FITCH AFFIRMS PAN-AMERICAN LIFE'S IFS RATINGS; OUTLOOK STABLE

Fitch Ratings-Chicago-22 June 2016: Fitch Ratings has affirmed the 'A' Insurer Financial Strength (IFS) rating of Pan-American Life Insurance Company (PALIC) and its wholly owned subsidiary, Pan-American Assurance Company (PAAC), collectively referred to as Pan-American. Fitch also affirmed the 'A' IFS rating of MTL Insurance Co. (MTL). The Rating Outlook is Stable.

KEY RATING DRIVERS

Pan-American's ratings reflect its extremely strong capitalization, relatively low-risk liability profile and modest operating performance. The ratings also consider that Pan-American Life Insurance Group's (PALIG) non-U.S. insurance operations are concentrated in Latin America and the Caribbean, the majority of which have sovereign ratings that are lower than Pan-American's rating.

Fitch believes the integration of Mutual Trust Holding Company's (Mutual Trust) merger with PALIG is progressing favorably. The merger strengthened Pan-American's position in the U.S. life insurance market and enhanced its geographic diversification, in Fitch's view. However, the company will continue to face competitive challenges in the U.S. from companies with significantly greater scale, market share, pricing power and distribution capabilities.

Pan-American's strong balance sheet continues to be a key ratings driver with very strong capitalization and low leverage. PALIC and MTL maintain statutory capital well in excess of rating expectations with an NAIC risk-based capital (RBC) ratio of 592% and 652%, respectively, at Dec. 31, 2015. Outside the U.S., PALIG's insurance subsidiaries maintain statutory capital that exceeds regulatory minimums.

Fitch views PALIG's consolidated operating leverage (defined as GAAP liabilities-to-capital excluding unrealized investment gains and losses) of 5.3x as strong. Additionally, PALIG's financial leverage remains low at 10% at year-end 2015.

Pan-American generates relatively stable earnings due to its relatively low-risk product profile. Favorably, MTL writes primarily participating whole life insurance in the U.S., which generates predictable, albeit modest, earnings with minimal volatility. The liability profiles of both companies have minimal exposure to equity market volatility or disintermediation risk.

Following the integration of the MTL merger, PALIG's below-investment grade (BIG) bond exposure declined to 9% of its fixed-income assets as of March 31, 2016, compared with approximately 15% as of June 30, 2015, which is due to the higher asset quality of MTL's bond portfolio.

PALIG's BIG exposure is largely driven by the company's foreign government exposure to Latin American and Caribbean countries, whose securities are generally rated 'BB' or below. These securities are used to fulfill local regulatory requirements in the jurisdictions where Pan-American operates or to currency-match insurance liabilities in those countries.

Additionally, PALIG has above-average exposure to 'BBB'-rated bonds and below-average exposure to U.S. government securities. Favorably, PALIG has minimal exposure to equities and troubled real estate as compared with the industry.

MTL's rating reflects the company's status as a 'very important' subsidiary within the Pan-American enterprise, based on Fitch's criteria and a stand-alone credit profile that is consistent with the assigned rating.

MTL's stand-alone credit profile reflects its adequate competitive position in the U.S. life insurance market, low-risk product profile, strong balance sheet fundamentals and modest earnings profile. MTL's strategic category reflects Pan-American's initiative to expand its presence in the U.S. life insurance market.

Fitch is not likely to rate MTL above Pan-American and, if MTL's financial profile deteriorates within two notches of Pan-American, MTL's ratings would likely remain 'A' based on the financial strength of Pan-American.

RATING SENSITIVITIES

Fitch does not anticipate an upgrade in the near- to intermediate-term. Despite its niche position, the agency views Pan-American's overall market position as small, which using Fitch's criteria means a market position, size and scale supportive of a rating in the 'BBB' category. However, the company's extremely strong balance sheet fundamentals provide Pan-American with uplift in its rating to the 'A' category. Fitch does not expect a change in this view during the ratings horizon of 12 - 18 months.

The key rating triggers that could result in a downgrade include:

--A sustained drop in the company's U.S. RBC ratio below 400%;
--An increase in consolidated financial leverage to over 20%;
--Deterioration in financial results including a drop in GAAP interest coverage to below 7x;
--An increase in GAAP operating leverage (defined as liabilities-to-capital excluding unrealized investment gains and losses) to over 7x.

Fitch has affirmed the following ratings with a Stable Outlook:

Pan-American Life Insurance Company
Pan-American Assurance Company
MTL Insurance Company
--IFS at 'A'.

Contact:

Primary Analyst
Dafina M. Dunmore, CFA
Director
+1-312-368-3136
Fitch Ratings, Inc.
70 W. Madison Street
Chicago, IL 60602

Secondary Analyst
Tana M. Higman
Director
+1-312-368-3122

Committee Chairperson

Keith M. Buckley, CFA
Managing Director
+1-312-368-3211

Media Relations: Hannah James, New York, Tel: + 1 646 582 4947, Email: hannah.james@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Insurance Rating Methodology (pub. 17 May 2016)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=881564