S&P Global Ratings

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Sava Insurance Group

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Table Of Contents

Sava Insurance Group

Anchor	a	+	Modifiers	0	=	SACP	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

Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

+

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

Strengths	Risks
Established market credentials backed by its No. 2 market position in Slovenia, with some additional diversification via the international reinsurance business.	Compared to higher-rated peers, lower geographical 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) solidified its domestic market position in the attractive Slovenian insurance market. S&P Global Ratings believes Sava will continue to leverage its extensive distribution capabilities and client-centric approach to tap profitable growth from still-favorable market conditions in Slovenia. We believe that Sava's good underwriting profitability will safeguard its stability, even as claims frequency normalizes following a slowdown during COVID-19 lockdowns. In addition, we believe the group's solid balance sheet strength will enable it to tap profitable growth opportunities in domestic and international insurance and reinsurance markets.

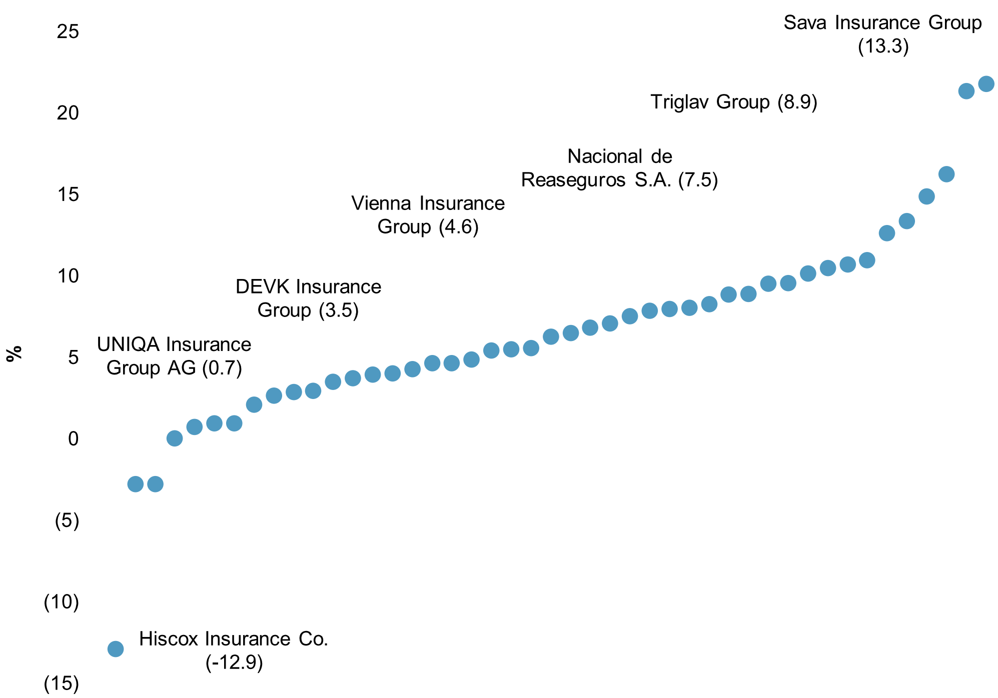
Capitalization remains one of the key rating strengths for Sava. After consolidating NLB Vita into its accounts, the group maintains buffers above the 'AAA' level in our capital model. Sava's strong and stable earnings enable it to maintain capital at excellent levels. Although the group suspended its 2020 dividend payment, in accordance with a cross-market request from Slovenia's insurance regulator, payments resumed in 2021 and we expect moderate dividends to continue going forward. As seen in recent years, Sava might use some of its extremely strong capital for acquisitions or faster organic business expansion. 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.

Sava's full year 2020 and first-half 2021 performance remained resilient, and compares well with that of its Europe, Middle East, and Africa (EMEA) peer group. The group's net income further strengthened via its consolidation of NLB Vita and through ongoing business profitability. Notably, its resilient Slovenian primary insurance operations and overall strict and conservative underwriting standards counterbalanced pandemic-related losses which helped to retain the 2020 group combined (loss and expense) ratio at favorable levels. Overall, the group reported a strong return on equity (ROE) of 13.3% in 2020. This very good performance continued in first-half 2021, supported by strong underwriting results across all business lines. For 2021-2022 we expect resilient performance, backed by sound underwriting results, with a combined ratio at or below 94% and net income of €48 million-€60 million.

Chart 1

Sava's 2020 Return On Equity Remained High Compared To Its Peers'

2020 return on equity of the top-40 rated EMEA insurance companies



EMEA--Europe, Middle East, and Africa.

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 profitable growth while further diversifying premiums and income streams. Despite the integration of Vita and the turn in the economic cycle, 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 ratings in the next two years if Sava's competitive position were to weaken because of significantly eroded volumes or profitability 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 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 a contraction in 2020, the Slovenian economy expands 4%-5% over 2021-2022.
- Unemployment to remain low at about 4%-5% through 2021-2022.
- Inflation to remain at about 2% over 2021-2022.
- Ongoing low interest rates in the eurozone.

Key Metrics

(Mil. €)	2022f	2021f	H1 2021*	2020	2019	2018	2017	2016
Gross premiums written (mil. €)	~700	>680	414.5	679.7	598.5	546.3	517.2	490.2
Net premiums earned (mil. €)	~650	>635	342.2	635.4	548.0	504.7	470.9	458.1
Net income (mil. €)	48-60	48-60	43.5	56.4	50.2	43.0	31.1	32.9
Total reported capital	~590	~575	561.0	535.5	460.0	340.4	316.4	321.0
Return on shareholder equity (reported, %)	10-13	10-13	14.4	13.3	13.8	13.1	10.1	11.3
P/C net combined ratio (%)	~94	<94	90.9	93.6	95.7	93.0	94.8	95.5
Net investment yield (%)	1,4-1,7	1,4-1,7	N/A	1.4	1.7	1.7	1.8	1.9
Fixed-charge coverage	22-26	22-26	N/A	25.7	101.8	2128.4	66.9	58.3
Financial leverage (%)	~14	~14	N/A	15.4	18.2	0.1	0.0	4.9

Key Metrics (cont.)								
(Mil. €)	**2022f**	**2021f**	**H1 2021***	**2020**	**2019**	**2018**	**2017**	**2016**
S&P capital adequacy	At least Very Strong	At least Very Strong	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent

*Return on equity and property/casualty (P/C) net combined ratio is based on trailing 12 months. 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 19%. The group also has international reinsurance operations, mainly focused on Asia, and some primary insurance operations in the Adria region. Sava has a proven track record of profitable business growth, with an average five-year combined ratio of 94.5%, which enables the group to continue generating strong earnings. That said, compared to higher-rated peers', Sava's premiums and net income are more reliant on the development of its domestic market.

In our view, the insurance sector in Slovenia remained resilient, with healthy profits in 2020. We believe the life and property/casualty (P/C) sectors continue to benefit from a track record of prudent underwriting and robust capitalization at rated companies, despite the effects of the COVID-19 pandemic in 2020 and a moderate reduction in investment returns. Sava's strong domestic market position, through its entity Zavarovalnica Sava d.d. (A/Stable/--), enables attractive underwriting performance in both the P/C and life segments. Overall, a material chunk (€48.9 million or almost 87%) of Sava's 2020 net income 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--offers to the group long-term growth opportunities. It is also striving to enhance its position in larger markets like Croatia and Serbia.

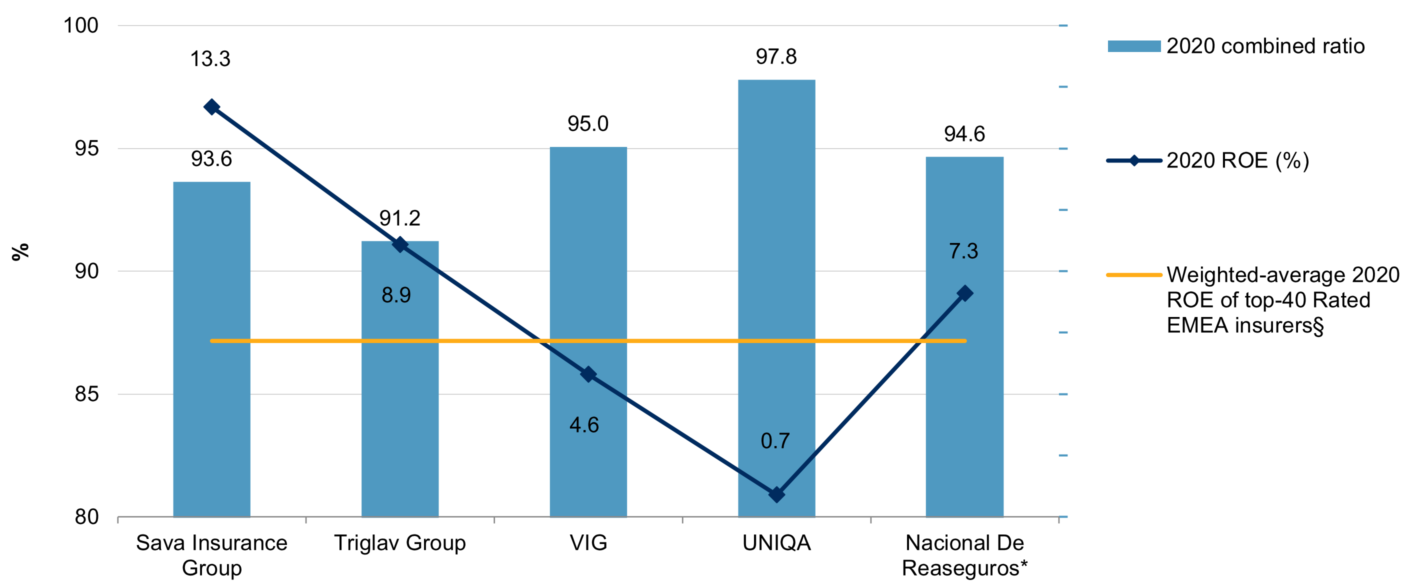
In the international reinsurance business, Sava is leveraging its established and proven expertise as a service-driven coverage provider, through which it built strong and stable relationships with its cedents. In 2020, international reinsurance operating performance was weaker than normally due to COVID-19 claims and some catastrophes in Asian markets. We believe that Sava's reinsurance operations in 2021-2022 will return to firm profitability due to the absence of further material COVID-19 losses and still rising rates in Asian markets. This will restore the stable earnings contribution from the reinsurance business, which remains an additional business diversifier.

The group's primary insurance operations remained resilient in 2020 and first-half 2021, outperforming peers due to Sava's limited exposure to the COVID-19 affected business lines and positive developments from its consolidation of NLB Vita. Like peers, the group saw fewer claims during COVID-19 lockdowns, mainly in motor lines. Increased scale and tight cost controls also allowed Sava to progress with number of strategic investments into digitalization and modernization of operations without impacting its cost ratio. Overall, the group's combined ratio remained good at 93.6% at year-end 2020. During first-half 2021, underwriting performance improved due to no additional COVID-19 claims, while retail lines continued to see some frequency benefits from lockdowns in Slovenia. In addition, the consolidation of Vita positively influenced results. We expect that the group's performance will remain resilient due to continued prudent underwriting and timely operational adjustments to meet changes in the business cycle. In our view, Sava will continue to use its balance sheet for profitable growth, especially in the domestic primary insurance and international reinsurance businesses. We believe that Vita's profitable capital-light life insurance business will remain stable and sustainably strengthen Sava's top and bottom line performance. Overall, we expect continued strong and stable performance in 2021-2022, with an ROE of at least 10% and reported net income expected to reach its revised profit goal of €60 million this year, from €43.5 million at mid-year 2021. This would place Sava at the higher end of our ROE expectations.

In line with our expectations, COVID-19 did not materially affect Sava's momentum, with the group reporting strong 13.6% growth of gross premiums to €679.7 million in 2020. This was notably supported by the 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. The consolidation continued to boost performance in first-half 2021, when Sava observed premium growth of almost 11%. However, we expect growth will slow as the consolidation effect abates. Overall we expect 1%-4% growth over 2021-2022, with performance next year mainly driven by resilience in core operations. We also expect Sava to continue to leverage its sound balance sheet for any profitable business opportunities that may arise.

Chart 2

Sava's Underwriting Performance Compares Well To International Peers'



*Combined ratio as reported. §Weighted-average 2020 ROE of top-40 rated EMEA insurers was 5.7%.
ROE--Return on equity. EMEA--Europe, Middle East, and Africa Source: S&P Global Ratings.

Financial Risk Profile: Very Strong

In our view, the strong and resilient balance sheet and capital position above the 'AAA' level enabled Sava to comfortably weather volatilities caused by the pandemic last year. Our favorable view of the group's capitalization is further supported by Sava's strong Solvency II ratio of 198% on Dec. 31, 2020, based on a standard formula and no use of transitional adjustments. The group mainly depends on hard forms of capital like shareholders' equity, additionally supported by prudent margins on its P/C loss reserves. The unpaid dividend in 2020, under regulatory guidance, did not materially affect our view on Sava's capital position. The group resumed dividend payments in 2021, in accordance with its strategy, and we expect these to continue in the coming years. In our view, Sava's continued strong and stable earnings will provide good ongoing capital generation. We expect capitalization will be maintained at least in the 'AA' range of our model over the next two-to-three years, even in case of higher capital markets volatility, a higher-than-expected increase in domestic market claims, or the emergence of organic or inorganic growth opportunities.

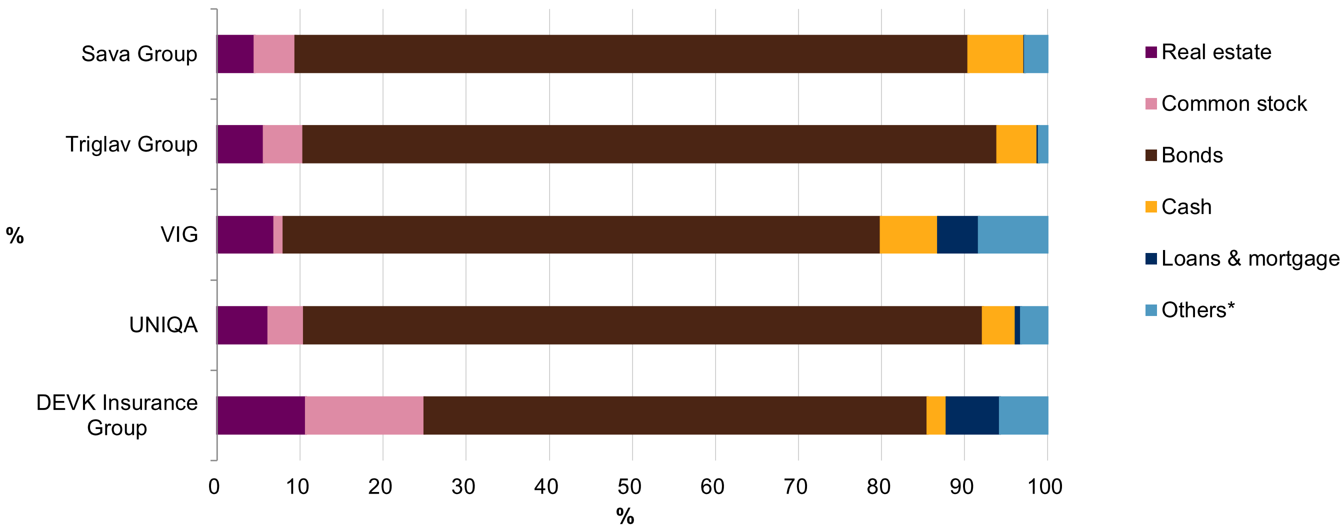
Sava's risk profile has remained stable and supportive of its very strong financial profile, benefiting from its conservative investment strategy and reinsurance protection. We believe that tighter underwriting risk controls that Sava gradually implemented in the past decade, combined with strong reinsurance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

Although capital markets rebounded quickly in second-half 2020 and remained favorable in first-half 2021, we believe that asset risks remain elevated for the international insurance sector this year 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. Moreover, we believe Sava's prudent investment portfolio, focused on broadly diversified high quality fixed-income instruments from the eurozone with limited exposure to higher-risk assets, will help it remain resilient to moderate market volatility, preserving its robust balance sheet.

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 2020 remained favorable at about 15%, while fixed charge coverage was very comfortable at about 26x. We consider that at these levels the group retains adequate financial flexibility to issue further debt, if needed.

Chart 3

Sava Maintains A Conservative Investment Portfolio
2020 invested assets breakup



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

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 will 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.

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

- Comparative Statistics: Top 40 EMEA Insurers Remain Resilient To Lingering Pandemic Risks, Aug. 26, 2021
- Slovenia, June 14, 2021
- Insurance Industry And Country Risk Assessment: Slovenia: Property/Casualty, Nov. 4, 2020
- Insurance Industry And Country Risk Assessment: Slovenia Life, Nov. 4, 2020
- Sava Insurance Group, Aug. 19, 2020
- Research Update: Slovenia 'AA-/A-1+' Ratings Affirmed; Outlook Stable, June 12, 2020
- Sava Re's Planned Acquisition Of NLB Vita Will Not Affect Group Financial Strength, Dec. 27, 2019
- Slovenian Insurer Sava Re's Proposed Junior Subordinated, Deferrable Notes Rated 'BBB+' , Oct. 7, 2019

Appendix

Credit Metrics History

Ratio/Metric	2020	2019	2018
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent
Total invested assets	2148.3	1572.9	1464.6
Total shareholder equity	460.2	384.8	340.2
Gross premiums written	679.7	598.5	546.3
Net premiums written	638.7	562.4	519.4
Net premiums earned	635.4	548.0	504.7
Reinsurance utilization (%)	6.0	6.0	4.9
EBIT	70.9	61.4	55.3
Net income (attributable to all shareholders)	56.4	50.2	43.0

Credit Metrics History (cont.)

Ratio/Metric	2020	2019	2018
Return on shareholders' equity (reported) (%)	13.3	13.8	13.1
P/C: net combined ratio (%)	93.6	95.7	93.0
P/C: net expense ratio (%)	32.3	33.2	35.1
Life: net expense ratio (%)	25.2	32.2	30.2
EBITDA fixed-charge coverage (x)	25.7	101.8	2128.4
EBIT fixed-charge coverage (x)	22.5	90.1	1943.7
Financial obligations/EBITDA adjusted	1.0	1.2	0.0
Financial leverage including pension deficit as debt (%)	15.4	18.2	0.1
Net investment yield (%)	1.4	1.7	1.7
Net investment yield including investment gains/(losses) (%)	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 13, 2021)*

Operating Companies Covered By This Report	
Sava Re	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Junior Subordinated	BBB+
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.