

Research Update:

Sava Re Outlook Revised To Positive On Strong Performance And Improving Economic Conditions; Ratings Affirmed At 'A'

December 11, 2024

Overview

- Sava Re (Sava) continued its robust underwriting and operating performance in the first nine months of 2024. This should allow to it to deliver robust results in the full year.
- We now expect Sava to maintain a solid underwriting and operating performance while achieving solid profitable growth in 2025-2026.
- As a government-related entity with a strong link to and important role for the government of Slovenia, Sava could also benefit from Slovenia's improved creditworthiness. The latter prompted our revision of the outlook on the sovereign ratings to positive from stable earlier this month.
- We therefore revised the outlook on Sava and its core entity Zavarovalnica Sava to positive from stable and affirmed the 'A' issuer credit and financial strength ratings on the entities.
- The positive outlook reflects our view that Sava is in a good position to continue its track record of sound operating results, while expanding profitably both domestically and abroad and maintaining its robust capitalization over the next two years.

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Rating Action

On Dec. 11, 2024, S&P Global Ratings revised its outlook on Slovenia-based Sava Re (Sava or the group) and its core entity Zavarovalnica Sava to positive from stable. At the same time, we affirmed the 'A' long-term issuer credit and financial strength ratings on the entities. We also affirmed the 'BBB+' issue rating on the junior subordinated bonds.

Rationale

The positive outlook reflects our view that Sava's underwriting and operating results remain sound and compare well with our base-case earnings expectations. At the same time, Sava's capital

position remains robust and above the 99.99% confidence level in S&P Global Ratings' insurance capital model, with very strong regulatory solvency levels of around 200%.

We also believe that economic conditions remain favorable following our revision of the outlook on the ratings on Slovenia to positive from stable earlier this month. This should enable Sava to maintain a sound operating performance and could provide solid profitable growth opportunities in 2025-2026.

Net income of €62 million in the first nine months of 2024 suggests that Sava will likely reach or exceed our upper profit expectation of €60 million-€76 million in the full year. Such a result would correspond to a return on equity (ROE) of at or above 13% in 2024. With such a strong underwriting and operating performance, the group continues its track record of sound results. In the past 10 years, Sava has delivered an average ROE of 13% while maintaining a robust capital position. In our view, Sava continues to perform strongly against its main domestic and higher-rated international peers.

Sava's underwriting strength is a key factor in its outperformance. Sava maintains this strength through underwriting discipline in both non-life and life insurance, as well as international reinsurance. Through this, the group has built a track record of solid non-life underwriting performance, with five-year and 10-year average combined (loss and expense) ratios of 91.6% and 93.3%, respectively. In the third quarter of 2024, Sava continued to report robust underwriting profitability in non-life and life insurance and international reinsurance, with the overall group net combined ratio at 91.7%.

We believe that Sava will continue its prudent and disciplined underwriting, thanks to which it will likely sustain its strong results. Moreover, we think that positive economic developments in Slovenia, with more solid economic growth likely in 2025 and beyond, will help Sava continue to pass on claims cost inflation, and as such, safeguard its underwriting performance and exploit profitable domestic growth opportunities. In addition, robust economic growth in the wider Adria region and solid international reinsurance market are also tailwinds for Sava's prospective growth and performance.

Sava's strong balance sheet and robust capital position and growing capital level remain group strengths and we believe that they will be able to support solid business development in the medium term. Reinvestment yields are now higher and will increase investment returns. Overall, we now expect an ROE of 11%-14% in 2024-2026.

We also regard Sava as a government-related entity (GRE) with a strong link to and important role for the government of Slovenia. We think that there is a moderately high likelihood of Sava receiving support from the government of Slovenia. Our long-term rating on Sava exclusively reflects its group credit profile, which we assess at 'a', without any uplift from its GRE status.

The revision of the outlook on our 'AA-' long-term sovereign rating on Slovenia to positive from stable indicates a potential positive migration of the sovereign rating. If this materialized, it would also lead to uplift in the group credit profile if Sava's stand-alone credit profile remained at 'a'.

Outlook

The positive outlook reflects our view that Sava is likely to maintain its solid position in the Slovenian insurance and international reinsurance markets and continue to deliver sound results. Furthermore, we believe that Sava's capital adequacy will remain resilient, with sustainably robust capitalization at a confidence level of at least 99.95% in our capital model.

We could therefore upgrade Sava within the next 12-24 months if:

- The group maintains a sound operating performance that compares well with that of peers; continues to profitably increase its operations and absolute capital; and keeps capital adequacy at least at the 99.95% confidence level under our model; or
- We raise the sovereign rating on Slovenia to 'AA' and Sava maintains its strong link with and important role for the Slovenian government.

Downside scenario

We could revise the outlook on Sava to stable if its operating performance exhibited substantial and prolonged weakness, and at the same time, we revised the outlook on the 'AA-' rating on Slovenia back to stable.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed

Sava Re

Junior Subordinated	BBB+
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Ratings Affirmed; /Outlook Action

	To	From
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Sava Re

Issuer Credit Rating		
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Local Currency	A/Positive/--	A/Stable/--
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Sava Re

Zavarovalnica Sava d.d.

Financial Strength Rating		
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Local Currency	A/Positive/--	A/Stable/--
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceid/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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