

# Northwestern Mutual Announces 2011 Financial Results

Industry-leading dividends paid; financial position remains very strong

MILWAUKEE, Jan. 26, 2012 /PRNewswire/ -- Northwestern Mutual today announced its 2011 financial results, which included an increase in the amount of dividends expected to be paid to its participating policyowners in 2012 to almost \$5 billion as well as an increase of more than \$500 million in its strong surplus position.

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"Considering the difficult economic environment, this past year's financial performance was very good," said **John Schlifske**, chairman and chief executive officer of Northwestern Mutual. "Our primary financial objective is to balance great product value with unquestionable financial strength. That's just what we delivered again in 2011."

As a mutual company, Northwestern Mutual is managed for the benefit of the people that own its insurance policies. It does not have equity stockholders whose competing interests and short-term expectations need to be met. This allows the company to focus on a long-term investment strategy, careful management of product risk and other fundamentals that, over time, add up to long-term financial security for its policyowners and clients.

## 2012 dividend payout of nearly \$5 billion

In a year marked by a sluggish worldwide economy, flat domestic stock market returns and falling interest rates, Northwestern Mutual announced that it expects to pay the second-highest amount of policyowner dividends ever in its history-- \$4.97 billion in 2012.(1) These dividends are made possible by favorable claims experience, low expense levels and returns from the company's diversified investment portfolio. In 2012, the company's dividend payout will include a dividend scale interest rate of 5.85 percent on unborrowed funds for most permanent life insurance products.

Northwestern Mutual said that it expects again to lead the U.S. insurance industry by a wide margin in total life insurance, long-term care and disability insurance dividends paid. It expects to pay approximately three times the ordinary life insurance dividends of its nearest competitor.

## Unsurpassed financial strength

The company's total surplus, a combination of surplus and asset valuation reserve, grew to \$18.2 billion at year end 2011, a company record. "Surplus" represents an insurance company's capital position, a cushion for the unexpected that is held above and beyond the reserves it also holds to provide for future insurance benefits.

"In this environment," said Schlifske, "it is no small feat to simultaneously pay near-record dividends while adding to our already substantial capital base."

In 2011, Northwestern Mutual continued to receive unsurpassed financial strength ratings from all four of the major credit rating agencies.(2)

## "Incredible" customer loyalty

The company's performance and stability continued to attract even more new customers, while its existing customers expressed their satisfaction by staying on board. Northwestern Mutual's financial representatives sold 350,000 new insurance policies during 2011, an increase from 2010 and the highest number of new policies since 1993. The company's life insurance persistency rate, a measure of customer loyalty that reflects the proportion of existing coverage that stays on the books, was over 96 percent again during 2011.

"The surge in the number of new policies, when combined with our incredible customer loyalty rate, reflects the fact that our financial representatives help their clients plan for financial security in relevant and meaningful ways," said Schlifske. "While I don't think the economy is out of the woods yet, we remain well-positioned for whatever lies ahead."

## 2011 financial results

Following are the highlights of the company's 2011 financial performance:

### ***Operating Results***

Premium revenue, including both new and renewal premium, totaled \$14.6 billion for 2011, an increase of 3 percent from the prior year. This increase reflected growth 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 \$8.4 billion for 2011 was 2 percent higher than 2010. Despite continued declines in market interest rates, interest income from bonds, commercial mortgage loans and other fixed income investments increased 1 percent from the prior year, due primarily to growth in invested assets. Net investment income for 2011 also included an increase in dividends on public common stocks and higher distributions of earnings from private equity investments.

Total insurance benefits increased 2 percent to \$15.5 billion for the year, including a 3 percent increase in benefits paid to policyowners and their beneficiaries and an \$8.4 billion increase in reserves for future policy benefits. This reserve increase was due largely to growth in the life insurance book of business, as claim experience remained favorable and the company's persistency rate for life insurance protection in-force remained very high at 96.3 percent. Commissions and insurance operating expenses increased 5 percent compared to the prior year. The company expects to maintain one of the lowest life insurance unit costs in the industry again in 2011, a reflection of both the productivity of its field force and its rigorous management of home office expenses.

Operating gain before dividends and taxes increased 1 percent to \$5.7 billion for 2011. After dividends and taxes, net gain from operations was \$675 million, down from \$944 million one year earlier. Net gain from operations in 2010 was increased by a net tax benefit of \$224 million, which included \$185 million of investment-related tax credits. Including net realized capital losses of \$30 million, the company reported 2011 net income of \$645 million, somewhat lower than the \$756 million achieved in 2010.

The company announced its 2012 dividend scale in October 2011 with a total estimated payout of nearly \$5 billion, an increase of more than \$100 million, including a 5.85 percent dividend scale interest rate for unborrowed funds for most traditional permanent life insurance policies. The estimated dividend payout for 2012 includes \$252 million in dividends on individual disability insurance policies and \$120 million in dividends on term life insurance. Northwestern Long Term Care Insurance Company has approved payment of an estimated \$13 million in dividends to its participating long-term care policyowners in 2012. Please see more information about the [2012 Dividend Announcement](#) at the company's corporate website.

Northwestern Mutual's distribution network totaled over 6,450 full-time financial representatives at the end of 2011, including 2,218 new full-time financial representatives who joined its field force during 2011, an 11 percent increase from 2010.

### ***Investment Portfolio***

The company's diversified investment strategy contributes to the long-term financial security of its more than three million policyowners. This strategy includes significant allocation to bonds and commercial mortgage loans, which continue to be the cornerstones of the company's general account. Investments in public common stocks, private equities and real estate provide diversification and are intended to enhance long-term returns.

Northwestern Mutual's general account investment portfolio grew to \$164.2 billion at December 31, 2011, an increase of \$8.9 billion from year end 2010.

Northwestern Mutual's \$103.8 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 December 31, 2011, 91 percent of the company's bond portfolio was rated as investment grade, with very limited aggregate exposure (\$11 million) to sovereign debt issued by Portugal, Italy, Ireland, Greece and Spain. Along with \$2.4 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 U.S. This \$22.8 billion portfolio is diversified by collateral property type and location, with an aggregate ratio of loan balances to fair value of collateral of 59 percent at December 31, 2011. The commercial mortgage loan portfolio had no delinquent and only two restructured loans at the end of 2011, with aggregate principal balances of \$34 million (or 0.1 percent of the portfolio). The company's holdings of public and private common and preferred stocks declined \$1.8 billion during 2011, primarily the result of a decision to reduce exposure to public common stocks in the first half of the year. Other investments, which increased by more than \$1 billion during 2011, 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 and liabilities are primarily policyowner-directed investments in mutual funds and

related policy reserves for variable annuity and variable life insurance products.

## **Financial Strength**

Total surplus increased by \$527 million during 2011 to \$18.2 billion. This increase was due primarily to the company's solid operating results after provision for policyowner dividends.

Total surplus represented 13 percent of general account insurance reserves at year end 2011 compared to 13.3 percent one year earlier. 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) has helped clients achieve financial security for more than 150 years. As a mutual company with \$1.3 trillion of life insurance protection in force, Northwestern Mutual seeks to share its gains, where possible, with policyowners and deliver consistent and dependable value to clients over time.

Northwestern Mutual is an industry leader in total individual life insurance and disability insurance dividends paid to participating policyowners. Though dividends are not guaranteed, are reviewed annually and are subject to change, the company has paid life insurance dividends every year since 1872.

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; Northwestern Mutual Wealth Management Company, limited purpose federal savings bank; Northwestern Long Term Care Insurance Company; and Russell Investments.

(1) 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.

(2) *A.M. Best Company A++ (highest), 2/2011; Fitch Ratings AAA (highest), 8/2011; Moody's Investors Service Aaa (highest), 6/2011; Standard & Poor's AA+ (second highest), 8/2011. Ratings are subject to change.*

### **Summary of Operations**

(Consolidated statutory basis, in millions)

<i>Year ended December 31:</i>	<i>2011</i>	<i>2010</i>
<b>Premiums</b>	<b>\$14,618</b>	<b>\$14,252</b>
<b>Net investment income</b>	<b>8,439</b>	<b>8,306</b>
Other income	<u>538</u>	<u>551</u>
Total revenue	<u>23,595</u>	<u>23,109</u>
<b>Policyowner benefits paid</b>	<b>7,074</b>	<b>6,876</b>
<b>Increase in benefit reserves</b>	<b>8,430</b>	<b>8,332</b>
Commissions and expenses	<u>2,437</u>	<u>2,320</u>
Total benefits and expenses	<u>17,941</u>	<u>17,528</u>
<b>Gain before dividends and taxes</b>	<b>5,654</b>	<b>5,581</b>
<b>Policyowner dividends</b>	<b>4,973</b>	<b>4,861</b>
Gain before taxes	681	720
Income tax expense (benefit)	<u>6</u>	<u>(224)</u>
<b>Net gain from operations</b>	<b>675</b>	<b>944</b>
Net realized capital gains/(losses)	<u>(30)</u>	<u>(188)</u>
<b>Net income</b>	<b><u>\$645</u></b>	<b><u>\$756</u></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**

(Consolidated statutory basis, in millions)

<i>December 31:</i>	<i>2011</i>	<i>2010</i>
Bonds	\$103,753	\$96,829
Mortgage loans	22,804	21,291
Policy loans	15,147	14,472

Common and preferred stocks	7,420	9,170
Real estate	1,632	1,619
Other investments	11,006	10,018
Cash and short-term investments	<u>2,421</u>	<u>1,928</u>
<b>Total investments</b>	<b>164,183</b>	<b>155,327</b>
Other assets	6,765	6,164
Separate account assets	<u>18,697</u>	<u>18,663</u>
<b>Total assets</b>	<b><u>\$189,645</u></b>	<b><u>\$180,154</u></b>
Policy benefit reserves	\$140,917	\$133,066
Policyowner dividends payable	4,976	4,859
Other liabilities	6,893	5,931
Separate account liabilities	<u>18,697</u>	<u>18,663</u>
<b>Liabilities (excluding AVR)</b>	<b>171,483</b>	<b>162,519</b>
Asset valuation reserve (AVR)	3,349	3,250
Surplus	<u>14,813</u>	<u>14,385</u>
<b>Surplus and AVR</b>	<b><u>18,162</u></b>	<b><u>17,635</u></b>
<b>Total liabilities and surplus</b>	<b><u>\$189,645</u></b>	<b><u>\$180,154</u></b>

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SOURCE Northwestern Mutual

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