

## Northwestern Mutual Announces 2013 Financial Results

Record dividend set for 2014; premium revenue up 8 percent; surplus remains strong

MILWAUKEE, Feb. 19, 2014 /PRNewswire/ -- Northwestern Mutual today announced its 2013 financial results, which include a record dividend payout to policyowners expected to exceed \$5.2 billion in 2014. In addition, the company's premium revenue grew 8 percent while total surplus increased to more than \$20 billion.

"We had another very good year for our policyowners," said **John Schlifske**, chairman, president, and chief executive officer of Northwestern Mutual. "The results reflect our focus on the fundamentals of our business, and it's that same focus and discipline that makes us so attractive to people looking to establish a holistic financial plan that lasts a lifetime."

According to Schlifske, over the past five years people have bought nearly 2 million new policies and annuity contracts from Northwestern Mutual. The company has the No. 1 market share in U.S. individual life insurance<sup>1</sup> and its broker-dealer is ranked in the top 10 nationally<sup>2</sup>.

### 2014 record dividend payout expected to exceed \$5 billion<sup>3</sup>

One of Northwestern Mutual's primary measures of financial success is the amount of participating dividends it returns to policyowners. The company's expected \$5.2 billion payout includes approximately three times the ordinary life insurance dividends of its nearest competitor.<sup>4</sup> More than 75 percent of the payout is used by policyowners to buy even more coverage.

### Unsurpassed financial strength

The company's total surplus reached a new record in 2013, increasing more than \$1.2 billion to \$20.6 billion. Surplus represents a mutual insurance company's capital position above and beyond the reserves it holds to provide for future insurance benefits. The company's surplus ratio, a measure of its capital position relative to its size and business risks, remained unchanged from one year earlier at 13.0 percent.

Independent sources confirm the company's unsurpassed financial strength. In 2013, Northwestern Mutual continued to receive the highest possible financial strength ratings awarded to any U.S. life insurer by all four of the major credit rating agencies.<sup>5</sup>

### Largest field force in company history

According to Schlifske, a key to the company's strong performance is growth in the size and productivity of its field force nationwide. The company had 6,662 full-time financial representatives at year-end 2013, the highest number in company history.

### 2013 financial results

Following are highlights of the company's 2013 financial performance:

#### ***Operating Results***

Premium revenue totaled \$16.6 billion for 2013, an increase of 8 percent from the prior year. This increase reflected a \$744 million increase in new premium sales, continued high persistency rates for renewal premium and an increase in dividends used by policyowners for the purchase of additional life insurance protection.

Net investment income of \$8.7 billion was 1 percent higher than 2012. Despite the continued low interest rate environment, interest income from bonds, commercial mortgage loans and other fixed income investments increased 2 percent from the prior year. Net investment income for 2013 also included substantial distributions of earnings from subsidiaries investing in various private equity and real estate assets.

Total insurance benefits increased 7 percent to \$17.5 billion for 2013, including a \$9.6 billion increase in reserves for future policy benefits and a 9 percent increase in benefits paid to policyowners and their beneficiaries. The increase in total insurance benefits generally reflected the substantial increase in premium revenue growth and continued growth in the life insurance book of business. The company's persistency rate for life insurance protection in force remained very favorable at 96.5 percent. Commissions and insurance operating expenses increased 3 percent compared to the prior year. The company expects to maintain one of the lowest life insurance unit costs in the industry again during 2013, a reflection of both the productivity of its field force and its rigorous management of home office expenses.

Operating gain before dividends and taxes exceeded \$5.7 billion for the first time during 2013, reflecting both revenue growth and favorable product operating fundamentals such as claims experience and persistency of in-force insurance business. After

dividends and taxes, net gain from operations was \$526 million compared to \$575 million for the same period last year. Net realized capital gains added \$276 million to 2013 net income, as net gains on the sale of common stocks far exceeded a modest level of investment impairments. Including realized capital gains, net income was \$802 million for 2013, an increase from \$783 million for 2012.

The company announced its 2014 dividend scale in October 2013 with a total estimated payout of \$5.2 billion, including a 5.60 percent dividend scale interest rate on unborrowed funds for most traditional permanent life insurance policies. The estimated dividend payout for 2014 includes \$300 million in dividends on individual disability insurance policies and \$145 million in dividends on term life insurance. Please see more information about the [2014 Dividend Announcement](#) at the company's corporate website.

### **Investment Portfolio**

The company's diversified investment strategy contributes significantly to its long-term financial strength. Its general account investment portfolio is allocated primarily to high-quality bonds and commercial mortgage loans. Investments in public common stocks, private equities and real estate provide diversification and have historically enhanced overall portfolio returns. Northwestern Mutual's general account investment portfolio grew to \$184.4 billion at year-end 2013, an increase of \$10.4 billion from one year earlier.

Northwestern Mutual's \$122.3 billion bond portfolio is diversified among many corporate issuers and in a wide variety of industries, government agency-issued residential mortgage-backed securities, other asset-backed securities and U.S. Treasury bonds. At year-end 2013, 91 percent of the company's bond portfolio was rated as investment grade. Along with \$2.3 billion of cash and short-term investments, this high-quality bond portfolio provides consistent interest income and a reliable source of liquidity.

Commercial mortgage loans are exclusively sourced and underwritten by the company's real estate professionals in eight regional offices across the United States. This \$26.8 billion portfolio is diversified by collateral property type and location, with an aggregate ratio of loan balances to fair value of collateral of 55 percent at year-end 2013. The commercial mortgage loan portfolio had no loans that were delinquent or in foreclosure.

The company's holdings of public and private common and preferred stocks declined \$1.3 billion during 2013, in part a reflection of the decision to reduce its market exposure to public common stocks. Other investments primarily represent private securities partnerships and real estate joint ventures, made either directly by the company or through its wholly owned investment subsidiaries.

Separate account assets are primarily policyowner-directed investments in mutual funds that underlie its variable annuity and variable life insurance products. These balances increased 19 percent during 2013, reflecting both strong growth in variable annuity sales and overall equity market appreciation.

### **Financial Strength**

Total surplus (the combination of surplus and asset valuation reserve) increased by \$1.2 billion during 2013 to \$20.6 billion. This increase was primarily due to the strong contributions from operating results and investment-related capital gains.

Total surplus represented 13.0 percent of general account insurance reserves at year-end 2013, unchanged from one year earlier despite the provision for a record level of dividends expected in 2014. This level of capitalization remains very strong compared to the company's historical surplus levels and the standards set by insurance regulators and the major rating agencies.

### **About Northwestern Mutual**

The Northwestern Mutual Life Insurance Company – Milwaukee, WI (Northwestern Mutual) – among the "World's Most Admired" life insurance companies in 2013 according to FORTUNE<sup>®</sup> magazine – has helped clients achieve financial security for more than 156 years.

As a mutual company with \$1.5 trillion of life insurance protection in force, Northwestern Mutual has no shareholders. The company focuses solely and directly on its clients and seeks to deliver consistent and dependable value to them over time.

Northwestern Mutual and its subsidiaries offer a holistic approach to financial security solutions including: life insurance, long-term care insurance, disability insurance, annuities, investment products, and advisory products and services. Subsidiaries include Northwestern Mutual Investment Services, LLC, broker-dealer, registered investment adviser, member FINRA and SIPC; the Northwestern Mutual Wealth Management Company, limited purpose federal savings bank; Northwestern Long Term Care Insurance Company; and Russell Investments.

<sup>1</sup>Northwestern Mutual U.S. market share rankings based on most current sales data provided by Life Insurance Market Research Association (LIMRA) for the 12 months ended Sept. 30, 2013.

<sup>2</sup>Financial Advisor magazine, April 2013.

<sup>3</sup>Dividends may be declared and credited, at the Board of Trustees' discretion, when current experience in investment earnings, mortality, morbidity and expenses is more favorable than the original assumptions used to establish policy premiums. Northwestern Mutual has paid a dividend every year since 1872. Future dividends are not guaranteed.

<sup>4</sup> Northwestern Mutual analysis of ordinary life insurance dividends based on historical SNL data.

<sup>5</sup>A.M. Best Company A++ (highest), 4/2013; Fitch Ratings AAA (highest), 1/2014; Moody's Investors Service Aaa (highest), 1/2014; Standard & Poor's AA+ (second highest), 6/2013. Ratings are subject to change.

## Summary of Operations

(Statutory basis, in millions)

| <i>Twelve months ended December 31:</i> | <i>2013</i>  | <i>2012</i>  |
|-----------------------------------------|--------------|--------------|
| Premiums                                | \$16,599     | \$15,394     |
| Net investment income                   | 8,744        | 8,677        |
| Other income                            | 566          | 550          |
| Total revenue                           | 25,909       | 24,621       |
| Policyowner benefits paid               | 7,949        | 7,302        |
| Increase in benefit reserves            | 9,560        | 9,053        |
| Commissions and expenses                | 2,680        | 2,609        |
| Total benefits and expenses             | 20,189       | 18,964       |
| <b>Gain before dividends and taxes</b>  | <b>5,720</b> | <b>5,657</b> |
| Policyowner dividends                   | 5,212        | 5,045        |
| Gain before taxes                       | 508          | 612          |
| Income tax expense (benefit)            | (18)         | 37           |
| <b>Net gain from operations</b>         | <b>526</b>   | <b>575</b>   |
| Net realized capital gains              | 276          | 208          |
| <b>Net income</b>                       | <b>\$802</b> | <b>\$783</b> |

The summarized financial statement above was prepared on the statutory basis of accounting. Financial statements prepared on the statutory basis of accounting differ materially from financial statements prepared in accordance with generally accepted accounting principles ("GAAP").

## Summary of Financial Position

(Statutory basis, in millions)

|                                      | <i>December<br/>31,</i> | December<br>31,  |
|--------------------------------------|-------------------------|------------------|
|                                      | <i>2013</i>             | 2012             |
| Bonds                                | \$122,331               | \$114,524        |
| Mortgage loans                       | 26,845                  | 24,346           |
| Policy loans                         | 16,306                  | 15,789           |
| Common and preferred stocks          | 2,965                   | 4,266            |
| Real estate                          | 1,506                   | 1,304            |
| Other investments                    | 12,184                  | 11,353           |
| Cash and short-term<br>investments   | 2,262                   | 2,393            |
| <b>Total investments</b>             | <b>184,399</b>          | <b>173,975</b>   |
| Other assets                         | 7,364                   | 7,099            |
| Separate account assets              | 25,343                  | 21,376           |
| <b>Total assets</b>                  | <b>\$217,106</b>        | <b>\$202,450</b> |
| Policy benefit reserves              | \$158,751               | \$149,599        |
| Policyowner dividends payable        | 5,210                   | 5,041            |
| Other liabilities                    | 7,245                   | 7,042            |
| Separate account liabilities         | 25,343                  | 21,376           |
| <b>Liabilities (excluding AVR)</b>   | <b>196,549</b>          | <b>183,058</b>   |
| Asset valuation reserve (AVR)        | 3,358                   | 3,216            |
| Surplus                              | 17,199                  | 16,176           |
| <b>Surplus and AVR</b>               | <b>20,557</b>           | <b>19,392</b>    |
| <b>Total liabilities and surplus</b> | <b>\$217,106</b>        | <b>\$202,450</b> |

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SOURCE Northwestern Mutual

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