

# Northwestern Mutual Announces 2012 Financial Results

Record dividend payout set for 2013; record insurance sales achieved in 2012

MILWAUKEE, Jan. 24, 2013 /PRNewswire/ -- Northwestern Mutual today announced its 2012 financial results, which include a record dividend payout to policyowners expected to exceed \$5 billion in 2013. In addition, the company's insurance and annuity lines set new sales records, with annual insurance premium sales greater than \$1 billion<sup>1</sup> for the first time in the company's history.

"This past year's financial and sales performance was solid," said **John Schlifske**, chairman and chief executive officer of Northwestern Mutual. "We achieved record levels in new insurance premium sales and numbers of policies purchased, and that tells me our approach to helping people plan holistically for their financial future is compelling."

## **2013 record dividend payout expected to exceed \$5 billion <sup>2</sup>**

One of Northwestern Mutual's primary measures of financial success is the amount of dividends it returns to policyowners. In a year marked by a weak but improving economy and lingering fiscal issues in Washington, Northwestern Mutual expects to pay the most dividends in its history.

Dividends reflect the company's favorable claims experience, low expense levels and returns on its diversified \$174.0 billion investment portfolio.

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

## **Financial strength**

The company's total surplus increased by more than \$1.2 billion in 2012, totaling \$19.4 billion at year end.

"Total surplus" (the combination of surplus and asset valuation reserve) represents an insurance company's capital position, a cushion for the unexpected that is maintained above and beyond the reserves it also holds to provide for future insurance benefits.

"In this low interest rate environment, it's something to both pay record dividends and add to our capital base," said Schlifske. "Still, we aren't immune from what is happening around us. We've had to be disciplined in our product decisions, adjust risk levels in our investment portfolio and make tough decisions related to long-term expenses."

Independent sources confirm the company's financial strength in a difficult environment. In 2012, Northwestern Mutual continued to receive the highest possible financial strength ratings awarded to any life insurer by all four of the major credit rating agencies.<sup>3</sup>

## **Record sales recorded in 2012**

The company's 2012 financial performance reflects a record level of insurance and annuity sales.

In 2012, Northwestern Mutual also set a new annual record for the number of insurance policies purchased. Including life, disability income and long-term care, policies purchased were up 13 percent over 2011 and represented the most purchased in any year in company history.

The company's combined 2012 new premium sales for life, disability income and long-term care insurance totaled \$1.03 billion<sup>1</sup>, up 11 percent over 2011. Annuity sales also increased 11 percent to a record \$1.7 billion<sup>1</sup>.

## **Financial planning approach driving success**

What is driving the company's strong results? According to Schlifske, it's a combination of consistent value, increasing brand awareness, a growing sales force and an emphasis on holistic financial planning with clients.

In 2012, the company set a recruiting record, bringing more than 5,000 full-time financial representatives and financial representative interns into its system. "We have more 'feet on the street,'" said Schlifske, "getting us in front of more people in more markets."

Schlifske said the company has made significant investments in an integrated financial planning approach that equips its financial representatives to address their clients' full range of financial needs.

"The focus on integrated financial planning serves people well," Schlifske said. "Seeing record sales in virtually all of our product lines – and that we are either number one or two in market share<sup>4</sup> nationally in each insurance line – shows it works."

## **2012 financial results**

Following are highlights of the company's 2012 financial performance:

### ***Operating Results***

Premium revenue, including both new and renewal premium, totaled \$15.4 billion for 2012, an increase of 5 percent from the prior year. This increase reflected a record level of 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 3 percent higher than 2011. Despite continued declines in market interest rates, interest income from bonds, commercial mortgage loans and other fixed income investments increased 3 percent from the prior year, due primarily to growth in invested assets. Net investment income for 2012 also included higher distributions of earnings from subsidiaries.

Total insurance benefits increased 5 percent to \$16.4 billion for the year, including a \$9.1 billion increase in reserves for future policy benefits and relatively consistent benefits paid to policyowners and their beneficiaries compared to the prior year. This reserve increase generally reflected continued growth in the life insurance book of business, as claims experience remained favorable and the company's persistency rate for life insurance protection in force remained very high at 96.5 percent.

Commissions and insurance operating expenses increased 7 percent compared to the prior year. The company expects to maintain one of the lowest life insurance unit costs in the industry again during 2012, a reflection of both the productivity of its field force and its rigorous management of home office expenses.

Operating gain before dividends and taxes remained consistent compared to the prior year, as strong fundamentals were offset by the negative impacts of continued low market interest rates. After dividends and taxes, net gain from operations was \$575 million compared to \$675 million for the same period last year.

Net realized capital gains added \$208 million to 2012 net income, primarily reflecting gains on the sale of common stocks and real estate investments. Including realized capital gains, net income ended the year at \$783 million compared to \$645 million for the same period in 2011.

The company announced its 2013 dividend scale in October 2012 with a total estimated record payout of more than \$5 billion, including a 5.6 percent dividend scale interest rate for unborrowed funds for most traditional permanent life insurance policies. The estimated dividend payout for 2013 includes \$278 million in dividends on individual disability income insurance policies and \$140 million in dividends on term life insurance.

Northwestern Long Term Care Insurance Company has approved payment of an estimated \$7 million in dividends to its participating long-term care policyowners in 2013. Please see more information about the [2013 Dividend Announcement](#) at the company's corporate website.

### ***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 \$174.0 billion at December 31, 2012, an increase of \$9.8 billion from year end 2011.

Northwestern Mutual's \$114.5 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, 2012, 91 percent of the company's bond portfolio was rated as investment grade. 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 United States. This \$24.3 billion portfolio is diversified by collateral property type and location, with an aggregate ratio of loan balances to fair value of collateral of 57 percent at December 31, 2012. The commercial mortgage loan portfolio had only three delinquent or restructured loans at the end of 2012, with aggregate principal balances of \$68 million (or 0.28 percent of the portfolio).

The company's holdings of public and private common and preferred stocks declined \$3.2 billion during 2012. This decrease reflected a net reduction in exposure to public common stock offset in part by the impact of

equity market appreciation through December. 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 and liabilities are primarily policyowner-directed investments in mutual funds and related policy reserves for variable annuity and variable life insurance products. These balances increased 14 percent during 2012, reflecting overall market appreciation and strong variable annuity sales.

### **Financial Strength**

Total surplus (the combination of surplus and asset valuation reserve) increased by \$1.2 billion during 2012 to \$19.4 billion. This increase was due primarily to the strong contributions from operating results and investment-related capital gains.

Total surplus represented 13 percent of general account insurance reserves at year end 2012, consistent with 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) – among the "World's Most Admired" life insurance companies in 2012 according to FORTUNE® magazine – has helped clients achieve financial security for more than 155 years.

As a mutual company with \$1.4 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 income 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>Annualized new sales figures reported here count premiums for life insurance policies paid for with a single premium at 10 percent. This is a common industry convention to put sales of single premium policies on a comparable basis to annual premium policies.

<sup>2</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>3</sup>A.M. Best Company A++ (highest), 4/2012; Fitch Ratings AAA (highest), 12/2012; Moody's Investors Service Aaa (highest), 12/2012; Standard & Poor's AA+ (second highest), 6/2012. Ratings are subject to change.

<sup>4</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, 2012: first in individual life insurance; second in individual disability income insurance; second in individual long-term care insurance.

### **Summary of Operations**

(Statutory basis, in millions)\*

<i>Twelve months ended December 31:</i>	<i>2012</i>	<i>2011</i>
Premiums	\$15,394	\$14,618
Net investment income	8,677	8,439
Other income	<u>550</u>	<u>538</u>
Total revenue	<u>24,621</u>	<u>23,595</u>
Policyowner benefits paid	7,302	7,074
Increase in benefit reserves	9,053	8,430
Commissions and expenses	<u>2,609</u>	<u>2,437</u>

Total benefits and expenses	<u>18,964</u>	<u>17,941</u>
<b>Gain before dividends and taxes</b>	<b>5,657</b>	<b>5,654</b>
Policyowner dividends	<u>5,045</u>	<u>4,973</u>
Gain before taxes	612	681
Income tax expense	<u>37</u>	<u>6</u>
<b>Net gain from operations</b>	<b>575</b>	<b>675</b>
Net realized capital gains (losses)	<u>208</u>	<u>(30)</u>
<b>Net income</b>	<b>\$783</b>	<b>\$645</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 31, 2012</i>	<i>December 31, 2011</i>
Bonds	\$114,524	\$103,753
Mortgage loans	24,346	22,804
Policy loans	15,789	15,147
Common and preferred stocks	4,266	7,420
Real estate	1,304	1,632
Other investments	11,356	11,047
Cash and short-term investments	<u>2,393</u>	<u>2,421</u>
<b>Total investments</b>	<b>173,978</b>	<b>164,224</b>
Other assets	7,096	6,765
Separate account assets	<u>21,376</u>	<u>18,697</u>
<b>Total assets</b>	<b>\$202,450</b>	<b>\$189,686</b>
Policy benefit reserves	\$149,599	\$140,917
Policyowner dividends payable	5,041	4,976
Other liabilities	7,042	6,934
Separate account liabilities	<u>21,376</u>	<u>18,697</u>
<b>Liabilities (excluding AVR)</b>	<b>183,058</b>	<b>171,524</b>
Asset valuation reserve (AVR)	3,216	3,349
Surplus	<u>16,176</u>	<u>14,813</u>
<b>Surplus and AVR</b>	<b>19,392</b>	<b>18,162</b>
<b>Total liabilities and surplus</b>	<b>\$202,450</b>	<b>\$189,686</b>

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SOURCE Northwestern Mutual

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