stable and supportive of its very strong financial profile, benefiting from its conservative investment strategy and reinsurance protection. We believe that the tighter underwriting risk controls that Sava gradually implemented in the past decade, combined with strong reinsurance protection, safeguarded the group against losses outside its risk tolerances, as evidenced by its limited claims from the Central European floods in 2021, COVID-19, or the 2018-2019 typhoons in Asia. We expect that Sava will maintain a good reinsurance protection strategy to continue to safeguard the group's earnings and capital against larger catastrophe claims.

We believe that asset risks remain elevated for the international insurance sector in 2022 and beyond. In our view, even after the consolidation of NLB Vita, Sava's balance sheet remains less sensitive to market volatility than most European peers' at similar rating levels. We note that Sava has comparably limited exposure to traditional guaranteed life insurance business. Therefore, we expect that its life earnings will be less sensitive to interest and capital markets.

We believe the group's robust capital position, good liquidity, and capital structure will help safeguard its funding capacity in case of need. Sava has historically demonstrated access to capital markets, most recently in 2019. The group's leverage at year-end 2021 remained favorable at about 14%, while fixed charge coverage was at about 37x, and we expect that it will remain at solid levels in the following years. We consider that at these levels the group retains adequate financial flexibility to issue further debt, if needed.

Chart 3



*Investment in affiliates, investment funds, and other investments.Source: S&P Global Ratings.

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Other Key Credit Considerations

Governance

We consider Sava's governance stable and comparable with its peers'. Governance and disclosure standards in Slovenia are comparable with the rest of the eurozone. Sava has clear and credible strategic planning and conservative financial management. The board is experienced and capable of executing the group's business strategy, as shown in its very strong business development and group performance in recent years.

Liquidity

We regard Sava's liquidity as exceptional and don't expect any liquidity constraints to keep it from meeting its obligations, given the substantial amount of liquid assets held by the group. Its expanding operations also provide constant cash inflows. Moreover, most of the business is short tail, of which larger risks are heavily reinsured. Therefore, larger claims are not a significant drag on its cash position.

Government support

We continue to regard Sava as a government-related entity, chiefly because the Slovenian government is its largest shareholder. Moreover, the group plays a key role in protecting Slovenians in a structured way from the impact of catastrophe events, to which the country is exposed. We believe there is a moderately high likelihood that the government of Slovenia (AA-/Stable/A-1+) would provide timely and sufficient extraordinary support to Sava in the event of financial distress. Although we do not include any uplift for support, a change in shareholding would have a negative impact on the ratings if a financially weaker group takes over ownership of Sava.

Environmental, social, and governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of Sava insurance group.

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

- Research Update: Slovenia 'AA-/A-1+' Ratings Affirmed; Outlook Stable, June 10, 2022
- Sava Insurance Group, Sept 13, 2021

Appendix

Sava Insurance Group--Credit Metrics History

Ratio/Metric	2021	2020	2019	2018
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent
Total invested assets	2316.3	2148.3	1572.9	1464.6
Total shareholder equity	504.1	460.2	384.8	340.2
Gross premiums written	729.9	679.7	598.5	546.3
Net premiums written	683.8	638.7	562.4	519.4
Net premiums earned	686.6	635.4	548.0	504.7
Reinsurance utilization (%)	6.3	6.0	6.0	4.9

Sava Insurance Group--Credit Metrics History (cont.)

Ratio/Metric	2021	2020	2019	2018
EBIT	96.7	70.9	61.4	55.3
Net income (attributable to all shareholders)	76.2	56.4	50.2	43.0
Return on shareholders' equity (reported) (%)	15.8	13.3	13.8	13.1
P/C: net combined ratio (%)	89.4	93.6	95.7	93.0
P/C: net expense ratio (%)	33.3	32.3	33.2	35.1
Life: net expense ratio (%)	27.2	29.7	32.2	30.2
EBITDA fixed-charge coverage (x)	36.9	25.7	101.8	2128.4
EBIT fixed-charge coverage (x)	33.3	22.5	90.1	1943.7
Financial obligations/EBITDA adjusted	0.8	1.0	1.2	0.0
Financial leverage including pension deficit as debt (%)	13.8	15.0	17.8	0.1
Net investment yield (%)	1.3	1.4	1.7	1.7
Net investment yield including investment gains/(losses) (%)	6.4	2.8	4.0	1.0

P/C--Property/casualty.

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	**Very Strong**	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	**a+/a**	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of September 5, 2022)*

Operating Company Covered By This Report	
Sava Re	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Junior Subordinated	BBB+
Related Entities	
Zavarovalnica Sava d.d.	
Financial Strength Rating	
Local Currency	A/Stable/--

Ratings Detail (As Of September 5, 2022)*(cont.)	
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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