

Research Update:

Triglav Insurance And Triglav Re Ratings Affirmed At 'A'; Outlook Stable

July 31, 2019

Overview

- Triglav is the leading insurer and asset manager in Slovenia and operates insurance throughout the Adria region. The group has a growing and soundly profitable insurance and asset management franchise.
- In our view, sound macroeconomic conditions in Slovenia have strengthened the creditworthiness of Triglav's Slovenian assets and are solidifying the group's risk profile. Triglav continues to benefit from its robust capital position.
- While Triglav Group's domestic competitive position is strong, its revenues and net income remain less geographically diversified than those of higher-rated peers.
- We are therefore affirming our 'A' ratings on Triglav Insurance Co. PLC and Triglav Re, Reinsurance Co. PLC, the core entities of Triglav Group.
- The stable outlook on Triglav Group reflects our expectations that the group's management will continue to focus diversifying the group's premiums and income streams through profitable growth. We expect Triglav to sustain at least very strong capital position, despite this growth, while posting solid and stable earnings over the next two years.

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Rating Action

On July 31, 2019, S&P Global Ratings affirmed its 'A' long-term insurer financial strength and issuer credit ratings on Triglav Insurance Co. PLC and Triglav Re, Reinsurance Co. PLC, the core subsidiaries of Slovenia-based Triglav Group. The outlook is stable. We also affirmed our 'BBB+' rating on the subordinated bond issued by Triglav Insurance Co PLC.

Outlook

The stable outlook on Triglav Group reflects our expectations that the group's management will continue to implement its strategy to focus on profitable growth through which to further diversify the group's premiums and income streams. We expect Triglav to sustain at least a very strong

capital position, despite this growth, while posting solid and stable earnings over the next two years.

Upside scenario

We consider a positive rating action remote at this time. We could raise the rating in the next 24-36 months if:

- Triglav further diversifies its operations, materially improves its performance and the scale of its core foreign operations, and retains sound overall profitability and at least very strong capital adequacy; or
- If sustainable economic growth propels Slovenia's GDP per capita further toward the eurozone average, strengthening Triglav's prospects for profitable domestic growth opportunities and solidifying its risk profile.

Downside scenario

We could lower the ratings if Triglav incurs very large losses, for example due to severe combined global and domestic financial market stress, while at the same time external economic conditions would also derail sound macroeconomic development in Slovenia.

Rationale

The ratings reflect our view of Triglav's leading position in the Slovenian insurance and asset management market, with a material expansion into other insurance markets in the Adria region. We believe Triglav benefits from stable, attractive margins, which support its better operating performance than most of its international peers. The group also has a solid risk profile. We believe that the group's capitalization is robust--above the 'AAA' range according to our risk-based capital model--and we expect it to remain at least in the 'AA' range, even with further domestic and international business expansion.

We expect Triglav Group to retain its leading position in Slovenia, from which it currently sources around three-quarters of its premiums and around 85% of its profits. In our view, the group has strong distribution capabilities and strong brand recognition in Slovenia and in a number of markets in the Adria region. This allows the group to generate a stable, profitable performance. Triglav had a consolidated combined (loss and expense) ratio below 92% in 2018, with a five-year average combined ratio of around 93%. We expect non-life profitability to remain stable, with combined ratio at around 95% in 2019-2021. We take a positive view of Triglav's recent acquisition of the midsize Slovenian asset management firm ALTA Skladi. This in our view will further solidify Triglav's domestic asset management position and improve the resilience of the income contribution from this business line.

In our view, Triglav continues to have lower geographic diversification of revenues and net income than its regional competitors, which makes it more dependent on domestic performance than some of its higher-rated peers. In the current strategic period, Triglav intends to further expand domestically and internationally, both in business scale and geographic scope. The company may use some of its currently extremely strong capital for business expansion, but we expect the group to maintain capitalization in at least the 'AA' range according to our insurance capital model. This is backed by our assumption of net income of at least €70 million and dividends based on its publicly communicated policy. This translates into continued solid business profitability overall,

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with a return on equity of around 10% in 2019-2021.

Triglav's investment risk profile is solid, with high-quality investments broadly diversified across the eurozone. Exposure to Slovenian country risk is relatively limited, making up only 16% of total fixed-income investments. In our view, the continued sound macroeconomic development in Slovenia strengthened the creditworthiness of Triglav's Slovenian assets and is solidifying its conservative risk profile. We expect that ongoing solid underwriting and conservative reinsurance protection will help Triglav to maintain capital and earnings stability.

The Slovenian government's asset management strategy classifies Triglav Group as a strategic asset, implying a higher commitment from the state in maintaining its 62.56% stake in Triglav Group. Moreover, in our view, Triglav plays a key role in protecting Slovenians from the impact of catastrophe events, to which the country is exposed. We consider that there is a moderately high likelihood that the government of Slovenia (AA-/Stable/A-1+) would provide timely and sufficient extraordinary support to Triglav in the event of financial distress. Due to Triglav's already high stand-alone credit profile, we do not include any uplift derived from the insurer's status as a government-related entity (GRE).

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
Financial Strength Rating	A

*Reflects that Triglav continues to have lower geographic diversification of revenues and net income than its regional competitors.

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

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- 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

Ratings List

Ratings Affirmed

Triglav Insurance Co. Plc

Triglav Re, Reinsurance Co. Plc

Issuer Credit Rating	A/Stable/--
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Financial Strength Rating	A/Stable/--
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Triglav Insurance Co. Plc

Junior Subordinated	BBB+
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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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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