



## **Fitch Assigns Adriatic Slovenica ‘BBB-‘ IFS, KD Group ‘BB-‘ IDR; Outlook Stable**

Fitch Ratings-London-21 November 2014: Fitch Ratings has assigned Slovenian composite insurer Adriatic Slovenica Zavarovalna družba d.d. (Adriatic Slovenica) an Insurer Financial Strength (IFS) rating of ‘BBB-‘ and its holding company, KD Group, finančna družba, d.d. (KD Group) an Issuer Default Rating (IDR) of ‘BB-‘. The Outlooks are Stable.

### **KEY RATING DRIVERS**

The ratings reflect KD Group's strong market position in the Slovenian insurance and asset management market and its adequate capitalisation. However, the ratings are limited by the group's high financial leverage, its historically weak profitability and its relatively small size.

Fitch regards KD Group as having a small market position and size/scale, based on global benchmarks, with total assets of EUR0.8bn, gross written premiums (GWP) of EUR316m and shareholders' funds of EUR109m at end-2013. Nevertheless, it is one of the largest financial service providers in the Balkan region, with Adriatic Slovenica being the second-largest insurer in Slovenia and the group's asset management operations having a market share of around 21% in the Slovenian mutual fund market. Fitch views this strong position in the local market as a rating positive.

KD Group's high financial leverage of 51% at end-2013 is a negative rating driver. However, Fitch views positively that the group has been reducing leverage since 2008.

Fitch views KD Group's capitalisation as “adequate” on a consolidated basis as measured by the agency's Prism factor-based capital model. While Adriatic Slovenica reported a strong regulatory solvency ratio of 175% at end-2013, the KD Group consolidated Prism score is negatively affected by the group having a high amount of goodwill on its balance sheet, which Fitch does not give credit for in its capital assessment.

KD Group reported a profit in 2013 of EUR6.6m, following losses between 2009 and 2012 driven by its underperforming bank business (which was disposed of in 2012) and losses from other non-core corporate affiliates affected by the financial crisis. The insurance company, Adriatic Slovenica, has been consistently profitable, reporting annual net income of over EUR10m for each of the past five years and an average return on equity of 18%. Fitch expects the group to remain profitable in 2014, following reported half-year net income in 1H14 of EUR4.2m (1H13: EUR4.4m).

KD Group plans to divest most non-core assets and focus on its core insurance and asset management businesses. Fitch expects this to improve the group's performance and generate extra cash flow over the next three years.

As 74% of the group's assets are held in Slovenian investments and 94% of the group's revenue is in Slovenia (BBB+/Stable), the group's performance is exposed to the local economy. This includes the risk of losses on the EUR362.5m of non-unit linked investments, and the risk of lapses on the EUR216.3m of unit-linked liabilities. For example, in 2013 write-downs on Slovenian banks led to losses of EUR16.3m for Adriatic Slovenica.



#### RATING SENSITIVITIES

KD Group's leverage falling to below 40% in combination with stabilised profitability could lead to an upgrade.

The ratings could be downgraded if:

- The group fails to rollover or refinance its current debt; or
- It fails to build its cash balance at the holding company through retained earnings; or
- The group's consolidated capital position declines to a Prism score of below "adequate" for a sustained period of time.

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

Applicable criteria 'Insurance Rating Methodology', dated 4 September 2014, is available at [www.fitchratings.com](http://www.fitchratings.com).