



Fitch Upgrades Adriatic Slovenica's IFS to 'BBB+', Outlook Stable

Fitch Ratings-Frankfurt/London-18 February 2019: Fitch Ratings has upgraded Adriatic Slovenica d.d.'s Insurer Financial Strength (IFS) Rating to 'BBB+' from 'BBB-'. The Outlook is Stable. Fitch has removed the rating from Rating Watch Positive (RWP), where it was originally placed on 24 May 2018.

The rating action follows the announcement by Assicurazioni Generali S.p.A (Generali, IFS:A-/Negative) that it has completed the acquisition of Adriatic Slovenica from its former owner KD Group finančna družba d.d. (KD), having received all required approvals from regulatory bodies and competition authorities.

KEY RATING DRIVERS

The upgrade reflects Fitch's standalone assessment of Adriatic Slovenica's credit profile following its separation from KD. Although Fitch assesses the company as strategically 'Important' to Generali, we do not incorporate any rating uplift to its standalone IFS due to its newness to the Generali group.

Adriatic Slovenica's standalone assessment is driven by its strong capitalisation and leverage, financial performance and business profile. These strengths are somewhat offset by the company's debt service capabilities and investment risk, which we assess as good.

Adriatic Slovenica's standalone financial leverage stood at 34% at end-2017. This compares with the 43% calculated as part of the KD group, which includes KD's debt. We estimate financial leverage to have been broadly unchanged at end-2018. From a Prism FBM perspective, the standalone capital score was 'Strong' at end-2017 compared with 'Very Strong' under KD's consolidated accounts.

Earnings remained stable in 2017, with net income ROE of 11% (2016:12%). Fitch expects Adriatic Slovenica's profitability to remain strong in 2018 and 2019. The company's fixed charge coverage (FCC) ratio was 4x in 2017.

Fitch ranks Adriatic Slovenica's business profile as favourable compared with other Slovenian insurance companies, reflecting favourable competitive positioning, moderate business risk profile and favourable diversification. This is offset somewhat by its operating scale, which we classify as less favourable relative to European insurers. Given this ranking, the agency scores Adriatic Slovenica's Business Profile at 'A-' under its credit factor scoring guidelines.

Exposure to non-investment grade and non-rated bonds as well as equities drives our assessment of Adriatic Slovenica's investment and asset risk assessment. At end-2017 the estimated average rating of the bond portfolio was 'BBB'.

RATING SENSITIVITIES

Adriatic Slovenica's rating could be downgraded if its financial leverage increases to above 40% or if its Prism FBM score falls below 'Strong'.

Adriatic Slovenica's rating could also be downgraded if its fixed charge coverage ratio falls below 2x on a sustained basis.

Further seasoning of its ownership by Generali, including progress with operational integration, could lead to

an upgrade in the medium term.

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Applicable Criteria

Insurance Rating Criteria (pub. 11 Jan 2019)

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Dodd-Frank Rating Information Disclosure Form

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