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Triglav Group

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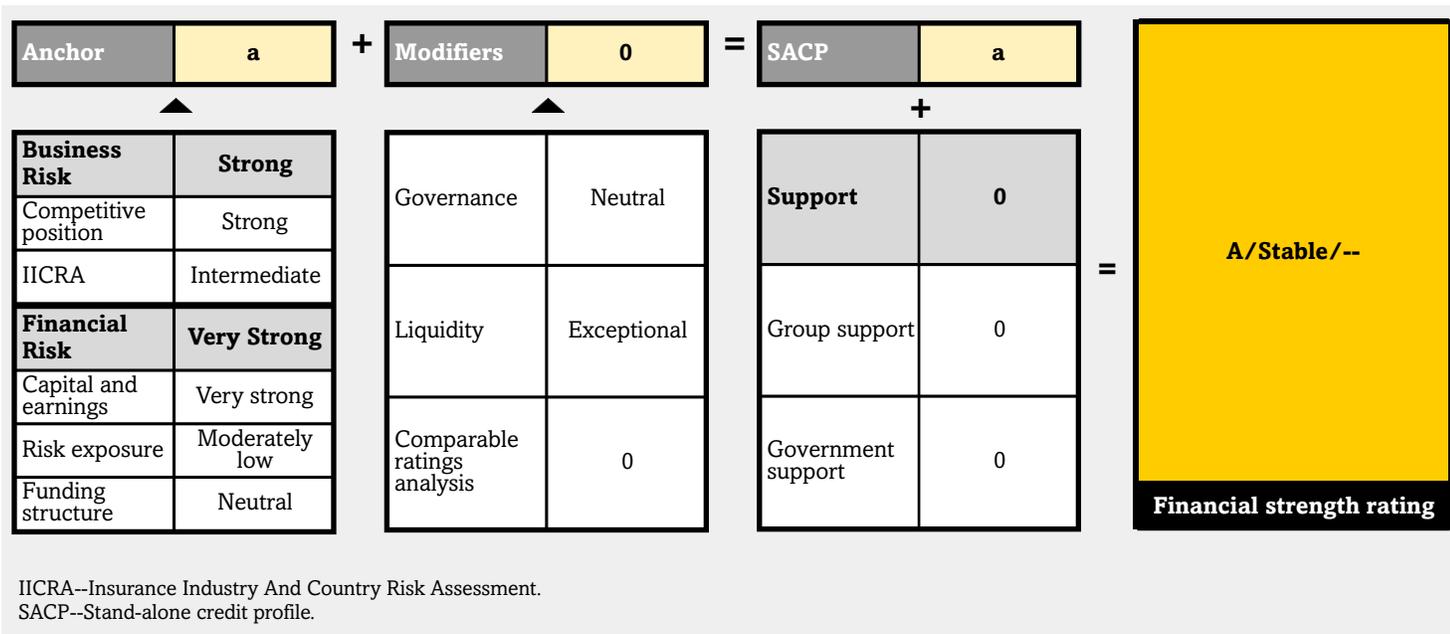
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Triglav Group



Credit Highlights

Overview

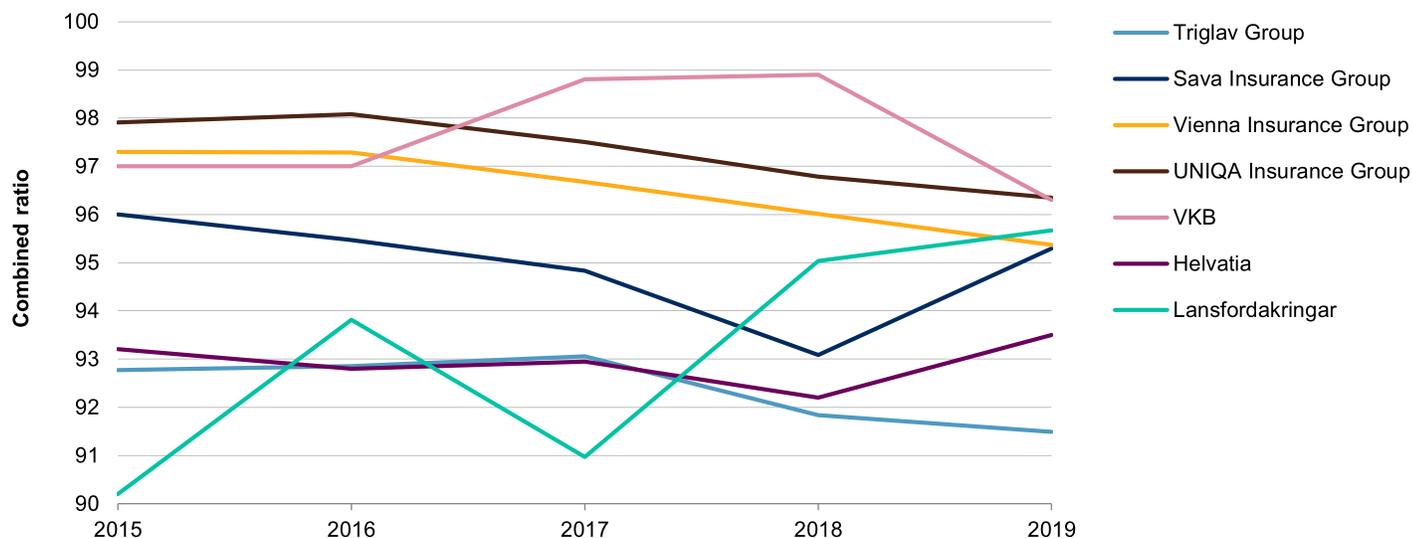
Strengths	Risks
Leading insurance and asset management group in Slovenia and the Western Balkan region, with a well-diversified insurance portfolio enhanced by a large agency network and strong brand recognition.	Triglav Group (Triglav) has lower geographic diversification of revenue and net income than higher-rated peers.
Extremely strong capital adequacy levels, further supported by very strong and stable underwriting profitability.	Low interest rate environment is hurting life insurance business' profitability.
Sound reinsurance protection that limits the group's natural catastrophes losses.	

Triglav will retain its leading position in its domestic and regional insurance market, while concentrating on further profitable business opportunities. We expect Triglav's domestic market share will remain very strong, at above 30%, while its overall market share in the Adria region (Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, and North Macedonia) will remain at about 20%. We also anticipate the insurer 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.

Triglav's 2019 performance, with a nonlife combined ratio of 91.5% and return on equity (ROE) of 10.9%, remained stable and stronger than that of international peers. In our view, compared with international peers, Triglav is less exposed to the immediate effects of the pandemic on its performance. In first-half 2020, Triglav reported a net income of €33.5 million, which was only 3% below that in the same period in 2019. We expect that performance in 2020-2022 will remain resilient on the back of sound underwriting results protected by very conservative reinsurance protection and good investment controls. Overall, we assume Triglav will post resilient earnings, with a yearly net income of €60 million-€80 million in 2020-2022.

Chart 1

Triglav's NonLife Underwriting Performance Is Among The Strongest In Europe
 Despite the pandemic, we expect Triglav to continue display combined ratio of about 95%.



Source: S&P Global Ratings.
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Despite COVID-19 impact in 2020, we believe Triglav's capital position will remain sound. Triglav entered the pandemic with a strong and resilient balance sheet and capital position above the 'AAA' level according to our risk-based capital model. The company's capital position is further supported by stable future earnings generation in 2020-2022. Following the COVID-19 outbreak, Triglav suspended its 2020 dividend payment. This was in accordance with the Slovenian insurance regulator's cross-market request. We expect this will help Triglav to keep some additional buffers for COVID-19-related uncertainties. Overall, 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, even if the economic crisis lasts longer and is more severe than expected, or if some organic or inorganic growth opportunities emerge for Triglav.

Outlook: Stable

The stable outlook on Triglav'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 impact of the pandemic and the economic cycle turn, we expect Triglav will sustain a strong balance sheet with at least very strong capitalization and strong and stable earnings over the next two years, enabling to the company to continue developing its domestic and foreign operations.

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, and at the same time external economic conditions derail sound macroeconomic development in Slovenia.

Upside scenario

We consider a positive rating action remote at this time. We could raise the rating over the longer term 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
- 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.

Key Assumptions

- The Slovenian economy will contract by 7.8% in 2020, before recovering to 5.2% growth in 2021 and 2.6% in 2022.
- Unemployment rate will increase to about 7% in 2020, and gradually decline to about 5% over 2021-2022.
- Inflation will 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 a low-single-digit growth for Triglav's operations in 2020-2022, mainly supported by organic growth in its insurance and reinsurance operations.
- We assume capital adequacy of at least 'AA' level, backed mostly by core capital.
- In our view, Triglav's operating performance will remain resilient to the COVID-19 shock, with its net income remaining at €60 million–€80 million in 2020-2022.

Triglav Group Key Metrics

	2021f	2020f	2019	2018	2017	2016
Gross premiums written (Mil. €)	~1220	~1200	1,184	1,068	1,000	936
Net Premiums Earned (Mil. €)	~1070	~1050	1,028	952	891	850
Net income (Mil. €)	>65	>60	83.9	80.8	69.7	81.9
Total shareholders' equity (Mil. €)	~870	~850	792	747	757	744
Return on shareholder equity (%)	~10	7-10	10.9	10.7	9.2	11.4
P/C net combined ratio (%)	~95	~95	91.5	91.8	93.1	92.9
Net investment yield (%)			1.9	2.0	1.9	2.6
Fixed-charge coverage (X)	>20	>20	39.9	82	60.9	83.3
Financial leverage (%)	~6	~7	8.7	2.8	2.8	2.9
Dividend payout ratio (%) *	>50	>50	-	70	82	69
S&P Capital Adequacy	At least Very Strong	At least Very Strong	Excellent	Excellent	Excellent	Excellent

f--Forecast under S&P Global Rating's base-case scenario. *We note that on Aug. 20, 2020, the regulator (AZN) requested that dividends continue to be suspended until the auditors' opinions on the 2020 annual reports have been published. However, we understand that it may allow such payments to be made if they are notified in advance and if it is provided detailed justification for the exception. Therefore, Triglav's 2019 dividend payout could still change until the end of this year.

Business Risk Profile: Strong

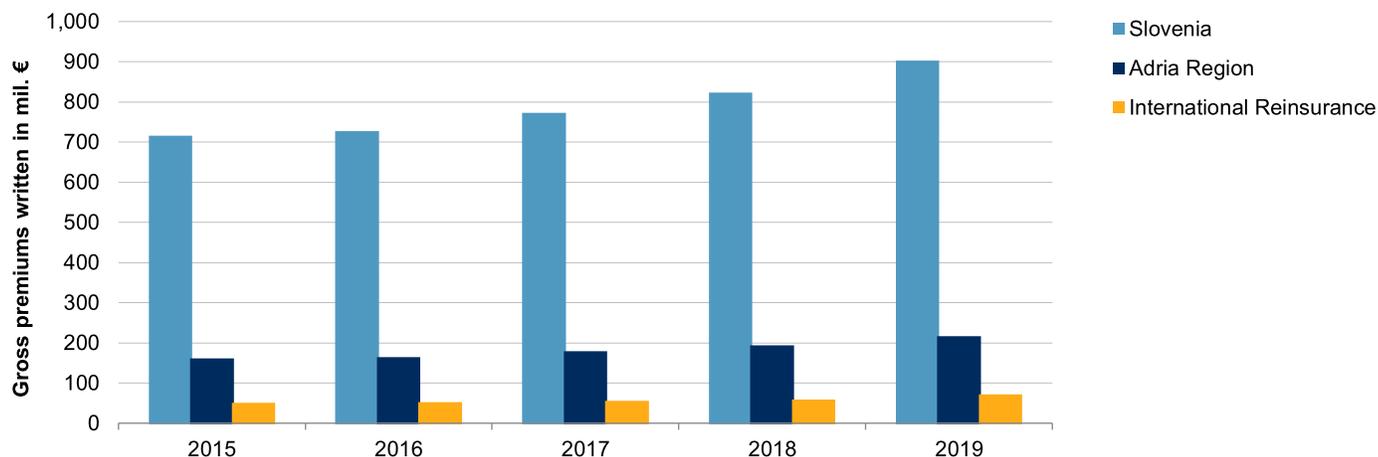
Triglav is the largest insurer and asset manager in Slovenia, and has significant insurance operations throughout the Adria region. In addition, Triglav Re is the group's internal reinsurance entity, which is also active in the international reinsurance market. Overall, the group has an expanding and soundly profitable insurance and asset management franchise, although it is mostly concentrated in the Slovenian market.

In our view, the insurance sector in Slovenia benefits from Slovenia's competitive and resilient economy, which, even considering the COVID-19-related shock, provides a comparably stable environment for the insurance sector. This, in our view, allows the sector to sustain a favorable operating performance. Triglav's unrivalled domestic market position, with a market share of about 35% in the insurance sector and 34% in the asset management sector through its entities Zavarovalnica Triglav (A/Stable/-) and Triglav Skladi, enables it to maintain a strong performance in both the insurance and asset management businesses. The group's large market share allows scale advantages against direct domestic competitors such as Sava Insurance Group. In addition, its competitive position is further backed by its established brand with a very strong domestic reputation, and well-established regional distribution relationships with members of its tied-agent network. It also has a well-diversified business mix. This has resulted in robust organic growth over the past three years, with the group's gross written premiums cumulatively increasing by almost 25% over this period, with growth coming from all business lines and geographies. Overall, this was mainly a result of increased amount of risk covered domestically and internationally, while in domestic health insurance medical inflation translated into price increases. Domestic operations in 2019 increased by almost 10%, to what we believe is the peak of the cycle and growth is unlikely to continue at such a pace. In 2019, operations in the Adria region, which offers Triglav long-term growth opportunities, continued to scale up through organic growth of about 12%.

Chart 2

Triglav Continued To Tap Profitable Growth In 2019

We expect that pandemic to materially lower the pace of premium growth to 2%-4% in 2020-2021.



Source: S&P Global Ratings.

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Triglav's asset management business and international reinsurance businesses remain relatively stable and profitable, and offer the group additional business diversification. The acquisition of a midsize Slovenian asset management firm in 2019 solidified Triglav's domestic asset management position and improved the resilience of the income contribution from this business line. While international reinsurance remains relatively small, it continues to tap some growth opportunities.

With continued profitable growth and the strengthening of its position in asset management, the group continues to deliver on its long term strategy. In 2019, its consolidated combined (loss and expense) ratio was at 91.5%, comparing well with that of international peers. In first-half 2020, the group continued to display a favorable underwriting performance, with a combined ratio of 92.4% versus 93.2% in same period in 2019. This was despite being faced with a severe earthquake in Croatia--Triglav's second largest market--and COVID-19. These events did not lead to larger underwriting losses outside the company's risk tolerance. This reaffirms the company's track record of very solid underwriting controls, which in our view will help it successfully adjust to the change in the economic cycle. In addition, Triglav has relatively low exposure to the insurance products most affected by COVID-19 such as event cancellation or business interruption. As a result, we expect Triglav will continue reporting resilient underwriting results, with a combined ratio of about 95% in 2020-2022. In our view, attractive and stable margins will continue to support a better operating performance than that of most of its international peers.

Triglav still displayed comparably solid premium growth of 7% in first-half 2020. Given Triglav's market-leading digital solutions, its focus on further developing new ways of doing business, and its client-centric approach, we consider Triglav well-positioned to continue to achieve growth, despite the COVID-19 outbreak. In addition, we expect Triglav

will continue to leverage its balance sheet for any profitable business opportunities that may arise, in particularly in foreign operations. As a result, we expect growth will continue in second-half 2020 and in 2021, albeit at a materially lower 2%-4%.

Financial Risk Profile: Very Strong

In our view, Triglav entered the pandemic with a strong and resilient balance sheet, and a capital position above the 'AAA' level according to our risk-based capital model. This is further supported by its Solvency II ratio of 223% on Dec. 31, 2019, based on a standard formula and no use of transitional adjustments. We consider that the company's capital position continues to benefit from a high amount of core capital and from material prudent margins on its property and casualty loss reserves. We note that the pandemic's immediate effect on Triglav's solvency position is relatively low compared with international peers'. We also note that, following the COVID-19 outbreak, Triglav's regular shareholders assembly in June 2020 agreed to suspend its 2020 dividend payment. This was following the Slovenian insurance regulator's cross-market request to suspend dividend payments. We believe this move will provide Triglav with an additional buffer for further COVID-19-related uncertainties if they emerge. In addition, continued comparably strong and stable earnings provide some additional capital buildup, however, this will be reduced by comparably high dividend distributions, which we expect will resume fully in 2021-2022. Overall, 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, even if the economic crisis lasts longer and is more severe than expected, or if some organic or inorganic growth opportunities emerge for Triglav.

We consider that Triglav has adequate access to other sources of capital, if needed. Access was proven by recent subordinated bond issue (please see "Slovenia-Based Triglav Insurance Co PLC's Proposed Junior Subordinated, Deferrable Notes Rated 'BBB+', " published April 11, 2019, on RatingsDirect). Following the issuance of a hybrid instrument in 2019, Triglav's 2019 financial leverage remained comparably low at about 7%, while fixed fixed-charge coverage remained high at about 40x. At current levels, the group retains ample debt capacity, if needed.

Triglav's risk profile remains solid, benefiting from its conservative investment portfolio and a very conservative reinsurance protection strategy. We consider that the group has stable and effective reinsurance protection in place, which, combined with conservative underwriting is a key factor for Triglav's stable capital and earnings. In addition, in our view, Triglav's balance sheet is less sensitive to market stresses than those of most of the European peers we rate at similar levels. Invested assets are mainly in fixed-income instruments with relatively high creditworthiness in the 'A' range, and are broadly diversified across the eurozone. Exposure to higher-risk assets is modest. Although the group has more life insurance business with guarantees than direct domestic peer Sava Insurance Group, its overall amount is comparably lower than that of international peers like Vienna Insurance Group or UNIQA Insurance Group. Due to this, we believe its investment risk appetite will remain stable, even in a lower-for-longer interest-rate environment. This said, Triglav is gradually adjusting and tapping some illiquidity premium in real estate and infrastructure assets.

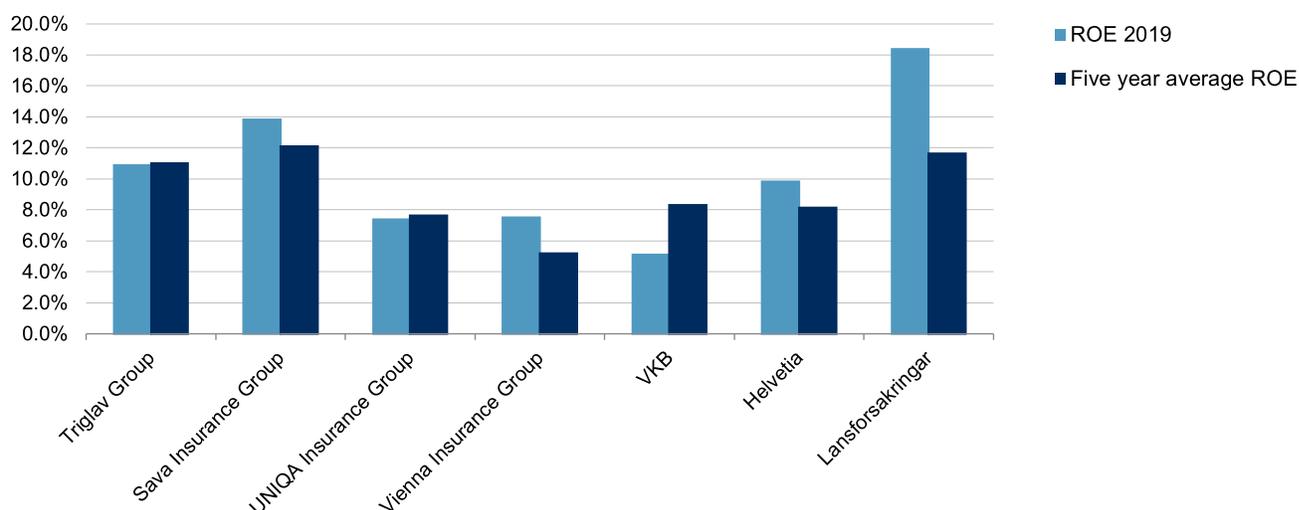
In 2019, Triglav continued to benefit from Slovenia's good operating environment and delivered solid net income of €83.9 million. Strong and stable results enabled the group to post attractive ROE of 10.9% in 2019. This remains above the group's strategic target ROE of 10%, and continues to compare favorably with that of Triglav's international peers.

Thanks to resilient underwriting result and limited investment impact, Triglav's first half-2020 performance was good compared with the previous year, with a net income of €33.5 million, only 3% lower than in the same period in 2019. Despite material macroeconomic and capital markets uncertainty, we believe Triglav remains well positioned to continue to achieve good underwriting results in second-half 2020. We also note that Triglav has only a small amount of goodwill on its balance sheet, resulting in very low exposure to any balance-sheet revaluation. As a result, we expect the company will continue to post comparably solid net income of €60 million-€80 million in 2020.

Chart 3

Triglav's 2019 Performance Was Strong And Stable

Despite the pandemic, we expect Triglav will continue showing resilience and a solid performance in 2020-2021 compared with 2019.



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

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Other Key Credit Considerations

We consider that governance is stable and comparable with that of its international peers. Triglav has clear and credible strategic planning and conservative financial management. Management is focusing on consistent strategic goals and building on the core capacities. The board is experienced and capable of executing the group's business strategy, demonstrated by its business development and the group's performance.

Triglav has access to ample liquidity, mainly due to its conservative, highly liquid investment portfolio. In addition, its expanding operations are providing constant cash inflows. While most of the P/C business is short tail, larger risks are heavily reinsured so that larger claims are not a significant drag on the cash position.

We regard Triglav as a government-related entity (GRE), mainly because Slovenia is its main shareholder. Under

Slovenia's asset management strategy, Triglav is classified as a strategic asset, implying higher commitment from the state in maintaining its 62.56% stake in the 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 believe 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 standalone credit profile, we do not include any uplift derived from the insurer's status as a GRE.

Environmental, social, and governance

Governance and disclosure standards in Slovenia are comparable with the rest of the eurozone. Triglav's exposure to catastrophe risk is limited due to its strong reinsurance protection that limits its exposure from natural catastrophes in Slovenia and abroad. Although, Triglav has some exposure to the low-interest-rate environment, it is proactively limiting 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
Financial Strength Rating	A

*Reflects that Triglav continues to have lower geographic diversification of revenue and net income than its higher rated peers.

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
- 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

Related Research

- Research Update: 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
- Insurance Industry And Country Risk Assessment: Slovenia Property/Casualty, Sept. 9, 2019
- Slovenia-Based Triglav Insurance Co PLC's Proposed Junior Subordinated, Deferrable Notes Rated 'BBB+', April 11, 2019

Appendix

Triglav Group Credit Metrics History		
	2019	2018
S&P Global Ratings capital adequacy*	Excellent	Excellent
Total invested assets	3479.70	3251.16
Total shareholder equity	791.95	746.86
Gross premiums written	1184.17	1068.39
Net premiums written	1047.72	961.77
Net premiums earned	1027.63	951.76
Reinsurance utilization (%)	11.52%	9.98%
EBIT	104.04	98.84
Net income (attributable to all shareholders)	83.86	80.83
Return on shareholders' equity (reported) (%)	10.90%	10.75%
P/C: net combined ratio (%)	91.49%	91.83%
P/C: net expense ratio (%)	26.89%	27.76%
P/C: return on revenue (%)	7.65%	8.30%
Life: Net expense ratio (%)	15.21%	15.60%
EBITDA fixed-charge coverage (x)	39.94	81.72
EBIT fixed-charge coverage (x)	33.58	71.40
Financial obligations / EBITDA adjusted	0.61	0.19
Financial leverage including pension deficit as debt (%)	8.70%	2.77%
Net investment yield (%)	1.90%	2.03%
Net investment yield including investment gains/(losses) (%)	5.59%	0.79%

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 11, 2020)*

Operating Companies Covered By This Report

Triglav Re, Reinsurance Co. Plc

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

Triglav Insurance Co. Plc

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

Junior Subordinated

BBB+

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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