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

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

SACP* Assessments				SACP*		Support		Ratings			
Anchor	aa+	+	Modifiers	1	=	aa+		+	0	=	Financial Strength Rating
Business Risk			ERM and Management	0		Liquidity	0	Group Support	0	AA+ / Stable / --	
Excellent											
Financial Risk			Holistic Analysis	1		Sovereign Risk	-1	Gov't Support	0		
Extremely Strong											

*Stand-alone credit profile.

See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Excellent

- Leading provider of life insurance in the U.S. with an emphasis on participating whole life insurance
- Controlled distribution channels utilizing a dedicated team of field representatives
- Low industry and country risk

Financial Risk Profile: Extremely Strong

- Capital adequacy redundant at 'AAA' level
- Profit-sharing characteristics of products offsets exposure to high-risk investments
- Adequate financial flexibility with ability to issue surplus notes if additional capital is needed

Other Factors

- Group credit profile adjusted upward by one notch from anchor to reflect mutual status, earnings quality, and participating feature of whole life policies
- Low importance of enterprise risk management (ERM) to the rating reflects less risky product portfolio

Outlook: Stable

The stable outlook reflects Standard & Poor's Ratings Services' view of the U.S. long-term sovereign credit rating. We expect Northwestern Mutual Life Insurance Co. (Northwestern Mutual) and its subsidiary, Northwestern Long Term Care Insurance Co., (collectively, Northwestern), to maintain its extremely strong competitive position while maintaining extremely strong capital and exceptional liquidity.

Downside scenario

We may lower our rating if we lower the U.S. sovereign credit rating or if Northwestern's financial risk profile--specifically its capital strength--deteriorates unexpectedly.

Upside scenario

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

Base-Case Scenario

Macroeconomic Assumptions

- Real GDP growth of about 3.0% in 2015 and 2.8% in 2016
- Average 10-year U.S. Treasury yield of about 2.3% in 2015 and 3.2% in 2016
- U.S. 'AAA' corporate bond yields of about 3.2% in 2015 and 4.5% in 2016
- Average S&P 500 Index level of 2,111 in 2015 and 2,218 in 2016
- Average payroll employment of 142 million in 2015 and 144 million in 2016

Company-Specific Assumptions

- Capital adequacy remains redundant at the 'AAA' confidence level
- Maintains its leading market position in the U.S. individual life segment with total premium growth of 1%-3% in 2015-2016

Key Metrics

	--Year ended Dec. 31--				
(Mil. \$)	2016*	2015*	2014	2013	2012
S&P capital adequacy/redundancy	AAA	AAA	AAA	AAA	AAA
Fixed-charge coverage (x)	6.1	6.2	6.3	5.7	7.7

*Forecast data reflect Standard & Poor's base-case assumptions.

Company Description

Northwestern is a mutual life insurance company with about \$230 billion in consolidated assets. It is the largest direct provider of individual life insurance in the U.S., with a focus on participating whole life insurance. Northwestern and its subsidiaries offer an array of additional products including long-term care insurance, disability insurance, annuities, and wealth-management products and services.

Business Risk Profile: Excellent

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

Insurance industry and country risk

Northwestern faces relatively low country risk and low industry risk given that all of its operations are in the U.S. life insurance marketplace. Our view of low country risk for the U.S. is driven by stable economic growth prospects, relatively effective and stable political institutions, sophisticated financial systems, and a strong payment culture. Our view of low industry risk reflects the relative maturity of the sector, adequate regulatory infrastructure, moderate product risk, and strong availability of fixed-income instruments to match life and annuity liabilities. Although U.S. life insurers face significant opportunities because of an underpenetrated U.S. life insurance market and increased demand for investment and retirement products, we believe a stable but low-growth economy, low interest rates, and intense competition may limit the sector's near-term growth prospects and potential for higher operating margins.

Table 1

Industry And Country Risk		
Insurance sector		Business mix (%)
U.S. life	Low risk	100

Competitive position

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. Although whole life insurance accounts for the majority of the insurer's premium revenue, Northwestern maintains complementary product offerings including term and universal life insurance, disability income insurance, annuities and mutual funds, and long-term care insurance. The company utilizes a dedicated team of sales representatives to sell its products, though in recent years the company has seen a decline in recruitment and retention of field staff. Despite this, premium revenue grew by 3% in 2014. In 2015, we expect Northwestern to report an operating gain before dividend and taxes of between \$6.2-6.4 billion.

Table 2

Competitive Position					
(Mil. \$)	--Year ended Dec. 31--				
	2014	2013	2012	2011	2010
Gross premiums and annuity considerations	19,754.04	17,334.12	16,176.11	15,394.27	14,936.66
Change in gross premiums and annuity considerations (%)	13.96	7.16	5.08	3.06	7.71
Net premiums and annuity considerations	16,813.78	16,452.56	15,311.68	14,555.68	14,204.68
Change in net premiums and annuity considerations (%)	2.20	7.45	5.19	2.47	9.10
Total assets under management	230,088.23	217,171.40	202,532.24	189,675.61	180,065.92
Growth in total assets under management (%)	5.95	7.23	6.78	5.34	7.69
Reinsurance utilization (%)	0.97	0.00	0.31	1.08	0.80

Financial Risk Profile: Extremely Strong

We regard Northwestern Mutual's financial risk profile as extremely strong, which reflects its extremely strong capital adequacy, intermediate risk position, and adequate financial flexibility.

Capital and earnings

The company maintains extremely strong capital and strong earnings. Although Northwestern is hampered by low interest rates like most, it continues to experience favorable mortality experience and expense efficiency. The company also benefited from the sale of the Frank Russell Co. in 2014, which added more than \$1 billion to surplus. We believe a meaningful recurring premium and investment income will allow Northwestern to maintain capital at the 'AAA' level as measured by our capital model. The company's operating performance has been strong and we expect it to remain so. Although consolidated net income from insurance operations declined in 2014 by around 8% to \$735 million, it reflects, in part, a 6% increase to \$5.5 billion in discretionary dividends paid to policyholders. We expect net income and policyholder dividends to remain strong during 2015-2016 because of favorable underwriting results, investment margins, excellent policy-owner persistency, and expense efficiency. We will also continue to closely monitor the company's long-term care business, particularly given industry developments and the company's establishment of \$100 million of additional reserves in 2013.

Table 3

Earnings Statistics					
(Mil. \$)	--Year ended Dec. 31--				
	2014	2013	2012	2011	2010
Total revenue	26,746.62	25,909.05	24,621.23	23,595.21	23,109.25
EBIT adjusted	557.87	507.77	613.31	680.80	720.67
Net income	734.56	802.18	783.89	645.08	756.26
Return on revenue	2.09	1.96	2.49	2.89	3.12
Return on revenue (including realized gains/losses)	2.80	2.99	3.31	2.76	2.32
Return on assets (excluding realized gains/losses)	0.25	0.24	0.31	0.37	0.42
Return on capital and surplus (%)	4.05	4.81	5.06	4.42	5.65
Expense ratio (%)	13.46	13.49	14.08	13.55	13.49
Administrative expense ratio (%)	0.00	0.00	0.00	0.00	0.00

Table 3

Earnings Statistics (cont.)					
General expense ratio (%)	7.26	7.19	7.40	7.17	7.06
Prebonus pretax earnings/total assets (%)	2.71	2.73	2.89	3.06	3.21

Table 4

Capitalization Statistics					
	--Year ended Dec. 31--				
(Mil. \$)	2014	2013	2012	2011	2010
Total assets	230,088.23	217,171.40	202,532.24	189,675.61	180,065.92
Adjusted total assets	229,982.11	217,120.24	202,478.48	189,643.40	180,022.98
Capital and surplus	19,055.13	17,198.78	16,175.77	14,813.43	14,385.23
Change in capital and surplus	10.79	6.32	9.20	2.98	15.99
Total adjusted capital (TAC)	25,354.42	23,161.92	21,912.16	20,650.06	20,064.62
Change in TAC (%)	9.47	5.70	6.11	2.92	20.79
Reinsurance and reserves (%)					
Reinsurance utilization	0.97	0.00	0.31	1.08	0.80
Reinsurance recoverables' to capital and surplus	0.53	0.00	0.66	0.58	0.00

Risk position

Northwestern Mutual'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 investment leverage 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 expect tactical adjustments as opportunities arise.

Table 5

Risk Position					
	--Year ended Dec. 31--				
(Mil. \$)	2014	2013	2012	2011	2010
Total invested assets (including affiliated investments)	195,020.51	184,430.05	174,012.17	164,183.44	155,210.51
Change in total invested assets (%)	5.74	5.99	5.99	5.78	7.46
Separate account assets	27,055.81	25,342.91	21,376.22	18,697.03	18,663.53
Net investment income	8,826.43	8,479.55	8,487.13	8,320.23	8,269.69
Realized capital gains/(losses)	197.42	275.61	207.69	(29.47)	(188.17)
Unrealized gains/(losses)	7,117.49	4,722.16	12,902.65	9,471.16	6,429.38
Net investment yield (%)	4.65	4.73	5.02	5.21	5.52
Net investment yield including realized capital gains/(losses) (%)	4.76	4.89	5.14	5.19	5.39
Net investment yield including all gains/(losses) (%)	8.51	7.52	12.77	11.12	9.69
Portfolio composition (% of general account invested assets)					
Cash and short-term investments	1.33	1.23	1.37	1.47	1.24
Bonds	65.69	66.25	65.71	63.11	62.33
Unaffiliated equity investments	1.75	1.23	1.59	3.43	4.86
Real estate	0.83	0.82	0.75	0.99	1.04

Table 5

Risk Position (cont.)					
Mortgages	15.05	14.56	13.99	13.89	13.70
Investments in affiliates	0.93	1.42	2.10	1.92	1.84
Investments in partnerships, joint ventures, and other alternative investments	1.91	1.87	2.00	2.41	2.21
Other investments	12.52	12.63	12.50	12.77	12.78

Financial flexibility

Northwestern has adequate financial flexibility. As a mutual company, its access to capital markets is limited, although the insurer has demonstrated prior success in issuing surplus notes. Northwestern currently has \$1.75 billion in surplus notes outstanding. We view its low financial leverage of approximately 6.90%, fixed-charge coverage exceeding 6.3x, strong earnings generation, and flexible dividend policy as positive attributes to overall financial flexibility.

Table 6

Financial Flexibility					
	--Year ended Dec. 31--				
(Mil. \$)	2014	2013	2012	2011	2010
EBIT interest coverage (x)	N.A.	N.A.	N.A.	N.A.	N.A.
Debt leverage (%)	9.18	10.18	10.82	11.81	12.17
Debt leverage including pension deficit as debt (%)	9.18	10.18	10.82	11.81	12.17
Financial leverage (%)	9.18	10.18	10.82	11.81	12.17
Financial leverage including pension deficit as debt (%)	9.18	10.18	10.82	11.81	12.17
Debt/EBIT including pension deficit as debt (x)	3.14	3.45	2.85	2.57	2.43
Debt/EBIT excluding pension deficit as debt (x)	3.14	3.45	2.85	2.57	2.43
Cash flows					
Net cash flow from operating activities	9,233.23	9,525.90	8,817.60	8,664.05	8,929.34
Net cash flow from investing activities	(9,102.55)	(9,716.56)	(8,703.74)	(7,537.88)	(9,534.43)
Net cash from from financing activities	195.66	59.52	(141.46)	(633.27)	(76.74)

N.A. -- Not available

Other Assessments

We consider Northwestern Mutual's strong ERM and strong management and governance as consistent with the ratings. Liquidity is exceptional.

Enterprise risk management

Northwestern Mutual's strong ERM reflects a positive risk-management culture and positive controls of key risks. The efficacy of the insurer's ERM program is demonstrated by its strong operating performance and leading policy owner returns, which is driven by favorable mortality experience, persistency, and long-term investment performance. Northwestern Mutual's most significant quantifiable risk exposures relate to its investment portfolio. However, the company manages its investment exposures tightly and we don't expect major losses outside of these tolerances.

Management and governance

We view Northwestern Mutual's management team, led by CEO John Schlifske, and its strategy positively and as clear strengths to the rating. The company's management team is well-seasoned and clearly manages for long-term stability and strength, with a commitment to mutuality and the policyholder. The company has shown consistent commitment to its distribution and to its core individual life insurance product line.

Liquidity:

We view the insurer's liquidity as exceptional. Our view is based on a favorable liability profile and a liquidity ratio of 232% as measured by our liquidity model. The company has minimal collateral-posting risk and no significant debt covenants or rating triggers.

Related Criteria And Research

- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management and Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use of CreditWatch and Outlooks- Sept. 14, 2009
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings Detail (As Of May 29, 2015)

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. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's 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.

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