MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms MACIF's A2 IFSR on Aviva France's acquisition; outlook stable

25 February 2021

Paris, February 25, 2021 – Moody's Investors Service ("Moody's") today affirmed MACIF's A2 insurance financial strength rating (IFSR) and the Baa1(hyb) subordinated debt and junior subordinated debt ratings. The outlook remains stable.

These affirmations follow the announcement that Aema Groupe, the newly formed group resulting from the combination of MACIF and Aesio, will acquire Aviva France, the French subsidiary of Aviva Plc (senior unsecured debt A2 stable), for a total consideration of €3.2 billion.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

The affirmation of MACIF's ratings reflects a moderate improvement in the issuer's business profile along with a weakened financial profile linked to the acquisition, although still consistent with the current ratings.

As a result of the acquisition of Aviva France, MACIF will moderately improve its business profile. MACIF's market share in the French market will more than double in terms of premiums and the group will diversify its distribution channels, gaining access to new networks of brokers and tied agents. Some of these new channels are not proprietary, thus control of its future distribution network would likely be slightly less tight than it is currently. In addition, product diversification, already strong, will improve as a result of the acquisition, with a better balance between the life and non-life businesses. The product risk will also slightly strengthen in life insurance, as unit-linked contracts constitute a larger portion of life balances at Aviva France than at MACIF, but could modestly deteriorate in property and casualty (P&C) insurance, as the issuer will be exposed to longer-tail risks, such as construction. The geographical diversification will remain weak, given the sole focus on France.

MACIF's financial profile will weaken however, as the acquisition will be paid for by existing cash and the issuance of new subordinated debt, resulting into a significant rise in financial leverage to approximately 24% from 18% under Moody's calculations based on 2019 financials and a sharp fall in the group Solvency II ratio to slightly above 165% based on year-end 2020 financials, with increased sensitivity to financial market movements. The pro-forma Solvency II ratio will be more sensitive to interest rate risk, creating higher volatility in MACIF's solvency given the increased weight of the life operations in the new group. Nonetheless, the pro-forma Solvency II ratio at closing of the acquisition and the commitment to increase solvency in the following three years remains compatible with an A2 IFSR. In fact, the acquisition will also allow the new group to report stronger profitability, which should enable a progressive deleveraging and a progressive increase of the Solvency II ratio towards 200% by 2024, as publicly targeted by MACIF.

As part of the transaction, MACIF will benefit from a specific risk-sharing agreement with Aviva Plc on the "known price" contracts written by Abeille Vie between 1989 and 1997, which will largely mitigate the risk linked to these contracts.

Finally, Moody's believes that the acquisition of Aviva France presents some inherent execution risks for MACIF, notably due to its mere size as MACIF will more than double its revenue to reach €16 billion premiums annually. The different nature of the two institutions, the variety of businesses acquired, including the partnership with retirement saving association AFER, as well as different corporate cultures at both groups, will increase operational risks in the one to two years following the acquisition. In order to minimize this risk, the activities of MACIF and Aviva France will be initially managed separately and not merged to a large extent with the exclusion of the asset management business.

RATINGS OF EXISTING SECURITIES

The Baa1(hyb) ratings on MACIF's Tier 2 subordinated debt and junior subordinated debt are positioned two notches below the A2 IFSR, reflecting the subordination of these instruments versus policyholders, and are in line with the usual notching practice for debt issued by an operating company.

STABLE OUTLOOK

The stable outlook on MACIF's IFSR indicates that Moody's expects MACIF to be able to maintain, and possibly improve modestly, the strength of its post-closing financial profile, including its Solvency II ratio, in the next 12-18 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Although unlikely in the short term, MACIF's ratings could be upgraded if profitability was to improve meaningfully, as reflected by a sustained improvement of the combined ratio below 95% across the insurance cycle and a stronger capitalization, as evidenced by a Solvency II ratio going back sustainably above 200%.

Conversely, the ratings could be downgraded in case of a deterioration in profitability, as evidenced by a combined ratio consistently above 103%, a material deterioration of asset quality, weakening capitalization, as evidenced by a decline of the Solvency II ratio below 150% over time or a failure to properly execute the transaction.

LIST OF AFFECTED RATINGS

Issuer: MACIF

..Affirmations:

....Insurance Financial Strength Rating, affirmed A2

....Junior Subordinated Regular Bond/Debenture, affirmed Baa1(hyb)

....Subordinate Regular Bond/Debenture, affirmed Baa1(hyb)

..Outlook Action:

....Outlook remains Stable

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Life Insurers Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1187348, and Property and Casualty Insurers Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?

docid=PBC_1187352. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody’s key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody’s Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody’s Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody’s general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1243406.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody’s affiliates outside the UK and is endorsed by Moody’s Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody’s office that issued the credit rating is available on www.moodys.com.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Guillaume Lucien-Baugas
VP-Senior Analyst
Financial Institutions Group
Moody's France SAS
96 Boulevard Haussmann
Paris
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Antonello Aquino
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's France SAS
96 Boulevard Haussmann
Paris, 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454