The Northwestern Mutual Life Insurance Company
And Northwestern Long Term Care Insurance Co.
Full Rating Report

Key Rating Drivers

Exceptionally Strong Balance Sheet: Northwestern Mutual Life Insurance Company (NM) benefits from its exceptionally strong capitalization, low financial leverage and conservative liability profile. NM’s total adjusted capital (TAC) was $30.8 billion as of 1H19, and its RBC ratio was an estimated 537%. Fitch Ratings views NM’s quality of capital as high. NM’s 2018 Prism score is ‘Extremely Strong’. The company reported low operating leverage of 7x as of 1H19, while its surplus notes-to-TAC ratio of 10% remains in line with rating expectations.

Leading Market Positions: NM is a leader in the U.S. life insurance market, selling predominantly participating whole life insurance through a highly productive career agency distribution system. NM is also a leading provider of individual long-term care (LTC) insurance, but its LTC exposure is modest, as the reserves associated with this product account for only 2% of its general account liabilities. Additionally, Fitch views NM’s LTC reserve adequacy as above average and its product risk as more conservative than peers.

Stable Earnings Profile: Fitch views NM’s results as strong on a risk-adjusted basis, though profitability measures appear modest in absolute terms compared with the industry. Return measures are suppressed by NM’s outsized policyholder dividends. The strength of the company’s earnings can be attributed to low expense levels, and strong mortality and persistency results of its life business. However, the protracted low interest rate environment remains a headwind and is expected to constrain NM’s earnings over the near term.

Above-Average Risky Assets Ratio: NM’s risky assets ratio of 119% of TAC at YE 2018 remained elevated versus the industry average and modestly exceeded its highly rated peers. NM’s higher than average allocation to alternative assets, below-investment-grade bonds and common stocks are contributing factors. The participating nature of the company’s liability profile partially mitigates this risk as investment gains and losses are shared with policyholders.

Business Concentration Risk: NM’s business concentration in the sale of traditional cash value life insurance through a strong career distribution system provides very favorable credit characteristics. However, this same concentration exposes NM to unexpected changes in the regulatory, legal, economic and tax environment, which could affect demand for cash value life insurance, although Fitch is not aware of any imminent disruptions.

Macroeconomic Uncertainty: Ongoing low interest rates and geopolitical uncertainty pose risks to Fitch’s outlook for life insurers and could have a material negative effect on NM’s earnings and capital. Fitch considers NM to have below-average exposure to interest rate risk given the company’s concentration in participating whole life insurance.

Rating Sensitivities

Capitalization Deterioration: A downgrade could result if the company’s Prism score falls below ‘Extremely Strong’ or if its RBC ratio falls below 450%.

Financial Leverage Increase: NM could be downgraded if its financial leverage ratio, measured by surplus notes to TAC, rises above 15%.

Change in Regulation or Market: A downgrade could result if an unexpected shift occurs in tax, regulatory or market dynamics that affects NM’s competitive strengths.
### ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 — ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

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### Related Criteria

**Insurance Rating Criteria**

(January 2019)

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**Bar Chart Legend:**

- Higher Influence
- Moderate Influence
- Lower Influence
- Positive
- Negative
- Evolving
- Stable

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### Other Factors & Criteria Elements

<table>
<thead>
<tr>
<th>Provisional Insurer Financial Strength</th>
<th>AAA</th>
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<tr>
<td>Non-Insurance Attributes</td>
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<tr>
<td>Corporate Governance &amp; Management</td>
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<td>Ownership</td>
<td>Positive</td>
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<tr>
<td>Transfer &amp; Convertibility / Country Ceiling</td>
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</table>

**Insurer Financial Strength (IFS)**

Final: AAA

**IFS Recovery Assumption**

Good

**Issuer Default Rating (IDR)**

Final: AA+

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### Bar Chart

- **Bar Colors** = Relative Importance
- **Bar Arrows** = Rating Factor Outlook

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Business Profile

Very Strong Business Profile

Fitch ranks NM’s business profile in the “most favorable” category of the North American life insurance industry, reflecting its leading market positions and low-risk product offerings. Given this ranking, Fitch scores NM’s business profile at ‘aa+’ under its credit factor scoring guidelines.

Most Favorable Competitive Positioning

NM is the top writer of direct individual life insurance in the U.S. This major market position in the life insurance industry gives it large scale and a low cost of operation. NM’s TAC of $31 billion and net admitted assets of $283 billion as of 1H19 are consistent with Fitch’s most favorable classification. Significant business scale that NM possesses allows the company to diligently focus on increasing revenues and driving redundant costs and inefficiencies out of its business system.

Low Business Risk Driven by Product Portfolio

Fitch views NM’s product portfolio as more conservative than the industry. NM is uniquely positioned in the industry, in that virtually all of its insurance products are participating. Whole life insurance comprised nearly 80% of its YE 2018 general account reserves and has very favorable credit characteristics (e.g. long-duration liabilities, limited guarantees and predictable earnings performance) that enhance its risk profile and bottom-line contribution.

In addition to life insurance, NM also sells annuities, disability insurance (DI) and LTC insurance. While the company's market share in the annuity market is small, it has the No. 2 position in both the U.S. individual DI market and LTC market. Large market share in these products is not a primary goal for NM, but the company’s market share in LTC is high, largely due to the consolidation and withdrawal of competitors in the marketplace. Fitch views NM’s current LTC series as priced appropriately for the protracted low interest rate environment and the benefits offered as conservative. Favorably, NM’s LTC exposure is modest in the context of the overall organization, comprising approximately 2% of general account reserves.

Moderate Diversification

NM’s business is concentrated in traditional life insurance and in its distribution system, which are key competitive advantages, but cause business concentration risk, including the exposure to unexpected changes in the regulatory, legal and tax environments that may affect demand for cash value life insurance, although Fitch is not aware of any imminent disruptions. Favorably, the tax-free inside buildup of life insurance policies was not affected by the Tax Cuts and Jobs Act of 2017.

NM is one of the few remaining major mutual life insurers, and the only major life insurer that sells insurance products exclusively through a career agency distribution system. NM’s agents are highly productive, with the vast majority of their revenue generated through NM’s proprietary products. The company’s sales force is particularly successful in the individual and estate markets. However, due to its lack of presence in other distribution channels, NM is exposed to potential disruption in its distribution. The productivity and growth of the sales force is key to the continued expansion of NM’s life insurance sales, and a key company goal is to increase the productivity of its under five-year agents.
Ownership

NM's ownership structure is positive from a rating perspective. Compared with stock companies, whose Insurer Financial Strength (IFS) ratings are capped at ‘AA+’, as a mutually owned company, NM is able to attain a ‘AAA’ IFS rating. Fitch believes the mutual ownership structure aligns the interests of management with those of policyholders, thus promoting a stronger focus on financial strength. Fitch believes NM’s management held more conservative levels of capital and pursued a more conservative operating strategy that is less focused on growth than many of its stock and some of its mutual peers.
Exceptionally Strong Capitalization and Low Leverage

NM’s exceptionally strong capital position underpins its rating. Capital levels are high, and the quality of capital is strong. Financial leverage is low and in line with rating expectations.

High-Quality Capital

NM’s capitalization is considered exceptionally strong and in line with Fitch’s guidelines for the rating level. Further, the agency believes the quality of NM’s capital is above average relative to industry peers given the company’s low financial leverage, conservative reserving and modest use of reinsurance. NM’s Prism score in 2018 is ‘Extremely Strong’, reflecting its high-quality capital and low liability risk. The company’s RBC ratio declined over 80 percentage points to 520% at YE 2018 due to the increase in required capital related to the lower corporate tax rate, but continues to exceed ratio guidelines for the ‘AAA’ rating level. Surplus increased 6% in 2018, driven mainly by operating gains and from a reserve reduction associated with the review of substandard life insurance risks.

Low Leverage

NM has low financial leverage and very modest funding exposure to the financial markets. The ratio of surplus notes to TAC declined 1 percentage point to 10% as of YE 2018, and remains well below 15%, which is a downgrade sensitivity. Following the company’s recent $600 million surplus note issuance, the ratio increased 1 percentage point on a pro forma basis to 11% as of 1H19. Both operating leverage and asset leverage remain in line with the ‘AAA’ rating level at 7x and 9x, respectively. NM’s total financings and commitments ratio, which includes its $2.9 billion in surplus notes as well as $1.8 billion in repurchase agreements, totaled approximately 0.2x at YE 2018, which is low compared with the life industry average. In addition, this low ratio is overstated relative to companies that report on a U.S. GAAP basis.

Capital Support Agreement with Subsidiary

NM has a capital support agreement with its subsidiary, Northwestern Long Term Care Insurance Company (NLTC), whereby NM agrees to maintain the capital and surplus of NLTC at a minimum level based on the lesser of a formula applied to NLTC’s earned premium and policy benefit reserves, or an RBC ratio of 150% of the company action level. NLTC’s RBC ratio was 429% at YE 2018. NM also guarantees NLTC policyholders the ability to pay all policy benefits due on contracts sold by NLTC during the term of the capital support agreement. Additionally, in 2014, NM and NLTC entered into a reinsurance agreement whereby NLTC ceded 100% of its risks, net of third-party reinsurance. As part of the agreement, NM also provides 100% automatic reinsurance on new business issued by NLTC. At YE 2018, NLTC recognized a reserve credit of $4.5 billion for LTC reserves ceded to NM. All of NLTC’s exposure is ceded to NM, following its recapture of LTC reserves previously ceded to Munich American Reassurance Company in 2017.

The total financing and commitments ratio is a nonrisk-based leverage measure that expands on traditional measures of financial leverage to include all forms of debt, including match-funded and other operational debt, as well as debt supporting long-term capital needs and liquidity and working capital needs. During periods of market disruptions and lost access to capital markets funding, such operational and off-balance sheet commitments can become a direct source of vulnerability to an organization.
Very Strong Debt-Servicing Capabilities and Financial Flexibility

Fitch assesses NM’s overall debt service capabilities and financial flexibility as very strong. While statutory earnings interest coverage is below expectations for the ‘AAA’ rating level, the participating nature of NM’s liabilities enhances its overall flexibility, affording it the ability to share its experience with policyholders.

Statutory Earnings Provide Strong Interest Coverage

Pretax statutory earnings after policyowner dividends provide solid coverage of interest expense, which is entirely from NM’s surplus notes. The surplus notes also have the entire liquidity of NM’s general account available as support. Following the surplus note issuance in 2017, total annual interest on the company’s surplus notes rose to $153 million in 2018, leading to the decline in coverage to 5x from 9x in the prior years. Interest expense will increase approximately $17 million following the company’s recent surplus note issuance and exchange offering. While interest payments are subject to regulatory approval, Fitch does not view this as a material risk given the company’s exceptionally strong capital and liquidity position.

Significant Earnings Flexibility Through Policyholder Dividends

NM is one of the few companies that offer a policyholder dividend on nearly all of its life, DI and LTC products. In total, NM expects to pay out approximately $5.6 billion in dividends to policyholders in 2019, a $300 million increase from the prior year. The company’s dividend scale interest rate on unborrowed funds for most traditional permanent life insurance increased 10bps to 5.0% for 2019. Fitch notes that NM’s favorable mortality experience and expense efficiencies have become increasingly significant and enabled it to continue to return substantial value to life and DI policyholders as the interest component becomes less material in the protracted low interest rate environment. NM has not paid dividends on LTC policies since 2013.

Strong Financial Flexibility

Fitch views NM’s financial flexibility as strong and stable. As a mutual company, NM’s capital-raising flexibility is somewhat limited compared with public companies due to its inability to raise common equity, though NM demonstrated access to capital markets, exhibited through its surplus note issuances in 2010, 2017 and 2019. Fitch believes NM currently has capacity to issue approximately $1.5 billion of additional surplus notes before exceeding rating guidelines.
Modest, but Stable Earnings

NM’s earnings are strong on a risk-adjusted basis, though profitability measures are modest in absolute terms compared with the industry. Further, return measures are suppressed by NM’s excess capital position and outsized dividend payments. Fitch views NM’s earnings stability favorably, which stems from NM’s low expense levels, favorable mortality and high persistency in its life business.

Life Operations Provide Earnings Stability

Fitch views NM’s results as strong on a risk-adjusted basis, which considers the stability of results and its outsized dividend payments. NM posted very consistent profitability ratios over the last five years, though modest in comparison with ‘AAA’ rating levels and life industry levels. Return on capital averaged 3% over the past five years versus a greater, but generally more volatile, 11% for the aggregate life industry. The company’s stable earnings benefit from the participating nature of its whole life book, which results in underwriting, expense and investment experience that is shared with policyholders.

NM’s pretax gain from operations declined 28% from the prior year to $603 million in 2018. The material decline was largely driven by the aforementioned $300 million increase in policyholder dividends. The increased dividends also led to a 23% decline in net income over the same period. NM’s life operations accounted for 85% of the 2018 predividends earnings. The strength of the company’s earnings can be attributed to low expense levels and strong mortality and persistency results of its life business. Fitch believes NM has greater capability than peers to mitigate low reinvestment rates due to its flexibility in adjusting policyholder dividends.

Strong DI Morbidity Experience

DI is NM’s second-largest source of earnings, accounting for 10% of its total predividends earnings. In 2018, the line generated a $637 million gain before dividends and taxes, an 18% increase from the prior year due to more favorable morbidity. The individual DI loss ratio decreased 5 percentage points in 2018 to 46%, reflecting lower claim incidence rates in the nonmedical market. DI is a consistently profitable line for NM, due to its conservative product design and disciplined underwriting. Unlike many other DI providers, NM has not reintroduced medical own-occupation protection, which Fitch views favorably given the risks associated with this product line.

Modest LTC Earnings Contribution

NM’s LTC line generated $101 million in gains before taxes in 2018 down from $227 million in the prior year, as $265 million of LTC adequacy testing reserves were released in 2017 following the company’s implementation of in-force rate increases on certain series. While NM remains a leader in LTC sales, Fitch views the company’s exposure as modest and new sales
as priced appropriately for both the low interest rate environment and morbidity trends. NM has taken various steps to de-risk its exposure over the past five to 10 years, including removing both its lifetime benefit and limited pay offering, as well as increasing rates on new issues and raising the minimum issue age. Additionally, NM entered the LTC market later than most peers, and after the industry had adjusted some of the original pricing and product design.

**Low-Cost Competitor**

NM is known as a lower-cost competitor in the life insurance industry. Among its mutual rating peers, the company had the lowest unit cost for the 2016–2018 period. NM’s unit cost represents its efficient life operations due to its large scale compared with its other businesses. The company has maintained its cost leadership position while innovating and investing in new digital capabilities in order to improve its customer experience. Recent developments include the company’s introduction of accelerated underwriting for the majority of its new life business. In 2019, NM is expected to introduce digital life applications. Fitch expects NM to maintain its cost leadership position while continuing to invest in innovation, digitization and systems enhancements.

<table>
<thead>
<tr>
<th>General Expenses/Total Assets</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>Three-Year Average</th>
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<td>New York Life</td>
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<td>1.5</td>
<td>1.5</td>
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<tr>
<td>MassMutual</td>
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<td>1.6</td>
<td>1.5</td>
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<tr>
<td>Guardian Life</td>
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<td>3.3</td>
<td>3.4</td>
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<tr>
<td>Group Average</td>
<td>2.0</td>
<td>1.9</td>
<td>1.9</td>
<td>1.9</td>
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<tr>
<td>Industry Average</td>
<td>1.8</td>
<td>1.7</td>
<td>1.8</td>
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Source: Fitch Ratings, S&P Global Market Intelligence.
Investment and Asset Risk

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<tr>
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<th>2015</th>
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<th>2017</th>
<th>2018</th>
<th>1H19</th>
<th>Fitch’s Expectation</th>
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<tr>
<td>Cash and Invested Assets ($ Mil.)</td>
<td>203,525</td>
<td>213,643</td>
<td>225,549</td>
<td>235,269</td>
<td>242,297</td>
<td>Investment yields are expected to continue to fall due to low reinvestment rates. Credit-related impairments are expected to increase modestly in 2019, but remain below historical averages.</td>
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<td>Below-Investment-Grade Bonds/TAC (%)</td>
<td>52</td>
<td>54</td>
<td>50</td>
<td>47</td>
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<td>Risky Assets Ratio (%)</td>
<td>113</td>
<td>115</td>
<td>119</td>
<td>119</td>
<td>N.A.</td>
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<tr>
<td>Investment Yield (%)</td>
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<td>4.6</td>
<td>4.3</td>
<td>4.2</td>
<td>4.4</td>
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</table>


Investment Allocation Shaped by Liabilities

Fitch views NM’s investment portfolio as well diversified and liquid. The company maintains an above-average risky asset ratio, which Fitch views as reasonable given its product mix, which exhibits low disintermediation risk and has above-average participating liabilities.

Favorable Long-Term Investment Performance

NM’s investment strategy is driven by its liability profile. The company uses a long-term, total return investment strategy and manages a well-diversified, liquid investment portfolio. NM’s investment yield declined approximately 10bps in 2018 to 4.2%. In 2019, results are expected to benefit from $489 million of subsidiary distributions deferred from the prior year. Impairments declined to $140 million and remain below the long-term average. Earlier this year, NM revised its strategic asset allocation in order to optimize its long-term returns without materially increasing investment risk.

Overweight Mortgages Performing Well

NM’s portfolio is overweight in mortgage loans (16% of invested assets at YE 2018) compared with the life industry’s 13%. The mortgage portfolio is considered to be of good quality based on the high percentage of mortgage loans with solid loan-to-value (LTV) metrics and debt service coverage. The weighted average LTV for the mortgage portfolio was 51% at YE 2018, while the average debt service coverage ratio was 1.9x. The portfolio is geographically tilted towards the Pacific, similar to the industry, and is overweight in multifamily properties. Retail exposure is manageable at 20% of the portfolio and high quality. Favorably, the exposure to full-term, interest-only loans is below average compared with the industry. NM’s loan maturity profile is viewed as well laddered.

Above-Average Risky Assets

NM’s investment strategy takes a long-term view of its portfolio and its product liabilities. Under this strategy, the company maintains a risky assets ratio greater than the industry average as a percentage of TAC. NM’s risky asset ratio of 119% at YE 2018 exceeded the industry average by 40 percentage points. Key drivers of the elevated ratio were above-average exposures to below-investment-grade bonds, common stocks and other investments assets, such as private equity and limited partnerships.

However, Fitch notes that ratio is modestly overstated as approximately 20% of NM’s Schedule BA exposure includes investments made by NM’s segmented investment subsidiaries in investment-grade bonds, including Treasurys. NM’s portfolio is underweight in bonds compared with the industry and its bond quality is below average, with 9% of its exposure below investment grade compared with 5% for the industry. Fitch believes the participating nature of the company’s liability profile partially mitigates the higher investment risk as investment gains and losses are shared with policyholders.
Asset/Liability and Liquidity Risks Appropriately Managed

Fitch views NM’s overall asset/liability and liquidity management as exceptionally strong. Fitch’s view considers NM’s low-risk product portfolio and conservative pricing and reserving posture. Disintermediation risk is modest given NM’s liability profile, which is overweight in participating whole life insurance and underweight annuities.

Exceptionally Strong Asset/Liability Management

NM segregates its assets and liabilities by lines of business, recognizing the various interest rate and cash flow characteristics of each segment. NM then performs cash flow testing using a wide variety of interest rate scenarios and stress tests, including the seven mandated by New York Regulation 126. Fitch believes NM has conservative asset adequacy reserving levels for its product lines and expects no significant reserve additions in the near future, given its above-average reserve margins.

Solid Liquidity Position

NM’s major products, such as life insurance, DI insurance and its smaller products, have low disintermediation risk. Additionally, the participating nature of NM’s liabilities and outsized policyholder dividend payments result in high persistency (over 96% in 2018), which further mitigates liquidity risk. Consequently, NM’s liquidity ratio of 54% is considered strong given the circumstances. NM also ensures adequate liquidity by updating cash flow projections on a daily basis and keeping an adequate supply of shorter term, higher rated bonds at a minimum target of 5% of invested assets.

Low-Risk Product Designs

NM’s product liability profile is concentrated in whole life insurance, which is a product Fitch considers to have stable reserve requirements and low-risk product design. Additionally, NM does not offer VAs with guaranteed living benefits, and its LTC insurance is priced with greater margin compared with other insurers. The company is currently selling its 2016 LTC series, which was priced at a higher premium level than its prior series. Fitch views NM’s LTC exposure as low and reserve adequacy as above average. The company’s LTC reserve margins are the strongest in Fitch’s rated universe.
Appendix A: Industry Profile and Operating Environment

This section discusses the U.S. life insurance sector. Most insurers in this sector have IFS ratings in the ‘AA’ and ‘A’ categories. These ratings reflect the sector’s very strong balance sheet profile and stable financial performance, which has benefited from cyclical economic improvement, higher interest rates and benign credit environment.

**Regulatory Oversight**

Fitch views U.S. insurance regulation as very developed, relatively transparent and effective. Insurance regulation is conducted at the state level and focused on protecting policyholders and promoting insurance company solvency. State insurance departments have broad regulatory authority over insurers domiciled in their state with respect to standards of solvency, financial reporting, investments, market conduct, and licensing for insurers domiciled in their state, among other things.

Financial reporting requirements are considered robust and transparent based on accounting practices and procedures prescribed or permitted by the state insurance departments. Regulatory capital standards and monitoring/examination processes are robust.

**Technical Sophistication of Insurance Market; Diversity and Breadth**

The U.S. life insurance sector is very sophisticated technically, with diverse and very deep product offerings. Fitch’s view reflects the industry’s well-established underwriting and pricing practices, investment capabilities and analysis, and improving enterprise risk management capabilities.

**Competitive Profile**

The U.S. life insurance sector is highly competitive. Life insurers compete based on a number of factors, including product features, service, scale, price, financial strength, brand name, and investment and distribution capabilities. There are significant scale advantages in the life insurance business, which favors well-established competitors over new market entrants.

The adoption of more sophisticated systems and data analytic capabilities is reshaping the life insurance business model, reducing barriers to entry and changing the competitive landscape. For existing players, this trend represents both a business opportunity and a competitive threat that will emerge over time. For new market participants, this trend represents an opportunity to disrupt certain aspects of the life insurance value chain.

**Financial Markets Development**

The U.S. has the largest and most developed financial markets in the world. The markets are very deep, robust and highly liquid, which provides insurers the ability to maintain diversified asset portfolios, manage interest rate and credit risk exposures, and invest new cash flows with favorable trade execution. While the U.S. financial markets exhibit enormous strength in almost all economic environments, they experienced stress during extreme conditions.

**Country Risk**

Insurers’ ratings are unconstrained by sovereign risk issues as Fitch maintains a ‘AAA’ country rating with a Stable Outlook on the U.S. The rating is supported by structural strengths, including the size of the economy, high per capita income, strong institutions, dynamic business environment and the world’s pre-eminent reserve currency. Partially offsetting these are concerns tied to government spending and financing activity, particularly growth in government deficits and the ability to meet long-term obligations, such as retirement and healthcare entitlements.
Appendix B: Peer Analysis

NM Well Positioned Among Highly Rated Insurers

NM compares well with other highly rated mutual life insurance companies. The company’s capitalization is the strongest of this peer group, measured by RBC, and it is the largest in terms of TAC. Other capital measures, such as operating leverage and asset leverage, also compare favorably. NM’s leverage, measured by its surplus notes-to-TAC ratio compares favorably with its peer group. NM’s profitability generally trails its peers due to its outsized policyholder dividend payments. The company’s risky asset ratio is the highest of this peer group, as its proportion of participating policies allows NM to pass on its investment experience to policyholders over time.

### Peer Comparison

<table>
<thead>
<tr>
<th>IFS Rating</th>
<th>RBC Ratio</th>
<th>TAC ($ Mil.)</th>
<th>Assets/TAC (x)</th>
<th>Operating Leverage (x)</th>
<th>Risky Assets/TAC</th>
<th>Surplus Notes/TAC</th>
<th>Pretax Return on Total Assets Post-Dividend</th>
<th>Operating Return on TAC</th>
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</thead>
<tbody>
<tr>
<td>Northwestern Mutual</td>
<td>AAA</td>
<td>520</td>
<td>29,549</td>
<td>9</td>
<td>7</td>
<td>119</td>
<td>10</td>
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<tr>
<td>New York Life</td>
<td>AAA</td>
<td>478</td>
<td>24,790</td>
<td>13</td>
<td>11</td>
<td>93</td>
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<td>Mass. Mutual</td>
<td>AA+</td>
<td>447</td>
<td>19,876</td>
<td>13</td>
<td>9</td>
<td>77</td>
<td>11</td>
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<tr>
<td>Guardian</td>
<td>AA+</td>
<td>514</td>
<td>8,602</td>
<td>9</td>
<td>7</td>
<td>50</td>
<td>14</td>
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</tbody>
</table>

IFS – Insurer Financial Strength. TAC – Total adjusted capital. Note: RBC is reported.
Source: Fitch Ratings, S&P Global Market Intelligence.
### Appendix C: Additional Financial Exhibits

#### Statutory Capital Roll Forward

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<tr>
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<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tbody>
<tr>
<td>Beginning TAC</td>
<td>23,162</td>
<td>25,354</td>
<td>26,028</td>
<td>26,279</td>
<td>27,852</td>
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<tr>
<td>Net Gain from Operations</td>
<td>537</td>
<td>848</td>
<td>1,028</td>
<td>932</td>
<td>762</td>
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<tr>
<td>Realized Gains/(Losses)</td>
<td>197</td>
<td>(44)</td>
<td>(215)</td>
<td>93</td>
<td>24</td>
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<tr>
<td>Change in Unrealized Gains/(Losses)</td>
<td>1,601</td>
<td>(184)</td>
<td>(329)</td>
<td>774</td>
<td>(121)</td>
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<tr>
<td>Surplus Notes Issued</td>
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<td>1,197</td>
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<td>Other</td>
<td>(143)</td>
<td>55</td>
<td>(233)</td>
<td>(1,423)*</td>
<td>1,032*</td>
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<tr>
<td>Ending TAC</td>
<td>25,354</td>
<td>26,028</td>
<td>26,279</td>
<td>27,852</td>
<td>29,549</td>
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</tbody>
</table>

*Primarily reflects decline in net deferred tax asset due to decline in corporate tax rate as a result of U.S. tax reform.

*Includes $627 million due to change in reserve valuation. TAC – Total adjusted capital.


#### Investment Portfolio Allocation

<table>
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<tr>
<th></th>
<th>2014</th>
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<th>2018</th>
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<tr>
<td>Mortgage Loans</td>
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<td>Policy Loans</td>
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<tr>
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<td>1</td>
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</table>

Source: Fitch Ratings, S&P Global Market Intelligence.
Appendix D: Other Ratings Considerations

Below is a summary of additional ratings considerations that are part of Fitch’s ratings criteria.

Group IFS Rating Approach

NM is the lead operating entity. NLTC is considered Core due to its shared management and branding, as well its capital support agreement and reinsurance agreement with NM.

Notching

For notching purposes, the regulatory environment of the U.S. is assessed by Fitch as being Effective and classified as following a Ring-Fencing approach.

Notching Summary

IFS Ratings

A baseline recovery assumption of Good applies to the IFS rating, and standard notching was used from the IFS “anchor” rating to the operating company IDR.

Holding Company

Not applicable.

Hybrids — Operating Company

A baseline recovery assumption of Below Average and nonperformance risk assessment of Minimal was applied to operating company surplus notes. Thus, they are notched down by one from the operating company IDR, which is based on one notch for recovery and zero notches for nonperformance risk. Since, the surplus notes comprise less than 15% of total adjusted capital, standard notching was applied.

IFS – Insurer Financial Strength. IDR – Issuer Default Rating.

Short-Term Ratings

None.

Hybrids—Equity/Debt Treatment

Hybrids Treatment

<table>
<thead>
<tr>
<th>Hybrid</th>
<th>Amount ($ Mil.)</th>
<th>CAR Fitch %</th>
<th>CAR Reg. Override %</th>
<th>FLR Debt %</th>
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</thead>
<tbody>
<tr>
<td>The Northwestern Mutual Life Insurance Co.</td>
<td>Surplus Notes</td>
<td>3,771</td>
<td>0</td>
<td>100</td>
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</table>

CAR – Capitalization ratio: FLR – Financial leverage ratio. Note: For CAR, % shows portion of hybrid value included as available capital, both before (Fitch %) and the regulatory override. For FLR, % shows portion of hybrid value included as debt in numerator of leverage ratio. Amount is the par value of surplus notes outstanding.

Corporate Governance and Management

Fitch views NM’s corporate governance and management as effective and neutral to the rating. Fifteen of the 16 members of the board of trustees were independent as of YE 2018. CEO John Schlifske holds the role of chairman.

Standard subcommittees are in place. Additionally, the company has a unique Policy owners Examining Committee, which is comprised of five policyholders. These policyholders are given unrestricted access to evaluate the company's operations and strategic plans, and publish their finding within the company's annual report.

PricewaterhouseCoopers is NM’s auditor. The audit opinion for 2018 was unqualified.

Transfer and Convertibility Risk (Country Ceiling)

None.

Criteria Variations

None.
The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.