S&P Global Ratings

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Sava Insurance Group

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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 its international reinsurance business.	Limited geographic diversification outside Slovenia.
Solid capital buffers at the 'AAA' level coupled with a conservative investment strategy and limited underwriting risk.	

Sava Insurance Group will sustain its market position in the attractive Slovenian insurance market while concentrating on profitable business opportunities. We expect Sava to successfully integrate its recently acquired Slovenian life insurance operation, NLB Vita (Vita), while continuing to leverage its distribution capabilities. We also anticipate that it will maintain its customer-centric approach to safeguard its operations stability, even during more economically challenging times. We believe the group will continue to leverage its solid balance sheet strength to tap profitable growth opportunities on domestic and international insurance and reinsurance markets.

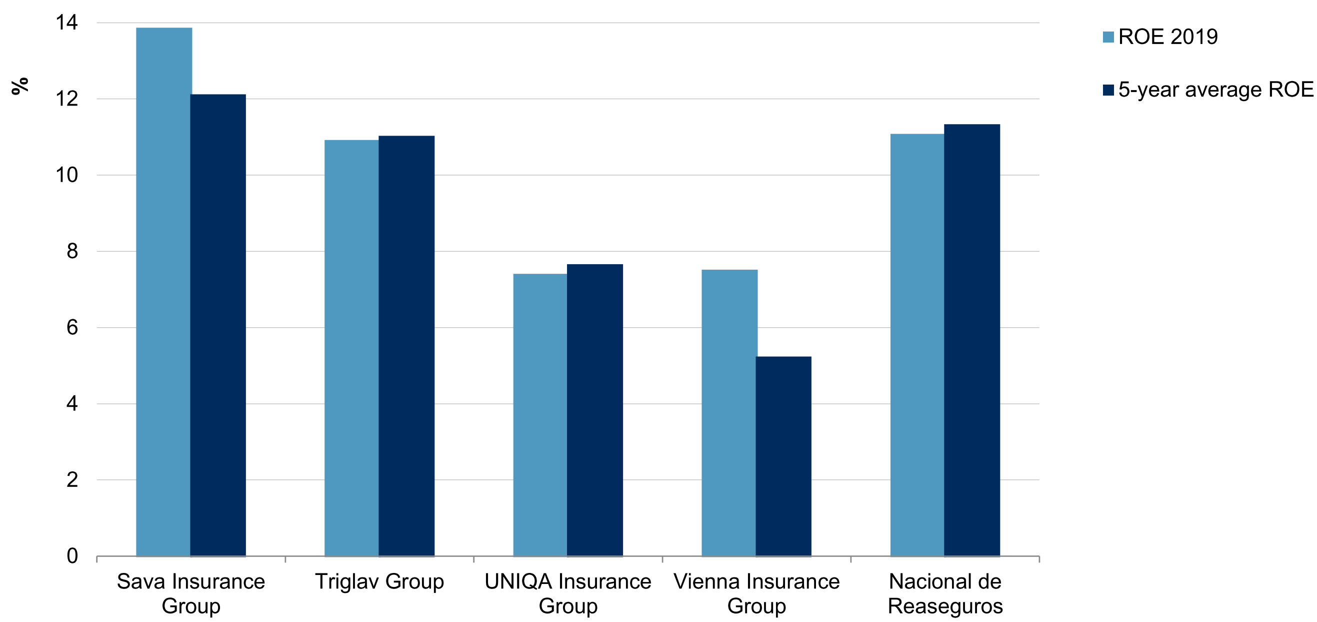
After first consolidating Vita into its accounts, in our view, Sava's capital position will remain resilient, above the 'AAA' level in our capital model. At the end of 2019, Sava held a very robust capital position with buffers above the 'AAA' capital range, according to S&P Global Ratings' capital model. The Vita acquisition is comparably limited in size relative to Sava's existing buffers. In addition, Sava's strong and stable earnings generation and moderate dividend payments help maintain capital at the current levels. We also note that following the COVID-19 outbreak, Sava suspended its 2020 dividend payment. This was in accordance with the Slovenian insurance regulator's cross-market request. We consider that this will help Sava keep some additional buffers for COVID-19-related uncertainties.

Sava's 2019 performance, with a return on equity (ROE) of 13.8%, was stronger than both peers' and its own historical performance in the past decade. In our view, Sava's performance over the next one-to-two years is, compared with international peers, less exposed to the immediate effect of the pandemic on its underwriting and investment results.

In our view, the combination of resilient underwriting and investment results, as well as additional earnings contribution from the Vita portfolio, will allow Sava to post resilient earnings generation, with a yearly net income of €40 million-€50 million in 2020-2022.

Chart 1

Sava's 2019 Performance Was Strong Compared With Peers
Despite the pandemic, we expect Sava to continue showing resilient and comparably solid performance in 2020-2021



ROE--Return on equity. Source: S&P Global Ratings.

Outlook

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 economic cycle turn, 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.

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.

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.

Key Assumptions

- The Slovenian economy to contract by 7.8% in 2020 before recovering by 5.2% in 2021 and 2.6% in 2022.
- Unemployment rate to increase to about 7% in 2020, and gradually decline to around 5% over 2021-2022.
- Inflation to remain low at 1%-2% over 2020-2022.
- Ongoing low interest rate in the eurozone.

Company-specific assumptions

- Alongside our insurance sector and macroeconomic assumptions, we assume mid-single-digit growth of operations in 2020-2022, mainly supported by the first consolidation of Vita, some growth in the reinsurance business, and stable domestic operations.
- We assume maintained capital adequacy of at least 'AA', backed mostly by core capital.
- In our view, operating performance will remain resilient to the COVID-19 shock, with overall performance remaining at €40 million-€50 million in 2020-2022.

Key Metrics

(Mil. €)	**2021f**	**2020f**	**2019**	**2018**	**2017**	**2016**
Gross premiums written (Mil. €)	~ 660	~ 630	598.5	546.3	517.2	490.2
Net premiums earned (Mil. €)	~ 600	~ 575	548.0	504.7	470.9	458.1
Net income (Mil. €)	40-50	40-50	50.2	43.0	31.1	32.9
Total reported capital	~ 525	~ 500	460.0	340.4	316.4	321.0
Return on shareholder equity (reported, %)	~ 10	~ 10	13.8	13.1	10.1	11.3
P/C net combined ratio (%)	~ 95	~ 95	95.3	93.0	94.8	95.5
Net investment yield (%)			1.3	1.6	1.8	1.9
Fixed-charge coverage	~ 20	~ 20	101.8	2,128.4	66.9	58.3
Financial leverage (%)	~ 17	~ 17	18.2	0.1	0.0	4.9
S&P capital adequacy	At least Very Strong	At least Very Strong	Excellent	Excellent	Excellent	Excellent

f--Forecast under S&P Global Ratings' base-case scenario.

Business Risk Profile

Sava is the second largest multiline insurance group in Slovenia with a market share of around 20%. Furthermore, the group has international reinsurance operations, mainly focused on Asia, and moderate 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 94.9%, which enables the group to continue generating strong earnings. Sava's international reinsurance business remains relatively stable and profitable and offers the group additional business diversification. That said, compared with higher rated peers, Sava's premiums and net income are more reliant on the development of its domestic market.

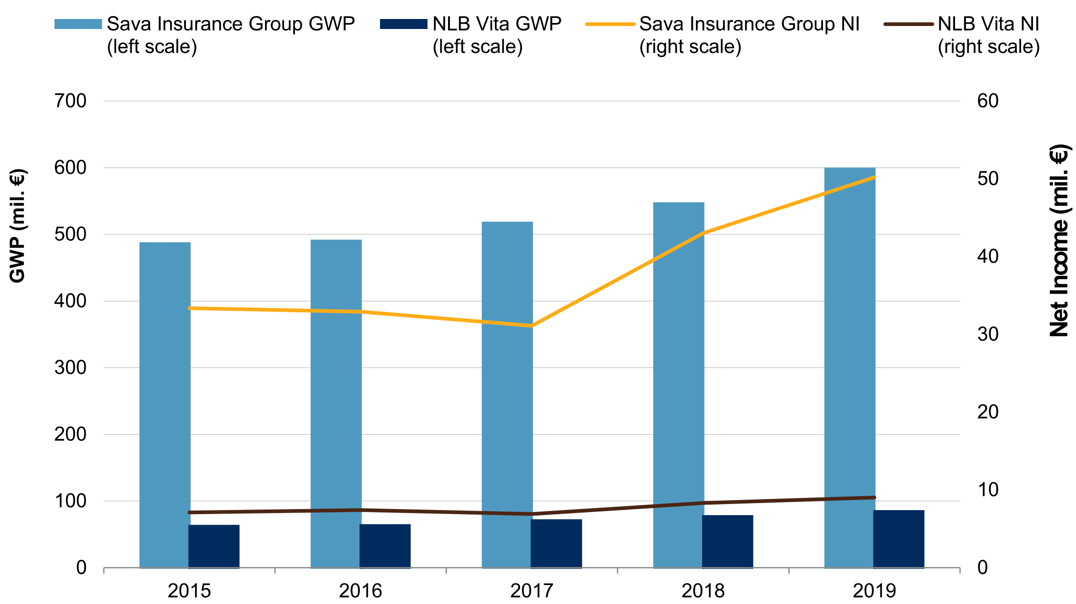
We consider that Slovenia's insurance sector benefits from a competitive and resilient economy that provides a stable environment for the insurance sector. Sava's strong domestic market position, through its entity Zavarovalnica Sava (A/Stable/-), enables it to source attractive underwriting performance in both property/casualty (P/C) and life segments. Overall, around 77% of Sava's net income originates from these operations, which remain the group's key strength. Within Slovenia's market, good economic conditions in recent years allowed Sava to source strong growth and favorable performance driven by a strong combined (loss and expense) ratio of around 90% in 2019.

At the end of 2019, Sava further solidified its domestic life position with the acquisition of Vita (not rated), the fourth largest life insurance company in Slovenia (see "Sava Re's Planned Acquisition Of NLB Vita Will Not Affect Group Financial Strength," published on Dec. 27, 2019). We consider that Vita's contribution to the group will be key to the overall group improving its top line and achieving resilient bottom-line performance in 2020-2021, despite a deep recession in Slovenia and the rest of the Europe. With the acquisition of Vita, the group will further expand its offerings of mainly capital-light insurance products with attractive margins, increase overall group scale, double its life insurance market share in Slovenia, and help to remain cost competitive. In addition, it also adds a strong long-term bancassurance distribution partner in Slovenia. This, in our view, will further enhance its already solid distribution capabilities in Slovenia and in Adria countries.

Chart 2

The NLB Vita Consolidation Will Be Key For Sava's Good Premium Growth In 2020-2021

Additional earnings capacity from Vita to help Sava to sustain sound profitability



GWP--Gross written premium. NI--net income. Source: S&P Global Ratings.

In its international reinsurance business, the group is leveraging its established and proven expertise as a service-driven coverage provider, through which it built strong and stable relationships with its cedents. Due to higher frequency of mid-size typhoon-related claims from Asia, 2019 underwriting performance of the reinsurance business was weaker, with a combined ratio of slightly above 100%. We expect its reinsurance operations to gradually improve from rising rates, which should improve the overall group's earnings diversity.

The direct insurance business in the Adria region offers Sava long-term growth opportunities. Sava is well represented in smaller, less developed regional markets of North Macedonia, Montenegro, and Kosovo. In the larger markets of Croatia and Serbia, the company continues to work on enhancing its position.

We think the group's core operations will remain resilient to the effect of the pandemic, due to Sava's low exposure to the most affected business lines. We expect the group to successfully adjust to the change in the economic cycle. That said, we expect Sava to focus on prudent underwriting through which it should maintain a favorable combined ratio of around 95% in 2020-2022. We anticipate that Sava will continue to leverage its balance sheet for any profitable business opportunities that may arise, particularly in international reinsurance operations where Sava is well positioned to benefit from some cyclical price increases. Overall, we expect Sava to continue successfully expanding its business in 2020-2021, predominantly thanks to the first integration of Vita, and its own resilient core operations. In our view, Sava will continue to achieve growth of around 4%-6% per year in the period.

Financial Risk Profile

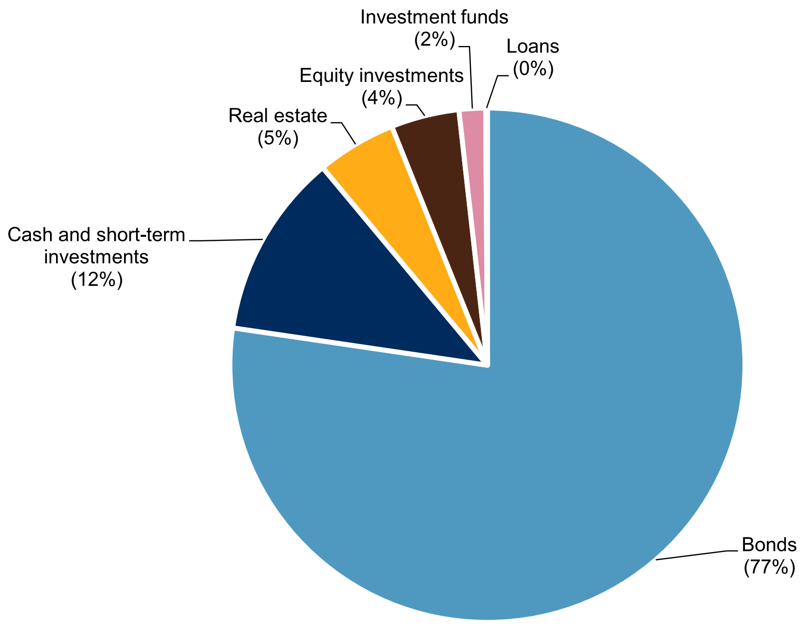
In our view, Sava entered the pandemic with a strong and resilient balance sheet and capital position above the 'AAA' level according to our risk-based capital model. This is further supported by a Solvency II ratio of 220% on Dec. 31, 2019, based on a standard formula and no use of transitional adjustments. We consider that the moderately sized acquisition of Vita, which completed on May 29, 2020, combined with the effect of the pandemic, will not materially weaken Sava's capital strength. In the fourth quarter of 2019, Sava issued a junior subordinated bond (see "Slovenian Insurer Sava Re's Proposed Junior Subordinated, Deferrable Notes Rated 'BBB+'," published Oct. 7, 2019), which further increased its cushion above 'AAA' capital levels. This level of excess capital above the 'AAA' level at the end of 2019, is, in our view, sufficient to enable Sava to absorb Vita without compromising on its very strong prospective capital position. We note that the pandemic's impact on Sava's solvency positon is relatively low due to its very conservative asset portfolio. We consider that the company's capital position continues benefiting from material prudent margins on its P/C loss reserves. We also note that following the COVID-19 outbreak, Sava suspended its 2020 dividend payment. This was in accordance with the Slovenian insurance regulator's cross-market request. We consider that this move will provide Sava with an additional buffer for medium-term COVID-19-related uncertainties. In addition, continued comparably strong and stable earnings generation is providing additional capital buildup. We expect the group to maintain capitalization at least in the 'AA' range of our insurance capital model over the next two-to-three years, even if the economic crisis lasts longer or is more severe than expected, or through the emergence of some organic or inorganic growth opportunities for Sava.

Sava's risk profile benefits from its very conservative investment strategy and reinsurance protection. This, in our view, makes the group's balance sheet less sensitive to market volatility than most European peers at similar levels. We do not expect the consolidation of Vita to materially change Sava's risk profile. We believe that tighter underwriting risk controls that Sava has gradually implemented in the past decade, combined with strong reinsurance protection, will safeguard the group against losses outside its risk tolerances. Investment assets, mainly fixed-income instruments, are broadly diversified across the eurozone. Exposure to higher risk assets is low. In light of the low interest environment, Sava is gradually adjusting and tapping some illiquidity premium in real estate, infrastructure, and the private debt space.

Chart 3

Sava's Asset Structure Is Very Conservative

Stable and diversified low risk asset structure safeguards Sava from market turbulence



Following the issuance of a hybrid instrument in 2019, we expect Sava's 2020 financial leverage to be around 17%, while fixed-charge coverage is expected to be around 20x. We consider that at these levels the group retains adequate financial flexibility to issue further debt, if needed.

In 2019, Sava benefited from Slovenia's good operating environment and delivered material growth in net income, which increased by almost 17% year-over-year to €50.2 million. Very strong results enabled the group to post attractive ROE of 13.8% in 2019, which is high in its historical perspective as well as compared with Sava's domestic and international peers. We note that the combined ratio slightly increased to 95.2%. This was mainly due to first-time consolidation of the ERGO Croatia operations into Sava. We consider that without this one-off event, the combined ratio would stay firmly below 95%, relatively comparable to its 2018 underwriting performance. Despite the effect of the pandemic and change in the economic cycle, we expect 2020-2022 earnings to remain resilient, with the group delivering comparably strong ROE of around 10%. We do not expect any dividend distributions in 2020, in line with Slovenian insurance regulator's recommendation. However, we expect dividend distributions to remain moderate in 2021-2022, while they continue to support the execution of Sava's business expansion strategy.

Other Key Credit Considerations

Governance

We consider governance to be stable and comparable with peers. 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 business development and group's performance in recent years.

Liquidity

We continue to assess Sava's liquidity as exceptional according to our measures. At the end of 2019, Sava secured a sufficient amount of liquidity, to complete the Vita acquisition and continue to withstand severe liquidity stress. In addition, expanding operations provide continual cash inflows. Moreover, most of the business is short tail, of which the larger risks are heavily reinsured. Therefore, larger claims are not a significant drag on Sava's cash position.

Government

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 effect of catastrophe events, to which the country is exposed. We believe there is a moderately high likelihood that the government of Slovenia would provide timely and sufficient extraordinary support to Sava in the event of financial distress. Although we do not include any uplift for support in the ratings, a change in shareholding would have a negative effect on the ratings if a financially weaker group were to take over Sava.

Environmental, social, and governance

Governance and disclosure standards in Slovenia are comparable with the rest of the eurozone. Sava's exposure to catastrophe risk is limited due to its strong reinsurance protection that limits its exposure from natural catastrophes in Slovenia as well as on the international reinsurance market. Sava has relatively limited exposure to the low interest rate environment and social risks coming from guaranteed life insurance business.

Ratings Score Snapshot

Ratings Score Snapshot	
Business Risk Profile	**Strong**
Competitive position	Strong
IICRA	Intermediate Risk
Financial Risk Profile	Very Strong
Capital and earnings	Very Strong
Risk exposure	Moderately Low
Funding structure	Neutral
Anchor*	a
Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

Ratings Score Snapshot (cont.)	
Business Risk Profile	**Strong**
Financial Strength Rating	a

*We select the lower outcome of the two based on Sava #?nsurance Group, compared with its higher rated peers, continues to have lower geographic diversification of revenues and net income.

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

- Slovenia 'AA-/A-1+' Ratings Affirmed; Outlook Stable, June 12, 2020
- European Insurers: Capitalization Appears Resilient Under Solvency II, Somewhat Less Under Our Capital Model, May 28, 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
- Insurance Industry And Country Risk Assessment: Slovenia Property/Casualty, Sept. 9, 2019

Appendix

Appendix

Credit Metrics History

Ratio/Metric	**2019**	**2018**
S&P Global Ratings capital adequacy*	Excellent	Excellent
Total invested assets (Mil. €)	1572.9	1464.6
Total shareholder equity (Mil. €)	385	340
Gross premiums written (Mil. €)	598.5	546.3
Net premiums written (Mil. €)	562.4	519.4

Appendix (cont.)

Credit Metrics History

Ratio/Metric	**2019**	**2018**
Net premiums earned (Mil. €)	548.0	504.7
Reinsurance utilization (%)	6.04	4.93
EBIT (Mil. €)	61.4	55.3
Net income (attributable to all shareholders) (Mil. €)	50.2	43.0
Return on revenue (%)	5.9	11.2
Return on assets (excluding investment gains/losses) (%)	3.5	3.3
Return on shareholders' equity (reported) (%)	13.8	13.1
P/C: net combined ratio (%)	95.28	93.04
P/C: net expense ratio (%)	33.21	35.10
P/C: return on revenue (%)	N/A	N/A
Life: Net expense ratio (%)	32.2	30.2
Health: Medical loss ratio (%)	N/A	N/A
Health: Return on revenue (%)	N/A	N/A
EBITDA fixed-charge coverage (x)	101.8	2128.4
EBIT fixed-charge coverage (x)	90.1	2195.9
EBIT fixed-charge coverage including realized and unrealized gains/losses (x)	90.1	1943.7
Financial obligations / EBITDA adjusted	1.2	0.0
Financial leverage including pension deficit as debt (%)	18.2	0.1
Net investment yield (%)	1.3	1.6
Net investment yield including investment gains/(losses) (%)	3.6	0.9

N/A--Not applicable.

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 August 19, 2020)*

Operating Company Covered By This Report

Ratings Detail (As Of August 19, 2020)*(cont.)	
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/--
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.