

THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY

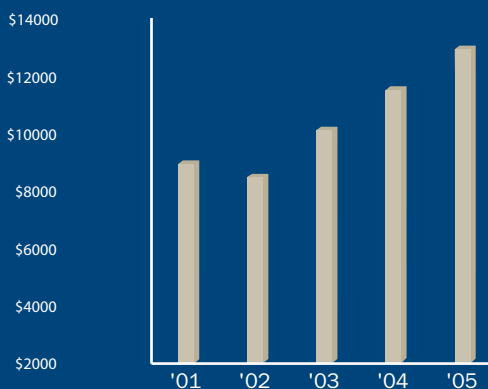
INVESTMENT REPORT 2005



2005 Total Surplus and Asset Valuation Reserve

in millions

| | |
|------|----------|
| 2005 | \$12,910 |
| 2004 | \$11,490 |
| 2003 | \$10,115 |
| 2002 | \$ 8,485 |
| 2001 | \$ 8,926 |



Northwestern Mutual's Third-Party Ratings

| Rating Agency | Current Rating |
|-------------------|----------------|
| A.M. Best | A++ |
| Fitch Ratings | AAA |
| Standard & Poor's | AAA |
| Moody's | Aaa |

The above ratings represent the best possible insurance financial strength rating from each agency.

Third-party ratings are a measure of a company's relative financial strength and security but are not a reflection of the performance or stability of funds invested in a company's separate accounts.

From A.M. Best Company

July 2005

Rating: A++

"The rating reflects Northwestern Mutual's [The Northwestern Mutual Life Insurance Company] well-regarded individual life insurance franchise, conservative operating profile, high-quality investment portfolio, excellent earnings performance and superior risk-adjusted capitalization."

"It also recognizes the strength and quality of the Northwestern Mutual Financial Network, its exclusive distribution system, as well as the competitive advantages derived from historically favorable investment, expense, persistency and mortality experience in its core business lines."

From Fitch Ratings

May 2005

Rating: AAA

"The success of Northwestern Mutual's distribution system is seen in industry-leading lapse ratios in the traditional life insurance market, averaging 4.2% over the past five years versus an industry average of 8.3%."

From Standard & Poor's

September 2005

Rating: AAA

"Northwestern's management team is extremely disciplined in its strategic approach, under which policyowner financial security and product value are the paramount focus. The company avoids risky product features, and moderates investment risk through a highly diversified approach. Management has also been extremely disciplined in expense management, with general expense ratio among the best in the industry at 6%."

From Moody's Investors Service

April 2005

Rating: Aaa

"Northwestern Mutual is committed to retaining its mutuality, which Moody's believes can be a competitive advantage in today's markets. ...Northwestern Mutual has regularly ranked among the highest in the industry when comparing dividend payout histories, helping to solidify the company's strong competitive position with clients."

The Power of Portfolio Diversification

We enjoyed a growing economy in 2005. While it was a year that challenged us to find good values in the investment marketplace, Northwestern Mutual's investment team combined consistent strategy with excellent execution to score solid performances against benchmarks in all asset classes. We succeeded in the overall objective of our investment strategy – to generate competitive total investment returns by actively managing a well-diversified portfolio of fixed-income and equity assets.

Our strong performance results contributed significantly to Northwestern Mutual's ability to pay a dividend interest rate of 7.5% in 2006. This year, your company will pay out more in dividends to policyowners, \$4.3 billion, than at any time in your company's 149-year history. In addition, we added \$1.4 billion to the already strong surplus and reserve amounts. In a nutshell, your company is as financially strong as it has ever been.

Returns by asset class varied greatly in 2005. The fixed-income portfolio experienced low, single-digit returns, and we expect that won't change in the near future. Our equity and equity-related investments did very nicely, posting returns for the year in excess of 17%. The long-term strategy of maintaining a strong equity position, between 15% and 20% of the portfolio, continues to provide the diversification that supports our investment objectives.

We have also had an outstanding year with our real estate equity portfolio. Returns of approximately 20% contributed significantly to our overall results. Capital continues to flow into the asset class as fundamentals remained favorable throughout the year.

Our 2005 investment performance resulted in net realized and unrealized capital gains (before taxes and deferrals) of \$1.1 billion. Our net investment income of \$6.5 billion represents an increase of 7% over the previous year. These strong results made a major contribution to the value policyowners receive and to the company's continuing financial strength. Northwestern Mutual ended 2005 with a total surplus and asset valuation reserve of \$12.9 billion, an increase of \$1.4 billion from the year 2004.

Entering 2006, we will continue to invest with confidence. While we anticipate continuing low market rates of return, your Northwestern Mutual investment team will remain diligent in its search for value and will continue to invest with discipline, adhering to our long-term, diversified strategy that seeks to maximize returns for our policyowners. Our goal continues to be to generate the investment returns that support strong dividends and maintain the financial strength of your company. Our intention is unchanged and unwavering – to keep our promises to policyowners for generations to come.



MASON G. ROSS
EXECUTIVE VICE PRESIDENT AND
CHIEF INVESTMENT OFFICER

Total Assets

| | December 31, 2005 in Millions | December 31, 2004 in Millions |
|---------------------------------------|----------------------------------|----------------------------------|
| Fixed-Income Investments | | |
| <i>Short-Term</i> | | |
| Money Market Investments | \$ 2,495 | \$ 3,625 |
| Total Short-Term | \$ 2,495 | \$ 3,625 |
| <i>Long-Term</i> | | |
| Public Bonds & Preferred Stock | \$ 48,697 | \$ 44,345 |
| Private Bonds & Preferred Stock | 16,769 | 16,261 |
| Mortgage Loans | 19,123 | 17,659 |
| Total Long-Term | \$ 84,589 | \$ 78,265 |
| Total Fixed-Income Investments | \$ 87,085 | \$ 81,890 |
| Equity Investments | | |
| Real Estate | \$ 5,353 | \$ 4,834 |
| Public Common Stock | 7,068 | 6,656 |
| Private Equities & Subsidiaries | 3,933 | 3,121 |
| Total Equity Investments | \$ 16,355 | \$ 14,611 |
| Total Managed Assets | \$ 103,439 | \$ 96,501 |
| Loans on Policies | \$ 10,265 | \$ 9,751 |
| Other Investments | 560 | 556 |
| Total Invested Assets* | \$ 114,265 | \$ 106,809 |
| Other Assets | \$ 3,039 | \$ 2,830 |
| Separate Account Business | 15,753 | 14,318 |
| Total Assets | \$ 133,057 | \$ 123,957 |

*Includes investment income due and accrued of \$1,183 million and \$1,133 million in 2005 and 2004, respectively.

Note: Please read table above in conjunction with Purpose of the Report on the back cover of this publication. Numbers in tables are rounded.

Investment Objectives

Northwestern Mutual's investment objective for its managed assets is to generate competitive total returns through a well-balanced, diversified portfolio while preserving the company's exceptional financial strength.

At year-end 2005, the company's managed assets of \$103.4 billion were invested in a variety of fixed-income and equity securities. Its wholly-owned companies, Mason Street Advisors, LLC, and Northwestern Investment Management Company, LLC, manage this portfolio.

Fixed-income investments, generally about 80% to 85% of total managed assets, are the foundation of the portfolio. Northwestern Mutual's fixed-income investments are typically of high quality and are diversified to further reduce risk and provide stability to the portfolio.

Equity investments, generally 15% to 20% of total managed assets, are a distinguishing component of the Northwestern Mutual investment portfolio. Our mutual ownership structure, strong persistency and mortality results, combined with a strong surplus position, allow us to maintain a significant equity portfolio. This is a distinct competitive advantage for Northwestern Mutual policyowners.

While equity investments are certainly not immune to short-term volatility, over the long term Northwestern Mutual expects equity investments to provide capital appreciation and protection against inflation. Northwestern Mutual allocates its equity investments among public common stocks, real estate and private equities. Direct equity investments are also made in select companies and subsidiaries. This strategy has resulted in the company benefiting from attractive returns in one sector while performance in another sector is down.

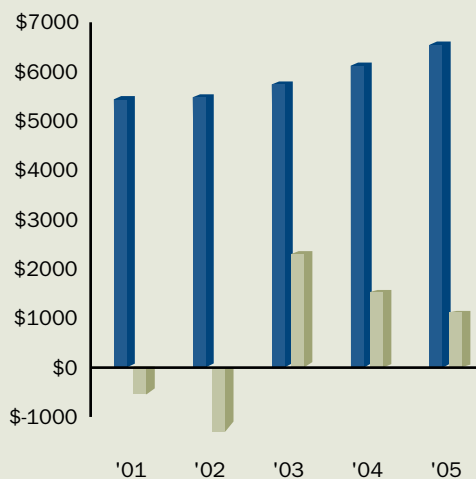
Diversification of assets and active management of portfolio investments reduces risk and maintains Northwestern Mutual's financial strength. In addition, the company may enter into transactions seeking to reduce its exposure to fluctuations in interest rates, foreign currency exchange rates and market volatility. These hedging strategies include the use of forwards, futures, options and swaps.

Our mutual ownership structure, strong persistency and mortality results, combined with a strong surplus position, allow us to maintain a significant equity portfolio. This is a distinct competitive advantage for Northwestern Mutual policyowners.

Net Investment Income & Net Capital Gains (Losses)*

in millions

| | Net Investment Income | Net Capital Gains (Losses) |
|------|-----------------------------|-------------------------------------|
| 2005 | \$6,543 | \$1,118 |
| 2004 | 6,117 | 1,534 |
| 2003 | 5,737 | 2,295 |
| 2002 | 5,477 | (1,294) |
| 2001 | 5,431 | (539) |

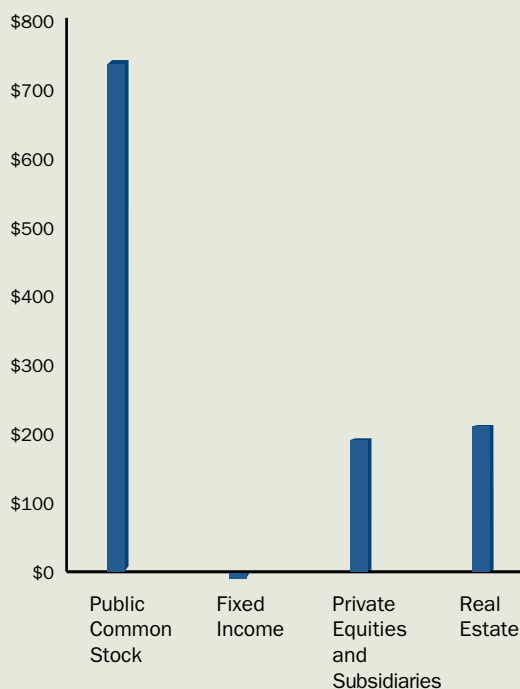


*Net investment income for 2001 has been reclassified to conform to current year presentation. Net capital gains (losses) are realized and unrealized, before deferrals and taxes.

Source of 2005 Net Capital Gains (Losses)*

in millions

| | |
|--------------------------------------|-----------------|
| Public Common Stock | \$732 |
| Fixed-Income | (8) |
| Private Equities and Subsidiaries | 188 |
| Real Estate | 206 |
| Total | \$ 1,118 |



*Realized and unrealized, before deferrals and taxes.

Overall Results on Invested Assets

Total invested assets rose by 7% in 2005 to \$114.3 billion, with growth in both fixed-income and equity investments. Northwestern Mutual essentially maintained the overall level of equity investments in its portfolio, with new acquisitions and market appreciation offsetting periodic asset sales, while we continued to invest in higher quality fixed-income investments.

Investment earnings in 2005 included \$6.5 billion in net investment income and \$1.1 billion in net realized and unrealized capital gains before deferrals and taxes.

Net investment income consists primarily of interest and dividends from invested assets. Fixed-income investments contributed 85% of 2005 net investment income, while equity investments contributed 15% of 2005 net investment income.

Over the last 10 years, net investment income and total invested assets have exhibited strong and consistent growth, increasing at compound annual rates of 5.1% and 8.7%, respectively.

Net capital gains before deferrals and taxes in 2005 amounted to \$1.1 billion, of which \$459 million was unrealized and \$659 million was realized. Net gains were achieved in equities and real estate, including public common stock gains of \$732 million, private equity and subsidiary gains of \$188 million, and real estate gains of \$206 million. Fixed-income, impacted by rising interest rates, posted a small capital loss of \$8 million. Market appreciation, particularly in the public and private equity portfolios, contributed significantly to the 2005 net gains. After taxes and required deferrals of interest-related gains, net gains added \$653 million to surplus in 2005.

Total net realized and unrealized capital gains before deferrals and taxes, which vary from year to year, have averaged \$623 million during the last five years. These gains have contributed to Northwestern Mutual's outstanding dividend interest rate and strong surplus position and have confirmed the prudence of a balanced portfolio.

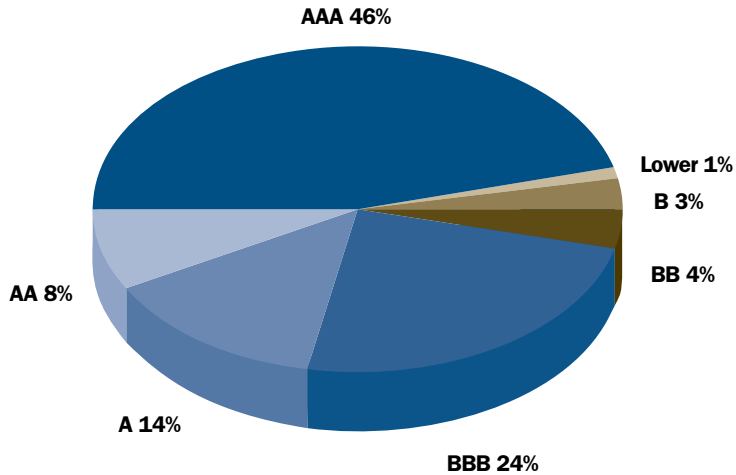
Market appreciation, particularly in the public and private equity portfolios, contributed significantly to the 2005 net gains.

Quality of Public and Private Bond & Preferred Stock Portfolio*

\$65,467 million

Investment Grade: 93%

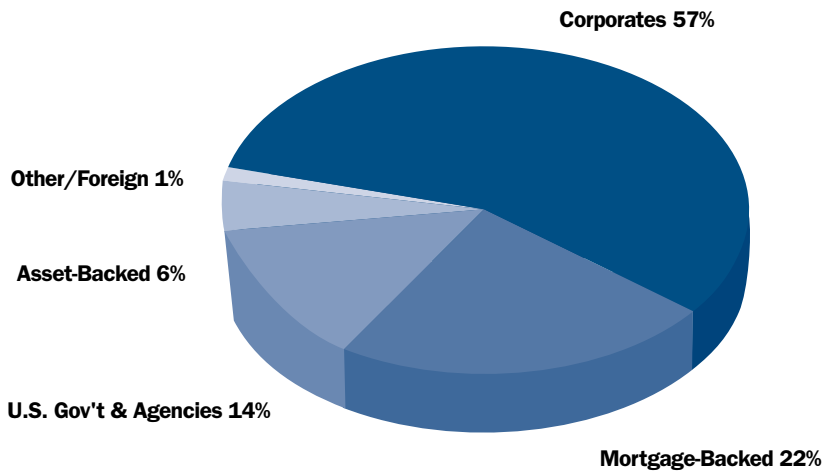
Non-Investment Grade: 7%



*Quality ratings based on the higher of the credit ratings from Standard & Poor's, Moody's, or Fitch Ratings when available and internal rating valuations when the third-party ratings are not available.

Diversification of Public and Private Bond & Preferred Stock Portfolio

\$65,467 million



Fixed-Income Investments

Northwestern Mutual's fixed-income portfolio is invested primarily in money market instruments, public bonds and preferred stock, private bonds and preferred stock and real estate mortgage loans. It is designed to meet the company's investment objectives of safety, liquidity and current income.

Northwestern Mutual's portfolio of fixed-income investments represents the largest component of total managed assets – 84% for 2005.

Public bonds, preferred stock and money market investments together represent the single largest category of fixed-income investments, comprising 59% of total fixed-income investments at year-end 2005. Investments in public bonds and preferred stock are actively managed to maximize return while maintaining a high level of safety, liquidity and diversification.

The credit quality – or ability of the issuer to pay interest and repay principal – of fixed-income investments remains high. Using Standard & Poor's rating scale, highest quality AAA-rated securities represent 46% of total fixed-income related investments at year-end 2005, while investment-grade securities, those rated BBB or higher, make up 93% of this portfolio.

The company also selectively invests in below investment-grade public fixed-income securities, applying diligent credit and risk analysis, for purposes of portfolio diversification and return enhancement.

To further manage risk in the portfolio, investments are broadly diversified among and within fixed-income sectors such as corporates, mortgage-backed investments and government securities.

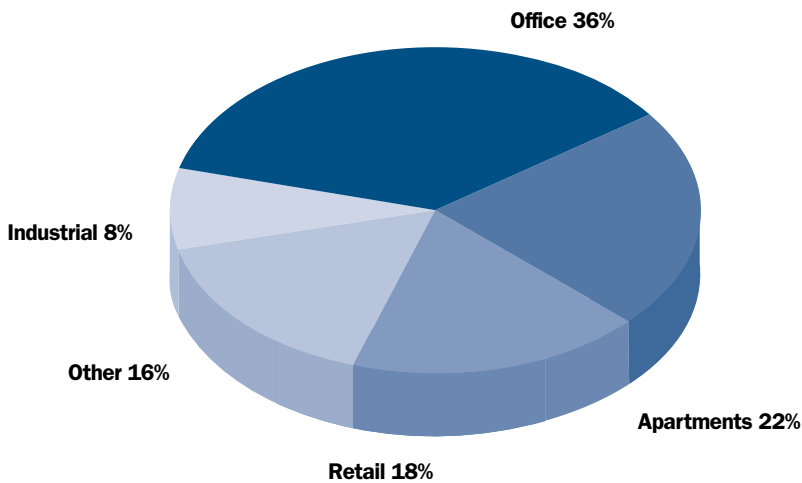
Private bonds and preferred stock, another class of fixed-income investments in which Northwestern Mutual regularly invests, represent 19% of total fixed-income related investments. Northwestern Mutual finds investments in private bonds and preferred stocks attractive because they provide added diversification and will typically have higher yields and lower prepayment risk compared with their public counterparts. Both public and private bonds are important in optimizing the total return of the fixed-income portfolio.

Investments in the private fixed-income portfolio are focused on the corporate sector, which represents 96% of all private fixed-income investments. The lower liquidity of private fixed-income investments and the concentration in corporate bonds is managed by emphasizing credit underwriting, with investment-grade securities representing 96% of the portfolio, and by diversifying investments across companies, industries and countries.

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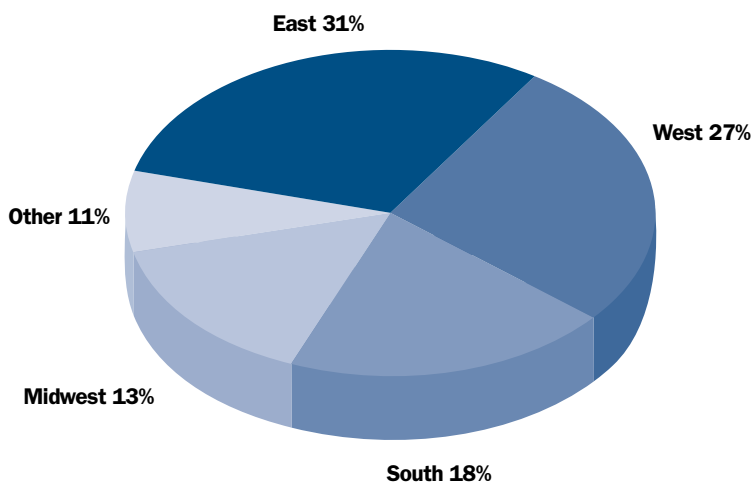
Diversification of Mortgage Loans by Class

\$19,123 million



Diversification of Mortgage Loans by Region

\$19,123 million

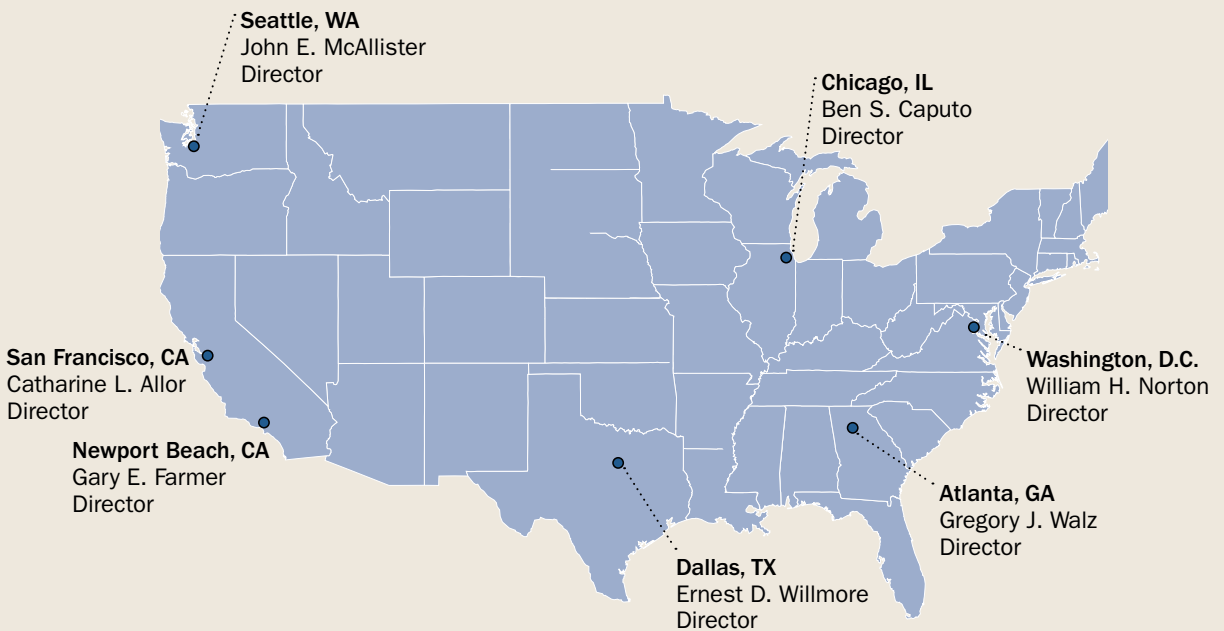


Fixed-Income Investments

Mortgage loans represented 22% of fixed-income investments at year-end 2005, the second-largest component of the overall fixed-income portfolio. Northwestern Mutual concentrates its mortgage lending on loans greater than \$10 million. Historically, Northwestern Mutual's mortgage loan portfolio has produced attractive yields with low delinquency and loss percentages.

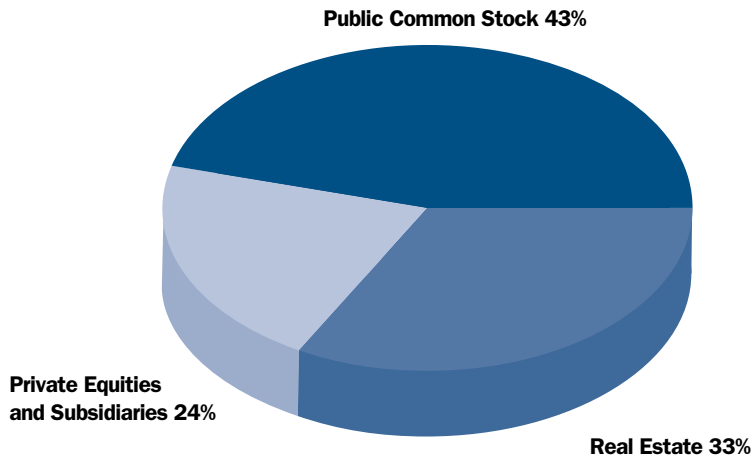
While Northwestern Mutual does purchase publicly traded bonds secured by commercial real estate, private transactions typically offer better yields and more control over property quality and choice of borrowers. Northwestern Mutual invests primarily in apartments, shopping centers, offices and warehouse buildings. Origination, underwriting and loan servicing are enhanced by having staff in seven regional real estate offices who are familiar with local markets and borrowers.

Real Estate Regional Offices



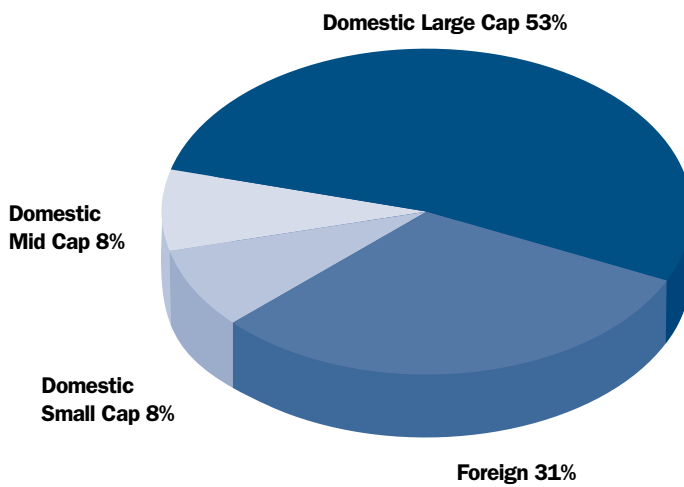
Diversification of Equities

\$16,355 million



Diversification of Public Common Stocks

\$7,068 million



Equity Investments

Equity securities are intended to provide diversification and enhanced returns, since over time equities have higher expected rates of return than fixed-income securities. These higher returns contribute to Northwestern Mutual's dividend payment history and strong financial condition. The equity portfolio includes real estate, public common stocks, private equities, and investments in subsidiaries and affiliates.

The company increased the size of its equity portfolio to 16% of total managed assets at year-end 2005, from 15% at year-end 2004.

The public common stock portfolio is invested in domestic large, mid, and small capitalization companies, as well as in foreign equities. The stock market was up across the board in 2005, with all major sectors participating. At year-end, the public common stock portfolio totaled \$7.1 billion, or 43% of the total equity portfolio. Risk in this portfolio is well diversified among high-quality companies and by size, industry and country.

The real estate equity portfolio, representing 33% of the total equity portfolio, consists primarily of apartment, warehouse and office properties held through both direct and joint

venture ownership. Through partnerships with developers nationwide, the company develops apartment units and warehouse properties. The company also purchases properties directly. Real estate provides both income and appreciation potential and complements both public common stock and private equity. In addition, the company invests in private real estate funds and public real estate investment trusts (REITs), which provide further diversification.

Northwestern Mutual's private equity and subsidiaries portfolio accounted for 24% of total equity investments at year-end 2005. The portfolio consisted of investments in buyouts of companies, private equity and venture capital limited partnerships, direct oil and gas investments, and direct equity investments in select companies and subsidiaries. The private equity portfolio further diversifies the overall portfolio, has lower volatility, and represents an additional potential source of capital gains.

The company increased the size of its equity portfolio to 16% of total managed assets at year-end 2005, from 15% at year-end 2004.

Separate Accounts

Separate Account business includes Northwestern Mutual's variable annuity and variable life insurance products and company benefit plan assets. Separate Accounts are segregated from the investments described elsewhere in this report.

The majority of the assets of Northwestern Mutual's Separate Account business is managed by Mason Street Advisors, LLC, a wholly-owned company of The Northwestern Mutual Life Insurance Company. Variable annuities accounted for 60.3% of the separate account assets at year-end 2005. Over the past five years, variable annuity assets under management have increased from \$9.1 billion to \$9.5 billion. Variable life policies accounted for 24.8% of separate account assets at year-end 2005. Over the past five years, variable life assets under management have increased from \$1.6 billion to \$3.9 billion.

For more complete information, including a contract and fund prospectuses or offering circulars that give investment objectives, risks, charges, expenses, and other information about the contract and funds, contact a Northwestern Mutual Investment Services Registered Representative. Read the prospectuses or offering circulars carefully before investing or sending money.

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Russell Investment Group

Russell Investment Group is a global leader in multi-manager investing and provides investment products and services in more than 35 countries. At year-end 2005, Russell managed more than \$150 billion in assets under management and advised clients worldwide with assets of more than \$2.4 trillion.

Russell Investment Group is a registered trade name of Frank Russell Company, a Washington, USA corporation, which operates through subsidiaries worldwide. Frank Russell Company is a subsidiary of The Northwestern Mutual Life Insurance Company.

Investment Staff 2005

The Northwestern Mutual Life Insurance Company

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Executive Vice President &
Chief Investment Officer

Mark G. Doll

Senior Vice President
(Public Markets)

David D. Clark

Vice President
(Real Estate)

Jeffery J. Lueken

Vice President
(Securities)

Gary M. Hewitt

Vice President
(Investment
Risk Management)

Northwestern Investment Management Company, LLC

a wholly-owned company of The Northwestern Mutual Life Insurance Company

(Mortgage Loans and Real Estate Investments; Private Securities and Convertible Bonds)

Mason G. Ross

President and Chief
Operating Officer

David D. Clark

Vice President
(Real Estate)

Jeffrey J. Lueken

Vice President
(Securities)

Jerome R. Baier

Managing Director
(Energy and Public
Convertible Securities)

David A. Barras

Managing Director
(Consumer Products and
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Timothy S. Collins

Managing Director
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Basic Industries)

Michael P. Cusick

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Mark E. Kishler

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(Industrial Products and
Financial Services)

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Managing Director
(Real Estate Equities)

Mason Street Advisors, LLC

a wholly-owned company of The Northwestern Mutual Life Insurance Company

(Public Common Stocks and Bonds)

Mason G. Ross

Chairman

Mark G. Doll

President

Jefferson V. De Angelis

Managing Director
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Patricia L. Van Kampen

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Jill M. Grueninger

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David R. Keuler

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Dennis E. Korjened

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(Public Bonds)

Christopher P. Swain

Managing Director
(Public Bonds)

Steven P. Swanson

Managing Director
(Public High-Yield Bonds)

William R. Walker

Managing Director
(Common Stock)

Purpose of the Report

Northwestern Mutual publishes its Investment Report annually to provide information on the asset mix of its portfolio and the investment results generated during the previous calendar year. Certain types of investments have been grouped differently for this report than in Northwestern Mutual's Consolidated Financial Statements (CFS). The most significant of these differences as of December 31, 2005 are:

- *“Other investments” of \$6.9 billion reported in the CFS includes subsidiaries and affiliates, joint ventures, and partnerships. This report classifies these investments based on the character of the underlying assets, including investments in private equities and subsidiaries, real estate, and public common stock of \$3.0 billion, \$1.9 billion and \$.05 billion, respectively.*
- *Mortgage loans of \$18.1 billion reported in the CFS includes \$1.1 billion of loans made to real estate joint ventures in which the company is an equity investor. This report classifies these assets as real estate investments. In addition, mortgage loans reported herein include \$1.9 billion of commercial mortgage-backed securities and other structured mortgage investments, which are classified as bonds in the CFS.*
- *Due and accrued investment income of \$1.2 billion reported separately in the CFS is included in the respective asset classes to which the amounts due relate in this report.*

Total assets, investment income and capital gains in this report are consistent with the company's CFS. PricewaterhouseCoopers LLP is the company's independent accountant. A copy of Northwestern Mutual's Consolidated Financial Statements is available by written request to: Northwestern Mutual, Corporate and Policyowner Relations, Room 114, 720 E. Wisconsin Avenue, Milwaukee, WI, 53202.

The Northwestern Mutual
Life Insurance Company • Milwaukee, WI
www.northwesternmutual.com

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