

FITCH PLACES ADRIATIC SLOVENICA ON RATING WATCH POSITIVE & KD GROUP ON RATING WATCH EVOLVING

Fitch Ratings-London-24 May 2018: Fitch Ratings has placed Slovenian composite insurer Adriatic Slovenica d.d.'s 'BBB-' (Good) Insurer Financial Strength (IFS) Rating on Rating Watch Positive (RWP) and holding company, KD Group financna druzba, d.d.'s (KD Group) 'BB' Issuer Default Rating (IDR) on Rating Watch Evolving (RWE).

The rating actions follow today's announcement that KD Group has agreed to sell a 100% stake in Adriatic Slovenica to Generali CEE Holding B.V., the intermediate holding company managing Assicurazioni Generali S.p.A.'s (IFS A-/Stable) operations in Central and Eastern Europe. The transaction is subject to regulatory approval and is expected to close in 2H18.

KEY RATING DRIVERS

The RWP on Adriatic Slovenica's rating reflects Fitch's view that the acquisition by Generali will improve Adriatic Slovenica's credit profile. Adriatic Slovenica reports strong and stable net income and combined ratios, while at the consolidated KD Group level profitability has been weaker and more volatile. Financial leverage, which was 42% at end-2017 on a consolidated KD Group basis, is also lower for Adriatic Slovenica, at 34% at end-2017. Adriatic Slovenica's rating is also likely to receive uplift from the standalone credit profile due to ownership support once it is part of the Generali group.

The RWE on KD Group's rating reflects the uncertainty about the company's future strategic direction and that it will no longer have access to Adriatic Slovenica's dividend capacity.

RATING SENSITIVITIES

Fitch will resolve the Rating Watches after the completion of the sale of Adriatic Slovenica to Generali and after completing its assessment of Adriatic Slovenica's and KD Group's standalone credit profiles as well as its assessment of Adriatic Slovenica's strategic importance to Generali.

Contact:

Primary Analyst

Ralf Ehrhardt

Director

+44 20 3530 1551

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Secondary Analyst

Dr Christoph Schmitt

Director

+49 69 768 076 121

Committee Chairperson

Federico Faccio

Senior Director

+44 20 3530 1394

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email: athos.larkou@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Insurance Rating Criteria (pub. 30 Nov 2017)

<https://www.fitchratings.com/site/re/905036>

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