PRINCIPAL FINANCIAL GROUP INC
Form 10-Q
July 29, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

---

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

1-16725

(Commission file number)

PRINCIPAL FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**42-1520346**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

711 High Street, Des Moines, Iowa 50392
(Address of principal executive offices)

(515) 247-5111
(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The total number of shares of the registrant s Common Stock, $0.01 par value, outstanding as of July 22, 2015, was 294,744,654.

Table of Contents

PRINCIPAL FINANCIAL GROUP, INC.

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Principal Financial Group, Inc.

Consolidated Statements of Financial Position

	June 30, 2015 (Unaudited)	December 31, 2014
	(in millions)	
Assets		
Fixed maturities, available-for-sale (2015 and 2014 include $269.5 million and $278.2 million related to consolidated variable interest entities)	**$ 48,949.7**	$ 49,670.8
Fixed maturities, trading (2015 and 2014 both include $100.4 million related to consolidated variable interest entities)	**560.3**	604.6
Equity securities, available-for-sale	**176.1**	123.0
Equity securities, trading (2015 and 2014 include $347.7 million and $345.3 million related to consolidated variable interest entities)	**891.8**	840.2
Mortgage loans	**12,070.7**	11,811.6
Real estate (2015 and 2014 include $343.9 million and $284.9 million related to consolidated variable interest entities)	**1,435.1**	1,344.6
Policy loans	**824.9**	829.2
Other investments (2015 and 2014 include $37.6 million and $40.6 million related to consolidated variable interest entities and $55.4 million and $127.2 million measured at fair value under the fair value option)	**3,268.0**	3,209.8
Total investments	**68,176.6**	68,433.8
Cash and cash equivalents	**2,264.4**	1,863.9
Accrued investment income	**498.7**	505.9
Premiums due and other receivables	**1,282.7**	1,213.0
Deferred acquisition costs	**3,162.4**	2,993.0
Property and equipment	**601.9**	590.2
Goodwill	**970.7**	1,007.4
Other intangibles	**1,268.8**	1,323.5
Separate account assets (2015 and 2014 include $34,886.5 million and $34,655.4 million related to consolidated variable interest entities)	**142,993.6**	140,072.8
Other assets	**1,050.9**	1,083.5
Total assets	**$ 222,270.7**	$ 219,087.0
Liabilities		
Contractholder funds	**$ 34,041.8**	$ 34,726.7
Future policy benefits and claims	**24,952.7**	24,036.6
Other policyholder funds	**807.0**	812.7
Short-term debt	**26.6**	28.0
Long-term debt (2015 and 2014 include $68.1 million and $82.3 million related to consolidated variable interest entities)	**3,315.9**	2,531.2
Income taxes currently payable	**16.0**	11.5
Deferred income taxes	**819.7**	1,035.3
	142,993.6	140,072.8

Separate account liabilities (2015 and 2014 include $34,886.5 million and $34,655.4 million related to consolidated variable interest entities)				
Other liabilities (2015 and 2014 include $346.5 million and $344.0 million related to consolidated variable interest entities, of which $66.7 million and $71.0 million are measured at fair value under the fair value option)		**5,463.2**		5,542.2
Total liabilities		**212,436.5**		208,797.0
Redeemable noncontrolling interest		**71.6**		58.0
Stockholders equity				
Series A preferred stock, par value $.01 per share with liquidation preference of $100 per share 0.0 million and 3.0 million authorized, issued and outstanding in 2015 and 2014				
Series B preferred stock, par value $.01 per share with liquidation preference of $25 per share 0.0 million and 10.0 million authorized, issued and outstanding in 2015 and 2014				0.1
Common stock, par value $.01 per share 2,500.0 million shares authorized, 465.0 million and 462.7 million shares issued, and 294.7 million and 293.9 million shares outstanding in 2015 and 2014		**4.6**		4.6
Additional paid-in capital		**9,473.8**		9,945.5
Retained earnings		**6,547.9**		6,114.1
Accumulated other comprehensive income (loss)		**(326.6)**		50.4
Treasury stock, at cost (170.3 million and 168.8 million shares in 2015 and 2014)		**(6,006.3)**		(5,930.7)
Total stockholders equity attributable to Principal Financial Group, Inc.		**9,693.4**		10,184.0
Noncontrolling interest		**69.2**		48.0
Total stockholders equity		**9,762.6**		10,232.0
Total liabilities and stockholders equity	**$**	**222,270.7**	$	219,087.0

See accompanying notes.

Table of Contents

Principal Financial Group, Inc.

Consolidated Statements of Operations

(Unaudited)

	For the three months ended June 30, 2015	For the three months ended June 30, 2014	For the six months ended June 30, 2015	For the six months ended June 30, 2014
	(in millions, except per share data)			
Revenues				
Premiums and other considerations	**$ 1,682.4**	$ 835.4	**$ 2,598.8**	$ 1,639.0
Fees and other revenues	**901.5**	855.5	**1,852.3**	1,685.2
Net investment income	**789.9**	829.0	**1,513.8**	1,673.7
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	**(108.6)**	109.7	**(34.9)**	129.5
Net other-than-temporary impairment (losses) recoveries on available-for-sale securities	**(0.6)**	14.9	**13.4**	25.8
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified from other comprehensive income	**(5.4)**	(37.8)	**(26.9)**	(67.9)
Net impairment losses on available-for-sale securities	**(6.0)**	(22.9)	**(13.5)**	(42.1)
Net realized capital gains (losses)	**(114.6)**	86.8	**(48.4)**	87.4
Total revenues	**3,259.2**	2,606.7	**5,916.5**	5,085.3
Expenses				
Benefits, claims and settlement expenses	**2,054.6**	1,268.4	**3,290.9**	2,495.9
Dividends to policyholders	**41.1**	44.6	**82.8**	90.3
Operating expenses	**869.0**	886.2	**1,790.2**	1,715.2
Total expenses	**2,964.7**	2,199.2	**5,163.9**	4,301.4
Income before income taxes	**294.5**	407.5	**752.6**	783.9
Income taxes	**29.6**	88.3	**58.6**	140.6
Net income	**264.9**	319.2	**694.0**	643.3
Net income attributable to noncontrolling interest	**7.3**	4.6	**14.0**	26.8
Net income attributable to Principal Financial Group, Inc.	**257.6**	314.6	**680.0**	616.5
Preferred stock dividends	**8.3**	8.3	**16.5**	16.5
Excess of redemption value over carrying value of preferred shares redeemed	**8.2**		**8.2**	
Net income available to common stockholders	**$ 241.1**	$ 306.3	**$ 655.3**	$ 600.0
Earnings per common share				
Basic earnings per common share	**$ 0.82**	$ 1.04	**$ 2.22**	$ 2.00
Diluted earnings per common share	**$ 0.81**	$ 1.03	**$ 2.20**	$ 1.98
Dividends declared per common share	**$ 0.38**	$ 0.32	**$ 0.74**	$ 0.60

See accompanying notes.

Table of Contents

Principal Financial Group, Inc.

Consolidated Statements of Comprehensive Income

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
	(in millions)			
Net income	**$ 264.9**	$ 319.2	**$ 694.0**	$ 643.3
Other comprehensive income (loss), net:				
Net unrealized gains (losses) on available-for-sale securities	**(306.4)**	178.3	**(249.3)**	370.5
Noncredit component of impairment losses on fixed maturities, available-for-sale	**3.4**	20.4	**16.9**	37.9
Net unrealized gains (losses) on derivative instruments	**(16.1)**	4.1	**11.7**	13.1
Foreign currency translation adjustment	**(42.5)**	33.0	**(175.1)**	(12.6)
Net unrecognized postretirement benefit obligation	**12.0**	3.6	**24.0**	7.1
Other comprehensive income (loss)	**(349.6)**	239.4	**(371.8)**	416.0
Comprehensive income (loss)	**(84.7)**	558.6	**322.2**	1,059.3
Comprehensive income attributable to noncontrolling interest	**8.9**	6.4	**9.3**	26.6
Comprehensive income (loss) attributable to Principal Financial Group, Inc.	**$ (93.6)**	$ 552.2	**$ 312.9**	$ 1,032.7

See accompanying notes.

Table of Contents

Principal Financial Group, Inc.

Consolidated Statements of Stockholders Equity

(Unaudited)

	Series A preferred stock	Series B preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Noncontrolling interest	Total stockholders equity
					(in millions)				
Balances at January 1, 2014	$	$ 0.1	$ 4.6	$ 9,798.9	$ 5,405.4	$ 183.2	$ (5,708.0)	$ 92.8	$ 9,777.0
Common stock issued				26.1					26.1
Stock-based compensation and additional related tax benefits				41.7	(2.9)				38.8
Treasury stock acquired, common							(149.8)		(149.8)
Dividends to common stockholders					(176.8)				(176.8)
Dividends to preferred stockholders					(16.5)				(16.5)
Distributions to noncontrolling interest								(22.3)	(22.3)
Contributions from noncontrolling interest								8.2	8.2
Purchase of subsidiary shares from noncontrolling interest				(0.4)				(39.7)	(40.1)
Adjustments to redemption amount of redeemable noncontrolling interest				(27.1)	(9.4)				(36.5)
Net income (excludes $5.2 million attributable to redeemable noncontrolling interest)					616.5			21.6	638.1
Other comprehensive income (excludes $2.9 million attributable to redeemable noncontrolling interest)						416.2		(3.1)	413.1
Balances at June 30, 2014	$	$ 0.1	$ 4.6	$ 9,839.2	$ 5,816.3	$ 599.4	$ (5,857.8)	$ 57.5	$ 10,459.3
Balances at January 1, 2015	**$**	**$ 0.1**	**$ 4.6**	**$ 9,945.5**	**$ 6,114.1**	**$ 50.4**	**$ (5,930.7)**	**$ 48.0**	**$ 10,232.0**
Common stock issued				**29.6**					**29.6**
Stock-based compensation and additional related tax benefits				**53.4**	**(3.2)**				**50.2**
Treasury stock acquired, common							**(75.6)**		**(75.6)**
Dividends to common stockholders					**(218.3)**				**(218.3)**
Dividends to preferred stockholders					**(16.5)**				**(16.5)**
Preferred stock redemption		**(0.1)**		**(541.7)**	**(8.2)**				**(550.0)**
Distributions to noncontrolling interest								**(11.6)**	**(11.6)**
Contributions from noncontrolling interest								**4.9**	**4.9**
Purchase of subsidiary shares from noncontrolling interest				**(9.7)**		**(9.9)**		**15.1**	**(4.5)**

Adjustments to redemption amount of redeemable noncontrolling interest				**(3.3)**					**(3.3)**
Net income (excludes $2.1 million attributable to redeemable noncontrolling interest)					**680.0**			**11.9**	**691.9**
Other comprehensive loss (excludes $(5.6) million attributable to redeemable noncontrolling interest)						**(367.1)**		**0.9**	**(366.2)**
Balances at June 30, 2015	**$**	**$**	**$ 4.6**	**$ 9,473.8**	**$ 6,547.9**	**$ (326.6)**	**$ (6,006.3)**	**$ 69.2**	**$ 9,762.6**

See accompanying notes.

Table of Contents

Principal Financial Group, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	For the six months ended June 30, 2015	2014
	(in millions)	
Operating activities		
Net income	$ 694.0	$ 643.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred acquisition costs	101.6	143.0
Additions to deferred acquisition costs	(191.9)	(193.6)
Accrued investment income	7.2	35.0
Net cash flows for trading securities	(33.3)	(86.5)
Premiums due and other receivables	(48.2)	50.9
Contractholder and policyholder liabilities and dividends	1,546.2	829.4
Current and deferred income taxes (benefits)	(75.4)	114.3
Net realized capital (gains) losses	48.4	(87.4)
Depreciation and amortization expense	83.3	81.5
Mortgage loans held for sale, sold or repaid, net of gain		8.4
Real estate acquired through operating activities	(29.3)	(35.5)
Real estate sold through operating activities	51.6	146.0
Stock-based compensation	50.3	39.3
Other	(87.1)	(310.8)
Net adjustments	1,423.4	734.0
Net cash provided by operating activities	2,117.4	1,377.3
Investing activities		
Available-for-sale securities:		
Purchases	(4,828.5)	(4,593.1)
Sales	983.1	1,385.6
Maturities	3,636.1	2,966.0
Mortgage loans acquired or originated	(1,057.1)	(956.9)
Mortgage loans sold or repaid	775.3	865.2
Real estate acquired	(204.1)	(193.9)
Net purchases of property and equipment	(67.3)	(93.3)
Net change in other investments	(174.6)	123.8
Net cash used in investing activities	(937.1)	(496.6)
Financing activities		
Issuance of common stock	29.6	26.1
Acquisition of treasury stock	(75.6)	(149.8)
Proceeds from financing element derivatives	0.2	14.6
Payments for financing element derivatives	(39.5)	(25.6)
Excess tax benefits from share-based payment arrangements	14.1	5.8
Purchase of subsidiary shares from noncontrolling interest	(11.0)	(40.1)
Dividends to common stockholders	(218.3)	(176.8)
Dividends to preferred stockholders	(16.5)	(16.5)
Preferred stock redemption	(550.0)	
Issuance of long-term debt	797.4	27.4
Principal repayments of long-term debt	(19.8)	(100.1)
Net repayments of short-term borrowings		(0.3)
Investment contract deposits	2,722.9	2,648.1

Investment contract withdrawals		**(3,414.7)**		(3,701.3)
Net increase (decrease) in banking operation deposits		**8.2**		(15.3)
Other		**(6.8)**		(6.4)
Net cash used in financing activities		**(779.8)**		(1,510.2)
Net increase (decrease) in cash and cash equivalents		**400.5**		(629.5)
Cash and cash equivalents at beginning of period		**1,863.9**		2,371.8
Cash and cash equivalents at end of period	**$**	**2,264.4**	$	1,742.3

See accompanying notes.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements

June 30, 2015
(Unaudited)

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of Principal Financial Group, Inc. (PFG), its majority-owned subsidiaries and its consolidated variable interest entities (VIEs), have been prepared in conformity with accounting principles generally accepted in the U.S. (U.S. GAAP) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2015, are not necessarily indicative of the results that may be expected for the year ended December 31, 2015. These interim unaudited consolidated financial statements should be read in conjunction with our annual audited financial statements as of December 31, 2014, included in our Form 10-K for the year ended December 31, 2014, filed with the United States Securities and Exchange Commission (SEC). The accompanying consolidated statement of financial position as of December 31, 2014, has been derived from the audited consolidated statement of financial position but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

In February 2015, we announced planned changes to our organizational structure to better align businesses, distribution teams and product offerings for future growth. We plan to implement these changes during 2015 and will report our consolidated financial statements under the new structure in our December 31, 2015, Form 10-K. The changes are not expected to have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements

[redacted]		
Standards not yet adopted:		
[redacted]		
Revenue recognition This authoritative guidance replaces all general and most industry specific revenue recognition guidance currently prescribed by U.S. GAAP. The core principle is that an entity recognizes revenue to reflect the transfer of a promised good or service to	January 1, 2018	We are currently evaluating the impact this guidance will have on our consolidated financial statements.

customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for that good or service.		
[redacted]		
Consolidations This authoritative guidance makes changes to both the variable interest and voting interest consolidation models and eliminates the investment company deferral for portions of the variable interest model. The amendments in the standard impact the consolidation analysis for interests in investment companies and limited partnerships and similar entities.	January 1, 2016	We are currently evaluating the impact this guidance will have on our consolidated financial statements.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
Standards adopted:		
Discontinued operations This authoritative guidance amends the definition of discontinued operations and requires entities to provide additional disclosures associated with discontinued operations, as well as disposal transactions that do not meet the discontinued operations criteria. The guidance requires discontinued operations treatment for disposals of a component or group of components of an entity that represents a strategic shift that has or will have a major impact on an entity s operations or financial results. The guidance also expands the scope to disposals of equity method investments and businesses that, upon initial acquisition, qualify as held for sale.	January 1, 2015	This guidance was adopted prospectively and did not have a material impact on our consolidated financial statements.
Foreign currency cumulative translation adjustment This authoritative guidance clarifies how the cumulative translation adjustment related to a parent s investment in a foreign entity should be released when certain transactions related to the foreign entity occur.	January 1, 2014	The guidance was adopted prospectively and did not have a material impact on our consolidated financial statements.

Separate Accounts

The separate accounts are legally segregated and are not subject to the claims that arise out of any of our other business. The client, rather than us, directs the investments and bears the investment risk of these funds. The separate account assets represent the fair value of funds that are separately administered by us for contracts with equity, real estate and fixed income investments and are presented as a summary total within the consolidated statements of financial position. An equivalent amount is reported as separate account liabilities, which represent the obligation to return the monies to the client. We receive fees for mortality, withdrawal and expense risks, as well as administrative, maintenance and investment advisory services that are included in the consolidated statements of operations. Net deposits, net investment income and realized and unrealized capital gains and losses of the separate accounts are not reflected in the consolidated statements of operations.

Separate account assets and separate account liabilities include certain retirement accumulation products where the segregated funds and associated obligation to the client are consolidated within our financial statements. We have determined that summary totals are the most meaningful presentation for these funds.

At June 30, 2015 and December 31, 2014, the separate account assets include a separate account valued at $190.7 million and $205.4 million, respectively, which primarily includes shares of our stock that were allocated and issued to eligible participants of qualified employee benefit plans administered by us as part of the policy credits issued under our 2001 demutualization. These shares are included in both basic and diluted earnings per share calculations. In the consolidated statements of financial position, the separate account shares are recorded at fair value and are reported as separate account assets with a corresponding separate account liability to eligible participants of the qualified plan. Changes in fair value of the separate account shares are reflected in both the separate account assets and separate account liabilities and do not impact our results of operations.

2. Variable Interest Entities

We have relationships with and may have a variable interest in various types of special purpose entities. Following is a discussion of our interest in entities that meet the definition of a VIE. When we are the primary beneficiary, we are required to consolidate the entity in our financial statements. The primary beneficiary of a VIE is defined as the enterprise with (1) the power to direct the activities of a VIE that most significantly impact the entity s economic performance and (2) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. For VIEs that are investment companies, the primary beneficiary is the enterprise who absorbs the majority of the entity s expected losses, receives a majority of the expected residual returns or both. On an ongoing basis, we assess whether we are the primary beneficiary of VIEs in which we have a relationship.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

Consolidated Variable Interest Entities

Grantor Trusts

We contributed undated subordinated floating rate notes to three grantor trusts. The trusts separated the cash flows by issuing an interest-only certificate and a residual certificate related to each note contributed. Each interest-only certificate entitles the holder to interest on the stated note for a specified term, while the residual certificate entitles the holder to interest payments subsequent to the term of the interest-only certificate and to all principal payments. We retained the interest-only certificates and the residual certificates were subsequently sold to third parties. We have determined these grantor trusts are VIEs due to insufficient equity to sustain them. We determined we are the primary beneficiary as a result of our contribution of securities into the trusts and our continuing interest in the trusts.

Collateralized Private Investment Vehicle

We invest in synthetic collateralized debt obligations, collateralized bond obligations, collateralized loan obligations and other collateralized structures, which are VIEs due to insufficient equity to sustain the entities (collectively known as collateralized private investment vehicles). The performance of the notes of these structures is primarily linked to a synthetic portfolio by derivatives; each note has a specific loss attachment and detachment point. The notes and related derivatives are collateralized by a pool of permitted investments. The investments are held by a trustee and can only be liquidated to settle obligations of the trusts. These obligations primarily include derivatives and the notes due at maturity or termination of the trusts. We determined we are the primary beneficiary for one of these entities because we act as the investment manager of the underlying portfolio and we have an ownership interest.

Commercial Mortgage-Backed Securities

We sold commercial mortgage loans to a real estate mortgage investment conduit trust. The trust issued various commercial mortgage-backed securities (CMBS) certificates using the cash flows of the underlying commercial mortgages it purchased. This is considered a VIE due to insufficient equity to sustain itself. We have determined we are the primary beneficiary as we retained the special servicing role for the assets within the trust as well as the ownership of the bond class that controls the unilateral kick out rights of the special servicer.

Mandatory Retirement Savings

We hold an equity interest in Chilean mandatory privatized social security funds in which we provide asset management services. We determined that the mandatory privatized social security funds, which also include contributions for voluntary pension savings, voluntary non-pension savings and compensation savings accounts, are VIEs. This is because the equity holders as a group lack the power, due to voting rights or similar rights, to direct the activities of the entity that most significantly impact the entity s economic performance and also because equity investors are protected from below-average market investment returns relative to the industry s return, due to a regulatory guarantee that we provide. Further we concluded that we are the primary beneficiary through our power to make decisions and our variable interest in the funds. The purpose of the funds, which reside in legally segregated entities, is to provide long-term retirement savings. The obligation to the client is directly related to the assets held in the funds and, as such, we present the assets as separate account assets and the obligation as separate account liabilities within our consolidated statements of financial position.

Real Estate

We invest in several real estate limited partnerships and limited liability companies. The entities invest in real estate properties. Certain of these entities are VIEs based on the combination of our significant economic interest and related voting rights. We determined we are the primary beneficiary as a result of our power to control the entities through our significant ownership. Due to the nature of these real estate investments, the investment balance will fluctuate as we purchase and sell interests in the entities and as capital expenditures are made to improve the underlying real estate.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

The carrying amounts of our consolidated VIE assets, which can only be used to settle obligations of consolidated VIEs, and liabilities of consolidated VIEs for which creditors do not have recourse are as follows:

	Grantor trusts	Collateralized private investment vehicle	CMBS	Mandatory retirement savings	Real estate	Total
			(in millions)			
June 30, 2015						
Fixed maturities, available-for-sale	**$ 269.5**	**$**	**$**	**$**	**$**	**$ 269.5**
Fixed maturities, trading		**100.4**				**100.4**
Equity securities, trading				**347.7**		**347.7**
Real estate					**343.9**	**343.9**
Other investments			**25.7**		**11.9**	**37.6**
Cash					**18.6**	**18.6**
Accrued investment income	**0.4**		**0.2**		**1.2**	**1.8**
Premiums due and other considerations					**2.0**	**2.0**
Separate account assets				**34,886.5**		**34,886.5**
Other assets					**0.3**	**0.3**
Total assets	**$ 269.9**	**$ 100.4**	**$ 25.9**	**$ 35,234.2**	**$ 377.9**	**$ 36,008.3**
Long-term debt	**$**	**$**	**$**	**$**	**$ 68.1**	**$ 68.1**
Income taxes currently payable					**3.3**	**3.3**
Deferred income taxes	**1.6**				**(0.4)**	**1.2**
Separate account liabilities				**34,886.5**		**34,886.5**
Other liabilities (1)	**237.0**	**85.1**	**(0.8)**		**25.2**	**346.5**
Total liabilities	**$ 238.6**	**$ 85.1**	**$ (0.8)**	**$ 34,886.5**	**$ 96.2**	**$ 35,305.6**
December 31, 2014						
Fixed maturities, available-for-sale	$ 278.2	$	$	$	$	$ 278.2
Fixed maturities, trading		100.4				100.4
Equity securities, trading				345.3		345.3
Real estate					284.9	284.9
Other investments			35.0		5.6	40.6
Cash					4.7	4.7
Accrued investment income	0.4		0.2		1.4	2.0
Separate account assets				34,655.4		34,655.4
Other assets					0.3	0.3
Total assets	$ 278.6	$ 100.4	$ 35.2	$ 35,000.7	$ 296.9	$ 35,711.8
Long-term debt	$	$	$	$	$ 82.3	$ 82.3
Income taxes currently payable					10.6	10.6
Deferred income taxes	1.5				(0.4)	1.1

Separate account liabilities				34,655.4		34,655.4
Other liabilities (1)	239.1	85.6	4.8		14.5	344.0
Total liabilities	$ 240.6	$ 85.6	$ 4.8	$ 34,655.4	$ 107.0	$ 35,093.4

(1) Grantor trusts contain an embedded derivative of a forecasted transaction to deliver the underlying securities; the collateralized private investment vehicle includes derivative liabilities and an obligation to redeem notes at maturity or termination of the trust.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

We did not provide financial or other support to investees designated as VIEs for the periods ended June 30, 2015 and December 31, 2014.

Unconsolidated Variable Interest Entities

Invested Securities

We hold a variable interest in a number of VIEs where we are not the primary beneficiary. Our investments in these VIEs are reported in fixed maturities, available-for-sale; fixed maturities, trading and other investments in the consolidated statements of financial position and are described below.

Unconsolidated VIEs include CMBS, residential mortgage-backed pass-through securities (RMBS) and other asset-backed securities (ABS). All of these entities were deemed VIEs because the equity within these entities is insufficient to sustain them. We determined we are not the primary beneficiary in the entities within these categories of investments. This determination was based primarily on the fact we do not own the class of security that controls the unilateral right to replace the special servicer or equivalent function.

As previously discussed, we invest in several types of collateralized private investment vehicles, which are VIEs. These include cash and synthetic structures that we do not manage. We have determined we are not the primary beneficiary of these collateralized private investment vehicles primarily because we do not control the economic performance of the entities and were not involved with the design of the entities.

We have invested in various VIE trusts as a debt holder. All of these entities are classified as VIEs due to insufficient equity to sustain them. We have determined we are not the primary beneficiary primarily because we do not control the economic performance of the entities and were not involved with the design of the entities.

We have invested in partnerships and other funds, some of which are classified as VIEs. Some of these entities have returns in the form of income tax credits. These entities are classified as VIEs as the general partners do not have equity investments at risk in the entities. We have determined we are not the primary beneficiary because we are not the general partner, who makes all the significant decisions for the entities. Other limited partnerships and fund interests have returns from investment income. These entities are classified as VIEs as the decision makers do not have equity investments at risk in the entities. We have determined we are not the primary beneficiary because we do not make the significant decisions for the entities, or our variable interest does not absorb the majority of the variability of the entities net assets.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

The carrying value and maximum loss exposure for our unconsolidated VIEs were as follows:

	Asset carrying value	Maximum exposure to loss (1)
	(in millions)	
June 30, 2015		
Fixed maturities, available-for-sale:		
Corporate	**$ 447.6**	**$ 354.5**
Residential mortgage-backed pass-through securities	**2,666.5**	**2,573.3**
Commercial mortgage-backed securities	**3,875.2**	**3,810.5**
Collateralized debt obligations	**642.0**	**660.1**
Other debt obligations	**4,525.1**	**4,494.3**
Fixed maturities, trading:		
Residential mortgage-backed pass-through securities	**29.5**	**29.5**
Commercial mortgage-backed securities	**1.6**	**1.6**
Collateralized debt obligations	**39.4**	**39.4**
Other investments:		
Other limited partnership and fund interests	**203.4**	**203.4**
December 31, 2014		
Fixed maturities, available-for-sale:		
Corporate	$ 456.7	$ 353.3
Residential mortgage-backed pass-through securities	2,822.9	2,702.9
Commercial mortgage-backed securities	3,975.5	3,896.9
Collateralized debt obligations	504.1	521.2
Other debt obligations	4,616.4	4,583.4
Fixed maturities, trading:		
Residential mortgage-backed pass-through securities	34.4	34.4
Commercial mortgage-backed securities	1.5	1.5
Collateralized debt obligations	39.4	39.4
Other debt obligations	0.2	0.2
Other investments:		
Other limited partnership and fund interests	188.2	188.2

(1) Our risk of loss is limited to our initial investment measured at amortized cost for fixed maturities, available-for-sale and other investments. Our risk of loss is limited to our investment measured at fair value for our fixed maturities, trading.

Sponsored Investment Funds

We are the investment manager for certain money market mutual funds that are deemed to be VIEs. We are not the primary beneficiary of these VIEs since our involvement is limited primarily to being a service provider, and our variable interest does not absorb the majority of the variability of the entities net assets. As of June 30, 2015 and December 31, 2014, these VIEs held $1.3 billion and $1.4 billion in total assets, respectively. We have no contractual obligation to contribute to the funds.

We provide asset management and other services to certain investment structures for which we earn performance-based management fees. These structures are considered VIEs. We are not the primary beneficiary of these entities as we do not have the obligation to absorb losses of the entities that could be potentially significant to the VIE or the right to receive benefits from these entities that could be potentially significant.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

3. Investments

Fixed Maturities and Equity Securities

Fixed maturities include bonds, ABS, redeemable preferred stock and certain nonredeemable preferred securities. Equity securities include mutual funds, common stock, nonredeemable preferred stock and regulatory required investments. We classify fixed maturities and equity securities as either available-for-sale or trading at the time of the purchase and, accordingly, carry them at fair value. See Note 10, Fair Value Measurements, for methodologies related to the determination of fair value. Unrealized gains and losses related to available-for-sale securities, excluding those in fair value hedging relationships, are reflected in stockholders equity, net of adjustments associated with deferred acquisition costs (DAC) and related actuarial balances, derivatives in cash flow hedge relationships and applicable income taxes. Unrealized gains and losses related to hedged portions of available-for-sale securities in fair value hedging relationships and mark-to-market adjustments on certain trading securities are reflected in net realized capital gains (losses). Mark-to-market adjustments related to certain securities carried at fair value with an investment objective to realize economic value through mark-to-market changes are reflected in net investment income.

The cost of fixed maturities is adjusted for amortization of premiums and accrual of discounts, both computed using the interest method. The cost of fixed maturities and equity securities classified as available-for-sale is adjusted for declines in value that are other than temporary. Impairments in value deemed to be other than temporary are primarily reported in net income as a component of net realized capital gains (losses), with noncredit impairment losses for certain fixed maturities, available-for-sale reported in other comprehensive income (OCI). For loan-backed and structured securities, we recognize income using a constant effective yield based on currently anticipated cash flows.

The amortized cost, gross unrealized gains and losses, other-than-temporary impairments in accumulated other comprehensive income (AOCI) and fair value of fixed maturities and equity securities available-for-sale are summarized as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses (in millions)	Fair value	Other-than-temporary impairments in AOCI (1)
June 30, 2015					
Fixed maturities, available-for-sale:					
U.S. government and agencies	$ **1,304.1**	$ **22.7**	$ **10.5**	$ **1,316.3**	$
Non-U.S. governments	**649.4**	**152.1**	**2.2**	**799.3**	
States and political subdivisions	**4,119.5**	**194.3**	**35.4**	**4,278.4**	
Corporate	**29,142.9**	**1,948.3**	**267.5**	**30,823.7**	**0.9**
Residential mortgage-backed pass-through securities	**2,573.3**	**105.7**	**12.5**	**2,666.5**	

Commercial mortgage-backed securities	**3,810.5**	**113.6**	**48.9**	**3,875.2**	**83.9**
Collateralized debt obligations	**660.1**	**3.1**	**21.2**	**642.0**	**1.3**
Other debt obligations	**4,517.6**	**53.3**	**22.6**	**4,548.3**	**62.5**
Total fixed maturities, available-for-sale	**$ 46,777.4**	**$ 2,593.1**	**$ 420.8**	**$ 48,949.7**	**$ 148.6**
Total equity securities, available-for-sale	**$ 180.0**	**$ 7.3**	**$ 11.2**	**$ 176.1**	
December 31, 2014					
Fixed maturities, available-for-sale:					
U.S. government and agencies	$ 1,085.6	$ 39.1	$ 2.9	$ 1,121.8	$
Non-U.S. governments	704.4	188.3	1.6	891.1	
States and political subdivisions	3,916.8	291.3	4.1	4,204.0	
Corporate	29,308.3	2,442.6	215.9	31,535.0	18.4
Residential mortgage-backed pass-through securities	2,702.9	126.3	6.3	2,822.9	
Commercial mortgage-backed securities	3,896.9	141.5	62.9	3,975.5	88.9
Collateralized debt obligations	521.2	3.5	20.6	504.1	1.3
Other debt obligations	4,583.4	57.5	24.5	4,616.4	66.9
Total fixed maturities, available-for-sale	$ 46,719.5	$ 3,290.1	$ 338.8	$ 49,670.8	$ 175.5
Total equity securities, available-for-sale	$ 125.1	$ 7.7	$ 9.8	$ 123.0	

(1) Excludes $153.5 million and $167.5 million as of June 30, 2015 and December 31, 2014, respectively, of net unrealized gains on impaired fixed maturities, available-for-sale related to changes in fair value subsequent to the impairment date, which are included in gross unrealized gains and gross unrealized losses.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

The amortized cost and fair value of fixed maturities available-for-sale at June 30, 2015, by expected maturity, were as follows:

	Amortized cost	Fair value
	(in millions)	
Due in one year or less	**$ 2,490.2**	**$ 2,523.2**
Due after one year through five years	**12,969.9**	**13,504.5**
Due after five years through ten years	**7,993.0**	**8,337.6**
Due after ten years	**11,762.8**	**12,852.4**
Subtotal	**35,215.9**	**37,217.7**
Mortgage-backed and other asset-backed securities	**11,561.5**	**11,732.0**
Total	**$ 46,777.4**	**$ 48,949.7**

Actual maturities may differ because borrowers may have the right to call or prepay obligations. Our portfolio is diversified by industry, issuer and asset class. Credit concentrations are managed to established limits.

Net Realized Capital Gains and Losses

Net realized capital gains and losses on sales of investments are determined on the basis of specific identification. In general, in addition to realized capital gains and losses on investment sales and periodic settlements on derivatives not designated as hedges, we report gains and losses related to the following in net realized capital gains (losses): other-than-temporary impairments of securities and subsequent realized recoveries, mark-to-market adjustments on certain trading securities, mark-to-market adjustments on certain seed money investments, fair value hedge and cash flow hedge ineffectiveness, mark-to-market adjustments on derivatives not designated as hedges, changes in the mortgage loan valuation allowance provision and impairments of real estate held for investment. Investment gains and losses on sales of certain real estate held for sale that do not meet the criteria for classification as a discontinued operation and mark-to-market adjustments on certain securities carried at fair value with an investment objective to realize economic value through mark-to-market changes are reported as net investment income and are excluded from net realized capital gains (losses). The major components of net realized capital gains (losses) on investments are summarized as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
	(in millions)			
Fixed maturities, available-for-sale:				
Gross gains	**$ 3.4**	$ 35.4	**$ 13.2**	$ 39.0
Gross losses	**(1.8)**	(14.7)	**(3.3)**	(17.9)
Net impairment losses	**(6.3)**	(22.7)	**(13.8)**	(47.8)
Hedging, net	**(25.3)**	(3.0)	**(35.9)**	1.5
Fixed maturities, trading	**(5.0)**	8.3	**(4.3)**	22.5

Equity securities, available-for-sale:								
Gross gains				0.2				0.2
Gross losses								(0.1)
Net impairment recoveries (losses)		**0.3**		(0.2)		**0.3**		5.7
Equity securities, trading		**2.4**		6.0		**3.9**		9.6
Mortgage loans		**2.3**				**(0.1)**		1.4
Derivatives		**(57.6)**		15.2		**5.0**		3.9
Other		**(27.0)**		62.3		**(13.4)**		69.4
Net realized capital gains (losses)	**$**	**(114.6)**	$	86.8	**$**	**(48.4)**	$	87.4

Proceeds from sales of investments (excluding call and maturity proceeds) in fixed maturities, available-for-sale were $325.0 million and $835.6 million for the three months ended June 30, 2015 and 2014, and $881.3 million and $1,307.5 million for the six months ended June 30, 2015 and 2014, respectively.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

Other-Than-Temporary Impairments

We have a process in place to identify fixed maturity and equity securities that could potentially have a credit impairment that is other than temporary. This process involves monitoring market events that could impact issuers credit ratings, business climate, management changes, litigation and government actions and other similar factors. This process also involves monitoring late payments, pricing levels, downgrades by rating agencies, key financial ratios, financial statements, revenue forecasts and cash flow projections as indicators of credit issues.

Each reporting period, all securities are reviewed to determine whether an other-than-temporary decline in value exists and whether losses should be recognized. We consider relevant facts and circumstances in evaluating whether a credit or interest-related impairment of a security is other than temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in value; (3) the financial position and access to capital of the issuer, including the current and future impact of any specific events; (4) for structured securities, the adequacy of the expected cash flows; (5) for fixed maturities, our intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity and (6) for equity securities, our ability and intent to hold the security for a period of time that allows for the recovery in value. To the extent we determine that a security is deemed to be other than temporarily impaired, an impairment loss is recognized.

Impairment losses on equity securities are recognized in net income and are measured as the difference between amortized cost and fair value. The way in which impairment losses on fixed maturities are recognized in the financial statements is dependent on the facts and circumstances related to the specific security. If we intend to sell a security or it is more likely than not that we would be required to sell a security before the recovery of its amortized cost, we recognize an other-than-temporary impairment in net income for the difference between amortized cost and fair value. If we do not expect to recover the amortized cost basis, we do not plan to sell the security and if it is not more likely than not that we would be required to sell a security before the recovery of its amortized cost, the recognition of the other-than-temporary impairment is bifurcated. We recognize the credit loss portion in net income and the noncredit loss portion in OCI (bifurcated OTTI).

Total other-than-temporary impairment losses, net of recoveries from the sale of previously impaired securities, were as follows:

	For the three months ended June 30, 2015	For the three months ended June 30, 2014	For the six months ended June 30, 2015	For the six months ended June 30, 2014
	(in millions)			
Fixed maturities, available-for-sale	**$ (0.9)**	$ 15.1	**$ 13.1**	$ 20.1
Equity securities, available-for-sale	**0.3**	(0.2)	**0.3**	5.7
Total other-than-temporary impairment losses, net of recoveries from the sale of previously impaired securities	**(0.6)**	14.9	**13.4**	25.8
Other-than-temporary impairment losses on fixed maturities, available-for-sale	**(5.4)**	(37.8)	**(26.9)**	(67.9)

reclassified from OCI (1)								
Net impairment losses on available-for-sale securities	**$**	**(6.0)**	$	(22.9)	**$**	**(13.5)**	$	(42.1)

(1) Represents the net impact of (a) gains resulting from reclassification of noncredit impairment losses for fixed maturities with bifurcated OTTI from net realized capital gains (losses) to OCI and (b) losses resulting from reclassification of previously recognized noncredit impairment losses from OCI to net realized capital gains (losses) for fixed maturities with bifurcated OTTI that had additional credit losses or fixed maturities that previously had bifurcated OTTI that have now been sold or are intended to be sold.

We estimate the amount of the credit loss component of a fixed maturity security impairment as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The methodology and assumptions for establishing the best estimate cash flows vary depending on the type of security. The ABS cash flow estimates are based on security specific facts and circumstances that may include collateral

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

characteristics, expectations of delinquency and default rates, loss severity and prepayment speeds and structural support, including subordination and guarantees. The corporate security cash flow estimates are derived from scenario-based outcomes of expected corporate restructurings or liquidations using bond specific facts and circumstances including timing, security interests and loss severity.

The following table provides a rollforward of accumulated credit losses for fixed maturities with bifurcated credit losses. The purpose of the table is to provide detail of (1) additions to the bifurcated credit loss amounts recognized in net realized capital gains (losses) during the period and (2) decrements for previously recognized bifurcated credit losses where the loss is no longer bifurcated and/or there has been a positive change in expected cash flows or accretion of the bifurcated credit loss amount.

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
	(in millions)			
Beginning balance	**$ (138.6)**	$ (224.2)	**$ (144.4)**	$ (235.4)
Credit losses for which an other-than-temporary impairment was not previously recognized	**(0.8)**	(3.6)	**(1.6)**	(3.9)
Credit losses for which an other-than-temporary impairment was previously recognized	**(6.4)**	(20.4)	**(8.1)**	(44.5)
Reduction for credit losses previously recognized on fixed maturities now sold, paid down or intended to be sold	**10.0**	60.4	**16.2**	94.0
Net reduction for positive changes in cash flows expected to be collected and amortization (1)	**1.0**	2.1	**3.0**	4.1
Foreign currency translation adjustment	**0.1**		**0.2**	
Ending balance	**$ (134.7)**	$ (185.7)	**$ (134.7)**	$ (185.7)

(1) Amounts are recognized in net investment income.

Gross Unrealized Losses for Fixed Maturities and Equity Securities

For fixed maturities and equity securities available-for-sale with unrealized losses, including other-than-temporary impairment losses reported in OCI, the gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position are summarized as follows:

	June 30, 2015					
	Less than twelve months		Greater than or equal to twelve months		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
	(in millions)					
Fixed maturities, available-for-sale:						
U.S. government and agencies	$ 400.2	$ 9.9	$ 39.8	$ 0.6	$ 440.0	$ 10.5
Non-U.S. governments	39.2	0.3	18.2	1.9	57.4	2.2
States and political subdivisions	992.2	34.6	26.2	0.8	1,018.4	35.4
Corporate	4,679.1	132.0	996.7	135.5	5,675.8	267.5
Residential mortgage-backed pass-through securities	474.1	7.0	158.0	5.5	632.1	12.5
Commercial mortgage-backed securities	720.8	7.3	328.3	41.6	1,049.1	48.9
Collateralized debt obligations	143.0	0.7	140.7	20.5	283.7	21.2
Other debt obligations	1,072.3	6.2	326.5	16.4	1,398.8	22.6
Total fixed maturities, available-for-sale	$ 8,520.9	$ 198.0	$ 2,034.4	$ 222.8	$ 10,555.3	$ 420.8
Total equity securities, available-for-sale	$ 40.7	$ 0.3	$ 34.9	$ 10.9	$ 75.6	$ 11.2

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

Of the total amounts, Principal Life s consolidated portfolio represented $10,258.6 million in available-for-sale fixed maturities with gross unrealized losses of $393.3 million. Of those fixed maturity securities in Principal Life s consolidated portfolio with a gross unrealized loss position, 87% were investment grade (rated AAA through BBB-) with an average price of 96 (carrying value/amortized cost) at June 30, 2015. Gross unrealized losses in our fixed maturities portfolio increased during the six months ended June 30, 2015, due primarily to an increase in interest rates and widening of credit spreads.

For those securities that had been in a continuous unrealized loss position for less than twelve months, Principal Life s consolidated portfolio held 1,169 securities with a carrying value of $8,368.4 million and unrealized losses of $195.2 million reflecting an average price of 98 at June 30, 2015. Of this portfolio, 90% was investment grade (rated AAA through BBB-) at June 30, 2015, with associated unrealized losses of $149.1 million. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

For those securities that had been in a continuous unrealized loss position greater than or equal to twelve months, Principal Life s consolidated portfolio held 312 securities with a carrying value of $1,890.2 million and unrealized losses of $198.1 million. The average rating of this portfolio was A- with an average price of 91 at June 30, 2015. Of the $198.1 million in unrealized losses, the commercial mortgage-backed securities sector accounts for $41.6 million in unrealized losses with an average price of 89 and an average credit rating of BBB+. The remaining unrealized losses consist primarily of $112.8 million within the corporate sector at June 30, 2015. The average price of the corporate sector was 89 and the average credit rating was BBB. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

Because we expected to recover our amortized cost, it was not our intent to sell the fixed maturity available-for-sale securities with unrealized losses and it was not more likely than not that we would be required to sell these securities before recovery of the amortized cost, which may be maturity, we did not consider these investments to be other-than-temporarily impaired at June 30, 2015.

	December 31, 2014					
	Less than twelve months		Greater than or equal to twelve months		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
	(in millions)					
Fixed maturities, available-for-sale:						
U.S. government and agencies	$ 211.5	$ 0.7	$ 95.0	$ 2.2	$ 306.5	$ 2.9
Non-U.S. governments	20.3	1.4	7.5	0.2	27.8	1.6
States and political subdivisions	208.1	0.7	210.5	3.4	418.6	4.1
Corporate	3,072.1	76.8	1,238.3	139.1	4,310.4	215.9

Residential mortgage-backed pass-through securities		18.0				395.3		6.3		413.3		6.3
Commercial mortgage-backed securities		375.3		3.0		395.0		59.9		770.3		62.9
Collateralized debt obligations		114.8		1.0		112.0		19.6		226.8		20.6
Other debt obligations		971.2		3.5		432.7		21.0		1,403.9		24.5
Total fixed maturities, available-for-sale	$	4,991.3	$	87.1	$	2,886.3	$	251.7	$	7,877.6	$	338.8
Total equity securities, available-for-sale	$	10.0	$		$	36.0	$	9.8	$	46.0	$	9.8

Of the total amounts, Principal Life s consolidated portfolio represented $7,638.7 million in available-for-sale fixed maturities with gross unrealized losses of $310.8 million. Of those fixed maturity securities in Principal Life s consolidated portfolio with a gross unrealized loss position, 80% were investment grade (rated AAA through BBB-) with an average price of 96 (carrying value/amortized cost) at December 31, 2014. Gross unrealized losses in our fixed maturities portfolio decreased during the year ended December 31, 2014, due primarily to a decrease in interest rates.

For those securities that had been in a continuous unrealized loss position for less than twelve months, Principal Life s consolidated portfolio held 685 securities with a carrying value of $4,907.1 million and unrealized losses of $85.4 million reflecting an average price of 98 at December 31, 2014. Of this portfolio, 77% was investment grade (rated AAA through BBB-) at December 31,

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

2014, with associated unrealized losses of $44.4 million. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

For those securities that had been in a continuous unrealized loss position greater than or equal to twelve months, Principal Life s consolidated portfolio held 429 securities with a carrying value of $2,731.6 million and unrealized losses of $225.4 million. The average rating of this portfolio was A with an average price of 92 at December 31, 2014. Of the $225.4 million in unrealized losses, the commercial mortgage-backed securities sector accounts for $59.9 million in unrealized losses with an average price of 87 and an average credit rating of A-. The remaining unrealized losses consist primarily of $113.0 million within the corporate sector at December 31, 2014. The average price of the corporate sector was 91 and the average credit rating was BBB+. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

Because we expected to recover our amortized cost, it was not our intent to sell the fixed maturity available-for-sale securities with unrealized losses and it was not more likely than not that we would be required to sell these securities before recovery of the amortized cost, which may be maturity, we did not consider these investments to be other-than-temporarily impaired at December 31, 2014.

Net Unrealized Gains and Losses on Available-for-Sale Securities and Derivative Instruments

The net unrealized gains and losses on investments in fixed maturities available-for-sale, equity securities available-for-sale and derivative instruments in cash flow hedge relationships are reported as a separate component of stockholders equity. The cumulative amount of net unrealized gains and losses on available-for-sale securities and derivative instruments in cash flow hedge relationships net of adjustments related to DAC and related actuarial balances and applicable income taxes was as follows:

	June 30, 2015	December 31, 2014
	(in millions)	
Net unrealized gains on fixed maturities, available-for-sale (1)	**$ 2,263.1**	$ 3,079.1
Noncredit component of impairment losses on fixed maturities, available-for-sale	**(148.6)**	(175.5)
Net unrealized losses on equity securities, available-for-sale	**(3.9)**	(2.1)
Adjustments for assumed changes in amortization patterns	**(253.2)**	(346.8)
Adjustments for assumed changes in policyholder liabilities	**(725.9)**	(1,078.6)
Net unrealized gains on derivative instruments	**170.7**	160.1
Net unrealized gains on equity method subsidiaries and noncontrolling interest adjustments	**91.1**	88.9
Provision for deferred income taxes	**(465.7)**	(576.8)
Net unrealized gains on available-for-sale securities and derivative instruments	**$ 927.6**	$ 1,148.3

(1) Excludes net unrealized gains (losses) on fixed maturities, available-for-sale included in fair value hedging relationships.

Mortgage Loans

Mortgage loans consist of commercial and residential mortgage loans. We evaluate risks inherent in our commercial mortgage loans in two classes: (1) brick and mortar property loans, including mezzanine loans, where we analyze the property s rent payments as support for the loan, and (2) credit tenant loans (CTL), where we rely on the credit analysis of the tenant for the repayment of the loan. We evaluate risks inherent in our residential mortgage loan portfolio in two classes: (1) home equity mortgages and (2) first lien mortgages. The carrying amount of our mortgage loan portfolio was as follows:

	June 30, 2015	December 31, 2014
	(in millions)	
Commercial mortgage loans	**$ 10,991.7**	$ 10,723.8
Residential mortgage loans	**1,134.9**	1,144.3
Total amortized cost	**12,126.6**	11,868.1
Valuation allowance	**(55.9)**	(56.5)
Total carrying value	**$ 12,070.7**	$ 11,811.6

Table of Contents

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements

June 30, 2015

(Unaudited)

We periodically purchase mortgage loans as well as sell mortgage loans we have originated. We purchased $79.6 million and $40.3 million of residential mortgage loans during the three months ended June 30, 2015 and 2014, and $143.1 million and $80.1 million during the six months ended June 30, 2015 and 2014, respectively. We sold $21.4 million and $0.0 million of residential mortgage loans during the three months ended June 30, 2015 and 2014, and $42.8 million and $0.0 million during the six months ended June 30, 2015 and 2014, respectively. We purchased $39.9 million and $12.1 million of commercial mortgage loans during the three months ended June 30, 2015 and 2014, and $146.9 million and $33.4 million during the six months ended June 30, 2015 and 2014, respectively. We sold $0.0 million and $0.0 million of commercial mortgage loans during the three months ended June 30, 2015 and 2014, and $1.0 million and $1.1 million during the six months ended June 30, 2015 and 2014, respectively.

Our commercial mortgage loan portfolio consists primarily of non-recourse, fixed rate mortgages on stabilized properties. Our commercial mortgage loan portfolio is diversified by geographic region and specific collateral property type as follows:

	June 30, 2015		December 31, 2014	
	Amortized cost	Percent of total	Amortized cost	Percent of total
		($ in millions)		
Geographic distribution				
New England	**$ 528.0**	**4.8%**	$ 528.0	4.9%
Middle Atlantic	**3,053.7**	**27.8**	2,951.0	27.5
East North Central	**462.7**	**4.2**	442.1	4.1
West North Central	**279.2**	**2.5**	233.3	2.2
South Atlantic	**1,983.3**	**18.0**	1,970.9	18.4
East South Central	**199.5**	**1.8**	197.4	1.8
West South Central	**1,090.3**	**9.9**	1,023.9	9.5
Mountain	**835.9**	**7.6**	772.0	7.2
Pacific	**2,517.2**	**23.0**	2,565.5	24.0
International	**41.9**	**0.4**	39.7	0.4
Total	**$ 10,991.7**	**100.0%**	$ 10,723.8	100.0%
Property type distribution				
Office	**$ 3,747.8**	**34.1%**	$ 3,646.1	34.0%
Retail	**2,645.2**	**24.1**	2,512.1	23.4
Industrial	**1,843.9**	**16.8**	1,918.7	17.9
Apartments	**2,341.7**	**21.3**	2,200.5	20.5
Hotel	**294.3**	**2.7**	331.5	3.1
Mixed use/other	**118.8**	**1.0**	114.9	1.1
Total	**$ 10,991.7**	**100.0%**	$ 10,723.8	100.0%

Our residential mortgage loan portfolio is composed of home equity mortgages with an amortized cost of $250.1 million and $283.4 million and first lien mortgages with an amortized cost of $884.8 million and $860.9 million as of June 30, 2015 and December 31, 2014, respectively. Our residential home equity mortgages are concentrated in the United States and are generally second lien mortgages comprised of closed-end loans and lines of credit. The majority of our first lien loans are concentrated in the Chilean market.

Mortgage Loan Credit Monitoring

Commercial Credit Risk Profile Based on Internal Rating

We actively monitor and manage our commercial mortgage loan portfolio. All commercial mortgage loans are analyzed regularly and substantially all are internally rated, based on a proprietary risk rating cash flow model, in order to monitor the financial quality of these assets. The model stresses expected cash flows at various levels and at different points in time depending on the durability of the income stream, which includes our assessment of factors such as location (macro and micro markets), tenant quality and lease expirations. Our internal rating analysis presents expected losses in terms of a Standard & Poor s (S&P) bond equivalent rating. As the credit risk for commercial mortgage loans increases, we adjust our internal ratings downward with loans in the category B+ and below having the highest risk for credit loss. Internal ratings on commercial mortgage loans are updated at least annually and potentially more

Table of Contents

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements

June 30, 2015

(Unaudited)

often for certain loans with material changes in collateral value or occupancy and for loans on an internal watch list .

Commercial mortgage loans that require more frequent and detailed attention than other loans in our portfolio are identified and placed on an internal watch list . Among the criteria that would indicate a potential problem are significant negative changes in ratios of loan to value or contract rents to debt service, major tenant vacancies or bankruptcies, borrower sponsorship problems, late payments, delinquent taxes and loan relief/restructuring requests.

The amortized cost of our commercial mortgage loan portfolio by credit risk, as determined by our internal rating system expressed in terms of an S&P bond equivalent rating, was as follows:

	June 30, 2015		
	Brick and mortar	CTL	Total
		(in millions)	
A- and above	**$ 9,400.6**	**$ 181.6**	**$ 9,582.2**
BBB+ thru BBB-	**1,039.2**	**141.8**	**1,181.0**
BB+ thru BB-	**174.5**		**174.5**
B+ and below	**52.6**	**1.4**	**54.0**
Total	**$ 10,666.9**	**$ 324.8**	**$ 10,991.7**

	December 31, 2014		
	Brick and mortar	CTL	Total
		(in millions)	
A- and above	$ 9,115.8	$ 168.8	$ 9,284.6
BBB+ thru BBB-	1,041.0	178.5	1,219.5
BB+ thru BB-	148.3		148.3
B+ and below	69.8	1.6	71.4
Total	$ 10,374.9	$ 348.9	$ 10,723.8

Residential Credit Risk Profile Based on Performance Status

Our residential mortgage loan portfolio is monitored based on performance of the loans. Monitoring on a residential mortgage loan increases when the loan is delinquent or earlier if there is an indication of impairment. We define non-performing residential mortgage loans as loans 90 days or greater delinquent or on non-accrual status.

The amortized cost of our performing and non-performing residential mortgage loans was as follows:

	June 30, 2015		
	Home equity	First liens	Total
	(in millions)		
Performing	**$ 237.9**	**$ 871.6**	**$ 1,109.5**
Nonperforming	**12.2**	**13.2**	**25.4**
Total	**$ 250.1**	**$ 884.8**	**$ 1,134.9**

	December 31, 2014		
	Home equity	First liens	Total
	(in millions)		
Performing	$ 268.4	$ 847.6	$ 1,116.0
Nonperforming	15.0	13.3	28.3
Total	$ 283.4	$ 860.9	$ 1,144.3

Non-Accrual Mortgage Loans

Commercial and residential mortgage loans are placed on non-accrual status if we have concern regarding the collectability of future payments or if a loan has matured without being paid off or extended. Factors considered may include conversations with the

Table of Contents

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements

June 30, 2015

(Unaudited)

borrower, loss of major tenant, bankruptcy of borrower or major tenant, decreased property cash flow for commercial mortgage loans or number of days past due and other circumstances for residential mortgage loans. Based on an assessment as to the collectability of the principal, a determination is made to apply any payments received either against the principal or according to the contractual terms of the loan. When a loan is placed on nonaccrual status, the accrued unpaid interest receivable is reversed against interest income. Accrual of interest resumes after factors resulting in doubts about collectability have improved. Residential first lien mortgages in the Chilean market are carried on accrual for a longer period of delinquency than domestic loans, as assessment of collectability is based on the nature of the loans and collection practices in that market.

The amortized cost of mortgage loans on non-accrual status was as follows:

	June 30, 2015	December 31, 2014
	(in millions)	
Commercial:		
Brick and mortar	**$ 4.4**	$ 9.6
Residential:		
Home equity	**12.2**	15.0
First liens	**8.8**	8.8
Total	**$ 25.4**	$ 33.4

The aging of our mortgage loans, based on amortized cost, was as follows:

	June 30, 2015						
	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	Recorded investment 90 days or more and accruing
				(in millions)			
Commercial-brick and mortar	**$ —**	**$ —**	**$ —**	**$ —**	**$ 10,666.9**	**$ 10,666.9**	**$ —**
Commercial-CTL	**—**	**—**	**—**	**—**	**324.8**	**324.8**	**—**
Residential-home equity	**1.9**	**0.6**	**1.1**	**3.6**	**246.5**	**250.1**	**—**
Residential-first liens	**21.5**	**5.3**	**12.0**	**38.8**	**846.0**	**884.8**	**4.4**
Total	**$ 23.4**	**$ 5.9**	**$ 13.1**	**$ 42.4**	**$ 12,084.2**	**$ 12,126.6**	**$ 4.4**

	December 31, 2014						
	30-59 days past due	60-89 days past due	90 days or more past due	Total past due (in millions)	Current	Total loans	Recorded investment 90 days or more and accruing
Commercial-brick and mortar	$	$ 4.5	$ 0.7	$ 5.2	$ 10,369.7	$ 10,374.9	$
Commercial-CTL					348.9	348.9	
Residential-home equity	2.3	1.2	3.4	6.9	276.5	283.4	
Residential-first liens	24.2	7.0	12.1	43.3	817.6	860.9	4.5
Total	$ 26.5	$ 12.7	$ 16.2	$ 55.4	$ 11,812.7	$ 11,868.1	$ 4.5

Mortgage Loan Valuation Allowance

We establish a valuation allowance to provide for the risk of credit losses inherent in our portfolio. The valuation allowance includes loan specific reserves for loans that are deemed to be impaired as well as reserves for pools of loans with similar risk characteristics where a property risk or market specific risk has not been identified but for which we anticipate a loss may occur. Mortgage loans on real estate are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to contractual terms of the loan agreement. When we determine that a loan is impaired, a valuation allowance is established equal to the difference between the carrying amount of the mortgage loan and the estimated value

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements

June 30, 2015

(Unaudited)

reduced by the cost to sell. Estimated value is based on either the present value of the expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price or fair value of the collateral. Subsequent changes in the estimated value are reflected in the valuation allowance. Amounts on loans deemed to be uncollectible are charged off and removed from the valuation allowance. The change in the valuation allowance provision is included in net realized capital gains (losses) on our consolidated statements of operations.

The valuation allowance is maintained at a level believed adequate by management to absorb estimated probable credit losses. Management s periodic evaluation and assessment of the valuation allowance adequacy is based on known and inherent risks in the portfolio, adverse situations that may affect a borrower s ability to repay, the estimated value of the underlying collateral, composition of the loan portfolio, portfolio delinquency information, underwriting standards, peer group information, current economic conditions, loss experience and other relevant factors. The evaluation of our impaired loan component is subjective, as it requires the estimation of timing and amount of future cash flows expected to be received on impaired loans.

We review our commercial mortgage loan portfolio and analyze the need for a valuation allowance for any loan that is delinquent for 60 days or more, in process of foreclosure, restructured, on the internal watch list or that currently has a valuation allowance. In addition to establishing allowance levels for specifically identified impaired commercial mortgage loans, management determines an allowance for all other loans in the portfolio for which historical experience and current economic conditions indicate certain losses exist. These loans are segregated by risk rating level with an estimated loss ratio applied against each risk rating level. The loss ratio is generally based upon historic loss experience for each risk rating level as adjusted for certain current environmental factors management believes to be relevant.

For our residential mortgage loan portfolio, we separate the loans into several homogeneous pools, each of which consist of loans of a similar nature including but not limited to loans similar in collateral, term and structure and loan purpose or type. We evaluate loan pools based on aggregated risk ratings, estimated specific loss potential in the different classes of credits, and historical loss experience by pool type. We adjust these quantitative factors for qualitative factors of present conditions. Qualitative factors include items such as economic and business conditions, changes in the portfolio, value of underlying collateral and concentrations. Residential mortgage loan pools exclude loans that have been restructured or impaired, as those loans are evaluated individually.

Table of Contents

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements

June 30, 2015

(Unaudited)

A rollforward of our valuation allowance and ending balances of the allowance and loan balance by basis of impairment method was as follows:

	For the three months ended June 30, 2015 Commercial	Residential (in millions)	Total
Beginning balance	**$ 27.8**	**$ 29.1**	**$ 56.9**
Provision	**0.6**	**0.6**	**1.2**
Charge-offs		**(3.5)**	**(3.5)**
Recoveries	**0.1**	**1.2**	**1.3**
Ending balance	**$ 28.5**	**$ 27.4**	**$ 55.9**

	For the six months ended June 30, 2015 Commercial	Residential (in millions)	Total
Beginning balance	**$ 26.9**	**$ 29.6**	**$ 56.5**
Provision	**1.5**	**2.5**	**4.0**
Charge-offs		**(6.5)**	**(6.5)**
Recoveries	**0.1**	**1.8**	**1.9**
Ending balance	**$ 28.5**	**$ 27.4**	**$ 55.9**
Allowance ending balance by basis of impairment method:			
Individually evaluated for impairment	**$ 2.4**	**$ 8.4**	**$ 10.8**
Collectively evaluated for impairment	**26.1**	**19.0**	**45.1**
Allowance ending balance	**$ 28.5**	**$ 27.4**	**$ 55.9**
Loan balance by basis of impairment method:			
Individually evaluated for impairment	**$ 4.4**	**$ 25.9**	**$ 30.3**
Collectively evaluated for impairment	**10,987.3**	**1,109.0**	**12,096.3**
Loan ending balance	**$ 10,991.7**	**$ 1,134.9**	**$ 12,126.6**

	For the three months ended June 30, 2014 Commercial	Residential (in millions)	Total
Beginning balance	$ 26.5	$ 40.0	$ 66.5
Provision	(0.1)	0.5	0.4
Charge-offs		(2.6)	(2.6)
Recoveries		0.7	0.7
Effect of exchange rates		(0.1)	(0.1)
Ending balance	$ 26.4	$ 38.5	$ 64.9

Table of Contents

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements

June 30, 2015

(Unaudited)

	For the six months ended June 30, 2014		
	Commercial	Residential (in millions)	Total
Beginning balance	$ 28.7	$ 41.1	$ 69.8
Provision	(2.0)	0.8	(1.2)
Charge-offs	(0.3)	(5.7)	(6.0)
Recoveries		2.4	2.4
Effect of exchange rates		(0.1)	(0.1)
Ending balance	$ 26.4	$ 38.5	$ 64.9
Allowance ending balance by basis of impairment method:			
Individually evaluated for impairment	$ 2.4	$ 9.2	$ 11.6
Collectively evaluated for impairment	24.0	29.3	53.3
Allowance ending balance	$ 26.4	$ 38.5	$ 64.9
Loan balance by basis of impairment method:			
Individually evaluated for impairment	$ 4.4	$ 30.4	$ 34.8
Collectively evaluated for impairment	10,378.5	1,243.7	11,622.2
Loan ending balance	$ 10,382.9	$ 1,274.1	$ 11,657.0

Impaired Mortgage Loans

Impaired mortgage loans are loans with a related specific valuation allowance, loans whose carrying amount has been reduced to the expected collectible amount because the impairment has been considered other than temporary or a loan modification has been classified as a troubled debt restructuring (TDR). Based on an assessment as to the collectability of the principal, a determination is made to apply any payments received either against the principal or according to the contractual terms of the loan. Our recorded investment in and unpaid principal balance of impaired loans along with the related loan specific allowance for losses, if any, and the average recorded investment and interest income recognized during the time the loans were impaired were as follows:

	June 30, 2015		
	Recorded investment	**Unpaid principal balance (in millions)**	**Related allowance**
With no related allowance recorded:			
Residential-first liens	**$ 3.9**	**$ 3.9**	**$**
With an allowance recorded:			
Commercial-brick and mortar	**4.4**	**4.4**	**2.4**
Residential-home equity	**15.4**	**16.2**	**7.8**
Residential-first liens	**6.6**	**6.5**	**0.6**
Total:			

Commercial	**$ 4.4**	**$ 4.4**	**$ 2.4**
Residential	**$ 25.9**	**$ 26.6**	**$ 8.4**

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

	December 31, 2014		
	Recorded investment	Unpaid principal balance	Related allowance
	(in millions)		
With no related allowance recorded:			
Commercial-brick and mortar	$ 5.2	$ 6.7	$
Residential-first liens	3.4	3.4	
With an allowance recorded:			
Commercial-brick and mortar	4.4	4.4	2.4
Residential-home equity	16.5	17.1	8.2
Residential-first liens	7.2	7.2	0.8
Total:			
Commercial	$ 9.6	$ 11.1	$ 2.4
Residential	$ 27.1	$ 27.7	$ 9.0

	For the three months ended June 30, 2015		For the six months ended June 30, 2015	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
	(in millions)			
With no related allowance recorded:				
Commercial-brick and mortar	**$ 2.3**	**$**	**$ 2.6**	**$**
Residential-first liens	**3.7**		**3.7**	
With an allowance recorded:				
Commercial-brick and mortar	**4.4**	**0.1**	**4.4**	**0.2**
Residential-home equity	**15.6**	**0.1**	**16.0**	**0.2**
Residential-first liens	**6.7**	**0.1**	**6.9**	**0.1**
Total:				
Commercial	**$ 6.7**	**$ 0.1**	**$ 7.0**	**$ 0.2**
Residential	**$ 26.0**	**$ 0.2**	**$ 26.6**	**$ 0.3**

	For the three months ended June 30, 2014		For the six months ended June 30, 2014	
	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
	(in millions)			
With no related allowance recorded:				
Commercial-brick and mortar	$ 0.9	$ 0.1	$ 11.2	$ 0.1
Residential-first liens	4.4		4.4	
With an allowance recorded:				
Commercial-brick and mortar	4.4		4.4	0.1
Residential-home equity	18.6	0.1	18.9	0.3
Residential-first liens	8.2	0.1	8.4	0.1
Total:				
Commercial	$ 5.3	$ 0.1	$ 15.6	$ 0.2

Residential	$	31.2	$	0.2	$	31.7	$	0.4

Mortgage Loan Modifications

Our commercial and residential mortgage loan portfolios include loans that have been modified. We assess loan modifications on a case-by-case basis to evaluate whether a TDR has occurred. The commercial mortgage loan TDRs were modified to delay or reduce principal payments and to increase, reduce or delay interest payments. For these TDR assessments, we have determined the loan rates are now considered below market based on current circumstances. The commercial mortgage loan modifications resulted in delayed cash receipts and a decrease in interest income. The residential mortgage loan TDRs include modifications of interest-only

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

payment periods, delays in principal balloon payments, and interest rate reductions. Residential mortgage loan modifications resulted in delayed or decreased cash receipts and a decrease in interest income.

The following table includes information about outstanding loans that were modified and met the criteria of a TDR during the periods indicated. In addition, the table includes information for loans that were modified and met the criteria of a TDR within the past twelve months that were in payment default during the periods indicated:

	For the three months ended June 30, 2015			
	TDRs		TDRs in payment default	
	Number of contracts	Recorded investment (in millions)	Number of contracts	Recorded investment (in millions)
Residential-home equity	**4**	**$ 0.2**		**$**
Total	**4**	**$ 0.2**		**$**

	For the three months ended June 30, 2014			
	TDRs		TDRs in payment default	
	Number of contracts	Recorded investment (in millions)	Number of contracts	Recorded investment (in millions)
Commercial-brick and mortar	1	$ 0.7		$
Residential-home equity	26	1.0	2	
Residential-first liens	1	0.1		
Total	28	$ 1.8	2	$

	For the six months ended June 30, 2015			
	TDRs		TDRs in payment default	
	Number of contracts	Recorded investment (in millions)	Number of contracts	Recorded investment (in millions)
Residential-home equity	**12**	**$ 0.7**	**1**	**$**
Total	**12**	**$ 0.7**	**1**	**$**

	For the six months ended June 30, 2014			
	TDRs		TDRs in payment default	
	Number of contracts	Recorded investment (in millions)	Number of contracts	Recorded investment (in millions)
Commercial-brick and mortar	2	$ 5.1		$
Residential-home equity	39	1.4	2	
Residential-first liens	1	0.1		
Total	42	$ 6.6	2	$

Commercial mortgage loans that have been designated as a TDR have been previously reserved for in the mortgage loan valuation allowance at the estimated fair value of the underlying collateral reduced by the cost to sell.

Residential mortgage loans that have been designated as a TDR are specifically reserved for in the mortgage loan valuation allowance if losses result from the modification. Residential mortgage loans that have defaulted or have been discharged through bankruptcy are reduced to the expected collectible amount.

Securities Posted as Collateral

We posted $1,033.9 million in fixed maturities, available-for-sale securities at June 30, 2015, to satisfy collateral requirements primarily associated with a reinsurance arrangement, our derivative credit support annex (collateral) agreements, Futures Commission Merchant (FCM) agreements, a lending arrangement and our obligation under funding agreements with the Federal Home Loan Bank

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

of Des Moines (FHLB Des Moines). In addition, we posted $2,286.1 million in commercial mortgage loans and home equity mortgages as of June 30, 2015, to satisfy collateral requirements associated with our obligation under funding agreements with the FHLB Des Moines. Since we did not relinquish ownership rights on these instruments, they are reported as fixed maturities, available-for-sale and mortgage loans, respectively, on our consolidated statements of financial position. Of the securities posted as collateral, $206.2 million can be sold or repledged by the secured party.

Balance Sheet Offsetting

Financial assets subject to master netting agreements or similar agreements were as follows:

	Gross amount of recognized assets (1)	Gross amounts not offset in the consolidated statements of financial position: Financial instruments (2)	Gross amounts not offset in the consolidated statements of financial position: Collateral received	Net amount
		(in millions)		
June 30, 2015				
Derivative assets	**$ 589.6**	**$ (443.8)**	**$ (132.9)**	**$ 12.9**
Reverse repurchase agreements	**70.6**		**(70.6)**	
Total	**$ 660.2**	**$ (443.8)**	**$ (203.5)**	**$ 12.9**
December 31, 2014				
Derivative assets	$ 661.8	$ (479.5)	$ (169.0)	$ 13.3
Reverse repurchase agreements	51.5		(51.5)	
Total	$ 713.3	$ (479.5)	$ (220.5)	$ 13.3

(1) The gross amount of recognized derivative and reverse repurchase agreement assets are reported with other investments and cash and cash equivalents on the consolidated statements of financial position. The above excludes $0.0 million of derivative assets as of both June 30, 2015 and December 31, 2014, that are not subject to master netting agreements or similar agreements. The gross amounts of derivative and reverse repurchase agreement assets are not netted against offsetting liabilities for presentation on the consolidated statements of financial position.

(2) Represents amount of offsetting derivative liabilities that are subject to an enforceable master netting agreement or similar agreement that are not netted against the gross derivative assets for presentation on the consolidated statements of financial position.

Financial liabilities subject to master netting agreements or similar agreements were as follows:

	Gross amount of recognized liabilities (1)	Gross amounts not offset in the consolidated statements of financial position: Financial instruments (2)	Gross amounts not offset in the consolidated statements of financial position: Collateral pledged	Net amount
	(in millions)			
June 30, 2015				
Derivative liabilities	**$ 783.4**	**$ (443.8)**	**$ (256.8)**	**$ 82.8**
December 31, 2014				
Derivative liabilities	$ 786.0	$ (479.5)	$ (220.6)	$ 85.9

(1) The gross amount of recognized derivative liabilities are reported with other liabilities on the consolidated statements of financial position. The above excludes $361.2 million and $421.3 million of derivative liabilities as of June 30, 2015 and December 31, 2014, respectively, which are primarily embedded derivatives that are not subject to master netting agreements or similar agreements. The gross amounts of derivative liabilities are not netted against offsetting assets for presentation on the consolidated statements of financial position.

(2) Represents amount of offsetting derivative assets that are subject to an enforceable master netting agreement or similar agreement that are not netted against the gross derivative liabilities for presentation on the consolidated statements of financial position.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

The financial instruments that are subject to master netting agreements or similar agreements include right of setoff provisions. Derivative instruments include provisions to setoff positions covered under the agreements with the same counterparties and provisions to setoff positions outside of the agreements with the same counterparties in the event of default by one of the parties. Derivative instruments also include collateral provisions. Collateral received and pledged is generally settled daily with each counterparty. See Note 4, Derivative Financial Instruments, for further details.

Repurchase and reverse repurchase agreements include provisions to setoff other repurchase and reverse repurchase balances with the same counterparty. Repurchase and reverse repurchase agreements also include collateral provisions with the counterparties. For reverse repurchase agreements we require the counterparties to pledge collateral with a value greater than the amount of cash transferred. We have the right but do not sell or repledge collateral received in reverse repurchase agreements. Repurchase agreements are structured as secured borrowings for all counterparties. We pledge fixed maturities available-for-sale, which the counterparties have the right to sell or repledge. Interest incurred on repurchase agreements is reported as part of operating expense on the consolidated statements of operations. Net proceeds related to repurchase agreements are reported as a component of financing activities on the consolidated statements of cash flows. We did not have any outstanding repurchase agreements as of June 30, 2015 and December 31, 2014.

4. Derivative Financial Instruments

Derivatives are generally used to hedge or reduce exposure to market risks associated with assets held or expected to be purchased or sold and liabilities incurred or expected to be incurred. Derivatives are used to change the characteristics of our asset/liability mix consistent with our risk management activities. Derivatives are also used in asset replication strategies.

Types of Derivative Instruments

Interest Rate Contracts

Interest rate risk is the risk we will incur economic losses due to adverse changes in interest rates. Sources of interest rate risk include the difference between the maturity and interest rate changes of assets with the liabilities they support, timing differences between the pricing of liabilities and the purchase or procurement of assets and changing cash flow profiles from original projections due to prepayment options embedded within asset and liability contracts. We use various derivatives to manage our exposure to fluctuations in interest rates.

Interest rate swaps are contracts in which we agree with other parties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts based upon designated market rates or rate indices and an agreed upon notional principal amount. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by any party. Cash is paid or received based on the terms of the swap. We use interest rate swaps primarily to more closely match the interest rate characteristics of assets and liabilities and to mitigate the risks arising from timing mismatches between assets and liabilities (including duration mismatches). We also use interest rate swaps to hedge against changes in the value of assets we anticipate acquiring and other anticipated transactions and commitments. Interest rate swaps are used to hedge against changes in the value of the guaranteed minimum withdrawal benefit (GMWB) liability. The GMWB rider on our variable annuity products provides for guaranteed minimum withdrawal benefits regardless of the actual performance of various equity and/or fixed income funds available with the product.

Interest rate options, including interest rate caps and interest rate floors, which can be combined to form interest rate collars, are contracts that entitle the purchaser to pay or receive the amounts, if any, by which a specified market rate exceeds a cap strike interest rate, or falls below a floor strike interest rate, respectively, at specified dates. We use interest rate collars to manage interest rate risk related to guaranteed minimum interest rate liabilities in our individual annuities contracts and lapse risk associated with higher interest rates.

A swaption is an option to enter into an interest rate swap at a future date. We purchase swaptions to offset or modify existing exposures. Swaptions provide us the benefit of the agreed-upon strike rate if the market rates for liabilities are higher, with the flexibility to enter into the current market rate swap if the market rates for liabilities are lower. Swaptions not only hedge against the downside risk, but also allow us to take advantage of any upside benefits.

In exchange-traded futures transactions, we agree to purchase or sell a specified number of contracts, the values of which are determined by the values of designated classes of securities, and to post variation margin on a daily basis in an amount equal to the

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

difference in the daily market values of those contracts. We enter into exchange-traded futures with regulated futures commissions merchants who are members of a trading exchange. We have used exchange-traded futures to reduce market risks from changes in interest rates and to alter mismatches between the assets in a portfolio and the liabilities supported by those assets.

Foreign Exchange Contracts

Foreign currency risk is the risk we will incur economic losses due to adverse fluctuations in foreign currency exchange rates. This risk arises from foreign currency-denominated funding agreements we issue, foreign currency-denominated fixed maturities we invest in and the financial results of our international operations, including acquisition and divestiture activity. We use various derivatives to manage our exposure to fluctuations in foreign currency exchange rates.

Currency swaps are contracts in which we agree with other parties to exchange, at specified intervals, a series of principal and interest payments in one currency for that of another currency. Generally, the principal amount of each currency is exchanged at the beginning and termination of the currency swap by each party. The interest payments are primarily fixed-to-fixed rate; however, they may also be fixed-to-floating rate or floating-to-fixed rate. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by one counterparty for payments made in the same currency at each due date. We use currency swaps to reduce market risks from changes in currency exchange rates with respect to investments or liabilities denominated in foreign currencies that we either hold or intend to acquire or sell.

Currency forwards are contracts in which we agree with other parties to deliver or receive a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. We use currency forwards to reduce market risks from changes in currency exchange rates with respect to investments or liabilities denominated in foreign currencies that we either hold or intend to acquire or sell and to hedge the currency risk associated with a business combination. We have also used currency forwards to hedge the currency risk associated with net investments in foreign operations. We did not use any currency forwards during 2015 or 2014 to hedge our net investment in foreign operations.

Equity Contracts

Equity risk is the risk that we will incur economic losses due to adverse fluctuations in common stock. We use various derivatives to manage our exposure to equity risk, which arises from products in which the interest we credit is tied to an external equity index as well as products subject to minimum contractual guarantees.

We purchase equity call spreads to hedge the equity participation rates promised to contractholders in conjunction with our fixed deferred annuity and universal life products that credit interest based on changes in an external equity index. We use exchange-traded futures and equity put options to hedge against changes in the value of the GMWB liability related to the GMWB rider on our variable annuity product, as previously explained. The premium associated with certain options is paid quarterly over the life of the option contract.

Credit Contracts

Credit risk relates to the uncertainty associated with the continued ability of a given obligor to make timely payments of principal and interest. We use credit default swaps to enhance the return on our investment portfolio by providing comparable exposure to fixed income securities that might not be available in the primary market. They are also used to hedge credit exposures in our investment portfolio. Credit derivatives are used to sell or buy credit protection on an identified name or names on an unfunded or synthetic basis in return for receiving or paying a quarterly premium. The premium generally corresponds to a referenced name s credit spread at the time the agreement is executed. In cases where we sell protection, we also buy a quality cash bond to match against the credit default swap, thereby entering into a synthetic transaction replicating a cash security. When selling protection, if there is an event of default by the referenced name, as defined by the agreement, we are obligated to pay the counterparty the referenced amount of the contract and receive in return the referenced security in a principal amount equal to the notional value of the credit default swap.

Total return swaps are contracts in which we agree with other parties to exchange, at specified intervals, an amount determined by the difference between the previous price and the current price of a reference asset based upon an agreed upon notional principal amount plus an additional amount determined by the financing spread. We currently use futures traded on an exchange (exchange-traded) and total return swaps referencing equity indices to hedge our portfolio from potential credit losses related to systemic events.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

Other Contracts

Embedded Derivatives. We purchase or issue certain financial instruments or products that contain a derivative instrument that is embedded in the financial instrument or product. When it is determined that the embedded derivative possesses economic characteristics that are not clearly or closely related to the economic characteristics of the host contract and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host instrument for measurement purposes. The embedded derivative, which is reported with the host instrument in the consolidated statements of financial position, is carried at fair value.

We have investment-type insurance contracts in which the return is tied to a leveraged inflation index. We economically hedge the risk associated with these investment-type insurance contracts.

We offer group annuity contracts that have guaranteed separate accounts as an investment option. We also offer funds with embedded fixed-rate guarantees as investment options in our defined contribution plans in Hong Kong.

We have structured investment relationships with trusts we have determined to be VIEs, which are consolidated in our financial statements. The notes issued by these trusts include obligations to deliver an underlying security to residual interest holders and the obligations contain an embedded derivative of the forecasted transaction to deliver the underlying security.

We have fixed deferred annuities and universal life contracts that credit interest based on changes in an external equity index. We also have certain variable annuity products with a GMWB rider, which allows the customer to make withdrawals of a specified annual amount, either for a fixed number of years or for the lifetime of the customer, even if the account value is fully exhausted. Declines in the equity markets may increase our exposure to benefits under contracts with the GMWB. We economically hedge the exposure in these contracts, as previously explained.

Exposure

Our risk of loss is typically limited to the fair value of our derivative instruments and not to the notional or contractual amounts of these derivatives. We are also exposed to credit losses in the event of nonperformance of the counterparties. Our current credit exposure is limited to the value of derivatives that have become favorable to us. This credit risk is minimized by purchasing such agreements from financial institutions with high credit ratings and by establishing and monitoring exposure limits. We also utilize various credit enhancements, including collateral and credit triggers to reduce the credit exposure to our derivative instruments.

Derivatives may be exchange-traded or they may be privately negotiated contracts, which are usually referred to as over-the-counter (OTC) derivatives. Certain of our OTC derivatives are cleared and settled through central clearing counterparties (OTC cleared), while others are bilateral contracts between two counterparties (bilateral OTC). Our derivative transactions are generally documented under International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements. Management believes that such agreements provide for legally enforceable set-off and close-out netting of exposures to specific counterparties. Under such agreements, in connection with an early termination of a transaction, we are permitted to set off our receivable from a counterparty against our payables to the same counterparty arising out of all included transactions. For reporting purposes, we do not offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparties under master netting agreements.

We posted $344.7 million and $271.6 million in cash and securities under collateral arrangements as of June 30, 2015 and December 31, 2014, respectively, to satisfy collateral requirements associated with our derivative credit support agreements and FCM agreements. These amounts include initial margin requirements.

Certain of our derivative instruments contain provisions that require us to maintain an investment grade rating from each of the major credit rating agencies on our debt. If the ratings on our debt were to fall below investment grade, it would be in violation of these provisions and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value, inclusive of accrued interest, of all derivative instruments with credit-risk-related contingent features that were in a liability position without regard to netting under derivative credit support annex agreements as of June 30, 2015 and December 31, 2014, was $643.0 million and $656.2 million, respectively. Cleared derivatives have contingent features that require us to post excess margin as required by the FCM. The terms surrounding excess margin vary by FCM agreement. With respect to derivatives containing collateral triggers, we posted collateral and initial margin of $344.7 million and $271.6 million as of June 30, 2015 and December 31, 2014, respectively, in the normal course of

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

business, which reflects netting under derivative agreements. If the credit-risk-related contingent features underlying these agreements were triggered on June 30, 2015, we would be required to post an additional $74.6 million of collateral to our counterparties.

As of June 30, 2015 and December 31, 2014, we had received $89.9 million and $148.3 million, respectively, of cash collateral associated with our derivative credit support annex agreements and FCM agreements, for which we recorded a corresponding liability reflecting our obligation to return the collateral.

Notional amounts are used to express the extent of our involvement in derivative transactions and represent a standard measurement of the volume of our derivative activity. Notional amounts represent those amounts used to calculate contractual flows to be exchanged and are not paid or received, except for contracts such as currency swaps. Credit exposure represents the gross amount owed to us under derivative contracts as of the valuation date. The notional amounts and credit exposure of our derivative financial instruments by type were as follows:

	June 30, 2015	December 31, 2014
	(in millions)	
Notional amounts of derivative instruments		
Interest rate contracts:		
Interest rate swaps	**$ 20,358.6**	$ 19,182.6
Interest rate options	**4,900.0**	4,900.0
Swaptions	**159.0**	260.0
Interest rate futures	**130.0**	147.5
Foreign exchange contracts:		
Currency swaps	**1,841.8**	1,975.5
Currency forwards	**258.1**	270.7
Equity contracts:		
Equity options	**3,558.1**	3,293.4
Equity futures	**552.8**	498.1
Credit contracts:		
Credit default swaps	**1,147.5**	1,234.5
Total return swaps	**90.0**	90.0
Futures	**11.3**	10.5
Other contracts:		
Embedded derivatives	**9,606.9**	9,235.7
Total notional amounts at end of period	**$ 42,614.1**	$ 41,098.5
Credit exposure of derivative instruments		
Interest rate contracts:		
Interest rate swaps	**$ 429.3**	$ 510.8
Interest rate options	**32.8**	41.0
Foreign exchange contracts:		
Currency swaps	**111.7**	97.1
Currency forwards	**0.8**	1.4
Equity contracts:		

Equity options		**31.8**		30.2
Credit contracts:				
Credit default swaps		**13.0**		13.3
Total return swaps		**0.1**		
Total gross credit exposure		**619.5**		693.8
Less: collateral received		**137.7**		183.5
Net credit exposure	**$**	**481.8**	$	510.3

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

The fair value of our derivative instruments classified as assets and liabilities was as follows:

	Derivative assets (1)		Derivative liabilities (2)	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
	(in millions)			
Derivatives designated as hedging instruments				
Interest rate contracts	**$ 6.6**	$ 8.8	**$ 161.2**	$ 193.9
Foreign exchange contracts	**99.6**	80.0	**134.5**	69.1
Total derivatives designated as hedging instruments	**$ 106.2**	$ 88.8	**$ 295.7**	$ 263.0
Derivatives not designated as hedging instruments				
Interest rate contracts	**$ 422.3**	$ 508.7	**$ 290.2**	$ 321.4
Foreign exchange contracts	**16.2**	20.8	**48.6**	40.1
Equity contracts	**31.8**	30.2	**129.2**	131.7
Credit contracts	**13.1**	13.3	**26.9**	35.6
Other contracts			**354.0**	415.5
Total derivatives not designated as hedging instruments	**483.4**	573.0	**848.9**	944.3
Total derivative instruments	**$ 589.6**	$ 661.8	**$ 1,144.6**	$ 1,207.3

(1) The fair value of derivative assets is reported with other investments on the consolidated statements of financial position.

(2) The fair value of derivative liabilities is reported with other liabilities on the consolidated statements of financial position, with the exception of certain embedded derivative liabilities. Embedded derivative liabilities with a fair value of $117.0 million and $176.4 million as of June 30, 2015 and December 31, 2014, respectively, are reported with contractholder funds on the consolidated statements of financial position.

Credit Derivatives Sold

When we sell credit protection, we are exposed to the underlying credit risk similar to purchasing a fixed maturity security instrument. The majority of our credit derivative contracts sold reference a single name or reference security (referred to as single name credit default swaps). The remainder of our credit derivatives reference either a basket or index of securities. These instruments are either referenced in an over-the-counter credit derivative transaction, or embedded within an investment structure that has been fully consolidated into our financial statements.

These credit derivative transactions are subject to events of default defined within the terms of the contract, which normally consist of bankruptcy, failure to pay, or modified restructuring of the reference entity and/or issue. If a default event occurs for a reference name or security, we are obligated to pay the counterparty an amount equal to the notional amount of the credit derivative transaction. As a result, our maximum future payment is equal to the notional amount of the credit derivative. In certain cases, we also have purchased credit protection with identical underlyings to certain of our sold protection transactions. The effect of this purchased protection would reduce our total maximum future payments by $0.0 million as of June 30, 2015 and $10.0 million as of December 31, 2014. These purchased credit derivative transactions had a net asset (liability) fair value of $0.0 million as of June 30, 2015 and $(0.1) million as of December 31, 2014. In certain circumstances, our potential loss could also be reduced by any amount recovered in the default proceedings of the underlying credit name.

We purchased an investment structure with embedded credit features that is fully consolidated into our financial statements. This consolidation results in recognition of the underlying credit derivatives and collateral within the structure, typically high quality fixed maturities that are owned by a special purpose vehicle. These credit derivatives reference several names in a basket structure. In the event of default, the collateral within the structure would typically be liquidated to pay the claims of the credit derivative counterparty.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

The following tables show our credit default swap protection sold by types of contract, types of referenced/underlying asset class and external agency rating for the underlying reference security. The maximum future payments are undiscounted and have not been reduced by the effect of any offsetting transactions, collateral or recourse features described above.

	June 30, 2015			
	Notional amount	Fair value	Maximum future payments	Weighted average expected life (in years)
	(in millions)			
Single name credit default swaps				
Corporate debt				
AAA	$ 30.0	$ 0.9	$ 30.0	3.7
AA	74.0	1.3	74.0	2.8
A	209.5	3.4	209.5	2.7
BBB	335.0	2.5	335.0	3.4
BB	10.0		10.0	4.5
Government/municipalities				
AA	30.0	0.6	30.0	3.8
Sovereign				
AA	10.0	0.1	10.0	4.2
BBB	40.0	(0.4)	40.0	4.2
Total single name credit default swaps	738.5	8.4	738.5	3.3
Basket and index credit default swaps				
Corporate debt				
Near default (1)	100.4	(17.6)	100.4	1.7
Government/municipalities				
AA	30.0	(1.3)	30.0	2.2
Structured finance				
AAA	14.9	0.1	14.9	1.1
Total basket and index credit default swaps	145.3	(18.8)	145.3	1.8
Total credit default swap protection sold	$ 883.8	$ (10.4)	$ 883.8	3.0

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2015
(Unaudited)

	December 31, 2014			
	Notional amount	Fair value	Maximum future payments	Weighted average expected life (in years)
	(in millions)			
Single name credit default swaps				
Corporate debt				
AAA	$ 30.0	$ 1.0	$ 30.0	4.2
AA	79.0	1.6	79.0	3.3
A	254.5	3.3	254.5	2.8
BBB	345.0	1.2	345.0	3.6
BB	10.0	0.9	10.0	5.0
Government/municipalities				
AA	30.0	0.6	30.0	4.3
Sovereign				
AA	10.0	0.1	10.0	4.7
BBB	40.0	(0.1)	40.0	4.7
Total single name credit default swaps	798.5	8.6	798.5	3.5
Basket and index credit default swaps				
Corporate debt				