S&P Global Ratings

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Triglav Group

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Triglav Group

Anchor	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

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a

+

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	
Key strengths	**Key risks**
Market leader in insurance and asset management business in Slovenia and the Western Balkan region, with a well-diversified insurance portfolio enhanced by a large agency network and strong brand recognition.	Lower geographical diversification of revenue and net income outside Slovenia, compared with higher-rated peers.
Solid capital buffers at the 'AAA' level, as per our risk-based capital model, supported by the group's underwriting discipline and conservative investments.	
Sound reinsurance protection that limits the group's natural catastrophe losses.	

S&P Global Ratings expects Triglav Group to restore its underwriting discipline in 2024-2025 after significant one-off effects hampered its 2023 results. Triglav's operating performance has been significantly affected this year by a price cap on its discontinuing health business and severe natural catastrophes in Slovenia and the wider region. In the past few months, especially Slovenia was hit by several powerful hailstorms and large-scale torrential floods. The flood damage is unprecedented in the country's recent history.

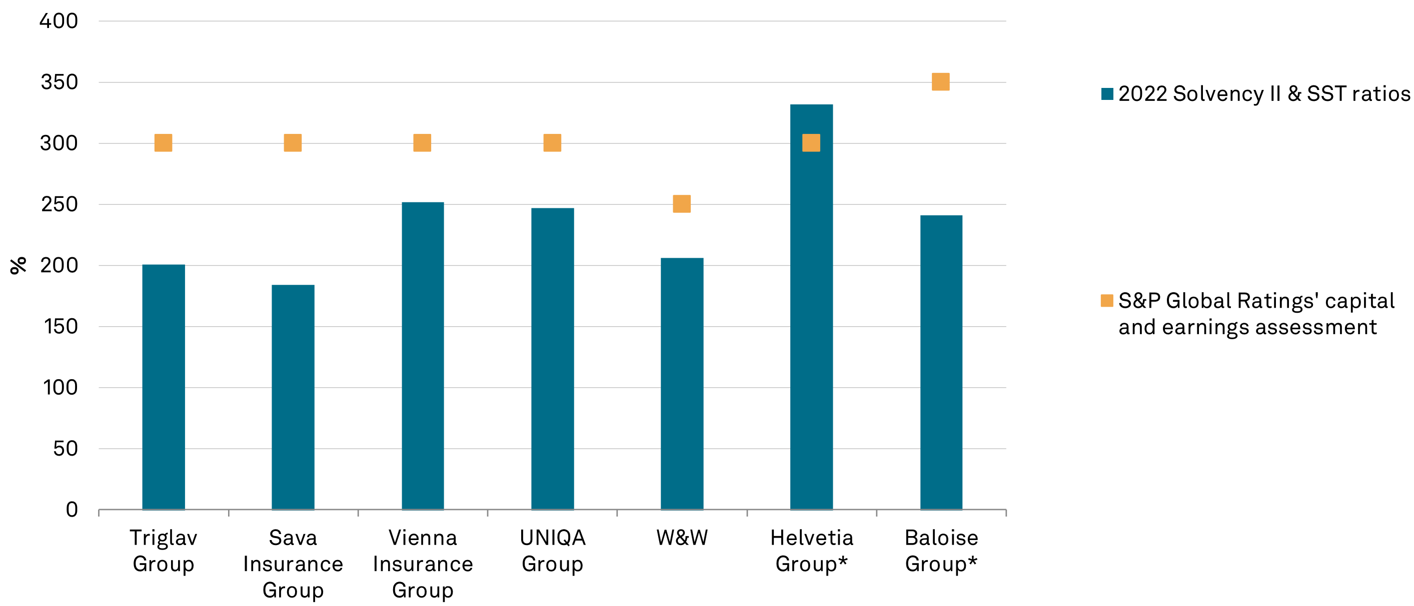
We see these factors as nonrecurring, with the government-induced price cap on discontinuing supplementary health business to disappear at year-end 2023 and natural catastrophe effects to normalize. Therefore, we expect a strong recovery in non-life primary insurance while life and asset management operations will remain stable in 2024-2025. Earnings recovery will be also supported by continued price increases, which will fully offset the impact of inflation, and retention of solid ongoing investment results. Despite considerable macroeconomic uncertainty, we believe Slovenian households continue to display resilience, which should enable timely price adjustments while safeguarding solid underwriting risk. We believe Triglav's conservative investment strategy will also limit the negative effects from further capital market volatility and higher reinvestment yields, and offer some improvements in investment results. In our base case, we think that overall performance will continue to mainly rely on robust underwriting results, with a net combined ratio (loss and expense) of 99%-102% and net income of €0-€30 million in 2023 resulting in a return on equity (ROE) of 0%-3%. As such, we expect that the net combined ratio will return to 94% or below in 2024-2025. In our view, this would support strong net income of about €75 million-€105 million in 2024-2025, which corresponds to an ROE of 8%-11%.

The discontinuation of the supplementary health insurance line at year-end 2023 will not materially harm Triglav's robust franchise in Slovenia, where it will retain a leading market position. We expect insurance revenue growth to jump to 10%-15% in 2023. This will come predominantly from non-life business, where following its solid underwriting controls, Triglav is actively adjusting prices to reflect higher inflation and increased rates for reinsurance protection. We then expect revenue will reduce in 2024 due to the discontinuation of supplementary health insurance, which represented about €204 million of gross written premiums (GWP) at year-end 2022. Outside discontinued business, we expect healthy development with strong growth of 4%-8% in 2024-2025, given motor prices are expected to increase at a slower pace, in line with inflation. In our view, despite current economic uncertainties, growth will be driven primarily by premium adjustments in property lines over the next few years due to the observed higher frequency and severity of natural catastrophes during summer 2023. We believe some growth will also come from the additions of new risks business domestically and internationally.

Capitalization remains one of Triglav's key rating strengths. Despite increased interest rates in the eurozone, capital market volatility, and solid business growth, the group's 2022 capital position remained above the 'AAA' level under our risk-based capital model. The group also achieved a robust Solvency II ratio of 200% on the same date, based on the standard formula and using no transitional adjustments. We think the group's capitalization will remain intact following recent natural catastrophes in Slovenia and the wider region. In our view, Triglav's comprehensive reinsurance protection will provide a buffer to a large part of the natural catastrophe segment's significant gross claims in 2023, which the group estimates at €150 million–€200 million. Despite an expected reduction in earnings in 2023, we think Triglav's current capital buffers provide capacity to absorb expected robust business development in 2023-2025, and a cushion against current macroeconomic uncertainties and moderate capital market volatility. In turn, 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.

Chart 1

Triglav's capital position will remain robust



Solvency II ratio without transitionals. *Reported according to Swiss Solvency Test (SST). Source: S&P Global Ratings.

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 increased natural catastrophe claims, discontinuation of its health supplementary business, and moderating macroeconomic conditions, we expect that Triglav will sustain a strong balance sheet with at least very strong capitalization. We also expect a strong earnings recovery in 2024-2025, enabling 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 developments in Slovenia.

Upside scenario

We currently consider a positive rating action remote. 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

- After strong 5.4% real GDP growth in 2022, Slovenia's economy expands a moderate 1.3% in 2023, then 2.3% and 2.7% in 2024 and 2025.
- Inflation remains elevated at 6.8% in 2023, declining to 4.0% in 2024 and reducing further to 2.5% in 2025. Unemployment remains low at about 4.0% in 2023-2025.
- Further interest rate increases, based on signals from the European Central Bank that its restrictive monetary policy will continue to drive down inflation toward target ranges.

Triglav Group--Key metrics

	2025f	2024f	2023f	H1 2023§	2022	2021	2020	2019	2018	2017
Gross premiums written (mil. €)	N/A	N/A	N/A	1575.90	1479.60	1352.90	1233.78	1184.17	1068.39	999.92
Net premiums earned (mil. €)	N/A	N/A	N/A	N/A	1189.90	1119.80	1066.75	1027.63	951.76	891.20
Insurance revenue§ (mil. €)	~ 1350	~ 1300	~ 1400	737.90						
Net income (mil. €)	75 - 105	75 - 105	0 - 30	9.85	110.20	112.90	73.66	83.86	80.83	69.71

Triglav Group--Key metrics (cont.)	2025f	2024f	2023f	H1 2023§	2022	2021	2020	2019	2018	2017
Return on shareholder equity (%)	8 - 11	8 - 11	0 - 3	2.30	13.08	12.53	8.86	10.90	10.75	9.29
P/C net combined ratio (%)	At or below 94	At or below 94	99 - 102	102.20	88.12	88.90	91.17	91.49	91.83	93.06
Net investment yield (%)	1.6 - 2.6	1.5 - 2.6	1.4 - 2.3	1.60	1.30	1.31	1.13	1.90	2.03	1.88
EBITDA fixed-charge coverage (x)	40 - 50	40 - 50	> 10	N/A	59.42	57.66	39.36	39.98	81.72	60.91
Financial leverage (%)	6 - 7	6 - 7	6 - 7	N/A	7.35	6.17	6.47	8.70	2.77	2.76
S&P capital adequacy	At least very strong	At least very strong	At least very strong	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent

§Data as reported by Triglav Group under International Financial Reporting Standard 17 (except gross written premiums [GWP]). GWP, return on equity, and net investment yield are annualized. Insurance revenue, net income, and property/casualty (P/C) net combined ratio are for first-half 2023 only. f--Forecast under S&P Glogal Rating's base-case scenario. H1--First half.

Business Risk Profile: Strong

Triglav is the largest insurer and asset manager in Slovenia with significant insurance operations outside the country. In Slovenia it has a market share of about 38.9% in insurance and 31% in asset management through its entities Zavarovalnica Triglav (Triglav Insurance Co. PLC; A/Stable/--) and Triglav Skladi. Beyond Slovenia, the group has a significant presence throughout the Adria region (the former Yugoslavia). It is among the leaders in the smaller markets of Montenegro and North Macedonia and has a midsize position in the larger regional markets of Croatia, Serbia, and Bosnia. The group's overall business profile is rounded by Triglav Reinsurance Co. PLC (Triglav Re), the group's internal reinsurance entity, which is also active in the international reinsurance market.

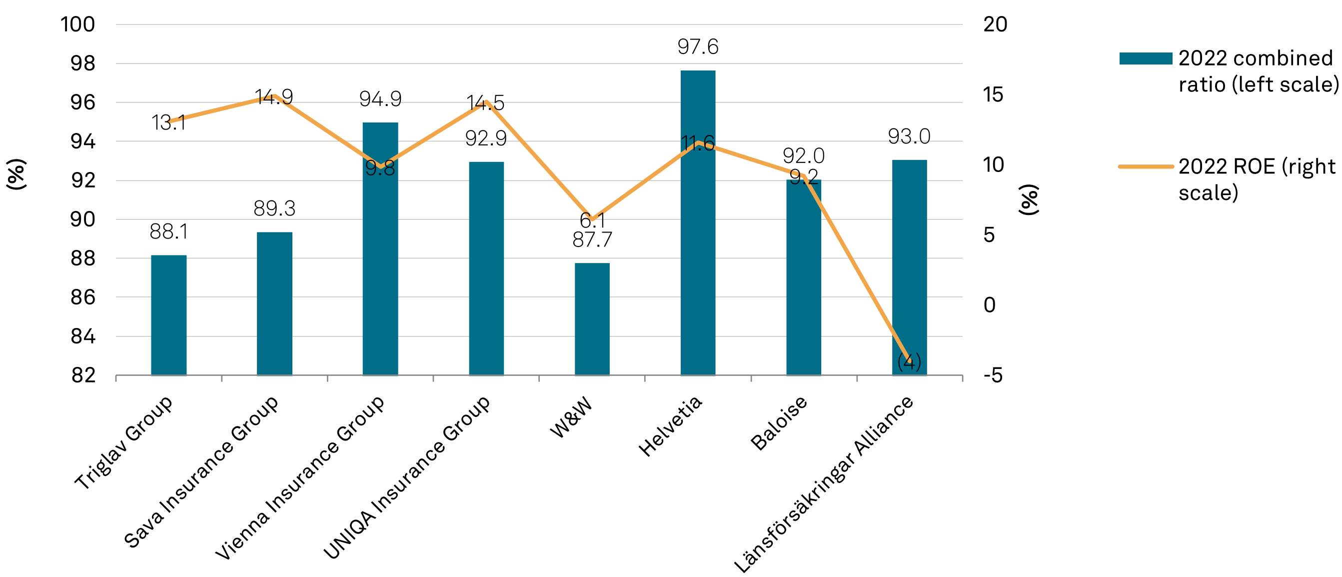
In our view, the insurance sector in Slovenia performed well in 2022 and underwriting remained resilient, which allowed robust sector profitability. However, we expect weaker performance in Slovenia's property/casualty (P/C) sector in 2023 than recent years due to intense natural catastrophes and the temporary effects of health reforms. The normalization of catastrophe claims, alongside the retention of good underwriting controls and continued disciplined underwriting, should help the sector improve its performance in 2024-2025.

Triglav has a proven track record of profitable business growth, with a very solid average five-year combined ratio of 90.3%. We believe that the group's large market share allows some scale advantages against direct domestic competitors. In addition, its competitive edge is driven by an established domestic reputation, with a strong brand and regional distribution network of tied agents. Strong economic development in the region coupled with Triglav's robust business position have enabled strong business growth since 2015. Premiums and net income from foreign operations are also gradually expanding, offering the group further growth and diversification opportunities. Nevertheless, the group remains more reliant on the development of its domestic market compared with some higher-rated international peers.

Triglav's solid buffers have limited the negative effects from underwriting and economic challenges. Last year, the group continued to prudently increase prices in property and commercial lines in line with observed cost claims trends. Due to prudently built additional reserves in previous years, the group managed to smoothen the impact of the normalization in claims frequency and higher inflation in motor and health. Life insurance continued to show strong and solid profitability with earnings before taxes at €16.6 million in 2022. The group's investment income remained low, but stable, reflecting Triglav's conservative allocation. This, in combination with previously created buffers, has paid off in 2023, with Triglav feeling only limited effects from interest rate rises and capital market volatility.

Chart 2

Triglav's 2022 operating and underwriting performance remained favorable in an international context



Länsförsäkringar Alliance combined ratio and ROE as reported. ROE--Return on equity. Source: S&P Global Ratings.

The April 2023 introduction of a price cap on discontinuing supplementary health business and an intense natural catastrophes season have affected the group's performance in 2023. We now expect that ROE will reduce to 0%-3% this year. In its half-year results, the group already recognized a nonrecurring expected full-year loss of €30.9 million, due to the government-induced price cap on the discontinuing supplementary health insurance business, which will expire at year-end 2023. In our view, the price cap will not have any effect on the group's results in 2024. For catastrophes occurred in July and August, Triglav now expects net losses of €40 million–€50 million before tax and after reinsurance. Based on experience from past mass events, we believe that most of the claims will be resolved in the next few months until year-end 2023. As such, we see only limited potential for any material adverse claim development into 2024.

We believe that price increases in 2023 and beyond will contain the effects of higher inflation. We note Triglav has increased its motor tariffs multiple times from second-half 2022 to reflect higher inflation. Very favorable economic developments in 2022 as well as still-strong household positions in Slovenia this year are helping push through the needed price adjustments. This is reflected in Triglav's very strong growth over first-half 2023, when motor insurance premiums increased 21%, supported mainly by price increases. We note that the group's generally conservative reserving policy provides considerable flexibility in terms of managing the risks associated with high inflation or natural catastrophes in the mid-term. In addition, the group is continuing its digitalization efforts.

Pressure on life insurance has reduced because interest rates have increased above the guarantee in the group's backbook. Additional life reserves, which Triglav built over 2015-2021, helped to stabilize the balance sheet when eurozone interest rates increased in 2022. With higher interest rates and a faster maturity of guaranteed life business compared to international peers, we now expect that life insurance earnings will be solid and relatively stable.

Financial Risk Profile: Very Strong

Triglav's financial risk profile is based on a strong and resilient balance sheet, with a robust capital position according to our capital model and Solvency II. Despite expected weaker operating performance in 2023, the group's current capital buffers will support growth financing, in our view. Its underwriting and investment risks and funding structure are neutral to our assessment of a very strong financial risk profile.

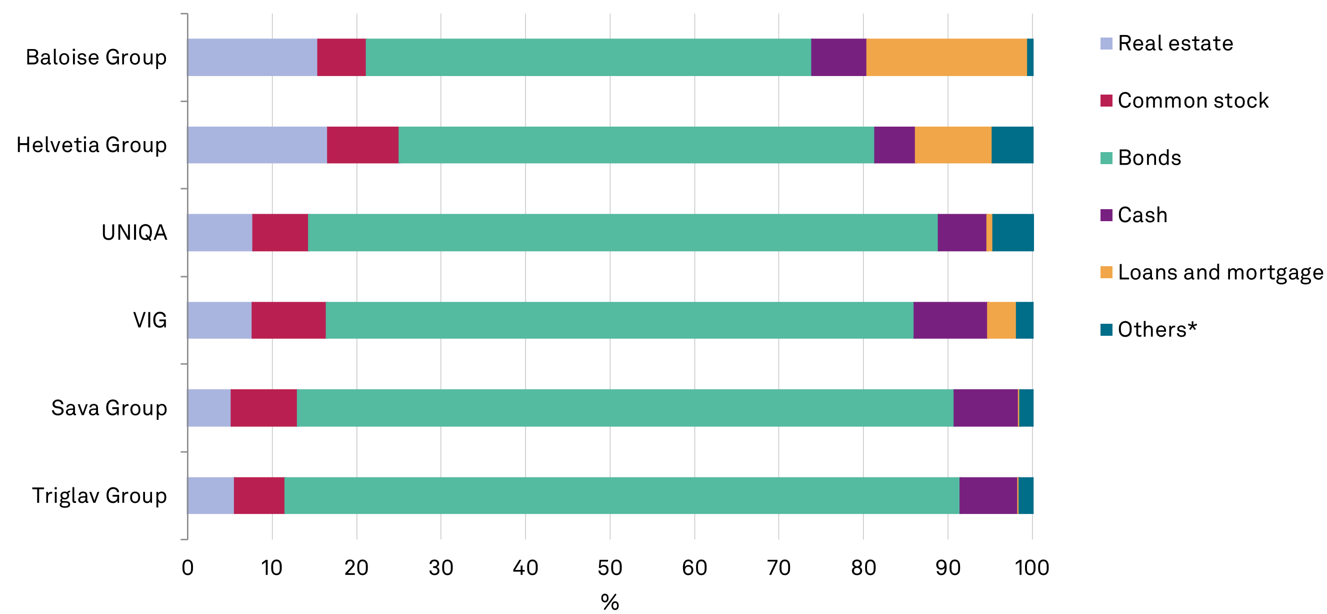
We think Triglav's capitalization will remain a key strength through 2025. We understand that in the mid-year 2023 the group's capital position remained robust despite strong business growth and weaker operating performance. We think Triglav's balance sheet will likely remain resilient, despite the discontinuation of supplementary health insurance and recent natural catastrophes. Therefore, the group's capital position should remain at least at the 'AA' level in our capital model. In our view, Triglav's comprehensive reinsurance protection will provide a buffer to a large part of the catastrophe segment's significant gross claims, which it estimates at €150 million–€200 million. The group distributed moderate dividends in 2023 and we expect these to continue. We note that with the discontinuation of supplementary health business, related capital requirements will disappear from 2024. Meanwhile, the expected quick recovery in operating performance, to an ROE of 8%-11% in 2024-2025, should provide sufficient capital generation to cover expected solid business development. We see Triglav's consolidated capital as good quality, mainly stemming from shareholders' equity and very prudent margins on its P/C loss reserves.

Triglav's risk profile has remained stable and supportive of its very strong financial profile. In our view, the group pursues a conservative reinsurance protection and investment portfolio. Triglav managed to source stable and solid reinsurance protection for 2023, despite more challenging reinsurance markets. Considering the intense natural catastrophe season in 2023, Triglav's reinsurance protection costs could rise, but we expect that the group will source effective coverage, thereby protecting its balance sheet and earnings against significant volatility.

In our view, Triglav's balance sheet remains less sensitive to market volatility than most European peers' at similar rating levels. The group's investment strategy is conservative. Most of its assets are fixed-income securities with a portfolio strongly diversified across high-rated issuers in the eurozone. At year-end 2022, about 58% of the fixed-income portfolio was rated 'A' or above, with the rest mainly in the 'BBB' range. Exposure to less liquid assets such as property, private debt, and private equity is comparably low at about 7% of invested assets. We note that during 2022 Triglav reduced its exposure to equities, which represent about 9% of its invested portfolio.

Chart 3

Triglav maintains a conservative investment portfolio
2022 invested assets split



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

We believe the group's robust financial standing and conservative capital structure, with low leverage, will help safeguard funding capacity in case of need. After the spike in interest rates last year, Triglav recorded some unrealized losses, triggering a decline in its shareholders' equity. The group's financial debt remained stable at year-end 2022, with overall leverage comparably low at about 7% and fixed charge coverage at about 59x. With the introduction of International Financial Reporting Standard 17 accounting, the amount of shareholders' equity has increased about 19% to about €894 million, which prospectively reduces the already low leverage in our forecast. At current levels, the group retains ample debt capacity, if needed. Despite lower expected profits in 2023, we expect fixed charge coverage to reduce but stay significantly above our threshold of 4x. It should then improve in the coming years due to a strong recovery in earnings.

Other Key Credit Considerations

Governance

We consider Triglav's governance stable and comparable with that of its international peers. Governance and disclosure standards in Slovenia are comparable with the rest of the eurozone. Triglav has clear and credible strategic planning and conservative financial management. Management is focused on consistent strategic goals and building core capacities. The board is experienced and capable of executing the group's business strategy, as shown in its business development and performance.

Liquidity

We do not expect 2023 natural catastrophe claims to be a significant drag on Triglav's cash position. The risks are heavily reinsured while most of the business is short tail. We think Triglav's liquidity will remain exceptional and don't expect any constraints that will keep it from meeting its obligations, given the substantial amount of liquid assets held. In addition, expanding operations are providing constant cash inflows.

Government support

We regard Triglav as a government-related entity (GRE), mainly because Slovenian state-owned funds are Triglav's main shareholders. Under Slovenia's asset management strategy, Triglav is classified as a strategic asset, implying a 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 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 Triglav in the event of financial distress. Because Triglav's stand-alone credit profile is 'a', we do not include any rating uplift derived from the insurer's status as a GRE.

Environmental, social, and governance

ESG credit factors have no material influence on our rating analysis on Triglav.

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

- Triglav Group's Robust Capital Position Weathers Perfect Storm, Sept. 1, 2023
- Research Update: Slovenia 'AA-/A-1+' Ratings Affirmed; Outlook Stable, June 9, 2023
- Slovenian Non-Life Insurers Can For Now Absorb Government's Price Cap On Discontinuing Health Insurance,

May 10, 2023

- Triglav Group, Sept. 05, 2022
- Insurance Industry And Country Risk Assessment: Slovenia Property/Casualty, Sept. 5, 2022
- Insurance Industry And Country Risk Assessment: Slovenia Life, Sept. 5, 2022

Appendix

Triglav Group--Credit metrics history

Ratio/Metric	2022	2021	2020	2019	2018
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent
Total invested assets (mil. €)	3,447.6	3,832.9	3,664.6	3,480.2	3,251.2
Total shareholder equity (mil. €)	752.8	932.9	870.2	792.0	746.9
Gross premiums written (mil. €)	1,479.6	1,352.9	1,233.8	1,184.2	1,068.4
Net premiums written (mil. €)	1,224.6	1,132.0	1,073.8	1,047.7	961.8
Net premiums earned (Mil. €)	1,189.9	1,119.8	1,066.8	1,027.6	951.8
Reinsurance utilization (%)	17.2	16.3	13.0	11.5	10.0
EBIT (mil. €)	137.5	135.4	93.8	104.0	98.8
Net income (attributable to all shareholders) (mil. €)	110.2	112.9	73.7	83.9	80.8
Return on shareholders' equity (reported) (%)	13.1	12.5	8.9	10.9	10.8
P/C: Net combined ratio (%)	88.1	88.9	91.2	91.5	91.8
P/C: Net expense ratio (%)	27.5	26.2	25.5	26.9	27.8
P/C: Return on revenue (%)	9.2	9.5	7.3	7.6	8.3
Life: Net expense ratio (%)	17.1	16.3	15.5	15.2	15.6
EBITDA fixed-charge coverage (x)	59.5	57.7	39.4	40.0	81.7
EBIT fixed-charge coverage (x)	50.3	49.6	31.9	33.6	71.4
Financial obligations / EBITDA adjusted (x)	0.4	0.4	0.5	0.6	0.2
Financial leverage including pension deficit as debt (%)	7.3	6.2	6.5	8.7	2.8
Net investment yield (%)	1.3	1.3	1.1	1.9	2.0
Net investment yield including investment gains/(losses) (%)	(3.6)	3.9	2.7	5.6	0.8

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 11, 2023)*

Operating Companies Covered By This Report	
Triglav Insurance Co. PLC	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Junior Subordinated	BBB+
Triglav Re, Reinsurance Co. Plc	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit 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.