Northwestern Mutual Life Insurance Co. And Northwestern Long Term Care Insurance Co.

Primary Credit Analyst:
Anika Getubig, CFA, New York + 1 (212) 438 3233; anika.getubig@spglobal.com

Secondary Contact:
Elizabeth A Campbell, New York (1) 212-438-2415; elizabeth.campbell@spglobal.com

Research Assistant:
Richu Kunihal, Pune

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**SACP* Assessments**

<table>
<thead>
<tr>
<th>Anchor</th>
<th>aa+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Risk</td>
<td>Excellent</td>
</tr>
<tr>
<td>Financial Risk</td>
<td>Extremely Strong</td>
</tr>
</tbody>
</table>

**Modifiers**

- ERM and Management: 0
- Holistic Analysis: 1

\[ \text{aa+} \]

**Support**

- Group Support: 0
- Gov't Support: 0

\[ 0 \]

**Ratings**

\[ \text{AA+/Stable/--} \]

*Stand-alone credit profile. See Ratings Detail for a complete list of rated entities and ratings covered by this report.

**Major Rating Factors**

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Leading provider of life insurance in the U.S. with an emphasis on participating whole life insurance</td>
<td>• Intermediate risk position reflecting a relatively higher allocation of high-risk assets mitigated by insurance liabilities' profit-sharing features</td>
</tr>
<tr>
<td>• Controlled distribution channels supported by highly effective field representatives</td>
<td>• Limited access to the capital markets as a mutual company</td>
</tr>
<tr>
<td>• Capital adequacy redundant at the 'AAA' level per our risk-based capital (RBC) model</td>
<td>• Rating limited to our 'AA+' sovereign credit rating on the U.S. (the group credit profile indicatively aaa)</td>
</tr>
<tr>
<td>• Adequate financial flexibility with room for further leverage</td>
<td></td>
</tr>
<tr>
<td>• Group credit profile adjusted upward by one notch from anchor due to large mutual status, earnings quality, and participating features of whole life policies</td>
<td></td>
</tr>
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**Rationale**

S&P Global Ratings' ratings on Northwestern Mutual Life Insurance Co. and its subsidiary Northwestern Long Term Care Insurance Co. (collectively, Northwestern) reflects the group's excellent business risk and extremely strong financial risk profiles. Our ratings on Northwestern benefit from its low risk product suite that is dominated by participating whole life policies; an exclusive and highly effective distribution system; and strong operating...
performance (predividends) that allows it to distribute a meaningful amount of dividends to policyholders. The financial risk profile is supported by ‘AAA’ redundancy per our RBC model and adequate financial flexibility. We adjusted our rating upward by one notch to capture its large mutual status, stability of earnings, and participating feature of whole life policies.

**Outlook: Stable**

The stable outlook on Northwestern reflects our expectation that the group will maintain its extremely strong competitive position while sustaining its extremely strong capital and exceptional liquidity. It also reflects our stable outlook on the U.S. long-term sovereign credit rating.

**Downside scenario**

We may lower our ratings on Northwestern Mutual in the next two years if its business risk profile is hurt by an unexpected rapid and material deterioration in the whole life insurance market; operating performance unexpectedly declines; or we lower our sovereign credit rating on the U.S.

**Upside scenario**

We do not expect to raise our ratings on Northwestern in the next two years given our current view of the U.S. sovereign's credit quality, which constrains our ratings on insurers.
Macroeconomic Assumptions

- Real U.S. GDP growth of about 2.9% in 2018 and 2.6% in 2019
- Average 10-year U.S. Treasury yield of about 2.9% in 2018 and 3.3% in 2019
- U.S. ‘AAA’ corporate bond yields of roughly 3.6% in 2018 and 4.2% in 2019
- Average S&P 500 Index level at 2,813.1 in 2018 and 2,868.7 in 2019
- Average payroll employment of 148.9 million in 2018 and 150.4 million in 2019

Key Metrics

<table>
<thead>
<tr>
<th>(Mil. $)</th>
<th>2019*</th>
<th>2018*</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net premiums earned</td>
<td>17,600-17,700</td>
<td>17,600-17,700</td>
<td>17,698.70</td>
<td>17,660.80</td>
<td>17,581.60</td>
</tr>
<tr>
<td>S&amp;P Global Ratings' capital adequacy/redundancy</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
</tr>
<tr>
<td>EBIT</td>
<td>900-1,000</td>
<td>900-1,000</td>
<td>938.6</td>
<td>958.0</td>
<td>900.8</td>
</tr>
<tr>
<td>Return on assets (%)</td>
<td>0.4-0.5</td>
<td>0.4-0.5</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Financial leverage (%)</td>
<td>&lt;20</td>
<td>&lt;20</td>
<td>15.8</td>
<td>11.8</td>
<td>11.9</td>
</tr>
<tr>
<td>Fixed-charge coverage (x)</td>
<td>&gt;7.5</td>
<td>&gt;7.5</td>
<td>10.0</td>
<td>9.9</td>
<td>9.3</td>
</tr>
</tbody>
</table>

*Forecast data reflect S&P Global Ratings’ base-case assumptions.

Business Risk Profile: Excellent

We regard Northwestern’s business risk profile as excellent. Our view is supported by its leading market position in individual life insurance, highly effective distribution force, and strong operating performance, as well as our low industry and country risk assessment for the U.S. life insurance sector.

Northwestern has an extremely strong competitive position that stems from its national presence and top market position as one of the leading providers of individual whole life insurance in the U.S. While this segment accounts for most premium revenue, Northwestern offers complementary products including term and universal life and disability income insurance, annuities and mutual funds, and long-term care insurance. It has a dedicated team of sales representatives, though in recent years, the size of the field staff has been relatively flat. Despite this, field staff productivity has increased. Premium revenue grew a modest 0.2% on strong renewal premium growth and increased large case wins in its corporate-owned life insurance/bank-owned life insurance (COLI/BOLI) segment offset by lower income annuity and higher dividend payments. In 2018-2020, we expect Northwestern to report an operating gain before dividends and taxes of $6.2 billion-$6.4 billion.
Financial Risk Profile: Extremely Strong

We regard Northwestern’s financial risk profile as extremely strong, reflecting its extremely strong capital adequacy, intermediate risk position, and adequate financial flexibility.

Northwestern maintains extremely strong capital and earnings. Like most life insurers, low interest rates have dampened its earnings, though the company continues to benefit from favorable mortality experience, strong persistency, and expense efficiency. We believe meaningful recurring premium and investment income will allow Northwestern to maintain capital at the ‘AAA’ level per our RBC model. Operating performance has been strong, and we expect it to remain so. Despite flat revenue growth, consolidated net income grew by 26% to $1.024 billion in 2017 from $813 million in 2016 due to lower total benefits paid and higher realized capital gains. In 2018-2020, we expect gains before dividends and policyholder payments to remain strong due to favorable underwriting results, excellent persistency, and expense efficiency. We expect a slight increase in expenses over the projection period as it invests in digitalization. We also expect net income to be somewhat constrained by low interest rates and the company’s efforts to deliver high policyholder value through dividends.

Northwestern’s risk position reflects intermediate risk. Its investment portfolio consists primarily of a well-diversified bond portfolio of strong credit quality complemented by investments in commercial mortgages, real estate, and alternative investments. Although the company has some exposure to risky assets in its investment portfolio, this is offset by nearly 100% of the insurer’s liabilities, which have profit-sharing features. We do not expect any shifts in portfolio allocation or strategy, but we expect Northwestern to make tactical adjustments as opportunities arise.

Northwestern has adequate financial flexibility. As a mutual company, its access to capital markets is limited, though it has successfully issued surplus notes. The $1.75 billion and $1.2 billion surplus notes will receive equity treatment until 2020 and 2027, respectively, when they are within 20 years of their respective maturity dates of 2040 and 2047.

At year-end 2017, Northwestern had low financial leverage—about 16%—with EBITDA fixed-charge coverage above 7x. We view its strong earnings generation and flexible dividend policy as positive features of its overall financial flexibility.

Other Assessments

Northwestern’s strong enterprise risk management (ERM) reflects a positive risk management culture and positive controls of key risks. The ERM program has supported favorable mortality experience, persistency, and long-term investment performance, resulting in strong operating performance and leading policyholder returns. Its most significant risk exposures relate to its investment portfolio. But the company manages its investment exposures tightly, and we don’t expect major losses outside of its tolerances.

We view Northwestern’s management team, led by CEO John Schlifske, and its strategy positively and as clear rating strengths. Management is well seasoned with a strategy that emphasizes long-term stability and strength, and a commitment to mutuality and policyholders. It has shown consistent commitment to its core individual life insurance
products and distribution.

We view the group's liquidity as exceptional based on its favorable liability profile and liquidity ratio of 230% (per our liquidity model). It has minimal collateral-posting risk and no significant debt covenants or rating triggers.

Related Criteria

• General Criteria: Group Rating Methodology, Nov. 19, 2013
• Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
• Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
• General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
• Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
• General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
• Criteria - Insurance - Life: Liquidity Model For U.S. And Canadian Life Insurers, April 22, 2004

Ratings Detail (As Of June 15, 2018)

Operating Companies Covered By This Report

Northwestern Mutual Life Insurance Co.
Financial Strength Rating
Local Currency AA+/Stable/--
Counterparty Credit Rating
Local Currency AA+/Stable/--
Subordinated AA-

Northwestern Long Term Care Insurance Co.
Financial Strength Rating
Local Currency AA+/Stable/--
Issuer Credit Rating
Local Currency AA+/Stable/--
Domicile Wisconsin

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings’ credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.