

**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 March 31, 2019

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

(State or other jurisdiction of incorporation or organization)

42-1520346

(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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock	PFG	Nasdaq Global Select Market

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 No

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 No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The total number of shares of the registrant's Common Stock, \$0.01 par value, outstanding as of April 24, 2019, was 278,548,135.

PRINCIPAL FINANCIAL GROUP, INC.

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PART I — FINANCIAL INFORMATION
Item 1. Financial Statements

Principal Financial Group, Inc.
Consolidated Statements of Financial Position

	March 31, 2019	December 31,
	(Unaudited)	2018
	(in millions)	
Assets		
Fixed maturities, available-for-sale (2019 and 2018 include \$98.9 million and \$94.5 million related to consolidated variable interest entities)	\$ 63,123.0	\$ 60,108.5
Fixed maturities, trading	668.9	636.1
Equity securities (2019 and 2018 include \$811.3 million and \$774.8 million related to consolidated variable interest entities)	1,864.1	1,843.7
Mortgage loans	15,597.5	15,336.9
Real estate (2019 and 2018 include \$376.1 million and \$364.0 million related to consolidated variable interest entities)	1,736.7	1,729.7
Policy loans	798.5	801.4
Other investments (2019 and 2018 include \$590.7 million and \$457.9 million related to consolidated variable interest entities and \$25.3 million and \$23.6 million measured at fair value under the fair value option)	4,755.2	4,310.3
Total investments	88,543.9	84,766.6
Cash and cash equivalents	2,259.7	2,977.5
Accrued investment income	679.6	636.2
Premiums due and other receivables	1,641.1	1,413.1
Deferred acquisition costs	3,616.5	3,693.5
Property and equipment	933.2	767.3
Goodwill	1,110.6	1,100.0
Other intangibles	1,310.3	1,315.1
Separate account assets (2019 and 2018 include \$39,544.7 million and \$37,183.3 million related to consolidated variable interest entities)	157,942.8	144,987.9
Other assets	1,382.2	1,378.9
Total assets	\$ 259,419.9	\$ 243,036.1
Liabilities		
Contractholder funds (2019 and 2018 include \$395.8 million and \$396.0 million related to consolidated variable interest entities)	\$ 39,649.3	\$ 39,699.7
Future policy benefits and claims	36,891.2	35,664.8
Other policyholder funds	939.1	888.4
Short-term debt	43.9	42.9
Long-term debt (2019 and 2018 include \$62.9 million and \$58.4 million related to consolidated variable interest entities)	3,266.4	3,259.6
Income taxes currently payable	22.3	25.3
Deferred income taxes	1,318.7	958.4
Separate account liabilities (2019 and 2018 include \$39,544.7 million and \$37,183.3 million related to consolidated variable interest entities)	157,942.8	144,987.9
Other liabilities (2019 and 2018 include \$154.8 million and \$104.9 million related to consolidated variable interest entities)	6,046.3	5,661.9
Total liabilities	246,120.0	231,188.9
Redeemable noncontrolling interest (2019 and 2018 include \$460.2 million and \$325.7 million related to consolidated variable interest entities)	537.7	391.2
Stockholders' equity		
Common stock, par value \$0.01 per share — 2,500.0 million shares authorized, 478.5 million and 476.7 million shares issued, and 278.2 million and 279.5 million shares outstanding in 2019 and 2018	4.8	4.8
Additional paid-in capital	10,090.8	10,060.7
Retained earnings	10,571.9	10,290.2
Accumulated other comprehensive loss	(418.9)	(1,565.1)
Treasury stock, at cost (200.3 million and 197.2 million shares in 2019 and 2018)	(7,554.2)	(7,400.6)
Total stockholders' equity attributable to Principal Financial Group, Inc.	12,694.4	11,390.0
Noncontrolling interest	67.8	66.0
Total stockholders' equity	12,762.2	11,456.0
Total liabilities and stockholders' equity	\$ 259,419.9	\$ 243,036.1

See accompanying notes.

Principal Financial Group, Inc.
Consolidated Statements of Operations
(Unaudited)

	For the three months ended	
	March 31,	
	2019	2018
	(in millions, except per share data)	
Revenues		
Premiums and other considerations	\$ 1,724.9	\$ 995.2
Fees and other revenues	973.5	1,011.3
Net investment income	961.0	902.2
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	91.3	(15.2)
Net other-than-temporary impairment (losses) recoveries on available-for-sale securities	(9.6)	1.3
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from) other comprehensive income	2.8	(11.2)
Net impairment losses on available-for-sale securities	(6.8)	(9.9)
Net realized capital gains (losses)	84.5	(25.1)
Total revenues	3,743.9	2,883.6
Expenses		
Benefits, claims and settlement expenses	2,195.1	1,411.1
Dividends to policyholders	30.1	30.5
Operating expenses	992.7	985.0
Total expenses	3,217.9	2,426.6
Income before income taxes	526.0	457.0
Income taxes	73.9	54.5
Net income	452.1	402.5
Net income attributable to noncontrolling interest	22.2	5.4
Net income attributable to Principal Financial Group, Inc.	\$ 429.9	\$ 397.1
Earnings per common share		
Basic earnings per common share	\$ 1.54	\$ 1.37
Diluted earnings per common share	\$ 1.53	\$ 1.36

See accompanying notes.

Principal Financial Group, Inc.
Consolidated Statements of Comprehensive Income
(Unaudited)

	For the three months ended	
	March 31,	
	2019	2018
	<i>(in millions)</i>	
Net income	\$ 452.1	\$ 402.5
Other comprehensive income (loss), net:		
Net unrealized gains (losses) on available-for-sale securities	1,104.3	(805.5)
Noncredit component of impairment losses on fixed maturities, available-for-sale	(2.5)	9.3
Net unrealized losses on derivative instruments	(4.5)	(14.4)
Foreign currency translation adjustment	37.9	65.8
Net unrecognized postretirement benefit obligation	11.5	8.7
Other comprehensive income (loss)	<u>1,146.7</u>	<u>(736.1)</u>
Comprehensive income (loss)	<u>1,598.8</u>	<u>(333.6)</u>
Comprehensive income attributable to noncontrolling interest	22.7	6.3
Comprehensive income (loss) attributable to Principal Financial Group, Inc.	<u>\$ 1,576.1</u>	<u>\$ (339.9)</u>

See accompanying notes.

Principal Financial Group, Inc.
Consolidated Statements of Stockholders' Equity
(Unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss) <i>(in millions)</i>	Treasury stock	Noncontrolling interest	Total stockholders' equity
Balances as of January 1, 2018	\$ 4.7	\$ 9,925.2	\$ 9,482.9	\$ 165.5	\$ (6,729.0)	\$ 72.6	\$ 12,921.9
Common stock issued	—	32.5	—	—	—	—	32.5
Stock-based compensation	—	23.2	(1.5)	—	—	(0.6)	21.1
Treasury stock acquired, common	—	—	—	—	(199.6)	—	(199.6)
Dividends to common stockholders	—	—	(147.3)	—	—	—	(147.3)
Distributions to noncontrolling interest	—	—	—	—	—	(8.0)	(8.0)
Contributions from noncontrolling interest	—	—	—	—	—	0.1	0.1
Adjustments to redemption amount of redeemable noncontrolling interest	—	0.9	—	—	—	—	0.9
Effects of implementation of accounting change related to equity investments, net	—	—	1.0	(1.0)	—	—	—
Effects of implementation of accounting change related to revenue recognition, net	—	—	(65.0)	25.6	—	(0.3)	(39.7)
Effects of implementation of accounting change related to intra-entity asset transfer taxes, net	—	—	8.7	—	—	—	8.7
Effects of implementation of accounting change related to the reclassification of certain tax effects, net	—	—	(77.6)	77.6	—	—	—
Net income (1)	—	—	397.1	—	—	4.6	401.7
Other comprehensive loss (1)	—	—	—	(737.0)	—	0.5	(736.5)
Balances as of March 31, 2018	<u>\$ 4.7</u>	<u>\$ 9,981.8</u>	<u>\$ 9,598.3</u>	<u>\$ (469.3)</u>	<u>\$ (6,928.6)</u>	<u>\$ 68.9</u>	<u>\$ 12,255.8</u>
Balances as of January 1, 2019	\$ 4.8	\$ 10,060.7	\$ 10,290.2	\$ (1,565.1)	\$ (7,400.6)	\$ 66.0	\$ 11,456.0
Common stock issued	—	5.8	—	—	—	—	5.8
Stock-based compensation	—	26.8	(2.0)	—	—	—	24.8
Treasury stock acquired, common	—	—	—	—	(153.6)	—	(153.6)
Dividends to common stockholders	—	—	(150.2)	—	—	—	(150.2)
Distributions to noncontrolling interest	—	—	—	—	—	(1.3)	(1.3)
Contributions from noncontrolling interest	—	—	—	—	—	0.8	0.8
Adjustments to redemption amount of redeemable noncontrolling interest	—	(2.5)	—	—	—	—	(2.5)
Effects of implementation of accounting change related to leases, net	—	—	4.0	—	—	—	4.0
Net income (1)	—	—	429.9	—	—	1.9	431.8
Other comprehensive income (1)	—	—	—	1,146.2	—	0.4	1,146.6
Balances as of March 31, 2019	<u>\$ 4.8</u>	<u>\$ 10,090.8</u>	<u>\$ 10,571.9</u>	<u>\$ (418.9)</u>	<u>\$ (7,554.2)</u>	<u>\$ 67.8</u>	<u>\$ 12,762.2</u>

(1) Excludes amounts attributable to redeemable noncontrolling interest. See Note 9, Stockholders' Equity, for further details.

See accompanying notes.

Principal Financial Group, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	For the three months ended March 31,	
	2019	2018
	<i>(in millions)</i>	
Operating activities		
Net income	\$ 452.1	\$ 402.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized capital (gains) losses	(84.5)	25.1
Depreciation and amortization expense	51.0	50.6
Amortization of deferred acquisition costs and contract costs	58.9	73.0
Additions to deferred acquisition costs and contract costs	(108.3)	(107.3)
Stock-based compensation	24.9	21.6
Income from equity method investments, net of dividends received	(8.8)	(34.7)
Changes in:		
Accrued investment income	(43.4)	(25.4)
Net cash flows for trading securities and equity securities with operating intent	0.2	(107.0)
Premiums due and other receivables	(189.8)	(57.0)
Contractholder and policyholder liabilities and dividends	929.9	300.2
Current and deferred income taxes	65.9	45.8
Real estate acquired through operating activities	(9.2)	(30.6)
Real estate sold through operating activities	1.5	46.4
Other assets and liabilities	28.6	143.6
Other	7.4	(0.3)
Net adjustments	724.3	344.0
Net cash provided by operating activities	1,176.4	746.5
Investing activities		
Fixed maturities available-for-sale and equity securities with intent to hold:		
Purchases	(2,886.7)	(3,330.8)
Sales	342.6	1,273.5
Maturities	1,548.9	1,555.0
Mortgage loans acquired or originated	(625.1)	(643.0)
Mortgage loans sold or repaid	382.4	331.8
Real estate acquired	(10.5)	(14.7)
Real estate sold	—	56.5
Net purchases of property and equipment	(29.4)	(26.0)
Purchase of interests in subsidiaries, net of cash acquired	—	(113.9)
Net change in other investments	(213.3)	(68.3)
Net cash used in investing activities	(1,491.1)	(979.9)
Financing activities		
Issuance of common stock	5.8	32.5
Acquisition of treasury stock	(153.6)	(199.6)
Payments for financing element derivatives	(6.5)	(19.3)
Dividends to common stockholders	(150.2)	(147.3)
Issuance of long-term debt	6.7	18.0
Principal repayments of long-term debt	(0.3)	(0.3)
Net proceeds from short-term borrowings	0.1	38.0
Investment contract deposits	1,872.2	1,783.0
Investment contract withdrawals	(1,947.4)	(1,535.5)
Net increase (decrease) in banking operation deposits	(35.4)	124.1
Other	5.5	4.7
Net cash provided by (used in) financing activities	(403.1)	98.3
Net decrease in cash and cash equivalents	(717.8)	(135.1)
Cash and cash equivalents at beginning of period	2,977.5	2,470.8
Cash and cash equivalents at end of period	\$ 2,259.7	\$ 2,335.7
Supplemental disclosure of non-cash activities:		
Lease assets established upon adoption of accounting guidance	\$ 168.8	\$ —
Lease liabilities established upon adoption of accounting guidance	\$ 164.0	\$ —
<i>See accompanying notes.</i>		

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2019
(Unaudited)

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of Principal Financial Group, Inc. (“PFG”) 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 months ended March 31, 2019, are not necessarily indicative of the results that may be expected for the year ended December 31, 2019. These interim unaudited consolidated financial statements should be read in conjunction with our annual audited financial statements as of December 31, 2018, included in our Form 10-K for the year ended December 31, 2018, filed with the United States Securities and Exchange Commission (“SEC”). The accompanying consolidated statement of financial position as of December 31, 2018, 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.

Consolidation

We have relationships with various special purpose entities and other legal entities that must be evaluated to determine if the entities meet the criteria of a variable interest entity (“VIE”) or a voting interest entity (“VOE”). This assessment is performed by reviewing contractual, ownership and other rights, including involvement of related parties, and requires use of judgment. First, we determine if we hold a variable interest in an entity by assessing if we have the right to receive expected losses and expected residual returns of the entity. If we hold a variable interest, then the entity is assessed to determine if it is a VIE. An entity is a VIE if the equity at risk is not sufficient to support its activities, if the equity holders lack a controlling financial interest or if the entity is structured with non-substantive voting rights. In addition to the previous criteria, if the entity is a limited partnership or similar entity, it is a VIE if the limited partners do not have the power to direct the entity’s most significant activities through substantive kick-out rights or participating rights. A VIE is evaluated to determine the primary beneficiary. The primary beneficiary of a VIE is 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. When we are the primary beneficiary, we are required to consolidate the entity in our financial statements. We reassess our involvement with VIEs on a quarterly basis. For further information about VIEs, refer to Note 2, Variable Interest Entities.

If an entity is not a VIE, it is considered a VOE. VOEs are generally consolidated if we own a greater than 50% voting interest. If we determine our involvement in an entity no longer meets the requirements for consolidation under either the VIE or VOE models, the entity is deconsolidated. Entities in which we have management influence over the operating and financing decisions but are not required to consolidate, other than investments accounted for at fair value under the fair value option, are reported using the equity method.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

Recent Accounting Pronouncements

Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
<i>Standards not yet adopted:</i>		
<p>Targeted improvements to the accounting for long-duration insurance contracts This authoritative guidance updates certain requirements in the accounting for long-duration insurance and annuity contracts.</p> <ol style="list-style-type: none"> 1. The assumptions used to calculate the liability for future policy benefits on traditional and limited-payment contracts will be reviewed and updated periodically. Cash flow assumptions will be reviewed at least annually and updated when necessary with the impact recognized in net income. Discount rate assumptions are prescribed as the current upper-medium grade (low credit risk) fixed income instrument yield and will be updated quarterly with the impact recognized in other comprehensive income (“OCI”). 2. Market risk benefits, which are certain market-based options or guarantees associated with deposit or account balance contracts, will be measured at fair value. The periodic change in fair value related to instrument-specific credit risk will be recognized in OCI while the remaining change in fair value will be recognized in net income. 3. Deferred acquisition costs (“DAC”) for all insurance and annuity contracts will be amortized on a constant basis over the expected term of the related contracts. 4. Additional disclosures are required, including disaggregated rollforwards of significant insurance liabilities and other account balances and disclosures about significant inputs, judgments, assumptions and methods used in measurement. <p>The guidance for the liability for future policy benefits for traditional and limited-payment contracts and DAC will be applied on a modified retrospective basis; that is, to contracts in force as of the beginning of the earliest period presented based on their existing carrying amounts. An entity may elect to apply the changes retrospectively. The guidance for market risk benefits will be applied retrospectively. Early adoption is permitted.</p>	<p>January 1, 2021</p>	<p>Our implementation and evaluation process to date includes, but is not limited to, identifying and documenting contracts and contract features in scope of the guidance; identifying the actuarial models, systems and processes to be updated; evaluating our systems solutions for implementing the new guidance and evaluating our key accounting policies. As we progress through our implementation, we will be able to better assess the impact to our consolidated financial statements; however, we expect this guidance to significantly change how we account for many of our insurance and annuity products.</p>

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
<p>Goodwill impairment testing This authoritative guidance simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 (which measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill to the carrying amount of that goodwill) from the goodwill impairment test. A goodwill impairment loss will be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. Early adoption is permitted.</p>	January 1, 2020	<p>We are currently evaluating the impact this guidance will have on our consolidated financial statements, but do not expect it to have a material impact on our consolidated financial statements. We expect the guidance will reduce complexity and costs associated with performing a Step 2 test, should one be needed in the future. However, the impact on the outcome of any such future impairment assessment will be dependent on modeling factors that are not currently determinable.</p>
<p>Credit losses This authoritative guidance requires entities to use a current expected credit loss (“CECL”) model to measure impairment for most financial assets that are not recorded at fair value through net income. Under the CECL model, an entity will estimate lifetime expected credit losses considering available relevant information about historical events, current conditions and reasonable and supportable forecasts. The CECL model does not apply to available-for-sale debt securities. This guidance also expands the required credit loss disclosures and will be applied using a modified retrospective approach by recording a cumulative effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. Early adoption is permitted.</p>	January 1, 2020	<p>Our implementation and evaluation process to date includes, but is not limited to, identifying financial assets within scope of the guidance, developing and refining CECL models for the relevant assets, preparing quarterly estimates of the cumulative effect of adoption, and drafting the required financial statement disclosures. We believe estimated credit losses under the CECL model will generally result in earlier loss recognition for loans and other receivables.</p>
Standards adopted:		
<p>Implementation costs in a cloud computing arrangement that is a service contract This authoritative guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This guidance can be applied either retrospectively or prospectively and early adoption is permitted.</p>	January 1, 2019	<p>The effective date of the guidance is January 1, 2020; however, we elected to early-adopt this guidance on a prospective basis, effective January 1, 2019. This guidance did not have a material impact on our consolidated financial statements.</p>

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
Leases This authoritative guidance requires lessee recognition of lease assets and lease liabilities on the balance sheet. The concept of an operating lease, where the lease assets and liabilities are off balance sheet, is eliminated under the new guidance. For lessors, the guidance modifies lease classification criteria and accounting for certain types of leases. Other key aspects of the guidance relate to the removal of the current real estate-specific guidance and new presentation and disclosure requirements. Lessees and lessors are required to recognize and measure leases using a modified retrospective approach, which includes certain optional practical expedients that may be elected. We elected the alternative transition method, which allows entities to initially apply the new standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption.	January 1, 2019	We adopted the guidance using the modified retrospective approach and comparative periods were not restated. Further details are included under the caption “Adoption of Lease Guidance” and in Note 8, Contingencies, Guarantees, Indemnifications and Leases.
Targeted improvements to accounting for hedging activities This authoritative guidance updated certain recognition and measurement requirements for hedge accounting. The objective of the guidance is to more closely align the economics of a company’s risk management activities in its financial results and reduce the complexity of applying hedge accounting. The updates included the expansion of hedging strategies that are eligible for hedge accounting, elimination of the separate measurement and reporting of hedge ineffectiveness, presentation of the changes in the fair value of the hedging instrument in the same consolidated statement of operations line as the earnings effect of the hedged item and simplification of hedge effectiveness assessments. This guidance also included new disclosures.	January 1, 2019	This guidance did not have a material impact on our consolidated financial statements. See Note 4, Derivative Financial Instruments, for further details.
Premium amortization on purchased callable debt securities This authoritative guidance applies to entities that hold certain non-contingently callable debt securities, where the amortized cost basis is at a premium to the price repayable by the issuer at the earliest call date. Under the guidance the premium will be amortized to the first call date.	January 1, 2019	This guidance did not have a material impact on our consolidated financial statements.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
<p>Reclassification of certain tax effects from accumulated other comprehensive income</p> <p>This authoritative guidance permits a reclassification from accumulated other comprehensive income (“AOCI”) to retained earnings for the stranded tax effects resulting from U.S. tax legislation enacted on December 22, 2017, which is referred to as the “Tax Cuts and Jobs Act” (“U.S. tax reform”). The amount of that reclassification includes the change in corporate income tax rate, as well as an election to include other income tax effects related to the application of U.S. tax reform. The guidance also requires disclosures about stranded tax effects.</p>	January 1, 2018	The effective date of the guidance was January 1, 2019; however, we elected to early adopt the guidance. The guidance was applied at the beginning of the period of adoption and comparative periods were not restated. We reclassified the stranded tax effects in AOCI resulting from U.S. tax reform, which includes the change in corporate income tax rate and an election to reclassify the tax effects of the one-time deemed repatriation tax. A reclassification of \$77.6 million was recorded as an increase to AOCI and a decrease to retained earnings.
<p>Revenue recognition</p> <p>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 customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for that good or service. This guidance also provides clarification on when an entity is a principal or an agent in a transaction. In addition, the guidance updates the accounting for certain costs associated with obtaining and fulfilling a customer contract. The guidance may be applied using one of the following two methods: (1) retrospectively to each prior reporting period presented, or (2) retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.</p>	January 1, 2018	We adopted the guidance using the modified retrospective approach. The guidance did not have a material impact on our consolidated financial statements. A cumulative effect adjustment of \$39.7 million was recorded as a decrease to total stockholders’ equity. See Note 12, Revenues from Contracts with Customers, for further details.
<p>Income tax - intra-entity transfers of assets</p> <p>This authoritative guidance requires entities to recognize current and deferred income tax resulting from an intra-entity asset transfer when the transfer occurs. Prior to issuance of this guidance, U.S. GAAP did not allow recognition of income tax consequences until the asset had been sold to a third party. This guidance requires adoption through a cumulative effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption.</p>	January 1, 2018	We adopted the guidance using the modified retrospective approach. A cumulative effect adjustment of \$8.7 million was recorded as an increase to retained earnings. In addition, other assets and deferred income taxes decreased \$21.1 million and \$29.8 million, respectively, due to the adoption of this guidance.

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Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
<p>Financial instruments - recognition and measurement</p> <p>This authoritative guidance addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The guidance eliminated the classification of equity securities into different categories (trading or available-for-sale) and requires equity investments to be measured at fair value with changes in the fair value recognized through net income. The guidance also updated certain financial instrument disclosures and eliminated the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments that are measured at amortized cost on the balance sheet.</p>	January 1, 2018	We adopted this guidance using the modified retrospective approach. A cumulative effect adjustment of \$1.0 million was recorded as a decrease to AOCI and a corresponding increase to retained earnings. The guidance did not have a material impact on our consolidated financial statements. See Note 3, Investments, for further details.
<p>Nonfinancial asset derecognition and partial sales of nonfinancial assets</p> <p>This authoritative guidance clarifies the scope of the recently established guidance on nonfinancial asset derecognition and the accounting for partial sales of nonfinancial assets. The guidance conforms the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue recognition standard.</p>	January 1, 2018	The guidance did not have a material impact on our consolidated financial statements.
<p>Presentation of net periodic pension cost and net periodic postretirement benefit cost</p> <p>This authoritative guidance requires that an employer disaggregate the service cost component from the other components of net benefit cost. The guidance also provides explicit guidance on the presentation of the service cost component and the other components of net benefit cost in the consolidated statement of operations and allows only the service cost component of net benefit cost to be eligible for capitalization.</p>	January 1, 2018	The guidance did not have a material impact on our consolidated financial statements.
<p>Definition of a business</p> <p>This authoritative guidance clarifies the definition of a business to assist with evaluating when transactions involving an integrated set of assets and activities (a “set”) should be accounted for as acquisitions or disposals of assets or businesses. The guidance requires that when substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. The guidance also requires a set to include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output to be considered a business. Lastly, the guidance removes the evaluation of whether a market participant could replace missing elements and narrows the definition of outputs by more closely aligning it with how outputs are described in the revenue recognition guidance. The guidance will be applied prospectively.</p>	January 1, 2018	The guidance did not have a material impact on our consolidated financial statements.

When we adopt new accounting standards, we have a process in place to perform a thorough review of the pronouncement, identify the financial statement and system impacts and create an implementation plan among our impacted business units to ensure we are compliant with the pronouncement on the date of adoption. This includes having effective processes and controls in place to support the reported amounts. Each of the standards listed above is in varying stages in our implementation process based on its issuance and adoption dates. We are on track to implement guidance by the respective effective dates.

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Adoption of Lease Guidance

On January 1, 2019, we adopted the guidance using the modified retrospective approach with the cumulative effect of initially applying the standard recognized at the date of adoption. We elected the package of practical expedients permitted under the transition guidance. In addition, we elected the hindsight practical expedient to determine the lease term for existing leases. We have agreements with lease and non-lease components, which we account for as a combined unit of account for all classes.

The impact of the guidance to our consolidated financial statements primarily related to the establishment of additional assets and liabilities of \$168.8 million and \$164.0 million, respectively. The difference between the additional assets and liabilities, net of deferred tax impacts, was recorded as a cumulative effect adjustment to retained earnings and increased total stockholders' equity by \$4.0 million.

Results of reporting periods beginning January 1, 2019, are presented under the new guidance, while prior period amounts are not adjusted and continue to be reported in accordance with our prior accounting. The guidance did not have a material impact on our consolidated statements of operations and did not impact earnings per common share.

Derivatives

Overview

Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices or the values of securities. Derivatives generally used by us include swaps, options, futures and forwards. Derivative positions are either assets or liabilities in the consolidated statements of financial position and are measured at fair value, generally by obtaining quoted market prices or through the use of pricing models. See Note 10, Fair Value Measurements, for policies related to the determination of fair value. Fair values can be affected by changes in interest rates, foreign exchange rates, financial indices, values of securities, credit spreads, and market volatility and liquidity.

Accounting and Financial Statement Presentation

We designate derivatives as either:

- (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, including those denominated in a foreign currency ("fair value hedge");
- (b) a hedge of a forecasted transaction or the exposure to variability of cash flows to be received or paid related to a recognized asset or liability, including those denominated in a foreign currency ("cash flow hedge");
- (c) a hedge of a net investment in a foreign operation or
- (d) a derivative not designated as a hedging instrument.

Our accounting for the ongoing changes in fair value of a derivative depends on the intended use of the derivative and the designation, as described above, and is determined when the derivative contract is entered into or at the time of redesignation. Hedge accounting is used for derivatives that are specifically designated in advance as hedges and that reduce our exposure to an indicated risk by having a high correlation between changes in the value of the derivatives and the items being hedged at both the inception of the hedge and throughout the hedge period.

Fair Value Hedges. When a derivative is designated as a fair value hedge and is determined to be highly effective, changes in its fair value, along with changes in the fair value of the hedged asset, liability or firm commitment attributable to the hedged risk, are reported in the same income statement line item that is used to report the earnings effect of the hedged item. For fair value hedges of fixed maturities, available-for-sale, these changes in fair value are reported in net investment income. Prior to 2019, these changes in fair value were recorded in net realized capital gains (losses). A fair value hedge determined to be highly effective may still result in a mismatch between the change in the fair value of the hedging instrument and the change in the fair value of the hedged item attributable to the hedged risk.

Cash Flow Hedges. When a derivative is designated as a cash flow hedge and is determined to be highly effective, changes in its fair value are recorded as a component of OCI. At the time the variability of cash flows being hedged impacts

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net income, the related portion of deferred gains or losses on the derivative instrument is reclassified and reported in net income.

Net Investment in a Foreign Operation Hedge. When a derivative is used as a hedge of a net investment in a foreign operation, its change in fair value, to the extent effective as a hedge, is recorded as a component of OCI. If the foreign operation is sold or upon complete or substantially complete liquidation, the deferred gains or losses on the derivative instrument are reclassified into net income.

Non-Hedge Derivatives. If a derivative does not qualify or is not designated for hedge accounting, all changes in fair value are reported in net income without considering the changes in the fair value of the economically associated assets or liabilities.

Hedge Documentation and Effectiveness Testing. At inception, we formally document all relationships between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking various hedge transactions. This process includes associating all derivatives designated as fair value or cash flow hedges with specific assets or liabilities on the consolidated statements of financial position or with specific firm commitments or forecasted transactions. Effectiveness of the hedge is formally assessed at inception and throughout the life of the hedging relationship. Even if a hedge is determined to be highly effective, the hedge may still result in a mismatch between the change in the fair value of the hedging instrument and the change in the fair value of the hedged item attributable to the hedged risk.

We use qualitative and quantitative methods to assess hedge effectiveness. Qualitative methods may include monitoring changes to terms and conditions and counterparty credit ratings. Quantitative methods may include statistical tests including regression analysis and minimum variance and dollar offset techniques.

Termination of Hedge Accounting. We prospectively discontinue hedge accounting when (1) the criteria to qualify for hedge accounting is no longer met, e.g., a derivative is determined to no longer be highly effective in offsetting the change in fair value or cash flows of a hedged item; (2) the derivative expires, is sold, terminated or exercised or (3) we remove the designation of the derivative being the hedging instrument for a fair value or cash flow hedge.

If it is determined that a derivative no longer qualifies as an effective hedge, the derivative will continue to be carried on the consolidated statements of financial position at its fair value, with changes in fair value recognized prospectively in net realized capital gains (losses). The asset or liability under a fair value hedge will no longer be adjusted for changes in fair value pursuant to hedging rules and the existing basis adjustment is amortized to the consolidated statements of operations line associated with the asset or liability. The component of AOCI related to discontinued cash flow hedges that are no longer highly effective is amortized to the consolidated statements of operations consistent with the net income impacts of the original hedged cash flows. If a cash flow hedge is discontinued because it is probable the hedged forecasted transaction will not occur, the deferred gain or loss is immediately reclassified from AOCI into net income.

Embedded Derivatives. We purchase and issue certain financial instruments and products that contain a derivative that is embedded in the financial instrument or product. We assess whether this embedded derivative is clearly and closely related to the asset or liability that serves as its host contract. If we deem that the embedded derivative's terms are not clearly and closely related to the host contract, and a separate instrument with the same terms would qualify as a derivative instrument, the derivative is bifurcated from that contract and held at fair value on the consolidated statements of financial position, with changes in fair value reported in net income.

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.

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Separate account assets and separate account liabilities include certain international 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.

As of March 31, 2019 and December 31, 2018, the separate accounts included a separate account valued at \$102.7 million and \$94.9 million, respectively, which primarily included 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 various types of entities which may be VIEs. Certain VIEs are consolidated in our financial results. See Note 1, Nature of Operations and Significant Accounting Policies, under the caption “Consolidation” for further details of our consolidation accounting policies. We did not provide financial or other support to investees designated as VIEs for the periods ended March 31, 2019 and December 31, 2018.

Consolidated Variable Interest Entities

Grantor Trust

We contributed undated subordinated floating rate notes to a grantor trust. The trust separated its 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 determined the grantor trust is a VIE due to insufficient equity to sustain it. We determined we are the primary beneficiary as a result of our contribution of securities into the trust and our significant continuing interest in the trust.

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 mortgage loans it purchased. This is considered a VIE due to insufficient equity to sustain itself. We 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 Funds

We hold an equity interest in Chilean mandatory privatized social security funds in which we provide asset management services. We determined 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 we are the primary beneficiary through our power to make decisions and our significant 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 customer 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.

Principal International Hong Kong offers retirement pension schemes in which we provide trustee, administration and asset management services to employers and employees under the Hong Kong Mandatory Provident Fund and Occupational Retirement Schemes Ordinance pension schemes. Each pension scheme has various guaranteed and non-

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guaranteed constituent funds, or investment options, in which customers can invest their money. The guaranteed funds provide either a guaranteed rate of return to the customer or a minimum guarantee on withdrawals under certain qualifying events. We determined the guaranteed funds are VIEs due to the fact the equity holders, as a group, lack the obligation to absorb expected losses due to the guarantee we provide. We concluded we are the primary beneficiary because we have the power to make decisions and to receive benefits and the obligation to absorb losses that could be potentially significant to the VIE. Therefore, we consolidate the underlying assets and liabilities of the funds and present as separate accounts or within the general account, depending on the terms of the guarantee.

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.

Sponsored Investment Funds

We sponsor and invest in certain investment funds for which we provide asset management services. Although our asset management fee is commensurate with the services provided and consistent with fees for similar services negotiated at arms-length, we have a variable interest for funds where our other interests are more than insignificant. The funds are VIEs as the equity holders lack power through voting rights to direct the activities of the entity that most significantly impact its economic performance. We determined we are the primary beneficiary of the VIEs where our interest in the entity is more than insignificant and we are the asset manager.

We also invest in certain series of another investment fund. These series are VIEs as the equity holders of each series lack the power to direct the most significant activities of the VIE. We determined we are the primary beneficiary of these series as our interest is more than insignificant and collectively we have the power to direct the most significant activities of the fund.

Assets and Liabilities of Consolidated Variable Interest Entities

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 were as follows:

	March 31, 2019		December 31, 2018	
	Total assets	Total liabilities	Total assets	Total liabilities
	<i>(in millions)</i>			
Grantor trust (1)	\$ 99.6	\$ 94.9	\$ 95.0	\$ 89.4
CMBS	5.9	—	6.4	—
Mandatory retirement savings funds (2)	40,311.8	39,940.5	37,915.7	37,579.3
Real estate (3)	389.9	70.7	379.2	70.6
Sponsored investment funds (4)	697.8	52.4	526.5	3.6
Total	<u>\$ 41,505.0</u>	<u>\$ 40,158.5</u>	<u>\$ 38,922.8</u>	<u>\$ 37,742.9</u>

- (1) The assets of grantor trusts are primarily fixed maturities, available-for-sale. The liabilities are primarily other liabilities that reflect an embedded derivative of the forecasted transaction to deliver the underlying securities.
- (2) The assets of the mandatory retirement savings funds include separate account assets and equity securities. The liabilities include separate account liabilities and contractholder funds.
- (3) The assets of the real estate VIEs primarily include real estate and cash. Liabilities primarily include long-term debt and other liabilities.
- (4) The assets of sponsored investment funds are primarily fixed maturities and equity securities, certain of which are reported with other investments, and cash. The consolidated statements of financial position included a \$460.2 million and \$325.7 million redeemable noncontrolling interest for sponsored investment funds as of March 31, 2019 and December 31, 2018, respectively.

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Unconsolidated Variable Interest Entities

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; equity securities and other investments in the consolidated statements of financial position and are described below.

Unconsolidated VIEs include certain 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.

We invest in cash collateralized debt obligations, collateralized bond obligations, collateralized loan obligations and other collateralized structures, which are VIEs due to insufficient equity to sustain the entities. We have determined we are not the primary beneficiary of these entities primarily because we do not control the economic performance of the entities and were not involved with the design of the entities or because we do not have a potentially significant variable interest in the entities for which we are the asset manager.

We have invested in various VIE trusts and similar entities as a debt holder. Most of these entities are classified as VIEs due to insufficient equity to sustain them. In addition, we have an entity classified as a VIE based on the combination of our significant economic interest and lack of voting rights. 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, which are classified as VIEs. The entities are VIEs as equity holders lack the power to control the most significant activities of the entities because the equity holders do not have either the ability by a simple majority to exercise substantive kick-out rights or substantive participating rights. We have determined we are not the primary beneficiary because we do not have the power to direct the most significant activities of the entities.

As previously discussed, we sponsor, invest in and have other interests in certain investment funds that are VIEs. We determined we are not the primary beneficiary of the VIEs for which we are the asset manager but do not have a potentially significant variable interest in the funds.

We hold an equity interest in Mexican mandatory privatized social security funds in which we provide asset management services. Our equity interest in the funds is considered a variable interest. We concluded the funds are VIEs because the equity holders as a group lack decision-making ability through their voting rights. We are not the primary beneficiary of the VIEs because although we, as the asset manager, have the power to direct the activities of the VIEs, we do not have a potentially significant variable interest in the funds.

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

	<u>Asset carrying value</u>	<u>Maximum exposure to loss (1)</u>
	<i>(in millions)</i>	
March 31, 2019		
Fixed maturities, available-for-sale:		
Corporate	\$ 239.3	\$ 224.9
Residential mortgage-backed pass-through securities	2,484.5	2,471.5
Commercial mortgage-backed securities	4,242.1	4,234.0
Collateralized debt obligations (2)	2,765.7	2,786.7
Other debt obligations	7,545.3	7,523.3
Fixed maturities, trading:		
Residential mortgage-backed pass-through securities	318.8	318.8
Commercial mortgage-backed securities	18.5	18.5
Collateralized debt obligations (2)	20.3	20.3
Other debt obligations	12.3	12.3
Equity securities	110.0	110.0
Other investments:		
Other limited partnership and fund interests (3)	802.3	1,428.9
December 31, 2018		
Fixed maturities, available-for-sale:		
Corporate	\$ 235.3	\$ 222.6
Residential mortgage-backed pass-through securities	2,460.6	2,488.5
Commercial mortgage-backed securities	3,945.6	4,023.1
Collateralized debt obligations (2)	2,420.8	2,451.3
Other debt obligations	7,153.2	7,196.6
Fixed maturities, trading:		
Residential mortgage-backed pass-through securities	322.6	322.6
Commercial mortgage-backed securities	13.8	13.8
Collateralized debt obligations (2)	11.8	11.8
Other debt obligations	9.7	9.7
Equity securities	103.9	103.9
Other investments:		
Other limited partnership and fund interests (3)	737.5	1,432.2

- (1) Our risk of loss is limited to our initial investment measured at amortized cost for fixed maturities, available-for-sale. Our risk of loss is limited to our investment measured at fair value for our fixed maturities, trading and equity securities. Our risk of loss is limited to our carrying value plus any unfunded commitments and/or guarantees and similar provisions for our other investments. Unfunded commitments are not liabilities on our consolidated statements of financial position because we are only required to fund additional equity when called upon to do so by the general partner or investment manager.
- (2) Primarily consists of collateralized loan obligations backed by secured corporate loans.
- (3) As of March 31, 2019 and December 31, 2018, the maximum exposure to loss for other limited partnership and fund interests includes \$129.7 million and \$132.2 million, respectively, of debt within certain of our managed international real estate funds that is fully secured by assets whose value exceeds the amount of the debt, but also includes recourse to the investment manager.

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Money Market Funds

We are the investment manager for certain money market mutual funds. These types of funds are exempt from assessment under any consolidation model due to a scope exception for money market funds registered under Rule 2a-7 of the Investment Company Act of 1940 or similar funds. As of March 31, 2019 and December 31, 2018, money market mutual funds we manage held \$3.6 billion and \$3.0 billion in total assets, respectively. We have no contractual obligation to contribute to these funds; however, we provide support through the waiver of fees and through expense reimbursements. The amount of fees waived and expenses reimbursed was insignificant.

3. Investments**Fixed Maturities and Equity Securities**

Fixed maturities include bonds, ABS, redeemable preferred stock and certain non-redeemable preferred securities. Equity securities include mutual funds, common stock, non-redeemable preferred stock and required regulatory investments. We classify fixed maturities as either available-for-sale or trading at the time of the purchase and, accordingly, carry them at fair value. Equity securities are also carried at fair value. See Note 10, Fair Value Measurements, for methodologies related to the determination of fair value. Unrealized gains and losses related to fixed maturities, available-for-sale, excluding those in fair value hedging relationships, are reflected in stockholders' equity, net of adjustments associated with DAC and related actuarial balances, derivatives in cash flow hedge relationships and applicable income taxes. Mark-to-market adjustments on equity securities, unrealized gains and losses related to hedged portions of fixed maturities, available-for-sale in fair value hedging relationships prior to 2019 and mark-to-market adjustments on certain fixed maturities, trading are reflected in net realized capital gains (losses). Beginning in 2019, unrealized gains and losses related to hedged portions of fixed maturities, available-for-sale in fair value hedging relationships are reflected in net investment income. 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 amortized cost of fixed maturities includes cost adjusted for amortization of premiums and discounts, computed using the interest method. The amortized cost of fixed maturities, available-for-sale is adjusted for changes in fair value of the hedged portions of securities in fair value hedging relationships and 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.

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The amortized cost, gross unrealized gains and losses, other-than-temporary impairments in AOCI and fair value of available-for-sale securities were as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Other-than- temporary impairments in AOCI (1)
	<i>(in millions)</i>				
March 31, 2019					
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ 1,467.0	\$ 40.6	\$ 9.2	\$ 1,498.4	\$ —
Non-U.S. governments	876.4	90.9	3.9	963.4	—
States and political subdivisions	6,301.7	351.8	27.2	6,626.3	—
Corporate	35,242.7	1,985.4	258.9	36,969.2	0.5
Residential mortgage-backed pass-through securities	2,471.5	38.1	25.1	2,484.5	—
Commercial mortgage-backed securities	4,234.0	51.6	43.5	4,242.1	19.2
Collateralized debt obligations (2)	2,786.7	0.2	21.2	2,765.7	1.4
Other debt obligations	7,551.3	69.1	47.0	7,573.4	35.3
Total fixed maturities, available-for-sale	<u>\$ 60,931.3</u>	<u>\$ 2,627.7</u>	<u>\$ 436.0</u>	<u>\$ 63,123.0</u>	<u>\$ 56.4</u>
December 31, 2018					
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ 1,441.6	\$ 16.4	\$ 17.0	\$ 1,441.0	\$ —
Non-U.S. governments	833.4	71.7	14.6	890.5	—
States and political subdivisions	6,125.0	196.0	95.3	6,225.7	—
Corporate	35,134.6	1,249.9	845.2	35,539.3	—
Residential mortgage-backed pass-through securities	2,488.5	21.9	49.8	2,460.6	—
Commercial mortgage-backed securities	4,023.1	17.1	94.6	3,945.6	16.3
Collateralized debt obligations (2)	2,451.3	—	30.5	2,420.8	1.2
Other debt obligations	7,228.3	39.4	82.7	7,185.0	36.1
Total fixed maturities, available-for-sale	<u>\$ 59,725.8</u>	<u>\$ 1,612.4</u>	<u>\$ 1,229.7</u>	<u>\$ 60,108.5</u>	<u>\$ 53.6</u>

- (1) Excludes \$65.1 million and \$64.2 million as of March 31, 2019 and December 31, 2018, 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.
- (2) Primarily consists of collateralized loan obligations backed by secured corporate loans.

The amortized cost and fair value of fixed maturities, available-for-sale as of March 31, 2019, by expected maturity, were as follows:

	Amortized cost	Fair value
	<i>(in millions)</i>	
Due in one year or less	\$ 2,659.9	\$ 2,676.8
Due after one year through five years	10,451.4	10,643.0
Due after five years through ten years	10,617.3	10,899.6
Due after ten years	20,159.2	21,837.9
Subtotal	<u>43,887.8</u>	<u>46,057.3</u>
Mortgage-backed and other asset-backed securities	17,043.5	17,065.7
Total	<u>\$ 60,931.3</u>	<u>\$ 63,123.0</u>

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.

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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 equity securities, mark-to-market adjustments on certain fixed maturities, trading, mark-to-market adjustments on sponsored investment funds, mark-to-market adjustments on derivatives not designated as hedges, changes in the mortgage loan valuation allowance provision, impairments of real estate held for investment and impairments on equity method investments. Investment gains and losses on sales of certain real estate held for sale due to investment strategy 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 were as follows:

	For the three months ended March 31,	
	2019	2018
	<i>(in millions)</i>	
Fixed maturities, available-for-sale:		
Gross gains	\$ 2.5	\$ 4.3
Gross losses	(1.5)	(26.7)
Net impairment losses	(6.8)	(9.9)
Hedging, net (1)	—	(5.1)
Fixed maturities, trading (2)	14.2	(10.7)
Equity securities (3)	21.0	(2.0)
Mortgage loans	0.3	0.4
Derivatives (1)	5.0	9.4
Other	49.8	15.2
Net realized capital gains (losses)	<u>\$ 84.5</u>	<u>\$ (25.1)</u>

- (1) Upon adoption of authoritative guidance effective January 1, 2019, the change in fair value of fixed maturities, available-for-sale and the change in fair value of derivative hedging instruments in fair value hedging relationships are reported in net investment income with the earnings effect of fixed maturities, available-for-sale. Prior to 2019, the change in fair value of fixed maturities, available-for-sale and the change in fair value of derivative hedging instruments in fair value hedging relationships were reported in net realized capital gains (losses). See Note 4, Derivative Financial Instruments, for further details.
- (2) Unrealized gains (losses) on fixed maturities, trading still held at the reporting date were \$14.2 million and \$(10.7) million for the three months ended March 31, 2019 and 2018, respectively.
- (3) Unrealized gains (losses) on equity securities still held at the reporting date were \$19.8 million and \$(5.0) million for the three months ended March 31, 2019 and 2018, respectively. This excludes \$22.5 million and \$0.0 million of unrealized gains (losses) on equity securities still held at the reporting date for the three months ended March 31, 2019 and 2018, respectively, that were reported in net investment income.

Proceeds from sales of investments (excluding call and maturity proceeds) in fixed maturities, available-for-sale were \$163.0 million and \$1,211.8 million for the three months ended March 31, 2019 and 2018, respectively.

Other-Than-Temporary Impairments

We have a process in place to identify fixed maturity securities that could potentially have an 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 rate related impairment of a security is other than temporary. Relevant facts and circumstances considered include: (1) the extent

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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 and (5) 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. To the extent we determine a security is deemed to be other than temporarily impaired, an impairment loss is recognized.

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 fixed maturities, available-for-sale, were as follows:

	For the three months ended March 31,	
	2019	2018
	<i>(in millions)</i>	
Net other-than-temporary impairment losses (recoveries)	\$ (9.6)	\$ 1.3
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from) OCI (1)	2.8	(11.2)
Net impairment losses on fixed maturities, available-for-sale	\$ (6.8)	\$ (9.9)

(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 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.

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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 March 31,	
	2019	2018
	<i>(in millions)</i>	
Beginning balance	\$ (117.5)	\$ (124.3)
Credit losses for which an other-than-temporary impairment was not previously recognized	(2.0)	(4.6)
Credit losses for which an other-than-temporary impairment was previously recognized	(4.3)	(9.8)
Reduction for credit losses previously recognized on fixed maturities now sold, paid down or intended to be sold	20.4	7.3
Net reduction for positive changes in cash flows expected to be collected and amortization (1)	1.1	2.2
Ending balance	<u>\$ (102.3)</u>	<u>\$ (129.2)</u>

(1) Amounts are recognized in net investment income.

Gross Unrealized Losses for Available-for-Sale Securities

For available-for-sale securities 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 were as follows:

	Less than twelve months		March 31, 2019 Greater than or equal to twelve months		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
	<i>(in millions)</i>					
Fixed maturities, available-for-sale:						
U.S. government and agencies	\$ 1.1	\$ —	\$ 399.4	\$ 9.2	\$ 400.5	\$ 9.2
Non-U.S. governments	5.8	0.2	146.3	3.7	152.1	3.9
States and political subdivisions	42.3	3.7	1,142.8	23.5	1,185.1	27.2
Corporate	1,539.9	40.8	8,035.9	218.1	9,575.8	258.9
Residential mortgage-backed pass-through securities	1.3	—	1,137.7	25.1	1,139.0	25.1
Commercial mortgage-backed securities	185.7	3.0	1,704.5	40.5	1,890.2	43.5
Collateralized debt obligations (1)	1,921.6	12.8	406.9	8.4	2,328.5	21.2
Other debt obligations	246.1	1.4	3,252.4	45.6	3,498.5	47.0
Total fixed maturities, available-for-sale	<u>\$ 3,943.8</u>	<u>\$ 61.9</u>	<u>\$ 16,225.9</u>	<u>\$ 374.1</u>	<u>\$ 20,169.7</u>	<u>\$ 436.0</u>

(1) Primarily consists of collateralized loan obligations backed by secured corporate loans.

Of the total amounts, Principal Life's consolidated portfolio represented \$19,889.5 million in available-for-sale fixed maturities with gross unrealized losses of \$428.5 million. Of the available-for-sale fixed maturities within Principal Life's consolidated portfolio in a gross unrealized loss position, 95% were investment grade (rated AAA through BBB-) with an average price of 98 (carrying value/amortized cost) as of March 31, 2019. Gross unrealized losses in our fixed maturities portfolio decreased during the three months ended March 31, 2019, primarily due to tightening of credit spreads and a decrease in interest rates.

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For those securities that had been in a continuous unrealized loss position for less than twelve months, Principal Life's consolidated portfolio held 362 securities with a carrying value of \$3,897.5 million and unrealized losses of \$60.3 million reflecting an average price of 98 as of March 31, 2019. Of this portfolio, 86% was investment grade (rated AAA through BBB-) as of March 31, 2019, with associated unrealized losses of \$43.8 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 2,194 securities with a carrying value of \$15,992.0 million and unrealized losses of \$368.2 million. The average credit rating of this portfolio was A+ with an average price of 98 as of March 31, 2019. Of the \$368.2 million in unrealized losses, the corporate sector accounts for \$213.1 million in unrealized losses with an average price of 97 and an average credit rating of A-. The remaining unrealized losses also include \$39.9 million within the commercial mortgage-backed securities sector with an average price of 98 and an average credit rating of AA+. 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 at maturity, we did not consider these investments to be other-than-temporarily impaired as of March 31, 2019.

	December 31, 2018					
	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
	<i>(in millions)</i>					
Fixed maturities, available-for-sale:						
U.S. government and agencies	\$ 101.8	\$ 1.6	\$ 500.3	\$ 15.4	\$ 602.1	\$ 17.0
Non-U.S. governments	210.2	4.7	191.5	9.9	401.7	14.6
States and political subdivisions	1,359.9	33.9	1,590.3	61.4	2,950.2	95.3
Corporate	13,198.4	476.0	6,865.0	369.2	20,063.4	845.2
Residential mortgage-backed pass-through securities	236.7	1.0	1,410.2	48.8	1,646.9	49.8
Commercial mortgage-backed securities	790.3	11.6	2,223.2	83.0	3,013.5	94.6
Collateralized debt obligations (1)	2,233.3	24.0	162.6	6.5	2,395.9	30.5
Other debt obligations	985.5	4.9	3,665.1	77.8	4,650.6	82.7
Total fixed maturities, available-for-sale	<u>\$ 19,116.1</u>	<u>\$ 557.7</u>	<u>\$ 16,608.2</u>	<u>\$ 672.0</u>	<u>\$ 35,724.3</u>	<u>\$ 1,229.7</u>

(1) Primarily consists of collateralized loan obligations backed by secured corporate loans.

Of the total amounts, Principal Life's consolidated portfolio represented \$35,051.9 million in available-for-sale fixed maturities with gross unrealized losses of \$1,202.9 million. Of the available-for-sale fixed maturities within Principal Life's consolidated portfolio in a gross unrealized loss position, 95% were investment grade (rated AAA through BBB-) with an average price of 97 (carrying value/amortized cost) as of December 31, 2018. Gross unrealized losses in our fixed maturities portfolio increased during the year ended December 31, 2018, primarily due to widening of credit spreads and an increase 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 2,076 securities with a carrying value of \$18,764.0 million and unrealized losses of \$541.3 million reflecting an average price of 97 as of December 31, 2018. Of this portfolio, 92% was investment grade (rated AAA through BBB-) as of December 31, 2018, with associated unrealized losses of \$473.7 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 2,335 securities with a carrying value of \$16,287.9 million and unrealized losses of \$661.6 million. The average credit rating of this portfolio was AA- with an average price of 96 as of December 31, 2018. Of the

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\$661.6 million in unrealized losses, the corporate sector accounts for \$360.4 million in unrealized losses with an average price of 95 and an average credit rating of A-. The remaining unrealized losses also include \$82.2 million within the commercial mortgage-backed securities sector with an average price of 96 and an average credit rating of AA+. 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 at maturity, we did not consider these investments to be other-than-temporarily impaired as of December 31, 2018.

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

The net unrealized gains and losses on investments in available-for-sale securities, the noncredit component of impairment losses on fixed maturities available-for-sale and the net unrealized gains and losses on derivative instruments in cash flow hedge relationships are reported as separate components 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, policyholder liabilities, noncontrolling interest and applicable income taxes was as follows:

	March 31, 2019	December 31, 2018
	<i>(in millions)</i>	
Net unrealized gains on fixed maturities, available-for-sale (1)	\$ 2,217.6	\$ 400.8
Noncredit component of impairment losses on fixed maturities, available-for-sale	(56.4)	(53.6)
Net unrealized gains on derivative instruments	107.7	118.5
Adjustments for assumed changes in amortization patterns	(90.3)	30.3
Adjustments for assumed changes in policyholder liabilities	(590.4)	(293.7)
Net unrealized gains on other investments and noncontrolling interest adjustments	77.7	68.8
Provision for deferred income taxes	(361.3)	(63.8)
Net unrealized gains on available-for-sale securities and derivative instruments	<u>\$ 1,304.6</u>	<u>\$ 207.3</u>

(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) first lien mortgages and (2) home equity mortgages. The carrying amount of our mortgage loan portfolio was as follows:

	March 31, 2019	December 31, 2018
	<i>(in millions)</i>	
Commercial mortgage loans	\$ 14,274.2	\$ 13,996.3
Residential mortgage loans	1,350.9	1,368.0
Total amortized cost	<u>15,625.1</u>	<u>15,364.3</u>
Valuation allowance	(27.6)	(27.4)
Total carrying value	<u>\$ 15,597.5</u>	<u>\$ 15,336.9</u>

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We periodically purchase mortgage loans as well as sell mortgage loans we have originated. Mortgage loans purchased and sold were as follows:

	For the three months ended March 31,	
	2019	2018
	<i>(in millions)</i>	
Commercial mortgage loans:		
Purchased	\$ 12.9	\$ —
Sold	0.5	—
Residential mortgage loans:		
Purchased	33.2	112.2
Sold	10.9	23.6

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:

	March 31, 2019		December 31, 2018	
	Amortized cost	Percent of total	Amortized cost	Percent of total
	<i>(\$ in millions)</i>			
Geographic distribution				
New England	\$ 636.5	4.5 %	\$ 640.6	4.6 %
Middle Atlantic	3,997.5	28.1	3,927.3	28.0
East North Central	605.7	4.2	592.8	4.2
West North Central	203.6	1.4	205.8	1.5
South Atlantic	2,205.1	15.4	2,206.5	15.8
East South Central	419.5	2.9	422.5	3.0
West South Central	1,309.7	9.2	1,213.8	8.7
Mountain	1,004.4	7.0	968.6	6.9
Pacific	3,624.9	25.4	3,567.6	25.5
International	267.3	1.9	250.8	1.8
Total	<u>\$ 14,274.2</u>	<u>100.0 %</u>	<u>\$ 13,996.3</u>	<u>100.0 %</u>
Property type distribution				
Office	\$ 4,579.7	32.2 %	\$ 4,625.8	33.0 %
Retail	2,218.1	15.5	2,305.6	16.5
Industrial	2,305.2	16.1	2,312.9	16.5
Apartments	4,654.7	32.6	4,250.5	30.4
Hotel	98.9	0.7	99.8	0.7
Mixed use/other	417.6	2.9	401.7	2.9
Total	<u>\$ 14,274.2</u>	<u>100.0 %</u>	<u>\$ 13,996.3</u>	<u>100.0 %</u>

Our residential mortgage loan portfolio is composed of first lien mortgages with an amortized cost of \$1,336.8 million and \$1,352.9 million and home equity mortgages with an amortized cost of \$14.1 million and \$15.1 million as of March 31, 2019 and December 31, 2018, respectively. Our first lien loans are concentrated in Chile and the United States. 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.

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

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micro markets), tenant quality and lease expirations. Our internal rating analysis presents expected losses in terms of an S&P Global (“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 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 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:

	March 31, 2019		
	Brick and mortar	CTL <i>(in millions)</i>	Total
A- and above	\$ 12,997.3	\$ 82.3	\$ 13,079.6
BBB+ thru BBB-	1,019.1	101.8	1,120.9
BB+ thru BB-	68.1	—	68.1
B+ and below	5.6	—	5.6
Total	\$ 14,090.1	\$ 184.1	\$ 14,274.2

	December 31, 2018		
	Brick and mortar	CTL <i>(in millions)</i>	Total
A- and above	\$ 12,735.2	\$ 84.3	\$ 12,819.5
BBB+ thru BBB-	977.3	105.7	1,083.0
BB+ thru BB-	88.3	—	88.3
B+ and below	5.5	—	5.5
Total	\$ 13,806.3	\$ 190.0	\$ 13,996.3

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 potential 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:

	March 31, 2019		
	First liens	Home equity <i>(in millions)</i>	Total
Performing	\$ 1,324.0	\$ 10.1	\$ 1,334.1
Non-performing	12.8	4.0	16.8
Total	\$ 1,336.8	\$ 14.1	\$ 1,350.9

	December 31, 2018		
	First liens	Home equity <i>(in millions)</i>	Total
Performing	\$ 1,340.3	\$ 10.8	\$ 1,351.1
Non-performing	12.6	4.3	16.9
Total	\$ 1,352.9	\$ 15.1	\$ 1,368.0

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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 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, against the valuation allowance or according to the contractual terms of the loan. When a loan is placed on non-accrual 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:

	March 31, 2019	December 31, 2018
	<i>(in millions)</i>	
Residential:		
First liens	\$ 9.6	\$ 10.1
Home equity	4.0	4.3
Total	\$ 13.6	\$ 14.4

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

	March 31, 2019						
	30-59 days past due	60-89 days past due	90 days or more past due	Total past due <i>(in millions)</i>	Current	Total loans	
Commercial-brick and mortar	\$ —	\$ —	\$ —	\$ —	\$ 14,090.1	\$ 14,090.1	\$ —
Commercial-CTL	—	—	—	—	184.1	184.1	—
Residential-first liens	36.9	10.7	11.8	59.4	1,277.4	1,336.8	3.2
Residential-home equity	0.6	0.2	0.5	1.3	12.8	14.1	—
Total	\$ 37.5	\$ 10.9	\$ 12.3	\$ 60.7	\$ 15,564.4	\$ 15,625.1	\$ 3.2
	December 31, 2018						
	30-59 days past due	60-89 days past due	90 days or more past due	Total past due <i>(in millions)</i>	Current	Total loans	Recorded investment 90 days or more and accruing
Commercial-brick and mortar	\$ —	\$ —	\$ —	\$ —	\$ 13,806.3	\$ 13,806.3	\$ —
Commercial-CTL	—	—	—	—	190.0	190.0	—
Residential-first liens	44.3	8.4	12.1	64.8	1,288.1	1,352.9	2.5
Residential-home equity	0.8	0.6	0.4	1.8	13.3	15.1	—
Total	\$ 45.1	\$ 9.0	\$ 12.5	\$ 66.6	\$ 15,297.7	\$ 15,364.3	\$ 2.5

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 we will be unable to collect all amounts due according to contractual terms of the loan agreement. When we determine a loan is impaired, a valuation allowance is established equal to the difference between the carrying amount of the mortgage loan and the

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estimated value 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 historical 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.

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

	<u>Commercial</u>	<u>Residential</u> <i>(in millions)</i>	<u>Total</u>
For the three months ended March 31, 2019			
Beginning balance	\$ 24.3	\$ 3.1	\$ 27.4
Provision	0.4	(0.8)	(0.4)
Charge-offs	—	(0.1)	(0.1)
Recoveries	—	0.7	0.7
Ending balance	<u>\$ 24.7</u>	<u>\$ 2.9</u>	<u>\$ 27.6</u>
Allowance ending balance by basis of impairment method:			
Individually evaluated for impairment	\$ —	\$ 1.4	\$ 1.4
Collectively evaluated for impairment	24.7	1.5	26.2
Allowance ending balance	<u>\$ 24.7</u>	<u>\$ 2.9</u>	<u>\$ 27.6</u>
Loan balance by basis of impairment method:			
Individually evaluated for impairment	\$ —	\$ 8.1	\$ 8.1
Collectively evaluated for impairment	14,274.2	1,342.8	15,617.0
Loan ending balance	<u>\$ 14,274.2</u>	<u>\$ 1,350.9</u>	<u>\$ 15,625.1</u>
For the three months ended March 31, 2018			
Beginning balance	\$ 25.8	\$ 6.9	\$ 32.7
Provision	0.8	(1.0)	(0.2)
Charge-offs	—	(0.5)	(0.5)
Recoveries	—	1.0	1.0
Ending balance	<u>\$ 26.6</u>	<u>\$ 6.4</u>	<u>\$ 33.0</u>
Allowance ending balance by basis of impairment method:			
Individually evaluated for impairment	\$ —	\$ 4.3	\$ 4.3
Collectively evaluated for impairment	26.6	2.1	28.7
Allowance ending balance	<u>\$ 26.6</u>	<u>\$ 6.4</u>	<u>\$ 33.0</u>
Loan balance by basis of impairment method:			
Individually evaluated for impairment	\$ —	\$ 12.1	\$ 12.1
Collectively evaluated for impairment	13,169.9	1,337.3	14,507.2
Loan ending balance	<u>\$ 13,169.9</u>	<u>\$ 1,349.4</u>	<u>\$ 14,519.3</u>

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, against the valuation allowance 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:

	<u>Recorded investment</u>	<u>March 31, 2019 Unpaid principal balance</u> <i>(in millions)</i>	<u>Related allowance</u>
With no related allowance recorded:			
Residential-first liens	\$ 0.9	\$ 0.9	\$ —
With an allowance recorded:			
Residential-first liens	2.1	2.2	—
Residential-home equity	5.1	6.1	1.4
Total:			
Residential	<u>\$ 8.1</u>	<u>\$ 9.2</u>	<u>\$ 1.4</u>

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	December 31, 2018		
	Recorded investment	Unpaid principal balance <i>(in millions)</i>	Related allowance
With no related allowance recorded:			
Residential-first liens	\$ 1.6	\$ 1.6	\$ —
With an allowance recorded:			
Residential-first liens	2.2	2.2	—
Residential-home equity	5.4	6.5	1.4
Total:			
Residential	<u>\$ 9.2</u>	<u>\$ 10.3</u>	<u>\$ 1.4</u>

	Average recorded investment	Interest income recognized
	<i>(in millions)</i>	
For the three months ended March 31, 2019		
With no related allowance recorded:		
Residential-first liens	\$ 1.3	\$ —
With an allowance recorded:		
Residential-first liens	2.2	—
Residential-home equity	5.3	—
Total:		
Residential	<u>\$ 8.8</u>	<u>\$ —</u>

For the three months ended March 31, 2018		
With no related allowance recorded:		
Residential-first liens	\$ 0.9	\$ —
With an allowance recorded:		
Residential-first liens	4.0	—
Residential-home equity	7.4	0.1
Total:		
Residential	<u>\$ 12.3</u>	<u>\$ 0.1</u>

Mortgage Loan Modifications

Our commercial and residential mortgage loan portfolios can include loans that have been modified. We assess loan modifications on a case-by-case basis to evaluate whether a TDR has occurred. When we have commercial mortgage loan TDRs, they are modified to delay or reduce principal payments and to reduce or delay interest payments. The commercial mortgage loan modifications result in delayed cash receipts, a decrease in interest income and loan rates that are considered below market. When we have residential mortgage loan TDRs, they include modifications of interest-only payment periods, delays in principal balloon payments and interest rate reductions. Residential mortgage loan modifications result in delayed or decreased cash receipts and a decrease in interest income.

When we have commercial mortgage loan TDRs, they are reserved for in the mortgage loan valuation allowance at the estimated fair value of the underlying collateral reduced by the cost to sell.

When we have residential mortgage loan TDRs, they 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.

We did not have any significant loans that were modified and met the criteria of a TDR for the three months ended March 31, 2019 and 2018.

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Securities Posted as Collateral

As of March 31, 2019 and December 31, 2018, we posted \$3,847.2 million and \$3,761.3 million, respectively, in commercial mortgage loans and residential first lien mortgages to satisfy collateral requirements associated with our obligation under funding agreements with Federal Home Loan Bank of Des Moines (“FHLB Des Moines”). In addition, as of March 31, 2019 and December 31, 2018, we posted \$2,543.5 million and \$2,402.5 million, respectively, in fixed maturities, available-for-sale and trading securities 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 FHLB Des Moines. Since we did not relinquish ownership rights on these instruments, they are reported as mortgage loans, fixed maturities, available-for-sale and fixed maturities, trading, respectively, on our consolidated statements of financial position. Of the securities posted as collateral, as of March 31, 2019 and December 31, 2018, \$136.6 million and \$124.2 million, respectively, could be sold or replighted 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		Net amount
		Financial instruments (2)	Collateral received	
<i>(in millions)</i>				
March 31, 2019				
Derivative assets	\$ 210.7	\$ (75.1)	\$ (132.1)	\$ 3.5
Reverse repurchase agreements	69.6	—	(69.6)	—
Total	<u>\$ 280.3</u>	<u>\$ (75.1)</u>	<u>\$ (201.7)</u>	<u>\$ 3.5</u>
December 31, 2018				
Derivative assets	\$ 186.3	\$ (70.5)	\$ (108.1)	\$ 7.7
Reverse repurchase agreements	53.0	—	(53.0)	—
Total	<u>\$ 239.3</u>	<u>\$ (70.5)</u>	<u>\$ (161.1)</u>	<u>\$ 7.7</u>

- (1) The gross amount of recognized derivative and reverse repurchase agreement assets are reported with other investments and cash and cash equivalents, respectively, on the consolidated statements of financial position. The above excludes \$9.2 million and \$7.7 million of derivative assets as of March 31, 2019 and December 31, 2018, respectively, 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		Net amount
		Financial instruments (2)	Collateral pledged	
<i>(in millions)</i>				
March 31, 2019				
Derivative liabilities	\$ 166.1	\$ (75.1)	\$ (67.2)	\$ 23.8
December 31, 2018				
Derivative liabilities	\$ 153.4	\$ (70.5)	\$ (52.3)	\$ 30.6

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- (1) The gross amount of recognized derivative liabilities is reported with other liabilities on the consolidated statements of financial position. The above excludes \$137.8 million and \$138.3 million of derivative liabilities as of March 31, 2019 and December 31, 2018, 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.

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 or variation margin provisions, which are 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 expenses 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 March 31, 2019 and December 31, 2018.

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/or 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 options to manage prepayment risks in our assets and minimum guaranteed interest rates and lapse risks in our liabilities.

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A swaption is an option to enter into an interest rate swap at a future date. We purchase swaptions to hedge interest rate exposure for certain assets and liabilities. 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 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 issued to nonqualified institutional investors in the international market, foreign currency-denominated fixed maturity and equity securities, and our international operations, including expected cash flows and potential 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. We sometimes use currency forwards to hedge the currency risk associated with a business combination or to hedge certain net equity investments in or expected cash flows from our foreign operations.

Currency options are contracts that give the holder the right, but not the obligation to buy or sell a specified amount of the identified currency within a limited period of time at a contracted price. The contracts are net settled in cash, based on the differential in the current foreign exchange rate and the strike price. Purchased and sold options can be combined to form a foreign currency collar where we receive a payment if the foreign exchange rate is below the purchased option strike price and make a payment if the foreign exchange rate is above the sold option strike price. We use currency options to hedge expected cash flows from our foreign operations.

Equity Contracts

Equity risk is the risk that we will incur economic losses due to adverse fluctuations in common stock prices. 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 (“option collars”) 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. The premium associated with certain options is paid quarterly over the life of the option contract.

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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.

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 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 products 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 of bilateral OTC derivatives 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. OTC cleared derivatives have variation margin that is legally characterized as settlement of the derivative exposure, which reduces their fair value in the consolidated statements of financial position.

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We posted \$118.0 million and \$106.6 million in cash and securities under collateral arrangements as of March 31, 2019 and December 31, 2018, respectively, to satisfy collateral and initial margin requirements associated with our derivative credit support agreements and FCM agreements.

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 March 31, 2019 and December 31, 2018, was \$133.6 million and \$109.7 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 \$118.0 million and \$106.6 million as of March 31, 2019 and December 31, 2018, respectively, in the normal course of business, which reflects netting under derivative agreements. If the credit-risk-related contingent features underlying these agreements were triggered on March 31, 2019, we would be required to post an additional \$25.4 million of collateral to our counterparties.

As of March 31, 2019 and December 31, 2018, we had received \$100.5 million and \$79.5 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.

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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:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
	<i>(in millions)</i>	
Notional amounts of derivative instruments		
Interest rate contracts:		
Interest rate swaps	\$ 34,783.8	\$ 34,393.7
Interest rate options	1,127.0	1,126.9
Interest rate futures	181.0	260.0
Swaptions	62.0	—
Foreign exchange contracts:		
Currency forwards	874.8	863.6
Currency swaps	863.5	898.6
Currency options	604.3	525.2
Equity contracts:		
Equity options	1,549.0	1,522.5
Equity futures	350.0	491.7
Credit contracts:		
Credit default swaps	390.0	420.0
Other contracts:		
Embedded derivatives	9,471.1	9,452.3
Total notional amounts at end of period	<u>\$ 50,256.5</u>	<u>\$ 49,954.5</u>
Credit exposure of derivative instruments		
Interest rate contracts:		
Interest rate swaps	\$ 126.3	\$ 95.4
Interest rate options	19.1	16.3
Swaptions	0.1	—
Foreign exchange contracts:		
Currency swaps	62.0	71.2
Currency forwards	1.0	2.8
Currency options	0.9	1.9
Equity contracts:		
Equity options	17.7	7.7
Credit contracts:		
Credit default swaps	1.5	2.4
Total gross credit exposure	<u>228.6</u>	<u>197.7</u>
Less: collateral received	158.8	122.9
Net credit exposure	<u>\$ 69.8</u>	<u>\$ 74.8</u>

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

	Derivative assets (1)		Derivative liabilities (2)	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
	<i>(in millions)</i>			
Derivatives designated as hedging instruments				
Interest rate contracts	\$ —	\$ —	\$ 18.3	\$ 16.1
Foreign exchange contracts	33.0	37.6	17.4	13.5
Total derivatives designated as hedging instruments	<u>\$ 33.0</u>	<u>\$ 37.6</u>	<u>\$ 35.7</u>	<u>\$ 29.6</u>
Derivatives not designated as hedging instruments				
Interest rate contracts	\$ 137.6	\$ 108.0	\$ 17.4	\$ 22.6
Foreign exchange contracts	30.2	38.4	61.4	72.9
Equity contracts	17.7	7.7	52.6	27.6
Credit contracts	1.4	2.3	1.5	4.4
Other contracts	—	—	135.3	134.6
Total derivatives not designated as hedging instruments	<u>186.9</u>	<u>156.4</u>	<u>268.2</u>	<u>262.1</u>
Total derivative instruments	<u>\$ 219.9</u>	<u>\$ 194.0</u>	<u>\$ 303.9</u>	<u>\$ 291.7</u>

- (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 derivatives with a net liability fair value of \$40.5 million and \$45.2 million as of March 31, 2019 and December 31, 2018, 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. Our credit derivative contracts sold reference a single name or reference security (referred to as “single name credit default swaps”). These instruments are either referenced in an OTC 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 may have purchased credit protection with identical underlyings to certain of our sold protection transactions. As of March 31, 2019 and December 31, 2018, we did not purchase credit protection relating to our sold protection transactions. In certain circumstances, our potential loss could also be reduced by any amount recovered in the default proceedings of the underlying credit name.

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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.

	March 31, 2019			
	Notional amount	Fair value <i>(in millions)</i>	Maximum future payments	Weighted average expected life <i>(in years)</i>
Single name credit default swaps				
Corporate debt				
AAA	\$ 10.0	\$ —	\$ 10.0	0.5
A	15.0	0.1	15.0	0.7
BBB	165.0	0.5	165.0	1.7
BB	10.0	—	10.0	0.2
CCC	10.0	(0.7)	10.0	0.6
Government/municipalities				
AA	20.0	0.1	20.0	0.7
Sovereign				
A	10.0	0.1	10.0	0.5
BBB	55.0	0.5	55.0	1.1
Total credit default swap protection sold	<u>\$ 295.0</u>	<u>\$ 0.6</u>	<u>\$ 295.0</u>	<u>1.3</u>

	December 31, 2018			
	Notional amount	Fair value <i>(in millions)</i>	Maximum future payments	Weighted average expected life <i>(in years)</i>
Single name credit default swaps				
Corporate debt				
AAA	\$ 10.0	\$ 0.1	\$ 10.0	0.7
A	15.0	0.1	15.0	1.0
BBB	190.0	0.4	190.0	1.7
BB	10.0	—	10.0	0.5
CCC	15.0	(3.6)	15.0	0.9
Government/municipalities				
AA	20.0	0.2	20.0	1.0
Sovereign				
A	10.0	0.1	10.0	0.7
BBB	55.0	0.4	55.0	1.3
Total credit default swap protection sold	<u>\$ 325.0</u>	<u>\$ (2.3)</u>	<u>\$ 325.0</u>	<u>1.4</u>

Fair Value and Cash Flow Hedges

Fair Value Hedges

We use fixed-to-floating rate interest rate swaps to more closely align the interest rate characteristics of certain assets and have used them to align the interest rate characteristics of certain liabilities. In general, these swaps are used in asset and liability management to modify duration, which is a measure of sensitivity to interest rate changes.

The net interest effect of interest rate swap transactions for derivatives in fair value hedges is recorded as an adjustment to income or expense of the underlying hedged item in our consolidated statements of operations.

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The following amounts were recorded on the consolidated statements of financial position related to cumulative basis adjustments for fair value hedges. The amortized cost includes the amortized cost basis and the fair value hedging basis adjustment.

Line item in the consolidated statements of financial position in which the hedged item is included	Amortized cost of hedged item		Cumulative amount of fair value hedging basis adjustment included in the amortized cost of the hedged item	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
	<i>(in millions)</i>			
Fixed maturities, available-for-sale:				
Active hedging relationships	\$ 139.2	\$ 137.0	\$ 14.8	\$ 12.4
Discontinued hedging relationships	279.1	298.9	12.0	13.3
Total fixed maturities, available-for-sale in active or discontinued hedging relationships	<u>\$ 418.3</u>	<u>\$ 435.9</u>	<u>\$ 26.8</u>	<u>\$ 25.7</u>

Cash Flow Hedges

We utilized floating-to-fixed rate interest rate swaps to eliminate the variability in cash flows of recognized financial assets and liabilities and forecasted transactions.

We enter into currency exchange swap agreements to convert both principal and interest payments of certain foreign denominated assets and liabilities into U.S. dollar denominated fixed-rate instruments to eliminate the exposure to future currency volatility on those items.

The net interest effect of interest rate swap and currency swap transactions for derivatives in cash flow hedges is recorded as an adjustment to income or expense of the underlying hedged item in our consolidated statements of operations.

The maximum length of time we are hedging our exposure to the variability in future cash flows for forecasted transactions, excluding those related to the payments of variable interest on existing financial assets and liabilities, is 1.3 years. As of March 31, 2019, we had \$0.0 million of net gains reported in AOCI on the consolidated statements of financial position related to active hedges of forecasted transactions. If a hedged forecasted transaction is no longer probable of occurring, cash flow hedge accounting is discontinued. If it is probable that the hedged forecasted transaction will not occur, the deferred gain or loss is immediately reclassified from AOCI into net income.

The following table shows the effect of derivatives in cash flow hedging relationships on the consolidated statements of financial position.

Derivatives in cash flow hedging relationships	Related hedged item	Amount of gain (loss) recognized in AOCI on derivatives for the three months ended March 31,	
		2019	2018
<i>(in millions)</i>			
Interest rate contracts	Fixed maturities, available-for-sale	\$ (4.2)	\$ (4.6)
Foreign exchange contracts	Fixed maturities, available-for-sale	(8.6)	(18.8)
Foreign exchange contracts	Investment contracts	—	(0.1)
Total		<u>\$ (12.8)</u>	<u>\$ (23.5)</u>

We expect to reclassify net gains of \$21.9 million from AOCI into net income in the next 12 months, which includes both net deferred gains on discontinued hedges and net losses on periodic settlements of active hedges. Actual amounts may vary from this amount as a result of market conditions.

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Effect of Fair Value and Cash Flow Hedges on Consolidated Statements of Operations

The following tables show the effect of derivatives in fair value and cash flow hedging relationships and the related hedged items on the consolidated statements of operations.

	For the three months ended March 31, 2019			
	Net investment income related to hedges of fixed maturities, available- for-sale	Net realized capital gains related to hedges of fixed maturities, available- for-sale	Benefits, claims and settlement expenses related to hedges of investment contracts	Operating expenses related to hedges of debt
	<i>(in millions)</i>			
Total amounts of consolidated statement of operations line items in which the effects of fair value and cash flow hedges are reported	<u>\$ 961.0</u>	<u>\$ 84.5</u>	<u>\$ 2,195.1</u>	<u>\$ 992.7</u>
Losses on fair value hedging relationships:				
Interest rate contracts:				
Gain recognized on hedged item	\$ 2.4	\$ —	\$ —	\$ —
Loss recognized on derivatives	(2.5)	—	—	—
Amortization of hedged item basis adjustments	(1.3)	—	—	—
Amounts related to periodic settlements on derivatives	(0.8)	—	—	—
Total loss recognized for fair value hedging relationships	<u>\$ (2.2)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Gains (losses) on cash flow hedging relationships:				
Interest rate contracts:				
Gain (loss) reclassified from AOCI on derivatives	\$ 5.1	\$ —	\$ —	\$ (2.8)
Foreign exchange contracts:				
Amounts related to periodic settlements on derivatives	1.6	—	—	—
Total gain (loss) recognized for cash flow hedging relationships	<u>\$ 6.7</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (2.8)</u>

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	For the three months ended March 31, 2018			
	Net investment income related to hedges of fixed maturities, available- for-sale	Net realized capital gains (losses) related to hedges of fixed maturities, available- for-sale	Benefits, claims and settlement expenses related to hedges of investment contracts	Operating expenses related to hedges of debt
	<i>(in millions)</i>			
Total amounts of consolidated statement of operations line items in which the effects of fair value and cash flow hedges are reported	\$ 902.2	\$ (25.1)	\$ 1,411.1	\$ 985.0
Losses on fair value hedging relationships:				
Interest rate contracts:				
Loss recognized on hedged item	\$ —	\$ (5.5)	\$ —	\$ —
Gain recognized on derivatives	—	5.4	—	—
Amortization of hedged item basis adjustments	(1.8)	—	—	—
Amounts related to periodic settlements on derivatives	(2.0)	—	—	—
Total loss recognized for fair value hedging relationships	<u>\$ (3.8)</u>	<u>\$ (0.1)</u>	<u>\$ —</u>	<u>\$ —</u>
Gains (losses) on cash flow hedging relationships:				
Interest rate contracts:				
Gain (loss) reclassified from AOCI on derivatives	\$ 5.4	\$ —	\$ —	\$ (2.6)
Gain reclassified from AOCI into net income as a result that a forecasted transaction is no longer probable of occurring	—	0.1	—	—
Foreign exchange contracts:				
Loss reclassified from AOCI on derivatives	—	(0.4)	—	—
Amounts related to periodic settlements on derivatives	1.6	—	(0.1)	—
Total gain (loss) recognized for cash flow hedging relationships	<u>\$ 7.0</u>	<u>\$ (0.3)</u>	<u>\$ (0.1)</u>	<u>\$ (2.6)</u>

Derivatives Not Designated as Hedging Instruments

Our use of futures, certain swaptions and swaps, option collars, options and forwards are effective from an economic standpoint, but they have not been designated as hedges for financial reporting purposes. As such, periodic changes in the market value of these instruments, which includes mark-to-market gains and losses as well as periodic and final settlements, primarily flow directly into net realized capital gains (losses) on the consolidated statements of operations.

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The following table shows the effect of derivatives not designated as hedging instruments, including fair value changes of embedded derivatives that have been bifurcated from the host contract, on the consolidated statements of operations.

Derivatives not designated as hedging instruments	Amount of gain (loss) recognized in net income on derivatives for the three months ended March 31,	
	2019	2018
	<i>(in millions)</i>	
Interest rate contracts	\$ 67.3	\$ (48.0)
Foreign exchange contracts	4.6	8.8
Equity contracts	(75.0)	(15.2)
Credit contracts	1.3	0.1
Other contracts	4.7	63.7
Total	<u>\$ 2.9</u>	<u>\$ 9.4</u>

5. Insurance Liabilities

Liability for Unpaid Claims

The liability for unpaid claims is reported in future policy benefits and claims within our consolidated statements of financial position. Activity associated with unpaid claims was as follows:

	For the three months ended March 31,	
	2019	2018
	<i>(in millions)</i>	
Balance at beginning of period	\$ 2,252.7	\$ 2,130.5
Less: reinsurance recoverable	404.3	375.8
Net balance at beginning of period	<u>1,848.4</u>	<u>1,754.7</u>
Incurred:		
Current year	325.5	312.8
Prior years	25.1	(0.1)
Total incurred	<u>350.6</u>	<u>312.7</u>
Payments:		
Current year	162.9	146.9
Prior years	157.6	145.8
Total payments	<u>320.5</u>	<u>292.7</u>
Net balance at end of period	<u>1,878.5</u>	<u>1,774.7</u>
Plus: reinsurance recoverable	397.5	378.5
Balance at end of period	<u>\$ 2,276.0</u>	<u>\$ 2,153.2</u>
Amounts not included in the rollforward above:		
Claim adjustment expense liabilities	\$ 54.7	\$ 51.5

Incurred liability adjustments relating to prior years, which affected current operations during 2019 and 2018, resulted in part from developed claims for prior years being different than were anticipated when the liabilities for unpaid claims were originally estimated. These trends have been considered in establishing the current year liability for unpaid claims.

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6. Income Taxes

Effective Income Tax Rate

Our provision for income taxes may not have the customary relationship of taxes to income. A reconciliation between the U.S. corporate income tax rate and the effective income tax rate was as follows:

	For the three months ended March 31,	
	2019	2018
U.S. corporate income tax rate	21 %	21 %
Dividends received deduction	(5)	(4)
Tax credits	(2)	(3)
Impact of equity method presentation	(1)	(1)
Settled benefit from charitable contribution of capital gain property	—	(2)
Other	1	1
Effective income tax rate	<u>14 %</u>	<u>12 %</u>

7. Employee and Agent Benefits

Components of Net Periodic Benefit Cost

	Pension benefits		Other postretirement benefits	
	For the three months ended		For the three months ended	
	March 31,		March 31,	
	2019	2018	2019	2018
	<i>(in millions)</i>			
Service cost	\$ 16.8	\$ 18.3	\$ —	\$ —
Interest cost	32.8	29.9	0.9	0.9
Expected return on plan assets	(35.5)	(39.2)	(8.3)	(8.4)
Amortization of prior service benefit	(0.9)	(0.9)	(0.3)	(3.5)
Recognized net actuarial (gain) loss	16.9	16.9	—	(0.3)
Net periodic benefit cost (income)	<u>\$ 30.1</u>	<u>\$ 25.0</u>	<u>\$ (7.7)</u>	<u>\$ (11.3)</u>

The components of net periodic benefit cost including the service cost component are included in operating expenses on the consolidated statements of operations.

Contributions

Our funding policy for our qualified pension plan is to fund the plan annually in an amount at least equal to the minimum annual contribution required under the Employee Retirement Income Security Act (“ERISA”) and, generally, not greater than the maximum amount that can be deducted for federal income tax purposes. It is too early to determine, but we do not anticipate that we will be required to fund a minimum required contribution under ERISA. Regardless, it is possible that we may fund the qualified and nonqualified pension plans in 2019 for a combined total of up to \$25.0 million. During the three months ended March 31, 2019, we contributed \$5.7 million to these plans.

8. Contingencies, Guarantees, Indemnifications and Leases

Litigation and Regulatory Contingencies

We are regularly involved in litigation, both as a defendant and as a plaintiff, but primarily as a defendant. Litigation naming us as a defendant ordinarily arises out of our business operations as a provider of asset management and accumulation products and services, individual life insurance, specialty benefits insurance and our investment activities. Some of the lawsuits may be class actions, or purport to be, and some may include claims for unspecified or substantial punitive and treble damages.

We may discuss such litigation in one of three ways. We accrue a charge to income and disclose legal matters for which the chance of loss is probable and for which the amount of loss can be reasonably estimated. We may disclose

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contingencies for which the chance of loss is reasonably possible and provide an estimate of the possible loss or range of loss or a statement that such an estimate cannot be made. Finally, we may voluntarily disclose loss contingencies for which the chance of loss is remote in order to provide information concerning matters that potentially expose us to possible losses.

In addition, regulatory bodies such as state insurance departments, the SEC, the Financial Industry Regulatory Authority (“FINRA”), the Department of Labor (“DOL”) and other regulatory agencies in the U.S. and in international locations in which we do business, regularly make inquiries and conduct examinations or investigations concerning our compliance with, among other things, insurance laws, securities laws, ERISA and laws governing the activities of broker-dealers. We receive requests from regulators and other governmental authorities relating to industry issues and may receive additional requests, including subpoenas and interrogatories, in the future.

As of March 31, 2019, we had no litigation or regulatory contingencies for which we believe disclosure is appropriate.

Guarantees and Indemnifications

In the normal course of business, we have provided guarantees to third parties primarily related to former subsidiaries and joint ventures. The terms of these agreements range in duration and often are not explicitly defined. The maximum exposure under these agreements as of March 31, 2019, was approximately \$122.0 million. At inception, the fair value of such guarantees was insignificant. In addition, we believe the likelihood is remote that material payments will be required. Therefore, any liability accrued within our consolidated statements of financial position is insignificant. Should we be required to perform under these guarantees, we generally could recover a portion of the loss from third parties through recourse provisions included in agreements with such parties, the sale of assets held as collateral that can be liquidated in the event performance is required under the guarantees or other recourse generally available to us; therefore, such guarantees would not result in a material adverse effect on our business or financial position. While the likelihood is remote, such outcomes could materially affect net income in a particular quarter or annual period. Furthermore, in connection with contingent funding agreements, we are required to purchase any principal and interest strips of U.S. Treasury securities that are due and not paid from the associated unconsolidated trusts. The maximum exposure under these agreements as of March 31, 2019, was \$750.0 million.

We manage mandatory privatized social security funds in Chile. By regulation, we have a required minimum guarantee on the funds’ relative return. Because the guarantee has no limitation with respect to duration or amount, the maximum exposure of the guarantee in the future is indeterminable.

We are also subject to various other indemnification obligations issued in conjunction with divestitures, acquisitions and financing transactions whose terms range in duration and often are not explicitly defined. Certain portions of these indemnifications may be capped, while other portions are not subject to such limitations; therefore, the overall maximum amount of the obligation under the indemnifications cannot be reasonably estimated. At inception, the fair value of such indemnifications was insignificant. In addition, we believe the likelihood is remote that material payments will be required. Therefore, any liability accrued within our consolidated statements of financial position is insignificant. While we are unable to estimate with certainty the ultimate legal and financial liability with respect to these indemnifications, we believe that performance under these indemnifications would not result in a material adverse effect on our business or financial position. While the likelihood is remote, performance under these indemnifications could materially affect net income in a particular quarter or annual period.

Leases

As a lessee, we lease office space, data processing equipment, office furniture and office equipment under various operating leases. We also lease buildings and hardware storage equipment under finance leases. Lease assets and liabilities are recognized at the commencement of a lease based on the present value of lease payments over the lease term. We generally use our incremental borrowing rate based on the information available at the lease commencement date to determine the present value of lease payments. Lease term may include options to extend or terminate the lease when it is reasonably certain we will exercise the option. Leases with an initial term of twelve months or less are not recorded on the consolidated statements of financial position. We recognize lease expense for leases on a straight-line basis over the lease term. Some of our lease agreements include payments for property taxes, insurance, utilities or common area maintenance, which are not based on an index or rate. These payments are recognized in net income in the period in which the obligation has occurred.

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We sublease certain office space to third parties, which are primarily operating leases. We record sublease income on a straight-line basis over the lease term.

The lease assets and liabilities were as follows:

	March 31, 2019
	<i>(in millions)</i>
Assets	
Operating lease assets (1)	\$ 161.3
Finance lease assets (1)	35.4
Total lease assets	\$ 196.7
Liabilities	
Operating lease liabilities (2)	\$ 169.5
Finance lease liabilities (2)	35.6
Total lease liabilities	\$ 205.1

(1) Operating and finance lease assets are primarily reported within property and equipment on the consolidated statements of financial position.

(2) Operating and finance lease liabilities are reported within other liabilities on the consolidated statements of financial position.

The lease cost was as follows:

	For the three months ended
	March 31, 2019
	<i>(in millions)</i>
Finance lease cost (1):	
Amortization of right-of-use assets	\$ 3.5
Interest on lease liabilities	0.3
Operating lease cost (1)	13.4
Other lease cost (1) (2)	2.8
Sublease income (3)	(0.4)
Total lease cost	\$ 19.6

(1) Finance, operating and other lease costs are primarily included in operating expenses on the consolidated statements of operations.

(2) Other lease cost primarily reflects variable and short-term lease costs.

(3) Sublease income is included in fees and other revenues on the consolidated statements of operations.

The following represents payments due by period for lease obligations:

	Operating leases	Finance leases	Total
	<i>(in millions)</i>		
For the twelve months ending March 31:			
2020	\$ 47.6	\$ 14.4	\$ 62.0
2021	40.2	12.3	52.5
2022	30.2	8.6	38.8
2023	23.1	1.3	24.4
2024	13.4	0.3	13.7
2025 and thereafter	30.2	0.2	30.4
Total lease payments	184.7	37.1	221.8
Less: interest	15.2	1.5	16.7
Present value of lease liabilities	\$ 169.5	\$ 35.6	\$ 205.1

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The weighted-average remaining lease term and weighted-average discount rates were as follows:

	For the three months ended March 31, 2019
Weighted-average remaining lease term (in years):	
Operating leases	6.6
Finance leases	2.9
Weighted-average discount rate:	
Operating leases	3.3 %
Finance leases	2.9 %

9. Stockholders' Equity

Common Stock Dividends

	For the three months ended March 31,	
	2019	2018
Dividends declared per common share	\$ 0.54	\$ 0.51

Reconciliation of Outstanding Common Shares

	For the three months ended March 31,	
	2019	2018
	<i>(in millions)</i>	
Beginning balance	279.5	289.0
Shares issued	1.8	1.9
Treasury stock acquired	(3.1)	(3.2)
Ending balance	278.2	287.7

In February 2016, our Board of Directors authorized a share repurchase program of up to \$400.0 million of our outstanding common stock, which was completed in February 2018. In May 2017, our Board of Directors authorized a share repurchase program of up to \$250.0 million of our outstanding common stock, which was completed in April 2018. In May 2018, our Board of Directors authorized a share repurchase program of up to \$300.0 million of our outstanding common stock, which was completed in December 2018. In November 2018, our Board of Directors authorized a share repurchase program of up to \$500.0 million of our outstanding common stock. In the first quarter of 2019, we suspended purchases of the remaining \$295.3 million available under the November 2018 authorization. Shares repurchased under these programs are accounted for as treasury stock, carried at cost and reflected as a reduction to stockholders' equity.

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Other Comprehensive Income (Loss)

	For the three months ended March 31, 2019		
	Pre-Tax	Tax <i>(in millions)</i>	After-Tax
Net unrealized gains on available-for-sale securities during the period	\$ 1,817.0	\$ (392.5)	\$ 1,424.5
Reclassification adjustment for losses included in net income (1)	8.7	(1.7)	7.0
Adjustments for assumed changes in amortization patterns	(122.1)	25.7	(96.4)
Adjustments for assumed changes in policyholder liabilities	(300.3)	69.5	(230.8)
Net unrealized gains on available-for-sale securities	<u>1,403.3</u>	<u>(299.0)</u>	<u>1,104.3</u>
Noncredit component of impairment losses on fixed maturities, available-for-sale during the period	(2.8)	0.6	(2.2)
Adjustments for assumed changes in amortization patterns	(0.4)	0.1	(0.3)
Noncredit component of impairment losses on fixed maturities, available-for-sale (2)	<u>(3.2)</u>	<u>0.7</u>	<u>(2.5)</u>
Net unrealized losses on derivative instruments during the period	(8.5)	1.8	(6.7)
Reclassification adjustment for gains included in net income (3)	(2.3)	0.3	(2.0)
Adjustments for assumed changes in amortization patterns	1.9	(0.4)	1.5
Adjustments for assumed changes in policyholder liabilities	3.6	(0.9)	2.7
Net unrealized losses on derivative instruments	<u>(5.3)</u>	<u>0.8</u>	<u>(4.5)</u>
Foreign currency translation adjustment during the period	40.9	(2.6)	38.3
Reclassification adjustment for gains included in net income	(0.4)	—	(0.4)
Foreign currency translation adjustment	<u>40.5</u>	<u>(2.6)</u>	<u>37.9</u>
Amortization of amounts included in net periodic benefit cost (4)	15.7	(4.2)	11.5
Net unrecognized postretirement benefit obligation	<u>15.7</u>	<u>(4.2)</u>	<u>11.5</u>
Other comprehensive income	<u>\$ 1,451.0</u>	<u>\$ (304.3)</u>	<u>\$ 1,146.7</u>

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	For the three months ended March 31, 2018		
	Pre-Tax	Tax <i>(in millions)</i>	After-Tax
Net unrealized losses on available-for-sale securities during the period	\$ (1,303.7)	\$ 280.4	\$ (1,023.3)
Reclassification adjustment for losses included in net income (1)	20.7	(4.4)	16.3
Adjustments for assumed changes in amortization patterns	86.2	(18.1)	68.1
Adjustments for assumed changes in policyholder liabilities	178.5	(45.1)	133.4
Net unrealized losses on available-for-sale securities	<u>(1,018.3)</u>	<u>212.8</u>	<u>(805.5)</u>
Noncredit component of impairment losses on fixed maturities, available-for-sale during the period	11.2	(2.4)	8.8
Adjustments for assumed changes in amortization patterns	1.3	(0.3)	1.0
Adjustments for assumed changes in policyholder liabilities	(0.6)	0.1	(0.5)
Noncredit component of impairment losses on fixed maturities, available-for-sale (2)	<u>11.9</u>	<u>(2.6)</u>	<u>9.3</u>
Net unrealized losses on derivative instruments during the period	(19.2)	4.0	(15.2)
Reclassification adjustment for gains included in net income (3)	(2.4)	0.4	(2.0)
Adjustments for assumed changes in amortization patterns	0.9	(0.2)	0.7
Adjustments for assumed changes in policyholder liabilities	2.8	(0.7)	2.1
Net unrealized losses on derivative instruments	<u>(17.9)</u>	<u>3.5</u>	<u>(14.4)</u>
Foreign currency translation adjustment	<u>66.9</u>	<u>(1.1)</u>	<u>65.8</u>
Amortization of amounts included in net periodic benefit cost (4)	<u>12.2</u>	<u>(3.5)</u>	<u>8.7</u>
Net unrecognized postretirement benefit obligation	<u>12.2</u>	<u>(3.5)</u>	<u>8.7</u>
Other comprehensive loss	<u>\$ (945.2)</u>	<u>\$ 209.1</u>	<u>\$ (736.1)</u>

- (1) Pre-tax reclassification adjustments relating to available-for-sale securities are reported in net realized capital gains (losses) on the consolidated statements of operations.
- (2) Represents the net impact of (1) unrealized gains 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 and (2) unrealized losses resulting from reclassification of noncredit impairment losses for fixed maturities with bifurcated OTTI from net realized capital gains (losses) to OCI.
- (3) See Note 4, Derivative Financial Instruments – Effect of Fair Value and Cash Flow Hedges on Consolidated Statements of Operations, for further details.
- (4) Amount is comprised of amortization of prior service cost (benefit) and recognized net actuarial (gain) loss, which is reported in operating expenses on the consolidated statements of operations. See Note 7, Employee and Agent Benefits – Components of Net Periodic Benefit Cost, for further details.

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Accumulated Other Comprehensive Income (Loss)

	Net unrealized gains on available-for-sale securities	Noncredit component of impairment losses on fixed maturities available-for-sale	Net unrealized gains on derivative instruments	Foreign currency translation adjustment	Unrecognized postretirement benefit obligation	Accumulated other comprehensive income (loss)
	<i>(in millions)</i>					
Balances as of January 1, 2018	\$ 1,470.7	\$ (58.3)	\$ 42.7	\$ (918.5)	\$ (371.1)	\$ 165.5
Other comprehensive loss during the period, net of adjustments	(821.8)	—	(12.4)	64.9	—	(769.3)
Amounts reclassified from AOCI	16.3	9.3	(2.0)	—	8.7	32.3
Other comprehensive loss	<u>(805.5)</u>	<u>9.3</u>	<u>(14.4)</u>	<u>64.9</u>	<u>8.7</u>	<u>(737.0)</u>
Effects of implementation of accounting change related to equity investments, net	(1.0)	—	—	—	—	(1.0)
Effects of implementation of accounting change accounting change related to revenue recognition, net	—	—	—	25.6	—	25.6
Effects of implementation of accounting change related to the reclassification of certain tax effects, net	249.8	(15.2)	5.7	(81.8)	(80.9)	77.6
Balances as of March 31, 2018	<u>\$ 914.0</u>	<u>\$ (64.2)</u>	<u>\$ 34.0</u>	<u>\$ (909.8)</u>	<u>\$ (443.3)</u>	<u>\$ (469.3)</u>
Balances as of January 1, 2019	\$ 190.0	\$ (47.1)	\$ 64.4	\$ (1,259.5)	\$ (512.9)	\$ (1,565.1)
Other comprehensive income during the period, net of adjustments	1,097.3	(2.5)	(2.5)	37.8	—	1,130.1
Amounts reclassified from AOCI	7.0	—	(2.0)	(0.4)	11.5	16.1
Other comprehensive income	<u>1,104.3</u>	<u>(2.5)</u>	<u>(4.5)</u>	<u>37.4</u>	<u>11.5</u>	<u>1,146.2</u>
Balances as of March 31, 2019	<u>\$ 1,294.3</u>	<u>\$ (49.6)</u>	<u>\$ 59.9</u>	<u>\$ (1,222.1)</u>	<u>\$ (501.4)</u>	<u>\$ (418.9)</u>

Noncontrolling Interest

Interests held by unaffiliated parties in consolidated entities are reflected in noncontrolling interest, which represents the noncontrolling partners' share of the underlying net assets of our consolidated subsidiaries. Noncontrolling interest that is not redeemable is reported in the equity section of the consolidated statements of financial position.

The noncontrolling interest holders in certain of our consolidated entities maintain an equity interest that is redeemable at the option of the holder, which may be exercised on varying dates. Since redemption of the noncontrolling interest is outside of our control, this interest is excluded from stockholders' equity and reported separately as redeemable noncontrolling interest on the consolidated statements of financial position. Our redeemable noncontrolling interest primarily relates to consolidated sponsored investment funds for which interests are redeemed at fair value from the net assets of the funds.

For our redeemable noncontrolling interest related to other consolidated subsidiaries, redemptions are required to be purchased at fair value or a value based on a formula that management intended to reasonably approximate fair value based on a fixed multiple of earnings over a measurement period. The carrying value of the redeemable noncontrolling interest is compared to the redemption value at each reporting period. Any adjustments to the carrying amount of the redeemable noncontrolling interest for changes in redemption value prior to exercise of the redemption option are determined after the attribution of net income or loss of the subsidiary and are recognized in the redemption value as they occur. Adjustments to the carrying value of redeemable noncontrolling interest result in adjustments to additional paid-in capital and/or retained

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earnings. Adjustments are recorded in retained earnings to the extent the redemption value of the redeemable noncontrolling interest exceeds its fair value and will impact the numerator in our earnings per share calculations. All other adjustments to the redeemable noncontrolling interest are recorded in additional paid-in capital.

Following is a reconciliation of the changes in the redeemable noncontrolling interest (in millions):

	For the three months ended March 31,	
	2019	2018
	<i>(in millions)</i>	
Balance at beginning of period	\$ 391.2	\$ 101.3
Net income attributable to redeemable noncontrolling interest	20.3	0.8
Redeemable noncontrolling interest of deconsolidated entities (1)	—	(3.2)
Contributions from redeemable noncontrolling interest	143.7	39.0
Distributions to redeemable noncontrolling interest	(20.3)	(9.9)
Change in redemption value of redeemable noncontrolling interest	2.7	(0.6)
Other comprehensive income attributable to redeemable noncontrolling interest	0.1	0.4
Balance at end of period	<u>\$ 537.7</u>	<u>\$ 127.8</u>

(1) We deconsolidated certain sponsored investment funds as they no longer met the requirements for consolidation.

10. Fair Value Measurements

We use fair value measurements to record fair value of certain assets and liabilities and to estimate fair value of financial instruments not recorded at fair value but required to be disclosed at fair value. Certain financial instruments, particularly policyholder liabilities other than investment contracts, are excluded from these fair value disclosure requirements.

Valuation Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety considering factors specific to the asset or liability.

- **Level 1** – Fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities.
- **Level 2** – Fair values are based on inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3** – Fair values are based on at least one significant unobservable input for the asset or liability.

Determination of Fair Value

The following discussion describes the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis or disclosed at fair value. The techniques utilized in estimating the fair value of financial instruments are reliant on the assumptions used. Care should be exercised in deriving conclusions about our business, its value or financial position based on the fair value information of financial instruments presented below.

Fair value estimates are made based on available market information and judgments about the financial instrument at a specific point in time. Such estimates do not consider the tax impact of the realization of unrealized gains or losses. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial instrument. We validate prices through an investment analyst review process, which includes validation through direct interaction with external sources, review of recent trade activity or use of internal models. In circumstances where broker quotes are used to value an instrument, we generally receive one non-binding quote. Broker quotes are validated through an investment analyst review process, which includes validation through direct interaction with external sources and use of internal models or other relevant information. We did not make any significant changes to our valuation processes during 2019.

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Fixed Maturities

Fixed maturities include bonds, ABS, redeemable preferred stock and certain non-redeemable preferred securities. When available, the fair value of fixed maturities is based on quoted prices of identical assets in active markets. These are reflected in Level 1 and primarily include U.S. Treasury bonds and actively traded redeemable corporate preferred securities.

When quoted prices of identical assets in active markets are not available, our first priority is to obtain prices from third party pricing vendors. We have regular interaction with these vendors to ensure we understand their pricing methodologies and to confirm they are utilizing observable market information. Their methodologies vary by asset class and include inputs such as estimated cash flows, benchmark yields, reported trades, broker quotes, credit quality, industry events and economic events. Fixed maturities with validated prices from pricing services, which includes the majority of our public fixed maturities in all asset classes, are generally reflected in Level 2. Also included in Level 2 are corporate bonds when quoted market prices are not available, for which an internal model using substantially all observable inputs or a matrix pricing valuation approach is used. In the matrix approach, securities are grouped into pricing categories that vary by sector, rating and average life. Each pricing category is assigned a risk spread based on studies of observable public market data from the investment professionals assigned to specific security classes. The expected cash flows of the security are then discounted back at the current Treasury curve plus the appropriate risk spread. Although the matrix valuation approach provides a fair valuation of each pricing category, the valuation of an individual security within each pricing category may also be impacted by company specific factors.

If we are unable to price a fixed maturity security using prices from third party pricing vendors or other sources specific to the asset class, we may obtain a broker quote or utilize an internal pricing model specific to the asset utilizing relevant market information, to the extent available and where at least one significant unobservable input is utilized. These are reflected in Level 3 in the fair value hierarchy and can include fixed maturities across all asset classes. As of March 31, 2019, less than 1% of our total fixed maturities were Level 3 securities valued using internal pricing models.

The primary inputs, by asset class, for valuations of the majority of our Level 2 investments from third party pricing vendors or our internal pricing valuation approach are described below.

U.S. Government and Agencies/Non-U.S. Governments. Inputs include recently executed market transactions, interest rate yield curves, maturity dates, market price quotations and credit spreads relating to similar instruments.

States and Political Subdivisions. Inputs include Municipal Securities Rulemaking Board reported trades, U.S. Treasury and other benchmark curves, material event notices, new issue data and obligor credit ratings.

Corporate. Inputs include recently executed transactions, market price quotations, benchmark yields, issuer spreads and observations of equity and credit default swap curves related to the issuer. For private placement corporate securities valued through the matrix valuation approach inputs include the current Treasury curve and risk spreads based on sector, rating and average life of the issuance.

RMBS, CMBS, Collateralized Debt Obligations and Other Debt Obligations. Inputs include cash flows, priority of the tranche in the capital structure, expected time to maturity for the specific tranche, reinvestment period remaining and performance of the underlying collateral including prepayments, defaults, deferrals, loss severity of defaulted collateral and, for RMBS, prepayment speed assumptions. Other inputs include market indices and recently executed market transactions.

Equity Securities

Equity securities include mutual funds, common stock, non-redeemable preferred stock and required regulatory investments. Fair values of equity securities are determined using quoted prices in active markets for identical assets when available, which are reflected in Level 1. When quoted prices are not available, we may utilize internal valuation methodologies appropriate for the specific asset that use observable inputs such as underlying share prices or the NAV, which are reflected in Level 2. Fair values might also be determined using broker quotes or through the use of internal models or analysis that incorporate significant assumptions deemed appropriate given the circumstances and consistent with what other market participants would use when pricing such securities, which are reflected in Level 3.

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Derivatives

The fair values of exchange-traded derivatives are determined through quoted market prices, which are reflected in Level 1. Exchange-traded derivatives include futures that are settled daily, which reduces their fair value in the consolidated statements of financial position. The fair values of OTC cleared derivatives are determined through market prices published by the clearinghouses, which are reflected in Level 2. The clearinghouses may utilize the overnight indexed swap (“OIS”) curve in their valuation. Variation margin associated with OTC cleared derivatives is settled daily, which reduces their fair value in the consolidated statements of financial position. The fair values of bilateral OTC derivative instruments are determined using either pricing valuation models that utilize market observable inputs or broker quotes. The majority of our bilateral OTC derivatives are valued with models that use market observable inputs, which are reflected in Level 2. Significant inputs include contractual terms, interest rates, currency exchange rates, credit spread curves, equity prices and volatilities. These valuation models consider projected discounted cash flows, relevant swap curves and appropriate implied volatilities. Certain bilateral OTC derivatives utilize unobservable market data, primarily independent broker quotes that are nonbinding quotes based on models that do not reflect the result of market transactions, which are reflected in Level 3.

Our non-cleared derivative contracts are generally documented under ISDA Master Agreements, which provide for legally enforceable set-off and close-out netting of exposures to specific counterparties. Collateral arrangements are bilateral and based on current ratings of each entity. We utilize the LIBOR interest rate curve to value our positions, which includes a credit spread. This credit spread incorporates an appropriate level of nonperformance risk into our valuations given the current ratings of our counterparties, as well as the collateral agreements in place. Counterparty credit risk is routinely monitored to ensure our adjustment for non-performance risk is appropriate. Our centrally cleared derivative contracts are conducted with regulated centralized clearinghouses, which provide for daily exchange of cash collateral or variation margin equal to the difference in the daily market values of those contracts that eliminates the non-performance risk on these trades.

Interest Rate Contracts. For non-cleared contracts we use discounted cash flow valuation techniques to determine the fair value of interest rate swaps and swaptions using observable swap curves as the inputs. These are reflected in Level 2. For centrally cleared contracts we use published prices from clearinghouses. These are reflected in Level 2. In addition, we have interest rate options and have had swaptions that are valued using broker quotes. These are reflected in Level 3.

Foreign Exchange Contracts. We use discounted cash flow valuation techniques that utilize observable swap curves and exchange rates as the inputs to determine the fair value of foreign currency swaps. These are reflected in Level 2. Currency forwards and currency options are valued using observable market inputs, including forward currency exchange rates. These are reflected in Level 2. In addition, we have a limited number of non-standard currency swaps and currency options that are valued using broker quotes. These are reflected within Level 3.

Equity Contracts. We use an option pricing model using observable implied volatilities, dividend yields, index prices and swap curves as the inputs to determine the fair value of equity options. These are reflected in Level 2.

Credit Contracts. We use either the ISDA Credit Default Swap Standard discounted cash flow model that utilizes observable default probabilities and recovery rates as inputs or broker prices to determine the fair value of credit default swaps. These are reflected in Level 3.

Other Investments

Other investments reported at fair value include invested assets of consolidated sponsored investment funds, unconsolidated sponsored investment funds, other investment funds reported at fair value, commercial mortgage loans of consolidated VIEs for which the fair value option was elected, equity method real estate investments for which the fair value option was elected and certain redeemable preferred stock.

Invested assets of consolidated sponsored investment funds include equity securities, fixed maturities and other investments, for which fair values are determined as previously described, and are reflected in Level 1 and Level 2.

The fair value of unconsolidated sponsored investment funds and other investment funds is determined using the NAV of the fund. The NAV of the fund represents the price at which we would be able to initiate a transaction. Investments for which the NAV represents a quoted price in an active market for identical assets are reflected in Level 1. Investments that do not have a quoted price in an active market are reflected in Level 2.

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Commercial mortgage loans of consolidated VIEs are valued using the more observable fair value of the liabilities of the consolidated collateralized financing entities (“CCFEs”) under the measurement alternative guidance and are reflected in Level 2. The liabilities are affiliated so are not reflected in our consolidated results.

Equity method real estate investments for which the fair value option was elected are reflected in Level 3. The equity method real estate investments consist of underlying real estate and debt. The real estate fair value is estimated using a discounted cash flow valuation model that utilizes public real estate market data inputs such as transaction prices, market rents, vacancy levels, leasing absorption, market cap rates and discount rates. The debt fair value is estimated using a discounted cash flow analysis based on our incremental borrowing rate for similar borrowing arrangements.

The fair value of certain redeemable preferred stock is based on an internal model using unobservable inputs, which is reflected in Level 3. In 2018, the fair value was based on observable inputs and was reflected in Level 2.

Cash Equivalents

Certain cash equivalents are reported at fair value on a recurring basis and include money market instruments and other short-term investments with maturities of three months or less. Fair values of these cash equivalents may be determined using public quotations, when available, which are reflected in Level 1. When public quotations are not available, because of the highly liquid nature of these assets, carrying amounts may be used to approximate fair values, which are reflected in Level 2.

Separate Account Assets

Separate account assets include equity securities, debt securities, cash equivalents and derivative instruments, for which fair values are determined as previously described, and are reflected in Level 1, Level 2 and Level 3. Separate account assets also include commercial mortgage loans, for which the fair value is estimated by discounting the expected total cash flows using market rates that are applicable to the yield, credit quality and maturity of the loans. The market clearing spreads vary based on mortgage type, weighted average life, rating and liquidity. These are reflected in Level 3. Finally, separate account assets include real estate, for which the fair value is estimated using discounted cash flow valuation models that utilize various public real estate market data inputs. In addition, each property is appraised annually by an independent appraiser. The real estate included in separate account assets is recorded net of related mortgage encumbrances for which the fair value is estimated using discounted cash flow analysis based on our incremental borrowing rate for similar borrowing arrangements. The real estate within the separate accounts is reflected in Level 3.

Investment Contracts

Certain annuity contracts and other investment contracts include embedded derivatives that have been bifurcated from the host contract and are measured at fair value on a recurring basis, which are reflected in Level 3. The key assumptions for calculating the fair value of the embedded derivative liabilities are market assumptions (such as equity market returns, interest rate levels, market volatility and correlations) and policyholder behavior assumptions (such as lapse, mortality, utilization and withdrawal patterns). Risk margins are included in the policyholder behavior assumptions. The assumptions are based on a combination of historical data and actuarial judgment. The embedded derivative liabilities are valued using stochastic models that incorporate a spread reflecting our own creditworthiness.

The assumption for our own non-performance risk for investment contracts and any embedded derivatives bifurcated from certain annuity and investment contracts is based on the current market credit spreads for debt-like instruments we have issued and are available in the market.

Other Liabilities

Certain obligations reported in other liabilities include embedded derivatives to deliver underlying securities of structured investments to third parties. The fair value of the embedded derivatives is calculated based on the value of the underlying securities that are valued based on prices obtained from third party pricing vendors as utilized and described in our discussion of how fair value is determined for fixed maturities, which are reflected in Level 2.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis were as follows:

	March 31, 2019				
	Assets/ (liabilities) measured at fair value	Amount measured at net asset value (4)	Fair value hierarchy level		
			Level 1 <i>(in millions)</i>	Level 2	Level 3
Assets					
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ 1,498.4	\$ —	\$ 1,072.3	\$ 426.1	\$ —
Non-U.S. governments	963.4	—	2.2	957.0	4.2
States and political subdivisions	6,626.3	—	—	6,626.3	—
Corporate	36,969.2	—	19.1	36,891.6	58.5
Residential mortgage-backed securities	2,484.5	—	—	2,484.5	—
Commercial mortgage-backed securities	4,242.1	—	—	4,230.1	12.0
Collateralized debt obligations (1)	2,765.7	—	—	2,759.8	5.9
Other debt obligations	7,573.4	—	—	7,530.0	43.4
Total fixed maturities, available-for-sale	63,123.0	—	1,093.6	61,905.4	124.0
Fixed maturities, trading	668.9	—	—	668.9	—
Equity securities	1,864.1	—	639.5	1,224.2	0.4
Derivative assets (2)	219.9	—	—	199.7	20.2
Other investments	1,092.0	85.1	144.8	832.7	29.4
Cash equivalents	1,055.9	—	70.8	985.1	—
Sub-total excluding separate account assets	68,023.8	85.1	1,948.7	65,816.0	174.0
Separate account assets	157,942.8	120.0	88,762.5	60,341.6	8,718.7
Total assets	\$ 225,966.6	\$ 205.1	\$ 90,711.2	\$ 126,157.6	\$ 8,892.7
Liabilities					
Investment contracts (3)	\$ (40.5)	\$ —	\$ —	\$ —	\$ (40.5)
Derivative liabilities (2)	(168.6)	—	—	(151.8)	(16.8)
Other liabilities (3)	(97.8)	—	—	(97.8)	—
Total liabilities	\$ (306.9)	\$ —	\$ —	\$ (249.6)	\$ (57.3)
Net assets	\$ 225,659.7	\$ 205.1	\$ 90,711.2	\$ 125,908.0	\$ 8,835.4

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	December 31, 2018				
	Assets/ (liabilities) measured at fair value	Amount measured at net asset value (4)	Fair value hierarchy level		
			Level 1 <i>(in millions)</i>	Level 2	Level 3
Assets					
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ 1,441.0	\$ —	\$ 1,027.8	\$ 413.2	\$ —
Non-U.S. governments	890.5	—	2.7	883.2	4.6
States and political subdivisions	6,225.7	—	—	6,225.7	—
Corporate	35,539.3	—	19.2	35,462.2	57.9
Residential mortgage-backed securities	2,460.6	—	—	2,460.6	—
Commercial mortgage-backed securities	3,945.6	—	—	3,936.1	9.5
Collateralized debt obligations (1)	2,420.8	—	—	2,412.5	8.3
Other debt obligations	7,185.0	—	—	7,126.5	58.5
Total fixed maturities, available-for-sale	60,108.5	—	1,049.7	58,920.0	138.8
Fixed maturities, trading	636.1	—	—	636.1	—
Equity securities	1,843.7	—	661.2	1,182.5	—
Derivative assets (2)	194.0	—	—	175.4	18.6
Other investments	828.6	75.4	125.9	610.1	17.2
Cash equivalents	1,775.9	—	46.3	1,729.6	—
Sub-total excluding separate account assets	65,386.8	75.4	1,883.1	63,253.7	174.6
Separate account assets	144,987.9	124.6	79,572.0	56,675.8	8,615.5
Total assets	\$ 210,374.7	\$ 200.0	\$ 81,455.1	\$ 119,929.5	\$ 8,790.1
Liabilities					
Investment contracts (3)	\$ (45.2)	\$ —	\$ —	\$ —	\$ (45.2)
Derivative liabilities (2)	(157.1)	—	—	(141.6)	(15.5)
Other liabilities (3)	(91.5)	—	—	(91.5)	—
Total liabilities	\$ (293.8)	\$ —	\$ —	\$ (233.1)	\$ (60.7)
Net assets	\$ 210,080.9	\$ 200.0	\$ 81,455.1	\$ 119,696.4	\$ 8,729.4

- (1) Primarily consists of collateralized loan obligations backed by secured corporate loans.
- (2) Within the consolidated statements of financial position, derivative assets are reported with other investments and derivative liabilities are reported with other liabilities. The amounts are presented gross in the tables above to reflect the presentation on the consolidated statements of financial position; however, are presented net for purposes of the rollforward in the Changes in Level 3 Fair Value Measurements tables. Refer to Note 4, Derivative Financial Instruments, for further information on fair value by class of derivative instruments.
- (3) Includes bifurcated embedded derivatives that are reported at net asset (liability) fair value within the same line item in the consolidated statements of financial position in which the host contract is reported.
- (4) Certain investments are measured at fair value using the NAV per share (or its equivalent) practical expedient and have not been classified in the fair value hierarchy. Other investments using the NAV practical expedient consist of certain fund interests that are restricted until maturity with unfunded commitments totaling \$26.6 million and \$32.0 million as of March 31, 2019 and December 31, 2018, respectively. Separate account assets using the NAV practical expedient consist of hedge funds with varying investment strategies that also have a variety of redemption terms and conditions. We do not have unfunded commitments associated with these hedge funds.

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Changes in Level 3 Fair Value Measurements

The reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) was as follows:

	For the three months ended March 31, 2019							Changes in unrealized gains (losses) included in net income relating to positions still held (1)
	Beginning asset/ (liability) balance as of December 31, 2018	Total realized/unrealized gains (losses)		Net purchases, sales, issuances and settlements (4)	Transfers into Level 3	Transfers out of Level 3	Ending asset/ (liability) balance as of March 31, 2019	
	Included in net income (1)	Included in other comprehensive income (3)	(in millions)					
Assets								
Fixed maturities, available-for-sale:								
Non-U.S. governments	\$ 4.6	\$ —	\$ —	\$ (0.4)	\$ —	\$ —	\$ 4.2	\$ —
Corporate	57.9	—	0.4	0.2	—	—	58.5	—
Commercial mortgage-backed securities	9.5	—	0.3	2.2	—	—	12.0	—
Collateralized debt obligations	8.3	(2.5)	(0.2)	0.3	—	—	5.9	(2.5)
Other debt obligations	58.5	—	1.1	9.8	—	(26.0)	43.4	—
Total fixed maturities, available-for-sale	138.8	(2.5)	1.6	12.1	—	(26.0)	124.0	(2.5)
Equity securities	—	—	0.4	—	—	—	0.4	—
Other investments	17.2	2.2	—	—	10.0	—	29.4	2.2
Separate account assets (2)	8,615.5	174.6	(0.4)	(70.3)	—	(0.7)	8,718.7	180.7
Liabilities								
Investment contracts	(45.2)	4.3	0.1	0.3	—	—	(40.5)	5.6
Derivatives								
Net derivative assets (liabilities)	3.1	(1.6)	—	1.9	—	—	3.4	(1.3)

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	Beginning asset/ (liability) balance as of December 31, 2017	Total realized/unrealized gains (losses)		Net purchases, sales, issuances and settlements (4)	Transfers into Level 3	Transfers out of Level 3	Ending asset/ (liability) balance as of March 31, 2018	Changes in unrealized gains (losses) included in net income relating to positions still held (1)
		Included in net income (1)	Included in other comprehensive income (3)					
<i>(in millions)</i>								
Assets								
Fixed maturities, available-for-sale:								
Non-U.S. governments	\$ 7.4	\$ —	\$ (0.1)	\$ (0.3)	\$ —	\$ —	\$ 7.0	\$ —
Corporate	128.0	1.1	0.4	2.4	0.6	(28.7)	103.8	—
Commercial mortgage-backed securities	10.6	(2.5)	0.6	(0.1)	2.5	—	11.1	(2.5)
Collateralized debt obligations	125.0	(0.6)	1.0	(25.5)	0.1	(19.3)	80.7	(0.6)
Other debt obligations	2.3	0.1	(0.1)	(0.2)	—	—	2.1	—
Total fixed maturities, available-for-sale	273.3	(1.9)	1.8	(23.7)	3.2	(48.0)	204.7	(3.1)
Equity securities	2.7	12.2	—	—	—	—	14.9	12.2
Other investments	6.5	1.5	—	1.3	—	—	9.3	1.5
Separate account assets (2)	7,651.4	164.4	(0.7)	176.8	—	—	7,991.9	143.4
Liabilities								
Investment contracts	(160.3)	63.7	0.2	0.2	—	—	(96.2)	63.1
Derivatives								
Net derivative assets (liabilities)	18.1	(5.0)	—	3.7	—	—	16.8	(4.7)

- (1) Both realized gains (losses) and mark-to-market unrealized gains (losses) are generally reported in net realized capital gains (losses) within the consolidated statements of operations. Realized and unrealized gains (losses) on certain securities with an investment objective to realize economic value through mark-to-market changes are reported in net investment income within the consolidated statements of operations.
- (2) Gains and losses for separate account assets do not impact net income as the change in value of separate account assets is offset by a change in value of separate account liabilities. Foreign currency translation adjustments related to the Principal International segment separate account assets are recorded in AOCI and are offset by foreign currency translation adjustments of the corresponding separate account liabilities.
- (3) Includes foreign currency translation adjustments related to our Principal International segment.
- (4) Gross purchases, sales, issuances and settlements were:

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For the three months ended March 31, 2019					
	Purchases	Sales	Issuances <i>(in millions)</i>	Settlements	Net purchases, sales, issuances and settlements
Assets					
Fixed maturities, available-for-sale:					
Non-U.S. governments	\$ —	\$ —	\$ —	\$ (0.4)	\$ (0.4)
Corporate	0.5	(0.2)	—	(0.1)	0.2
Commercial mortgage-backed securities	2.4	—	—	(0.2)	2.2
Collateralized debt obligations	—	—	—	0.3	0.3
Other debt obligations	10.0	—	—	(0.2)	9.8
Total fixed maturities, available-for-sale	12.9	(0.2)	—	(0.6)	12.1
Separate account assets (5)	79.0	(101.7)	(47.3)	(0.3)	(70.3)
Liabilities					
Investment contracts	—	—	(1.3)	1.6	0.3
Derivatives					
Net derivative assets (liabilities)	—	1.9	—	—	1.9
For the three months ended March 31, 2018					
	Purchases	Sales	Issuances <i>(in millions)</i>	Settlements	Net purchases, sales, issuances and settlements
Assets					
Fixed maturities, available-for-sale:					
Non-U.S. governments	\$ —	\$ —	\$ —	\$ (0.3)	\$ (0.3)
Corporate	11.3	(4.2)	—	(4.7)	2.4
Commercial mortgage-backed securities	—	—	—	(0.1)	(0.1)
Collateralized debt obligations	—	—	—	(25.5)	(25.5)
Other debt obligations	—	—	—	(0.2)	(0.2)
Total fixed maturities, available-for-sale	11.3	(4.2)	—	(30.8)	(23.7)
Other investments	1.3	—	—	—	1.3
Separate account assets (5)	340.4	(104.4)	(45.5)	(13.7)	176.8
Liabilities					
Investment contracts	—	—	(0.5)	0.7	0.2
Derivatives					
Net derivative assets (liabilities)	3.1	0.6	—	—	3.7

(5) Issuances and settlements include amounts related to mortgage encumbrances associated with real estate in our separate accounts.

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Transfers

Transfers of assets and liabilities measured at fair value on a recurring basis between fair value hierarchy levels were as follows:

	For the three months ended March 31, 2019					
	Transfers out of Level 1 into Level 2 <i>(in millions)</i>	Transfers out of Level 1 into Level 3	Transfers out of Level 2 into Level 1	Transfers out of Level 2 into Level 3	Transfers out of Level 3 into Level 1	Transfers out of Level 3 into Level 2
Assets						
Fixed maturities, available-for-sale:						
U.S. government and agencies	\$ —	\$ —	\$ 1.1	\$ —	\$ —	\$ —
Other debt obligations	—	—	1.1	—	—	26.0
Total fixed maturities, available-for-sale	—	—	2.2	—	—	26.0
Other investments	—	—	—	10.0	—	—
Separate account assets	—	—	—	—	—	0.7
For the three months ended March 31, 2018						
	Transfers out of Level 1 into Level 2 <i>(in millions)</i>	Transfers out of Level 1 into Level 3	Transfers out of Level 2 into Level 1	Transfers out of Level 2 into Level 3	Transfers out of Level 3 into Level 1	Transfers out of Level 3 into Level 2
Assets						
Fixed maturities, available-for-sale:						
Corporate	\$ —	\$ —	\$ —	\$ 0.6	\$ —	\$ 28.7
Commercial mortgage-backed securities	—	—	—	2.5	—	—
Collateralized debt obligations	—	—	—	0.1	—	19.3
Total fixed maturities, available-for-sale	—	—	—	3.2	—	48.0
Separate account assets	292.4	—	0.7	—	—	—

Transfers between fair value hierarchy levels are recognized at the beginning of the reporting period.

Separate account assets transferred from Level 1 to Level 2 during the three months ended March 31, 2018, primarily included cash equivalents as a result of additional analysis to clarify the source of the price.

Assets transferred into Level 3 during the three months ended March 31, 2019 and 2018, primarily included those assets for which we are now unable to obtain pricing from a recognized third party pricing vendor as well as assets that were previously priced using a matrix valuation approach that may no longer be relevant when applied to asset-specific situations. In addition, other investments transferred from Level 2 into Level 3 during the three months ended March 31, 2019, included certain redeemable preferred stock for which at least one significant unobservable input is now used to determine fair value.

Assets transferred out of Level 3 during the three months ended March 31, 2019 and 2018, primarily included those assets for which we are now able to obtain pricing from a recognized third party pricing vendor or from internal models using substantially all market observable information.

Quantitative Information about Level 3 Fair Value Measurements

The following table provides quantitative information about the significant unobservable inputs used for recurring fair value measurements categorized within Level 3, excluding assets and liabilities for which significant quantitative unobservable inputs are not developed internally, which primarily consists of those valued using broker quotes or the measurement alternative for CCFEs. Refer to “Assets and liabilities measured at fair value on a recurring basis” for a complete valuation hierarchy summary.

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Assets / (liabilities) measured at fair value <i>(in millions)</i>	Valuation technique(s)	Unobservable input description	Input/range of inputs	Weighted average
Assets				
Fixed maturities, available-for-sale:				
Non-U.S. governments	\$ 4.2	Discounted cash flow	Discount rate (1)	3.2%
			Illiquidity premium	50 basis points ("bps")
			Comparability adjustment	(25)bps
Corporate	26.0	Discounted cash flow	Discount rate (1)	2.6%-3.5%
			Illiquidity premium	0bps-60bps
Other debt obligations	2.1	Discounted cash flow	Discount rate (1)	5.0%
			Illiquidity premium	500bps
Separate account assets	8,546.8	Discounted cash flow - mortgage loans	Discount rate (1)	3.0%-4.5%
			Illiquidity premium	0bps-60bps
			Credit spread rate	62bps-160bps
		Discounted cash flow - real estate	Discount rate (1)	5.6%-14.0%
			Terminal capitalization rate	4.3%-9.3%
			Average market rent growth rate	1.8%-16.5%
		Discounted cash flow - real estate debt	Loan to value	11.0%-85.9%
			Market interest rate	3.6%-6.0%
Liabilities				
Investment contracts (5)	(40.5)	Discounted cash flow	Long duration interest rate	2.6%-2.7% (2)
			Long-term equity market volatility	15.0%-26.4%
			Non-performance risk	0.3%-1.4%
			Utilization rate	See note (3)
			Lapse rate	1.3%-16.0%
			Mortality rate	See note (4)

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Assets / (liabilities) measured at fair value <i>(in millions)</i>	Valuation technique(s)	Unobservable input description	Input/range of inputs	Weighted average	
Assets					
Fixed maturities, available-for-sale:					
Non-U.S. governments	\$ 4.6	Discounted cash flow	Discount rate (1)	3.2%	3.2%
			Illiquidity premium	50 bps	50bps
			Comparability adjustment	(25)bps	(25)bps
Corporate	25.4	Discounted cash flow	Discount rate (1)	3.3%-4.5%	3.9%
			Illiquidity premium	0bps-60bps	36bps
Other debt obligations	1.7	Discounted cash flow	Discount rate (1)	5.0%	5.0%
			Illiquidity premium	500bps	500bps
Separate account assets	8,440.8	Discounted cash flow - mortgage loans	Discount rate (1)	3.3%-4.7%	4.2%
			Illiquidity premium	0bps-60bps	56bps
			Credit spread rate	85bps-172bps	168bps
		Discounted cash flow - real estate	Discount rate (1)	5.6%-11.5%	6.7%
			Terminal capitalization rate	4.3%-9.3%	5.8%
			Average market rent growth rate	2.0%-4.7%	2.9%
		Discounted cash flow - real estate debt	Loan to value	11.0%-69.3%	45.9%
Market interest rate	3.9%-6.0%	4.3%			

Liabilities

Investment contracts (5)	(45.2)	Discounted cash flow	Long duration interest rate	2.8%-2.9% (2)
			Long-term equity market volatility	16.7%-27.8%
			Non-performance risk	0.6%-1.6%
			Utilization rate	See note (3)
			Lapse rate	1.3%-16.0%
			Mortality rate	See note (4)

(1) Represents market comparable interest rate or an index adjusted rate used as the base rate in the discounted cash flow analysis prior to any illiquidity or other adjustments, where applicable.

(2) Represents the range of rate curves used in the valuation analysis that we have determined market participants would use when pricing the instrument. Derived from interpolation between various observable swap rates.

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- (3) This input factor is the number of contractholders taking withdrawals as well as the amount and timing of the withdrawals and a range does not provide a meaningful presentation.
- (4) This input is based on an appropriate industry mortality table and a range does not provide a meaningful presentation.
- (5) Includes bifurcated embedded derivatives that are reported at net asset (liability) fair value within the same line item in the consolidated statements of financial position in which the host contract is reported.

Market comparable discount rates are used as the base rate in the discounted cash flows used to determine the fair value of certain assets. Increases or decreases in the credit spreads on the comparable assets could cause the fair value of the assets to significantly decrease or increase, respectively. Additionally, we may adjust the base discount rate or the modeled price by applying an illiquidity premium given the highly structured nature of certain assets. Increases or decreases in this illiquidity premium could cause significant decreases or increases, respectively, in the fair value of the asset.

Embedded derivatives within our investment contracts liability can be in either an asset or liability position, depending on certain inputs at the reporting date. Increases to an asset or decreases to a liability are described as increases to fair value. Increases or decreases in market volatilities could cause significant decreases or increases, respectively, in the fair value of embedded derivatives in investment contracts. Long duration interest rates are used as the mean return when projecting the growth in the value of associated account value and impact the discount rate used in the discounted future cash flows valuation. The amount of claims will increase if account value is not sufficient to cover guaranteed withdrawals. Increases or decreases in risk-free rates could cause the fair value of the embedded derivative to significantly increase or decrease, respectively. Increases or decreases in our own credit risks, which impact the rates used to discount future cash flows, could significantly increase or decrease, respectively, the fair value of the embedded derivative. All of these changes in fair value would impact net income.

Decreases or increases in the mortality rate assumption could cause the fair value of the embedded derivative to decrease or increase, respectively. Decreases or increases in the overall lapse rate assumption could cause the fair value of the embedded derivative to decrease or increase, respectively. The lapse rate assumption varies dynamically based on the relationship of the guarantee and associated account value. A stronger or weaker dynamic lapse rate assumption could cause the fair value of the embedded derivative to decrease or increase, respectively. The utilization rate assumption includes how many contractholders will take withdrawals, when they will take them and how much of their benefit they will take. Increases or decreases in the assumption of the number of contractholders taking withdrawals could cause the fair value of the embedded derivative to decrease or increase, respectively. Assuming contractholders take withdrawals earlier or later could cause the fair value of the embedded derivative to decrease or increase, respectively. Assuming contractholders take more or less of their benefit could cause the fair value of the embedded derivative to decrease or increase, respectively.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

No significant assets and liabilities were measured at fair value on a nonrecurring basis for the three months ended March 31, 2019 and 2018.

Fair Value Option

We elected fair value accounting for:

- Certain commercial mortgage loans of consolidated VIEs for which it was not practicable for us to determine the carrying value.
- Certain real estate ventures that are subject to the equity method of accounting because the nature of the investments is to add value to the properties and generate income from the operations of the properties. Other equity method real estate investments are not fair valued because the investments mainly generate income from the operations of the underlying properties.

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The following tables present information regarding the assets and liabilities for which the fair value option was elected.

	March 31, 2019	December 31, 2018
	<i>(in millions)</i>	
Commercial mortgage loans of consolidated VIEs (1) (2)		
Fair value	\$ 5.9	\$ 6.4
Aggregate contractual principal	6.0	6.5
Real estate ventures (1)		
Fair value	19.4	17.2

(1) Reported with other investments in the consolidated statements of financial position.

(2) None of the loans were more than 90 days past due or in non-accrual status.

	For the three months ended March 31,	
	2019	2018
	<i>(in millions)</i>	
Commercial mortgage loans of consolidated VIEs		
Change in fair value pre-tax loss (1) (2)	\$ —	\$ (0.1)
Interest income (3)	0.1	0.2
Real estate ventures		
Change in fair value pre-tax gain (4)	2.2	1.5

(1) None of the change in fair value related to instrument-specific credit risk.

(2) Reported in net realized capital gains (losses) on the consolidated statements of operations.

(3) Reported in net investment income on the consolidated statements of operations and recorded based on the effective interest rates as determined at the closing of the loan.

(4) Reported in net investment income on the consolidated statements of operations.

Financial Instruments Not Reported at Fair Value

The carrying value and estimated fair value of financial instruments not recorded at fair value on a recurring basis but required to be disclosed at fair value were as follows:

			March 31, 2019		
			Fair value hierarchy level		
			Level 1	Level 2	Level 3
Carrying amount	Fair value	<i>(in millions)</i>			
Assets (liabilities)					
Mortgage loans	\$ 15,597.5	\$ 15,913.2	\$ —	\$ —	\$ 15,913.2
Policy loans	798.5	1,017.1	—	—	1,017.1
Other investments	254.9	253.4	—	165.4	88.0
Cash and cash equivalents	1,203.8	1,203.8	1,134.2	69.6	—
Investment contracts	(32,489.3)	(31,823.5)	—	(4,109.9)	(27,713.6)
Short-term debt	(43.9)	(43.9)	—	(43.9)	—
Long-term debt	(3,266.4)	(3,395.3)	—	(3,261.1)	(134.2)
Separate account liabilities	(144,418.0)	(143,222.4)	—	—	(143,222.4)
Bank deposits (1)	(490.6)	(482.4)	—	(482.4)	—
Cash collateral payable	(100.5)	(100.5)	(100.5)	—	—

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	December 31, 2018					
	Carrying amount	Fair value	Fair value hierarchy level			
			Level 1	Level 2	Level 3	
<i>(in millions)</i>						
Assets (liabilities)						
Mortgage loans	\$ 15,336.9	\$ 15,383.6	\$ —	\$ —	\$ 15,383.6	
Policy loans	801.4	965.5	—	—	965.5	
Other investments	247.4	239.8	—	157.5	82.3	
Cash and cash equivalents	1,201.6	1,201.6	1,148.6	53.0	—	
Investment contracts	(32,572.1)	(31,428.2)	—	(4,085.7)	(27,342.5)	
Short-term debt	(42.9)	(42.9)	—	(42.9)	—	
Long-term debt	(3,259.6)	(3,257.1)	—	(3,129.3)	(127.8)	
Separate account liabilities	(132,562.9)	(131,491.4)	—	—	(131,491.4)	
Bank deposits (1)	(500.0)	(489.1)	—	(489.1)	—	
Cash collateral payable	(79.5)	(79.5)	(79.5)	—	—	

(1) Excludes deposit liabilities without defined or contractual maturities.

11. Segment Information

We provide financial products and services through the following segments: Retirement and Income Solutions, Principal Global Investors, Principal International and U.S. Insurance Solutions. In addition, we have a Corporate segment. The segments are managed and reported separately because they provide different products and services, have different strategies or have different markets and distribution channels.

The Retirement and Income Solutions segment provides retirement and related financial products and services primarily to businesses, their employees and other individuals. The segment is organized into Retirement and Income Solutions – Fee, which includes full service accumulation, trust services and individual variable annuities; and Retirement and Income Solutions – Spread, which includes individual fixed annuities, investment only, pension risk transfer and banking services.

The Principal Global Investors segment provides asset management services to our asset accumulation business, our insurance operations, the Corporate segment and third party clients. This segment also includes our mutual fund business.

The Principal International segment has operations in Latin America (Brazil, Chile and Mexico) and Asia (China, Hong Kong Special Administrative Region, India and Southeast Asia). We focus on locations with large middle classes, favorable demographics and growing long-term savings, ideally with voluntary or mandatory pension markets. We entered these locations through acquisitions, start-up operations and joint ventures.

The U.S. Insurance Solutions segment focuses on solutions for individuals and small-to-medium sized businesses and their employees. The segment is organized into Specialty Benefits insurance, which provides group dental and vision insurance, individual and group disability insurance, critical illness, accident, group life insurance and non-medical fee-for-service claims administration; and Individual Life insurance, which provides universal life, variable universal life, indexed universal life and traditional life insurance.

Our Corporate segment manages the assets representing capital that has not been allocated to any other segment. Financial results of the Corporate segment primarily reflect our financing activities (including financing costs), income on capital not allocated to other segments, inter-segment eliminations, income tax risks and certain income, expenses and other adjustments not allocated to the segments based on the nature of such items. Results of Principal Securities, Inc. (“PSI”), our retail broker-dealer and registered investment advisor (“RIA”); RobustWealth, Inc. (“RobustWealth”), our financial technology company; and our exited group medical and long-term care insurance businesses are reported in this segment.

Effective January 1, 2019, we made changes to the allocation of certain compensation and other expenses and net investment income among the reportable segments. These allocation changes were made as a result of a global financial process improvement project. The expense allocation changes simplify the allocation processes, increase transparency and allow for more effective expense management across the enterprise. The net investment income allocation changes better align our internal capital allocation with enterprise capital targets. Segment results for prior periods were recast so they are reported on a comparable basis, with no impact to total company financial results.

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Management uses segment pre-tax operating earnings in evaluating performance, which is consistent with the financial results provided to and discussed with securities analysts. We determine segment pre-tax operating earnings by adjusting U.S. GAAP income before income taxes for pre-tax net realized capital gains (losses), as adjusted, pre-tax other adjustments that management believes are not indicative of overall operating trends and certain adjustments related to equity method investments and noncontrolling interest. While these items may be significant components in understanding and assessing the consolidated financial performance, management believes the presentation of pre-tax operating earnings enhances the understanding of our results of operations by highlighting pre-tax earnings attributable to the normal, ongoing operations of the business.

The pre-tax net realized capital gains (losses), as adjusted, excluded from pre-tax operating earnings reflects consolidated U.S. GAAP pre-tax net realized capital gains (losses) excluding the following items that are included in pre-tax operating earnings:

- Periodic settlements and accruals on derivative instruments not designated as hedging instruments and
- Certain market value adjustments of embedded derivatives.

Pre-tax net realized capital gains (losses), as adjusted, are further adjusted for:

- Amortization of hedge accounting book value adjustments for certain discontinued hedges,
- Certain hedge accounting market value revenue adjustments,
- Certain market value adjustments to fee revenues,
- Pre-tax net realized capital gains (losses) adjustments related to equity method investments,
- Pre-tax net realized capital gains (losses) adjustments related to sponsored investment funds,
- Recognition of deferred front-end fee revenues for sales charges on retirement and life insurance products and services,
- Related changes in the amortization pattern of DAC and related actuarial balances,
- Certain hedge accounting market value expense adjustments and
- Net realized capital gains (losses) distributed.

Segment operating revenues reflect consolidated U.S. GAAP total revenues excluding:

- Net realized capital gains (losses), except periodic settlements and accruals on derivatives not designated as hedging instruments, and their impact on:
 - Amortization of hedge accounting book value adjustments for certain discontinued hedges,
 - Certain hedge accounting market value revenue adjustments,
 - Certain market value adjustments to fee revenues,
 - Pre-tax net realized capital gains (losses) adjustments related to equity method investments,
 - Pre-tax net realized capital gains (losses) adjustments related to sponsored investment funds and
 - Recognition of deferred front-end fee revenues for sales charges on retirement and life insurance products and services.
- Pre-tax other adjustments and income taxes of equity method investments and
- Pre-tax other adjustments management believes are not indicative of overall operating trends.

The accounting policies of the segments are consistent with the accounting policies for the consolidated financial statements, with the exception of: (1) pension and other postretirement employee benefits (“OPEB”) cost allocations, (2) certain expenses deemed to benefit the entire organization and (3) income tax allocations. For purposes of determining pre-tax operating earnings, the segments are allocated the service component of pension and other postretirement benefit costs. The Corporate segment reflects the non-service components of pension and other postretirement benefit costs as assumptions are established and funding decisions are managed from a company-wide perspective. Additionally, the Corporate segment reflects expenses that benefit the entire organization for which the segments are not able to influence the spend. This includes expenses such as public company costs, executive management costs, acquisition and disposition costs, among others. The Corporate segment functions to absorb the risk inherent in interpreting and applying tax law. For purposes of determining non-GAAP operating earnings, the segments are allocated tax adjustments consistent with the positions we took on tax returns. The Corporate segment results reflect any differences between the tax returns and the estimated resolution of any disputes.

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The following tables summarize select financial information by segment, including operating revenues for our products and services, and reconcile segment totals to those reported in the consolidated financial statements:

	March 31, 2019	December 31, 2018
	<i>(in millions)</i>	
Assets:		
Retirement and Income Solutions	\$ 176,073.5	\$ 163,833.6
Principal Global Investors	2,296.9	2,301.0
Principal International	49,477.5	46,701.2
U.S. Insurance Solutions	26,370.0	25,388.2
Corporate	5,202.0	4,812.1
Total consolidated assets	<u>\$ 259,419.9</u>	<u>\$ 243,036.1</u>

	For the three months ended March 31,	
	2019	2018
	<i>(in millions)</i>	
Operating revenues by segment:		
Retirement and Income Solutions:		
Retirement and Income Solutions – Fee	\$ 430.8	\$ 447.8
Retirement and Income Solutions – Spread	1,461.1	731.1
Total Retirement and Income Solutions (1)	<u>1,891.9</u>	<u>1,178.9</u>
Principal Global Investors (2)	339.0	368.5
Principal International	380.5	383.1
U.S. Insurance Solutions:		
Specialty Benefits insurance	601.8	565.4
Individual Life insurance	466.3	451.3
Total U.S. Insurance Solutions	<u>1,068.1</u>	<u>1,016.7</u>
Corporate	1.2	—
Total segment operating revenues	<u>3,680.7</u>	<u>2,947.2</u>
Net realized capital gains (losses), net of related revenue adjustments	83.7	(42.2)
Adjustments related to equity method investments	(20.5)	(21.4)
Total revenues per consolidated statements of operations	<u>\$ 3,743.9</u>	<u>\$ 2,883.6</u>

Pre-tax operating earnings (losses) by segment:		
Retirement and Income Solutions	\$ 240.6	\$ 243.9
Principal Global Investors	100.7	113.7
Principal International	111.1	91.5
U.S. Insurance Solutions	110.7	115.0
Corporate	(84.4)	(67.6)
Total segment pre-tax operating earnings	<u>478.7</u>	<u>496.5</u>
Pre-tax net realized capital gains (losses), as adjusted (3)	65.6	(23.6)
Adjustments related to equity method investments and noncontrolling interest	(18.3)	(15.9)
Income before income taxes per consolidated statements of operations	<u>\$ 526.0</u>	<u>\$ 457.0</u>

(1) Reflects inter-segment revenues of \$85.7 million and \$101.7 million for the three months ended March 31, 2019 and 2018, respectively.

(2) Reflects inter-segment revenues of \$61.5 million and \$62.2 million for the three months ended March 31, 2019 and 2018, respectively.

(3) Pre-tax net realized capital gains (losses), as adjusted, is derived as follows:

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	For the three months ended March 31,	
	2019	2018
	<i>(in millions)</i>	
Net realized capital gains (losses):		
Net realized capital gains (losses)	\$ 84.5	\$ (25.1)
Derivative and hedging-related revenue adjustments	(11.5)	(17.8)
Adjustments related to equity method investments	(0.4)	0.2
Adjustments related to sponsored investment funds	8.0	2.1
Recognition of front-end fee revenue	3.1	(1.6)
Net realized capital gains (losses), net of related revenue adjustments	<u>83.7</u>	<u>(42.2)</u>
Amortization of deferred acquisition costs and other actuarial balances	(16.4)	5.6
Capital (gains) losses distributed	(8.7)	10.6
Market value adjustments of embedded derivatives	7.0	2.4
Pre-tax net realized capital gains (losses), as adjusted (a)	<u>\$ 65.6</u>	<u>\$ (23.6)</u>

(a) As adjusted before noncontrolling interest capital gains (losses).

12. Revenues from Contracts with Customers

The following tables summarize disaggregation of revenues from contracts with customers, including select financial information by segment, and reconcile totals to those reported in the consolidated financial statements. Revenues from contracts with customers are included in fees and other revenues on the consolidated statements of operations.

	For the three months ended March 31,	
	2019	2018
	<i>(in millions)</i>	
Revenue from contracts with customers by segment:		
Retirement and Income Solutions:		
Retirement and Income Solutions – Fee	\$ 58.4	\$ 61.7
Retirement and Income Solutions – Spread	2.9	2.7
Total Retirement and Income Solutions	<u>61.3</u>	<u>64.4</u>
Principal Global Investors	332.3	360.3
Principal International	114.9	121.1
U.S. Insurance Solutions:		
Specialty Benefits insurance	3.7	3.7
Individual Life insurance	12.0	9.4
Total U.S. Insurance Solutions	<u>15.7</u>	<u>13.1</u>
Corporate	37.0	43.9
Total segment revenue from contracts with customers	<u>561.2</u>	<u>602.8</u>
Adjustments for fees and other revenues not within the scope of revenue recognition guidance (1)	409.2	410.1
Pre-tax other adjustments (2)	3.1	(1.6)
Total fees and other revenues per consolidated statements of operations	<u>\$ 973.5</u>	<u>\$ 1,011.3</u>

- (1) Fees and other revenues not within the scope of the revenue recognition guidance primarily represent revenue on contracts accounted for under the financial instruments or insurance contracts standards.
- (2) Pre-tax other adjustments relate to the recognition of deferred front-end fee revenues for sales charges on retirement and life insurance products and certain market value adjustments to fee revenues.

Retirement and Income Solutions - Fee

Retirement and Income Solutions - Fee offers service and trust agreements for defined contribution plans, including 401(k) plans, 403(b) plans, and employee stock ownership plans. The investment components of these service agreements are in the form of mutual fund offerings. In addition, plan sponsor trust services are also available through an affiliated trust company.

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Fees and other revenues are earned for administrative activities performed for the defined contribution plans including recordkeeping and reporting as well as trust, asset management and investment services. The majority of these activities are performed daily over time. Fee-for-service transactions are also provided upon client request. These services are considered distinct or grouped into a bundle until a distinct performance obligation is identified. Some performance obligations are considered a series of distinct services, which are substantially the same and have the same pattern of transfer to the customer.

Fees and other revenues can be based on a fixed contractual rate for these services or can be variable based upon contractual rates applied to the market value of the client's investment portfolio each day. If the consideration for this series of performance obligations is based on daily market value, it is considered variable each day as the services are performed over time. The consideration becomes unconstrained and thus recognized as revenue for each day's series of distinct services once the market value of the clients' investment portfolios is determined at market close or carried over at the end of the day for days when the market is closed. Additionally, fixed fees and other revenues are recognized point-in-time as fee-for-service transactions upon completion.

The types of revenues from contracts with customers were as follows:

	For the three months ended March 31,	
	2019	2018
	<i>(in millions)</i>	
Administrative service fee revenue	\$ 58.2	\$ 61.6
Other fee revenue	0.2	0.1
Total revenues from contracts with customers	58.4	61.7
Fees and other revenues not within the scope of revenue recognition guidance	271.8	286.4
Total fees and other revenues	330.2	348.1
Premiums and other considerations	1.1	1.5
Net investment income	99.5	98.2
Total operating revenues	\$ 430.8	\$ 447.8

Retirement and Income Solutions - Spread

Retirement and Income Solutions – Spread offers individual retirement accounts (“IRAs”) through Principal Bank, which are primarily funded by retirement savings rolled over from qualified retirement plans. The IRAs are held in savings accounts, money market accounts and certificates of deposit. Revenues are earned through fees as the performance of establishing and maintaining IRA accounts is completed. Fee-for-service transactions are also provided upon client request. The establishment fees and annual maintenance fees are accrued into earnings over a period of time using the average account life. Upfront and recurring bank fees are related to performance obligations that have the same pattern of transfer to the customer and are recognized in income over time with control transferred to the customers utilizing the output method. These fees are based on a fixed contractual rate. Fixed fees and other revenues are also recognized point-in-time as fee-for-service transactions upon completion.

The types of revenues from contracts with customers were as follows:

	For the three months ended March 31,	
	2019	2018
	<i>(in millions)</i>	
Deposit account fee revenue	\$ 2.9	\$ 2.7
Total revenues from contracts with customers	2.9	2.7
Fees and other revenues not within the scope of revenue recognition guidance	4.9	2.7
Total fees and other revenues	7.8	5.4
Premiums and other considerations	957.5	288.3
Net investment income	495.8	437.4
Total operating revenues	\$ 1,461.1	\$ 731.1

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

Principal Global Investors

Fees and other revenues earned for asset management, investment advisory and distribution services provided to institutional and retail clients are based largely upon contractual rates applied to the specified amounts of the clients' portfolios. Each service is a distinct performance obligation, or a series of distinct services that are a single performance obligation in that the services are substantially the same and have the same pattern of transfer to the customer. Fees and other revenues received for performance obligations such as asset management and other services are typically recognized over time utilizing the output method as the service is performed. Performance fees and transaction fees on certain accounts are recognized in income when the probability of significant reversal will not occur upon resolution of the uncertainty, which could be based on a variety of factors such as market performance or other internal metrics. Asset management fees are accrued each month based on the fee terms within the applicable agreement and are generally billed quarterly when values used for the calculation are available. Management fees and performance fees are variable consideration as they are subject to fluctuation based on assets under management ("AUM") and other constraints. These fees are not recognized until unconstrained at the end of each reporting period.

The types of revenues from contracts with customers were as follows:

	For the three months ended March 31,	
	2019	2018
	<i>(in millions)</i>	
Management fee revenue	\$ 292.8	\$ 316.3
Other fee revenue	39.5	44.0
Total revenues from contracts with customers	<u>332.3</u>	<u>360.3</u>
Fees and other revenues not within the scope of revenue recognition guidance	4.3	6.7
Total fees and other revenues	<u>336.6</u>	<u>367.0</u>
Net investment income	2.4	1.5
Total operating revenues	<u>\$ 339.0</u>	<u>\$ 368.5</u>

Principal International

Fees and other revenues are earned for asset management and distribution services provided to retail and institutional clients in addition to trustee and/or administrative services performed for retirement savings plans. Each service is considered a distinct performance obligation; however, if the services are not distinct on their own, we combine them into a distinct bundle or we have a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. Fees and other revenues are typically based upon contractual rates applied to the market value of the clients' investment portfolios and are considered variable consideration. The transaction price generally includes the amount determined at the end of the reporting period, whereby fees are deducted from the clients' investment portfolios and are recognized as revenue when no longer constrained and satisfied as the services are performed over time utilizing the output method. In addition, payments to customers can take the form of an incentive given by us to entice the customer to purchase its goods or services. Incentives offered to customers are recognized as part of the transaction price as a reduction of revenue either over the period the customer remains in order to receive the incentive or monthly throughout the life of the contract.

Incentive-based fees are recognized in income when the probability of significant reversal will not occur upon the resolution of the uncertainty, which is based on market performance.

Fees for managing customers' mandatory retirement savings accounts in Chile are collected with each monthly deposit made by our customers. If a customer stops contributing before retirement age, we collect no fees but services are still provided. We recognize revenue from these contracts as services are performed over the life of the contract and review annually.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

The types of revenues from contracts with customers were as follows:

	For the three months ended March 31,	
	2019	2018
	<i>(in millions)</i>	
Management fee revenue	\$ 114.3	\$ 120.1
Other fee revenue	0.6	1.0
Total revenues from contracts with customers	<u>114.9</u>	<u>121.1</u>
Fees and other revenues not within the scope of revenue recognition guidance	1.7	2.0
Total fees and other revenues	<u>116.6</u>	<u>123.1</u>
Premiums and other considerations	117.5	97.9
Net investment income	146.4	162.1
Total operating revenues	<u>\$ 380.5</u>	<u>\$ 383.1</u>
Revenues from contracts with customers by region:		
Latin America	\$ 88.1	\$ 92.5
Asia	27.0	28.7
Principal International corporate / regional offices	0.2	0.3
Eliminations	<u>(0.4)</u>	<u>(0.4)</u>
Total revenues from contracts with customers	<u>\$ 114.9</u>	<u>\$ 121.1</u>

U.S. Insurance Solutions

Fees and other revenues are earned for administrative services performed including recordkeeping and reporting services for fee-for-service products, nonqualified benefit plans, separate accounts and dental networks. Services within contracts are not distinct on their own; however, we combine the services into a distinct bundle and account for the bundle as a single performance obligation, which is satisfied over time utilizing the output method as services are rendered. The transaction price corresponds with the performance completed to date, for which the value is recognized as revenue during the period. Variability of consideration is resolved at the end of each period and payments are due when billed.

Commission income is earned through sponsored brokerage services. Performance obligations are satisfied at a point in time, upon delivery of a placed case, and the transaction price calculated per the compensation schedule is recognized as revenue.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

The types of revenues from contracts with customers were as follows:

	For the three months ended March 31,	
	2019	2018
	<i>(in millions)</i>	
Specialty Benefits Insurance:		
Administrative service fees	\$ 3.7	\$ 3.7
Total revenues from contracts with customers	<u>3.7</u>	<u>3.7</u>
Fees and other revenues not within the scope of revenue recognition guidance	<u>4.9</u>	<u>5.2</u>
Total fees and other revenues	<u>8.6</u>	<u>8.9</u>
Premiums and other considerations	555.9	517.0
Net investment income	<u>37.3</u>	<u>39.5</u>
Total operating revenues	<u>\$ 601.8</u>	<u>\$ 565.4</u>
Individual Life Insurance:		
Administrative service fees	\$ 5.9	\$ 5.8
Commission income	<u>6.1</u>	<u>3.6</u>
Total revenues from contracts with customers	<u>12.0</u>	<u>9.4</u>
Fees and other revenues not within the scope of revenue recognition guidance	<u>192.2</u>	<u>185.7</u>
Total fees and other revenues	<u>204.2</u>	<u>195.1</u>
Premiums and other considerations	92.9	90.5
Net investment income	<u>169.2</u>	<u>165.7</u>
Total operating revenues	<u>\$ 466.3</u>	<u>\$ 451.3</u>

Corporate

Fees and other revenues are earned on the performance of selling and servicing of securities and related products offered through PSI, an introducing broker-dealer registered with the FINRA.

PSI enters into selling and distribution agreements with the obligation to sell or distribute the securities products, such as mutual funds, annuities and products sold through RIAs, to individual clients in return for a front-end sales charges, 12b-1 service fees, annuity fees and asset-based fees. Front-end sales charges, 12b-1 fees and annuity fees are related to a single sale and are earned at the time of sale. PSI also enters into agreements with individual customers to provide securities trade execution and custody through a brokerage services platform in return for ticket charge and other service fee revenue. These services are bundled as one single distinct service referred to as brokerage services. This revenue is related to distinct transactions and is earned at a point in time.

PSI also enters into agreements with individual customers to provide trade execution, clearing services, custody services and investment research services through our proprietary offered fee-based products. These services are bundled as one single distinct service referred to as advisory services. In addition, for outside RIA business PSI performs sales and distribution services only. The revenues are earned over time as the service is performed utilizing the output method.

A majority of our revenue is based upon contractual rates applied to the market value of the clients' portfolios and considered variable consideration.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

The Corporate segment also includes inter-segment eliminations of fees and other revenues. The types of revenues from contracts with customers were as follows:

	For the three months ended March 31,	
	2019	2018
	<i>(in millions)</i>	
Commission income	\$ 75.8	\$ 79.0
Other fee revenue	8.8	8.0
Eliminations	(47.6)	(43.1)
Total revenues from contracts with customers	<u>37.0</u>	<u>43.9</u>
Fees and other revenues not within the scope of revenue recognition guidance	(70.6)	(78.6)
Total fees and other revenues	<u>(33.6)</u>	<u>(34.7)</u>
Net investment income	34.8	34.7
Total operating revenues	<u>\$ 1.2</u>	<u>\$ —</u>

Contract Costs

Sales compensation and other incremental costs of obtaining a contract are capitalized and amortized over the period of contract benefit if the costs are expected to be recovered. The contract cost asset, which is included in other assets on the consolidated statements of financial position, was \$142.6 million and \$137.6 million as of March 31, 2019 and December 31, 2018, respectively.

We apply the practical expedient for certain costs where we recognize the incremental costs of obtaining these contracts as an expense when incurred if the amortization period of the assets is one year or less. These costs, along with costs that are not deferrable, are included in operating expenses on the consolidated statements of operations.

Deferred contract costs consist primarily of commissions and variable compensation. We amortize capitalized contract costs on a straight-line basis over the expected contract life, reflecting lapses as they are incurred. Deferred contract costs are subject to impairment testing on an annual basis, or when a triggering event occurs that could warrant an impairment. To the extent future revenues less future maintenance expenses are not adequate to cover the asset balance, an impairment is recognized. For the three months ended March 31, 2019 and 2018, \$5.6 million and \$5.7 million, respectively, of amortization expense was recorded in operating expenses on the consolidated statements of operations and no impairment loss was recognized in relation to the costs capitalized.

13. Stock-Based Compensation Plans

As of March 31, 2019, we had the 2014 Stock Incentive Plan, the Employee Stock Purchase Plan, the 2014 Directors Stock Plan, the Amended and Restated 2010 Stock Incentive Plan, the 2005 Directors Stock Plan, the Stock Incentive Plan and the Directors Stock Plan (“Stock-Based Compensation Plans”). As of May 20, 2014, no new grants will be made under the Amended and Restated 2010 Stock Incentive Plan or the 2005 Directors Stock Plan. No grants have been made under the Stock Incentive Plan or the Directors Stock Plan since at least 2005. Under the terms of the 2014 Stock Incentive Plan, grants may be nonqualified stock options, incentive stock options qualifying under Section 422 of the Internal Revenue Code, restricted stock, restricted stock units, stock appreciation rights, performance shares, performance units or other stock-based awards. The 2014 Directors Stock Plan provides for the grant of nonqualified stock options, restricted stock, restricted stock units or other stock-based awards to our nonemployee directors. To date, we have not granted any incentive stock options, restricted stock or performance units under any plans.

As of March 31, 2019, the maximum number of new shares of common stock available for grant under the 2014 Stock Incentive Plan and the 2014 Directors Stock Plan was 6.8 million.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

For awards with graded vesting, we use an accelerated expense attribution method. The compensation cost that was charged against net income for stock-based awards granted under the Stock-Based Compensation Plans was as follows:

	For the three months ended March 31,	
	2019	2018
	<i>(in millions)</i>	
Compensation cost	\$ 24.3	\$ 23.7
Related income tax benefit	4.8	5.2
Capitalized as part of an asset	0.6	0.5

Nonqualified Stock Options

Nonqualified stock options were granted to certain employees under the 2014 Stock Incentive Plan. Total options granted were 1.2 million for the three months ended March 31, 2019. The fair value of stock options is estimated using the Black-Scholes option pricing model. The following is a summary of the assumptions used in this model for the stock options granted during the period:

	For the three months ended March 31, 2019
Expected volatility	23.3 %
Expected term (in years)	7.0
Risk-free interest rate	2.6 %
Expected dividend yield	4.07 %
Weighted average estimated fair value per common share	\$ 10.00

As of March 31, 2019, we had \$10.7 million of total unrecognized compensation cost related to nonvested stock options. The cost is expected to be recognized over a weighted-average service period of approximately 1.3 years.

Performance Share Awards

Performance share awards were granted to certain employees under the 2014 Stock Incentive Plan. Total performance share awards granted were 0.2 million for the three months ended March 31, 2019. The performance share awards granted represent initial target awards and do not reflect potential increases or decreases resulting from the final performance results to be determined at the end of the performance period. The actual number of common shares to be awarded at the end of each performance period will range between 0% and 150% of the initial target awards. The fair value of performance share awards is determined based on the closing stock price of our common shares on the grant date. The weighted-average grant date fair value of these performance share awards granted was \$53.09 per common share.

As of March 31, 2019, we had \$11.2 million of total unrecognized compensation cost related to nonvested performance share awards granted. The cost is expected to be recognized over a weighted-average service period of approximately 1.3 years.

Restricted Stock Units

Restricted stock units were issued to certain employees pursuant to the 2014 Stock Incentive Plan and non-employee directors pursuant to the 2014 Directors Stock Plan. Total restricted stock units granted were 1.0 million for the three months ended March 31, 2019. The fair value of restricted stock units is determined based on the closing stock price of our common shares on the grant date. The weighted-average grant date fair value of these restricted stock units granted was \$53.08 per common share.

As of March 31, 2019, we had \$79.6 million of total unrecognized compensation cost related to nonvested restricted stock unit awards granted. The cost is expected to be recognized over a weighted-average period of approximately 2.1 years.

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan, employees purchased 0.4 million shares for the three months ended March 31, 2019. The weighted average fair value of the discount on the stock purchased was \$12.48 per share.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

As of March 31, 2019, a total of 1.8 million of new shares were available to be made issuable by us for this plan.

14. Earnings Per Common Share

The computations of the basic and diluted per share amounts were as follows:

	For the three months ended March 31,	
	2019	2018
	<i>(in millions, except per share data)</i>	
Net income	\$ 452.1	\$ 402.5
Subtract:		
Net income attributable to noncontrolling interest	22.2	5.4
Total	<u>\$ 429.9</u>	<u>\$ 397.1</u>
Weighted-average shares outstanding:		
Basic	278.7	289.4
Dilutive effects:		
Stock options	0.7	1.4
Restricted stock units	1.5	1.9
Performance share awards	—	0.2
Diluted	<u>280.9</u>	<u>292.9</u>
Net income per common share:		
Basic	<u>\$ 1.54</u>	<u>\$ 1.37</u>
Diluted	<u>\$ 1.53</u>	<u>\$ 1.36</u>

The calculation of diluted earnings per share for the three months ended March 31, 2019 and 2018, excludes the incremental effect related to certain outstanding stock-based compensation grants due to their anti-dilutive effect.

15. Condensed Consolidating Financial Information

Principal Life has established special purpose entities to issue secured medium-term notes. Under the program, the payment obligations of principal and interest on the notes are secured by funding agreements issued by Principal Life. Principal Life's payment obligations on the funding agreements are fully and unconditionally guaranteed by PFG. All of the outstanding stock of Principal Life is indirectly owned by PFG and PFG is the only guarantor of the payment obligations of the funding agreements.

The following tables set forth condensed consolidating financial information of (i) PFG, (ii) Principal Life, (iii) Principal Financial Services, Inc. ("PFS") and all other direct and indirect subsidiaries of PFG on a combined basis and (iv) the eliminations necessary to arrive at the information for PFG on a consolidated basis as of March 31, 2019 and December 31, 2018, and for the three months ended March 31, 2019 and 2018.

In presenting the condensed consolidating financial statements, the equity method of accounting has been applied to (i) PFG's interest in all direct subsidiaries of PFG, (ii) Principal Life's interest in all direct subsidiaries of Principal Life and (iii) PFS's interest in Principal Life even though all such subsidiaries meet the requirements to be consolidated under U.S. GAAP. Earnings of subsidiaries are, therefore, reflected in the parent's investment and earnings. All intercompany balances and transactions, including elimination of the parent's investment in subsidiaries, between PFG, Principal Life and PFS and all other subsidiaries have been eliminated, as shown in the column "Eliminations." These condensed consolidating financial statements should be read in conjunction with the consolidated financial statements. The financial information may not necessarily be indicative of results of operations, cash flows or financial position had the subsidiaries operated as independent entities.

PFG sponsors nonqualified benefit plans for select employees and agents and is responsible for the obligations of these plans. Nonqualified plan assets are held in Rabbi trusts for the benefit of all nonqualified plan participants. The Rabbi trusts are separate legal entities and are not a part of PFG on a stand-alone basis. The plan assets are available to satisfy the claims of general creditors only in the event of bankruptcy and are, therefore, consolidated in our statements of financial position.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

Condensed Consolidating Statements of Financial Position
March 31, 2019

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined (1)	Eliminations	Principal Financial Group, Inc. Consolidated
	<i>(in millions)</i>				
Assets					
Fixed maturities, available-for-sale	\$ 210.2	\$ 56,038.1	\$ 7,237.3	\$ (362.6)	\$ 63,123.0
Fixed maturities, trading	305.2	198.7	165.0	—	668.9
Equity securities	—	86.6	1,777.5	—	1,864.1
Mortgage loans	—	14,733.9	1,615.3	(751.7)	15,597.5
Real estate	—	2.8	1,733.9	—	1,736.7
Policy loans	—	749.0	49.5	—	798.5
Investment in unconsolidated entities	15,275.6	1,834.2	8,361.0	(24,566.5)	904.3
Other investments	10.7	6,418.1	2,824.5	(5,402.4)	3,850.9
Cash and cash equivalents	270.2	730.7	1,845.2	(586.4)	2,259.7
Accrued investment income	1.5	601.0	79.9	(2.8)	679.6
Premiums due and other receivables	—	2,035.3	3,954.4	(4,348.6)	1,641.1
Deferred acquisition costs	—	3,603.2	13.3	—	3,616.5
Property and equipment	—	755.9	177.3	—	933.2
Goodwill	—	54.3	1,056.3	—	1,110.6
Other intangibles	—	19.2	1,291.1	—	1,310.3
Separate account assets	—	117,897.1	40,045.7	—	157,942.8
Other assets	364.4	1,112.4	4,539.4	(4,634.0)	1,382.2
Total assets	<u>\$ 16,437.8</u>	<u>\$ 206,870.5</u>	<u>\$ 76,766.6</u>	<u>\$ (40,655.0)</u>	<u>\$ 259,419.9</u>
Liabilities					
Contractholder funds	\$ —	\$ 36,752.9	\$ 3,249.3	\$ (352.9)	\$ 39,649.3
Future policy benefits and claims	—	31,614.1	6,477.8	(1,200.7)	36,891.2
Other policyholder funds	—	771.8	170.4	(3.1)	939.1
Short-term debt	—	—	43.9	—	43.9
Long-term debt	3,130.2	—	851.9	(715.7)	3,266.4
Income taxes currently payable	—	—	58.2	(35.9)	22.3
Deferred income taxes	1.0	761.7	1,054.7	(498.7)	1,318.7
Separate account liabilities	—	117,897.1	40,045.7	—	157,942.8
Other liabilities	612.2	9,076.3	9,064.4	(12,706.6)	6,046.3
Total liabilities	<u>3,743.4</u>	<u>196,873.9</u>	<u>61,016.3</u>	<u>(15,513.6)</u>	<u>246,120.0</u>
Redeemable noncontrolling interest	—	—	537.7	—	537.7
Stockholders' equity					
Common stock	4.8	2.5	—	(2.5)	4.8
Additional paid-in capital	10,090.8	6,315.0	9,461.1	(15,776.1)	10,090.8
Retained earnings	10,571.9	2,569.8	6,136.3	(8,706.1)	10,571.9
Accumulated other comprehensive income (loss)	(418.9)	1,109.3	(452.6)	(656.7)	(418.9)
Treasury stock, at cost	(7,554.2)	—	—	—	(7,554.2)
Total stockholders' equity attributable to PFG	<u>12,694.4</u>	<u>9,996.6</u>	<u>15,144.8</u>	<u>(25,141.4)</u>	<u>12,694.4</u>
Noncontrolling interest	—	—	67.8	—	67.8
Total stockholders' equity	<u>12,694.4</u>	<u>9,996.6</u>	<u>15,212.6</u>	<u>(25,141.4)</u>	<u>12,762.2</u>
Total liabilities and stockholders' equity	<u>\$ 16,437.8</u>	<u>\$ 206,870.5</u>	<u>\$ 76,766.6</u>	<u>\$ (40,655.0)</u>	<u>\$ 259,419.9</u>

(1) PFG sponsors nonqualified benefit plans. Nonqualified benefit plan assets and liabilities held in Rabbi trusts were \$680.5 million and \$549.8 million, respectively.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

Condensed Consolidating Statements of Financial Position
December 31, 2018

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined (1)	Eliminations	Principal Financial Group, Inc. Consolidated
	<i>(in millions)</i>				
Assets					
Fixed maturities, available-for-sale	\$ 211.5	\$ 53,401.7	\$ 6,857.9	\$ (362.6)	\$ 60,108.5
Fixed maturities, trading	308.9	165.5	161.7	—	636.1
Equity securities	—	84.8	1,758.9	—	1,843.7
Mortgage loans	—	14,478.0	1,615.5	(756.6)	15,336.9
Real estate	—	1.9	1,727.8	—	1,729.7
Policy loans	—	755.9	45.5	—	801.4
Investment in unconsolidated entities	13,862.4	2,324.4	6,853.8	(22,171.8)	868.8
Other investments	10.7	5,549.1	2,517.6	(4,635.9)	3,441.5
Cash and cash equivalents	334.9	1,323.9	2,014.8	(696.1)	2,977.5
Accrued investment income	1.4	563.2	77.5	(5.9)	636.2
Premiums due and other receivables	—	1,818.1	3,781.3	(4,186.3)	1,413.1
Deferred acquisition costs	—	3,680.2	13.3	—	3,693.5
Property and equipment	—	661.3	106.0	—	767.3
Goodwill	—	54.3	1,045.7	—	1,100.0
Other intangibles	—	19.7	1,295.4	—	1,315.1
Separate account assets	—	107,343.0	37,644.9	—	144,987.9
Other assets	375.0	1,135.1	4,418.3	(4,549.5)	1,378.9
Total assets	\$ 15,104.8	\$ 193,360.1	\$ 71,935.9	\$ (37,364.7)	\$ 243,036.1
Liabilities					
Contractholder funds	\$ —	\$ 36,861.7	\$ 3,189.2	\$ (351.2)	\$ 39,699.7
Future policy benefits and claims	—	30,690.3	6,128.6	(1,154.1)	35,664.8
Other policyholder funds	—	725.7	165.3	(2.6)	888.4
Short-term debt	—	—	42.9	—	42.9
Long-term debt	3,129.8	—	851.2	(721.4)	3,259.6
Income taxes currently payable	—	—	80.7	(55.4)	25.3
Deferred income taxes	—	405.3	1,056.4	(503.3)	958.4
Separate account liabilities	—	107,343.0	37,644.9	—	144,987.9
Other liabilities	585.0	8,503.2	8,586.5	(12,012.8)	5,661.9
Total liabilities	3,714.8	184,529.2	57,745.7	(14,800.8)	231,188.9
Redeemable noncontrolling interest	—	—	391.2	—	391.2
Stockholders' equity					
Common stock	4.8	2.5	—	(2.5)	4.8
Additional paid-in capital	10,060.7	6,331.6	9,461.2	(15,792.8)	10,060.7
Retained earnings	10,290.2	2,441.2	5,855.0	(8,296.2)	10,290.2
Accumulated other comprehensive income (loss)	(1,565.1)	55.6	(1,583.2)	1,527.6	(1,565.1)
Treasury stock, at cost	(7,400.6)	—	—	—	(7,400.6)
Total stockholders' equity attributable to PFG	11,390.0	8,830.9	13,733.0	(22,563.9)	11,390.0
Noncontrolling interest	—	—	66.0	—	66.0
Total stockholders' equity	11,390.0	8,830.9	13,799.0	(22,563.9)	11,456.0
Total liabilities and stockholders' equity	\$ 15,104.8	\$ 193,360.1	\$ 71,935.9	\$ (37,364.7)	\$ 243,036.1

(1) PFG sponsors nonqualified benefit plans. Nonqualified benefit plan assets and liabilities held in Rabbi trusts were \$671.7 million and \$542.4 million, respectively.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

Condensed Consolidating Statements of Operations
For the three months ended March 31, 2019

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
	<i>(in millions)</i>				
Revenues					
Premiums and other considerations	\$ —	\$ 1,542.4	\$ 182.5	\$ —	\$ 1,724.9
Fees and other revenues	—	544.6	520.6	(91.7)	973.5
Net investment income	5.0	702.5	546.0	(292.5)	961.0
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	5.3	403.5	(317.5)	—	91.3
Net other-than-temporary impairment losses on available-for-sale securities	—	(9.5)	(0.1)	—	(9.6)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to other comprehensive income	—	2.8	—	—	2.8
Net impairment losses on available-for-sale securities	—	(6.7)	(0.1)	—	(6.8)
Net realized capital gains (losses)	5.3	396.8	(317.6)	—	84.5
Total revenues	<u>10.3</u>	<u>3,186.3</u>	<u>931.5</u>	<u>(384.2)</u>	<u>3,743.9</u>
Expenses					
Benefits, claims and settlement expenses	—	1,944.4	253.6	(2.9)	2,195.1
Dividends to policyholders	—	30.1	—	—	30.1
Operating expenses	56.1	585.6	438.1	(87.1)	992.7
Total expenses	<u>56.1</u>	<u>2,560.1</u>	<u>691.7</u>	<u>(90.0)</u>	<u>3,217.9</u>
Income (loss) before income taxes	(45.8)	626.2	239.8	(294.2)	526.0
Income taxes (benefits)	(11.3)	95.2	(9.8)	(0.2)	73.9
Equity in the net income (loss) of subsidiaries	464.4	(235.7)	233.1	(461.8)	—
Net income	<u>429.9</u>	<u>295.3</u>	<u>482.7</u>	<u>(755.8)</u>	<u>452.1</u>
Net income attributable to noncontrolling interest	—	—	19.8	2.4	22.2
Net income attributable to PFG	<u>\$ 429.9</u>	<u>\$ 295.3</u>	<u>\$ 462.9</u>	<u>\$ (758.2)</u>	<u>\$ 429.9</u>
Net income	\$ 429.9	\$ 295.3	\$ 482.7	\$ (755.8)	\$ 452.1
Other comprehensive income	1,141.3	1,053.9	1,174.2	(2,222.7)	1,146.7
Comprehensive income	<u>\$ 1,571.2</u>	<u>\$ 1,349.2</u>	<u>\$ 1,656.9</u>	<u>\$ (2,978.5)</u>	<u>\$ 1,598.8</u>

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

Condensed Consolidating Statements of Operations
For the three months ended March 31, 2018

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
	<i>(in millions)</i>				
Revenues					
Premiums and other considerations	\$ —	\$ 841.0	\$ 154.2	\$ —	\$ 995.2
Fees and other revenues	—	549.0	558.9	(96.6)	1,011.3
Net investment income	6.0	626.6	556.2	(286.6)	902.2
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	(6.3)	(238.5)	229.6	—	(15.2)
Net other-than-temporary impairment (losses) recoveries on available-for-sale securities	—	2.8	(1.5)	—	1.3
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified from other comprehensive income	—	(9.8)	(1.4)	—	(11.2)
Net impairment losses on available-for-sale securities	—	(7.0)	(2.9)	—	(9.9)
Net realized capital gains (losses)	(6.3)	(245.5)	226.7	—	(25.1)
Total revenues	(0.3)	1,771.1	1,496.0	(383.2)	2,883.6
Expenses					
Benefits, claims and settlement expenses	—	1,173.8	240.3	(3.0)	1,411.1
Dividends to policyholders	—	30.5	—	—	30.5
Operating expenses	46.2	583.0	446.1	(90.3)	985.0
Total expenses	46.2	1,787.3	686.4	(93.3)	2,426.6
Income (loss) before income taxes	(46.5)	(16.2)	809.6	(289.9)	457.0
Income taxes (benefits)	(15.1)	(35.5)	105.2	(0.1)	54.5
Equity in the net income (loss) of subsidiaries	428.5	273.4	(274.4)	(427.5)	—
Net income	397.1	292.7	430.0	(717.3)	402.5
Net income attributable to noncontrolling interest	—	—	5.4	—	5.4
Net income attributable to PFG	\$ 397.1	\$ 292.7	\$ 424.6	\$ (717.3)	\$ 397.1
Net income	\$ 397.1	\$ 292.7	\$ 430.0	\$ (717.3)	\$ 402.5
Other comprehensive loss	(731.3)	(783.1)	(767.4)	1,545.7	(736.1)
Comprehensive loss	\$ (334.2)	\$ (490.4)	\$ (337.4)	\$ 828.4	\$ (333.6)

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

Condensed Consolidating Statements of Cash Flows
For the three months ended March 31, 2019

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
	<i>(in millions)</i>				
Operating activities					
Net cash provided by operating activities	\$ 27.5	\$ 1,376.1	\$ 634.4	\$ (861.6)	\$ 1,176.4
Investing activities					
Fixed maturities available-for-sale and equity securities with intent to hold:					
Purchases	(150.2)	(2,329.5)	(408.1)	1.1	(2,886.7)
Sales	—	104.9	237.7	—	342.6
Maturities	153.1	1,277.7	118.1	—	1,548.9
Mortgage loans acquired or originated	—	(581.2)	(46.1)	2.2	(625.1)
Mortgage loans sold or repaid	—	323.3	64.9	(5.8)	382.4
Real estate acquired	—	—	(10.5)	—	(10.5)
Net purchases of property and equipment	—	(12.1)	(17.3)	—	(29.4)
Dividends and returns of capital received from unconsolidated entities	208.9	0.6	193.9	(403.4)	—
Net change in other investments	(6.0)	(374.6)	(800.7)	968.0	(213.3)
Net cash provided by (used in) investing activities	205.8	(1,590.9)	(668.1)	562.1	(1,491.1)
Financing activities					
Issuance of common stock	5.8	—	—	—	5.8
Acquisition of treasury stock	(153.6)	—	—	—	(153.6)
Payments for financing element derivatives	—	(6.5)	—	—	(6.5)
Dividends to common stockholders	(150.2)	—	—	—	(150.2)
Issuance of long-term debt	—	—	6.7	—	6.7
Principal repayments of long-term debt	—	—	(6.1)	5.8	(0.3)
Net proceeds from short-term borrowings	—	—	0.1	—	0.1
Dividends and capital paid to parent	—	(193.9)	(209.5)	403.4	—
Investment contract deposits	—	1,755.2	117.0	—	1,872.2
Investment contract withdrawals	—	(1,938.9)	(8.5)	—	(1,947.4)
Net decrease in banking operation deposits	—	—	(35.4)	—	(35.4)
Other	—	5.7	(0.2)	—	5.5
Net cash used in financing activities	(298.0)	(378.4)	(135.9)	409.2	(403.1)
Net decrease in cash and cash equivalents	(64.7)	(593.2)	(169.6)	109.7	(717.8)
Cash and cash equivalents at beginning of period	334.9	1,323.9	2,014.8	(696.1)	2,977.5
Cash and cash equivalents at end of period	\$ 270.2	\$ 730.7	\$ 1,845.2	\$ (586.4)	\$ 2,259.7

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

Condensed Consolidating Statements of Cash Flows
For the three months ended March 31, 2018

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
	<i>(in millions)</i>				
Operating activities					
Net cash provided by (used in) operating activities	\$ (3.1)	\$ 1,568.3	\$ 173.8	\$ (992.5)	\$ 746.5
Investing activities					
Fixed maturities available-for-sale and equity securities with intent to hold:					
Purchases	(200.8)	(2,633.7)	(499.4)	3.1	(3,330.8)
Sales	—	1,019.8	253.7	—	1,273.5
Maturities	0.2	1,402.9	151.9	—	1,555.0
Mortgage loans acquired or originated	—	(614.7)	(112.2)	83.9	(643.0)
Mortgage loans sold or repaid	—	272.3	69.9	(10.4)	331.8
Real estate acquired	—	—	(14.7)	—	(14.7)
Real estate sold	—	—	56.5	—	56.5
Net purchases of property and equipment	—	(15.8)	(10.2)	—	(26.0)
Purchase of interests in subsidiaries, net of cash acquired	—	—	(113.9)	—	(113.9)
Dividends and returns of capital received from unconsolidated entities	196.0	41.6	221.0	(458.6)	—
Net change in other investments	(0.6)	(631.0)	(353.2)	916.5	(68.3)
Net cash used in investing activities	(5.2)	(1,158.6)	(350.6)	534.5	(979.9)
Financing activities					
Issuance of common stock	32.5	—	—	—	32.5
Acquisition of treasury stock	(199.6)	—	—	—	(199.6)
Payments for financing element derivatives	—	(19.3)	—	—	(19.3)
Dividends to common stockholders	(147.3)	—	—	—	(147.3)
Issuance of long-term debt	—	—	100.6	(82.6)	18.0
Principal repayments of long-term debt	—	—	(10.8)	10.5	(0.3)
Net proceeds from short-term borrowings	—	—	38.0	—	38.0
Dividends and capital paid to parent	—	(221.0)	(237.6)	458.6	—
Investment contract deposits	—	1,656.8	126.2	—	1,783.0
Investment contract withdrawals	—	(1,521.5)	(14.0)	—	(1,535.5)
Net increase in banking operation deposits	—	—	124.1	—	124.1
Other	—	4.7	—	—	4.7
Net cash provided by (used in) financing activities	(314.4)	(100.3)	126.5	386.5	98.3
Net increase (decrease) in cash and cash equivalents	(322.7)	309.4	(50.3)	(71.5)	(135.1)
Cash and cash equivalents at beginning of period	842.8	426.7	1,526.4	(325.1)	2,470.8
Cash and cash equivalents at end of period	<u>\$ 520.1</u>	<u>\$ 736.1</u>	<u>\$ 1,476.1</u>	<u>\$ (396.6)</u>	<u>\$ 2,335.7</u>

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

Under our current shelf registration that was filed with the SEC and became effective May 3, 2017, we have the ability to issue, in unlimited amounts, unsecured senior debt securities or subordinated debt securities, junior subordinated debt, preferred stock, common stock, warrants, depositary shares, purchase contracts and purchase units of PFG. Our wholly owned subsidiary, PFS, may guarantee, fully and unconditionally or otherwise, our obligations with respect to any non-convertible securities, other than common stock, described in the shelf registration.

The following tables set forth condensed consolidating financial information of (i) PFG, (ii) PFS, (iii) Principal Life and all other direct and indirect subsidiaries of PFG on a combined basis and (iv) the eliminations necessary to arrive at the information for PFG on a consolidated basis as of March 31, 2019 and December 31, 2018, and for the three months ended March 31, 2019 and 2018.

In presenting the condensed consolidating financial statements, the equity method of accounting has been applied to (i) PFG's interest in all direct subsidiaries of PFG and (ii) PFS's interest in Principal Life and all other subsidiaries, where applicable, even though all such subsidiaries meet the requirements to be consolidated under U.S. GAAP. Earnings of subsidiaries are, therefore, reflected in the parent's investment and earnings. All intercompany balances and transactions, including elimination of the parent's investment in subsidiaries, between PFG, PFS and Principal Life and all other subsidiaries have been eliminated, as shown in the column "Eliminations." These condensed consolidating financial statements should be read in conjunction with the consolidated financial statements. The financial information may not necessarily be indicative of results of operations, cash flows or financial position had the subsidiaries operated as independent entities.

PFG sponsors nonqualified benefit plans for select employees and agents and is responsible for the obligations of these plans. Nonqualified plan assets are held in Rabbi trusts for the benefit of all nonqualified plan participants. The Rabbi trusts are separate legal entities and are not a part of PFG on a stand-alone basis. The plan assets are available to satisfy the claims of general creditors only in the event of bankruptcy and are, therefore, consolidated in our statements of financial position.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

Condensed Consolidating Statements of Financial Position
March 31, 2019

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined (1)	Eliminations	Principal Financial Group, Inc. Consolidated
	<i>(in millions)</i>				
Assets					
Fixed maturities, available-for-sale	\$ 210.2	\$ —	\$ 62,912.8	\$ —	\$ 63,123.0
Fixed maturities, trading	305.2	—	363.7	—	668.9
Equity securities	—	13.6	1,850.5	—	1,864.1
Mortgage loans	—	—	15,597.5	—	15,597.5
Real estate	—	—	1,736.7	—	1,736.7
Policy loans	—	—	798.5	—	798.5
Investment in unconsolidated entities	15,275.6	15,770.2	742.9	(30,884.4)	904.3
Other investments	10.7	104.8	3,735.4	—	3,850.9
Cash and cash equivalents	270.2	426.1	2,484.6	(921.2)	2,259.7
Accrued investment income	1.5	—	678.1	—	679.6
Premiums due and other receivables	—	15.5	1,986.1	(360.5)	1,641.1
Deferred acquisition costs	—	—	3,616.5	—	3,616.5
Property and equipment	—	—	933.2	—	933.2
Goodwill	—	—	1,110.6	—	1,110.6
Other intangibles	—	—	1,310.3	—	1,310.3
Separate account assets	—	—	157,942.8	—	157,942.8
Other assets	364.4	41.6	1,503.5	(527.3)	1,382.2
Total assets	<u>\$ 16,437.8</u>	<u>\$ 16,371.8</u>	<u>\$ 259,303.7</u>	<u>\$ (32,693.4)</u>	<u>\$ 259,419.9</u>
Liabilities					
Contractholder funds	\$ —	\$ —	\$ 39,649.3	\$ —	\$ 39,649.3
Future policy benefits and claims	—	—	36,891.2	—	36,891.2
Other policyholder funds	—	—	939.1	—	939.1
Short-term debt	—	—	43.9	—	43.9
Long-term debt	3,130.2	360.0	136.2	(360.0)	3,266.4
Income taxes currently payable	—	(0.4)	40.6	(17.9)	22.3
Deferred income taxes	1.0	19.7	1,795.2	(497.2)	1,318.7
Separate account liabilities	—	—	157,942.8	—	157,942.8
Other liabilities	612.2	847.2	5,049.0	(462.1)	6,046.3
Total liabilities	<u>3,743.4</u>	<u>1,226.5</u>	<u>242,487.3</u>	<u>(1,337.2)</u>	<u>246,120.0</u>
Redeemable noncontrolling interest	—	—	537.7	—	537.7
Stockholders' equity					
Common stock	4.8	—	11.0	(11.0)	4.8
Additional paid-in capital	10,090.8	9,099.9	12,224.4	(21,324.3)	10,090.8
Retained earnings	10,571.9	5,996.9	3,753.0	(9,749.9)	10,571.9
Accumulated other comprehensive income (loss)	(418.9)	48.5	224.5	(273.0)	(418.9)
Treasury stock, at cost	(7,554.2)	—	(2.0)	2.0	(7,554.2)
Total stockholders' equity attributable to PFG	<u>12,694.4</u>	<u>15,145.3</u>	<u>16,210.9</u>	<u>(31,356.2)</u>	<u>12,694.4</u>
Noncontrolling interest	—	—	67.8	—	67.8
Total stockholders' equity	<u>12,694.4</u>	<u>15,145.3</u>	<u>16,278.7</u>	<u>(31,356.2)</u>	<u>12,762.2</u>
Total liabilities and stockholders' equity	<u>\$ 16,437.8</u>	<u>\$ 16,371.8</u>	<u>\$ 259,303.7</u>	<u>\$ (32,693.4)</u>	<u>\$ 259,419.9</u>

(1) PFG sponsors nonqualified benefit plans. Nonqualified benefit plan assets and liabilities held in Rabbi trusts were \$680.5 million and \$549.8 million, respectively.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

Condensed Consolidating Statements of Financial Position
December 31, 2018

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined (1)	Eliminations	Principal Financial Group, Inc. Consolidated
	<i>(in millions)</i>				
Assets					
Fixed maturities, available-for-sale	\$ 211.5	\$ —	\$ 59,897.0	\$ —	\$ 60,108.5
Fixed maturities, trading	308.9	—	327.2	—	636.1
Equity securities	—	11.9	1,831.8	—	1,843.7
Mortgage loans	—	—	15,336.9	—	15,336.9
Real estate	—	—	1,729.7	—	1,729.7
Policy loans	—	—	801.4	—	801.4
Investment in unconsolidated entities	13,862.4	14,325.5	726.0	(28,045.1)	868.8
Other investments	10.7	100.9	3,329.9	—	3,441.5
Cash and cash equivalents	334.9	649.0	3,096.8	(1,103.2)	2,977.5
Accrued investment income	1.4	0.3	634.5	—	636.2
Premiums due and other receivables	—	0.5	1,779.6	(367.0)	1,413.1
Deferred acquisition costs	—	—	3,693.5	—	3,693.5
Property and equipment	—	—	767.3	—	767.3
Goodwill	—	—	1,100.0	—	1,100.0
Other intangibles	—	—	1,315.1	—	1,315.1
Separate account assets	—	—	144,987.9	—	144,987.9
Other assets	375.0	38.7	1,521.9	(556.7)	1,378.9
Total assets	<u>\$ 15,104.8</u>	<u>\$ 15,126.8</u>	<u>\$ 242,876.5</u>	<u>\$ (30,072.0)</u>	<u>\$ 243,036.1</u>
Liabilities					
Contractholder funds	\$ —	\$ —	\$ 39,699.7	\$ —	\$ 39,699.7
Future policy benefits and claims	—	—	35,664.8	—	35,664.8
Other policyholder funds	—	—	888.4	—	888.4
Short-term debt	—	—	42.9	—	42.9
Long-term debt	3,129.8	366.7	129.9	(366.8)	3,259.6
Income taxes currently payable	—	9.8	61.5	(46.0)	25.3
Deferred income taxes	—	13.9	1,446.4	(501.9)	958.4
Separate account liabilities	—	—	144,987.9	—	144,987.9
Other liabilities	585.0	1,002.9	4,838.1	(764.1)	5,661.9
Total liabilities	<u>3,714.8</u>	<u>1,393.3</u>	<u>227,759.6</u>	<u>(1,678.8)</u>	<u>231,188.9</u>
Redeemable noncontrolling interest	—	—	391.2	—	391.2
Stockholders' equity					
Common stock	4.8	—	11.0	(11.0)	4.8
Additional paid-in capital	10,060.7	9,100.0	12,004.5	(21,104.5)	10,060.7
Retained earnings	10,290.2	5,716.8	3,549.8	(9,266.6)	10,290.2
Accumulated other comprehensive loss	(1,565.1)	(1,083.3)	(903.6)	1,986.9	(1,565.1)
Treasury stock, at cost	(7,400.6)	—	(2.0)	2.0	(7,400.6)
Total stockholders' equity attributable to PFG	<u>11,390.0</u>	<u>13,733.5</u>	<u>14,659.7</u>	<u>(28,393.2)</u>	<u>11,390.0</u>
Noncontrolling interest	—	—	66.0	—	66.0
Total stockholders' equity	<u>11,390.0</u>	<u>13,733.5</u>	<u>14,725.7</u>	<u>(28,393.2)</u>	<u>11,456.0</u>
Total liabilities and stockholders' equity	<u>\$ 15,104.8</u>	<u>\$ 15,126.8</u>	<u>\$ 242,876.5</u>	<u>\$ (30,072.0)</u>	<u>\$ 243,036.1</u>

(1) PFG sponsors nonqualified benefit plans. Nonqualified benefit plan assets and liabilities held in Rabbi trusts were \$671.7 million and \$542.4 million, respectively.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

Condensed Consolidating Statements of Operations
For the three months ended March 31, 2019

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
	<i>(in millions)</i>				
Revenues					
Premiums and other considerations	\$ —	\$ —	\$ 1,724.9	\$ —	\$ 1,724.9
Fees and other revenues	—	0.1	976.4	(3.0)	973.5
Net investment income (loss)	5.0	(2.3)	956.5	1.8	961.0
Net realized capital gains, excluding impairment losses on available-for-sale securities	5.3	6.6	79.4	—	91.3
Net other-than-temporary impairment losses on available-for-sale securities	—	—	(9.6)	—	(9.6)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to other comprehensive income	—	—	2.8	—	2.8
Net impairment losses on available-for-sale securities	—	—	(6.8)	—	(6.8)
Net realized capital gains	5.3	6.6	72.6	—	84.5
Total revenues	<u>10.3</u>	<u>4.4</u>	<u>3,730.4</u>	<u>(1.2)</u>	<u>3,743.9</u>
Expenses					
Benefits, claims and settlement expenses	—	—	2,195.1	—	2,195.1
Dividends to policyholders	—	—	30.1	—	30.1
Operating expenses	56.1	22.8	916.5	(2.7)	992.7
Total expenses	<u>56.1</u>	<u>22.8</u>	<u>3,141.7</u>	<u>(2.7)</u>	<u>3,217.9</u>
Income (loss) before income taxes	(45.8)	(18.4)	588.7	1.5	526.0
Income taxes (benefits)	(11.3)	1.2	84.0	—	73.9
Equity in the net income of subsidiaries	464.4	482.5	—	(946.9)	—
Net income	<u>429.9</u>	<u>462.9</u>	<u>504.7</u>	<u>(945.4)</u>	<u>452.1</u>
Net income attributable to noncontrolling interest	—	—	22.2	—	22.2
Net income attributable to PFG	<u>\$ 429.9</u>	<u>\$ 462.9</u>	<u>\$ 482.5</u>	<u>\$ (945.4)</u>	<u>\$ 429.9</u>
Net income	\$ 429.9	\$ 462.9	\$ 504.7	\$ (945.4)	\$ 452.1
Other comprehensive income	1,141.3	1,126.9	1,128.7	(2,250.2)	1,146.7
Comprehensive income	<u>\$ 1,571.2</u>	<u>\$ 1,589.8</u>	<u>\$ 1,633.4</u>	<u>\$ (3,195.6)</u>	<u>\$ 1,598.8</u>

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

Condensed Consolidating Statements of Operations
For the three months ended March 31, 2018

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
	<i>(in millions)</i>				
Revenues					
Premiums and other considerations	\$ —	\$ —	\$ 995.2	\$ —	\$ 995.2
Fees and other revenues	—	0.1	1,014.8	(3.6)	1,011.3
Net investment income (loss)	6.0	(1.7)	893.4	4.5	902.2
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	(6.3)	(9.6)	0.8	(0.1)	(15.2)
Net other-than-temporary impairment recoveries on available-for-sale securities	—	—	1.3	—	1.3
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified from other comprehensive income	—	—	(11.2)	—	(11.2)
Net impairment losses on available-for-sale securities	—	—	(9.9)	—	(9.9)
Net realized capital losses	(6.3)	(9.6)	(9.1)	(0.1)	(25.1)
Total revenues	(0.3)	(11.2)	2,894.3	0.8	2,883.6
Expenses					
Benefits, claims and settlement expenses	—	—	1,411.1	—	1,411.1
Dividends to policyholders	—	—	30.5	—	30.5
Operating expenses	46.2	8.2	933.5	(2.9)	985.0
Total expenses	46.2	8.2	2,375.1	(2.9)	2,426.6
Income (loss) before income taxes	(46.5)	(19.4)	519.2	3.7	457.0
Income taxes (benefits)	(15.1)	(3.1)	72.9	(0.2)	54.5
Equity in the net income of subsidiaries	428.5	440.9	—	(869.4)	—
Net income	397.1	424.6	446.3	(865.5)	402.5
Net income attributable to noncontrolling interest	—	—	5.4	—	5.4
Net income attributable to PFG	\$ 397.1	\$ 424.6	\$ 440.9	\$ (865.5)	\$ 397.1
Net income	\$ 397.1	\$ 424.6	\$ 446.3	\$ (865.5)	\$ 402.5
Other comprehensive loss	(731.3)	(744.8)	(754.8)	1,494.8	(736.1)
Comprehensive loss	\$ (334.2)	\$ (320.2)	\$ (308.5)	\$ 629.3	\$ (333.6)

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

Condensed Consolidating Statements of Cash Flows
For the three months ended March 31, 2019

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
	<i>(in millions)</i>				
Operating activities					
Net cash provided by (used in) operating activities	\$ 27.5	\$ (22.1)	\$ 1,033.5	\$ 137.5	\$ 1,176.4
Investing activities					
Fixed maturities available-for-sale and equity securities with intent to hold:					
Purchases	(150.2)	(0.2)	(2,736.3)	—	(2,886.7)
Sales	—	0.2	342.4	—	342.6
Maturities	153.1	—	1,395.8	—	1,548.9
Mortgage loans acquired or originated	—	—	(625.1)	—	(625.1)
Mortgage loans sold or repaid	—	—	382.4	—	382.4
Real estate acquired	—	—	(10.5)	—	(10.5)
Net purchases of property and equipment	—	(0.5)	(28.9)	—	(29.4)
Dividends and returns of capital received from unconsolidated entities	208.9	89.0	—	(297.9)	—
Net change in other investments	(6.0)	(73.6)	(171.4)	37.7	(213.3)
Net cash provided by (used in) investing activities	205.8	14.9	(1,451.6)	(260.2)	(1,491.1)
Financing activities					
Issuance of common stock	5.8	—	—	—	5.8
Acquisition of treasury stock	(153.6)	—	—	—	(153.6)
Payments for financing element derivatives	—	—	(6.5)	—	(6.5)
Dividends to common stockholders	(150.2)	—	—	—	(150.2)
Issuance of long-term debt	—	2.6	6.7	(2.6)	6.7
Principal repayments of long-term debt	—	(9.4)	(0.3)	9.4	(0.3)
Net proceeds from short-term borrowings	—	—	0.1	—	0.1
Dividends and capital paid to parent	—	(208.9)	(89.0)	297.9	—
Investment contract deposits	—	—	1,872.2	—	1,872.2
Investment contract withdrawals	—	—	(1,947.4)	—	(1,947.4)
Net decrease in banking operation deposits	—	—	(35.4)	—	(35.4)
Other	—	—	5.5	—	5.5
Net cash used in financing activities	(298.0)	(215.7)	(194.1)	304.7	(403.1)
Net decrease in cash and cash equivalents	(64.7)	(222.9)	(612.2)	182.0	(717.8)
Cash and cash equivalents at beginning of period	334.9	649.0	3,096.8	(1,103.2)	2,977.5
Cash and cash equivalents at end of period	\$ 270.2	\$ 426.1	\$ 2,484.6	\$ (921.2)	\$ 2,259.7

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

Condensed Consolidating Statements of Cash Flows
For the three months ended March 31, 2018

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
	<i>(in millions)</i>				
Operating activities					
Net cash provided by (used in) operating activities	\$ (3.1)	\$ 48.4	\$ 733.3	\$ (32.1)	\$ 746.5
Investing activities					
Fixed maturities available-for-sale and equity securities with intent to hold:					
Purchases	(200.8)	—	(3,130.0)	—	(3,330.8)
Sales	—	—	1,273.5	—	1,273.5
Maturities	0.2	—	1,554.8	—	1,555.0
Mortgage loans acquired or originated	—	—	(643.0)	—	(643.0)
Mortgage loans sold or repaid	—	—	331.8	—	331.8
Real estate acquired	—	—	(14.7)	—	(14.7)
Real estate sold	—	—	56.5	—	56.5
Net purchases of property and equipment	—	—	(26.0)	—	(26.0)
Purchase of interests in subsidiaries, net of cash acquired	—	—	(113.9)	—	(113.9)
Dividends and returns of capital received from unconsolidated entities	196.0	109.2	—	(305.2)	—
Net change in other investments	(0.6)	(19.7)	(85.1)	37.1	(68.3)
Net cash provided by (used in) investing activities	(5.2)	89.5	(796.1)	(268.1)	(979.9)
Financing activities					
Issuance of common stock	32.5	—	—	—	32.5
Acquisition of treasury stock	(199.6)	—	—	—	(199.6)
Payments for financing element derivatives	—	—	(19.3)	—	(19.3)
Dividends to common stockholders	(147.3)	—	—	—	(147.3)
Issuance of long-term debt	—	2.9	18.0	(2.9)	18.0
Principal repayments of long-term debt	—	(9.6)	(0.3)	9.6	(0.3)
Net proceeds from short-term borrowings	—	—	38.0	—	38.0
Dividends and capital paid to parent	—	(196.0)	(109.2)	305.2	—
Investment contract deposits	—	—	1,783.0	—	1,783.0
Investment contract withdrawals	—	—	(1,535.5)	—	(1,535.5)
Net increase in banking operation deposits	—	—	124.1	—	124.1
Other	—	—	4.7	—	4.7
Net cash provided by (used in) financing activities	(314.4)	(202.7)	303.5	311.9	98.3
Net increase (decrease) in cash and cash equivalents	(322.7)	(64.8)	240.7	11.7	(135.1)
Cash and cash equivalents at beginning of period	842.8	617.4	2,001.1	(990.5)	2,470.8
Cash and cash equivalents at end of period	\$ 520.1	\$ 552.6	\$ 2,241.8	\$ (978.8)	\$ 2,335.7

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements – (continued)
March 31, 2019
(Unaudited)

16. Subsequent Event

On April 9, 2019, we announced the signing of a definitive agreement with Wells Fargo Bank, N.A. to acquire its Institutional Retirement & Trust business (the “Business”), which includes defined contribution, defined benefit, executive deferred compensation, employee stock ownership plans, institutional trust and custody, and institutional asset advisory businesses. The agreed upon purchase price consists of (i) \$1.2 billion cash paid at closing and (ii) an additional earn-out payment of up to \$150.0 million based upon the retention of fee revenue of the Business through December 31, 2020. The transaction is expected to close during the third quarter 2019, subject to regulatory approval, and will be funded with available cash and debt financing.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following analysis discusses our financial condition as of March 31, 2019, compared with December 31, 2018, and our consolidated results of operations for the three months ended March 31, 2019 and 2018, prepared in conformity with U.S. GAAP. The discussion and analysis includes, where appropriate, factors that may affect our future financial performance. The discussion should be read in conjunction with our Form 10-K, for the year ended December 31, 2018, filed with the SEC and the unaudited consolidated financial statements and the related notes to the financial statements and the other financial information included elsewhere in this Form 10-Q.

Forward-Looking Information

Our narrative analysis below contains forward-looking statements intended to enhance the reader’s ability to assess our future financial performance. Forward-looking statements include, but are not limited to, statements that represent our beliefs concerning future operations, strategies, financial results or other developments, and contain words and phrases such as “anticipate,” “believe,” “plan,” “estimate,” “expect,” “intend” and similar expressions. Forward-looking statements are made based upon management’s current expectations and beliefs concerning future developments and their potential effects on us. Such forward-looking statements are not guarantees of future performance.

Actual results may differ materially from those included in the forward-looking statements as a result of risks and uncertainties including, but not limited to, the following: (1) adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs, as well as our access to capital and cost of capital; (2) conditions in the global capital markets and the economy generally may materially and adversely affect our business and results of operations; (3) volatility or declines in the equity, bond or real estate markets could reduce our AUM and may result in investors withdrawing from the markets or decreasing their rates of investment, all of which could reduce our revenues and net income; (4) changes in interest rates or credit spreads or a sustained low interest rate environment may adversely affect our results of operations, financial condition and liquidity, and our net income can vary from period to period; (5) our investment portfolio is subject to several risks that may diminish the value of our invested assets and the investment returns credited to customers, which could reduce our sales, revenues, AUM and net income; (6) our valuation of investments and the determinations of the amount of allowances and impairments taken on our investments may include methodologies, estimations and assumptions which are subject to differing interpretations and, if changed, could materially adversely affect our results of operations or financial condition; (7) any impairments of or valuation allowances against our deferred tax assets could adversely affect our results of operations and financial condition; (8) we may face losses on our insurance and annuity products if our actual experience differs significantly from our pricing and reserving assumptions; (9) the pattern of amortizing our DAC asset and other actuarial balances on our universal life-type insurance contracts, participating life insurance policies and certain investment contracts may change, impacting both the level of our DAC asset and other actuarial balances and the timing of our net income; (10) changes in laws or regulations may reduce our profitability; (11) we may not be able to protect our intellectual property and may be subject to infringement claims; (12) our ability to pay stockholder dividends and meet our obligations may be constrained by the limitations on dividends Iowa insurance laws impose on Principal Life; (13) changes in accounting standards may adversely affect our reported results of operations and financial condition; (14) litigation and regulatory investigations may affect our financial strength or reduce our profitability; (15) from time to time we may become subject to tax audits, tax litigation or similar proceedings, and as a result we may owe additional taxes, interest and penalties in amounts that may be material; (16) applicable laws and our certificate of incorporation and by-laws may discourage takeovers and business combinations that some stockholders might consider in their best interests; (17) competition, including from companies that may have greater financial resources, broader arrays of products, higher ratings and stronger financial performance may impair our ability to retain existing customers, attract new customers and maintain our profitability; (18) technological and societal changes may disrupt our business model and impair our ability to retain existing customers, attract new customers and maintain our profitability; (19) damage to our reputation may adversely affect our revenues and profitability; (20) a downgrade in our financial strength or credit ratings may increase policy surrenders and withdrawals, reduce new sales and terminate relationships with distributors, impact existing liabilities and increase our cost of capital, any of which could adversely affect our profitability and financial condition; (21) client terminations or withdrawals or changes in investor preferences may lead to a reduction in revenues for our asset management and accumulation businesses; (22) guarantees within certain of our products that protect policyholders may decrease our net income or increase the volatility of our results of operations or financial position under U.S. GAAP if our hedging or risk management strategies prove ineffective or insufficient; (23) if we are unable to attract and retain qualified employees and sales representatives and develop new distribution sources, our results of operations, financial condition and sales of our products may be adversely impacted; (24) an interruption in telecommunication, information technology, or other systems, or a failure to maintain the confidentiality, integrity, or availability of data residing on such systems, could disrupt our business, damage our reputation and adversely impact our profitability; (25) our international businesses face political, legal, operational and other risks that could reduce our profitability in those businesses; (26) we face risks arising from our participation in joint ventures; (27) we may need to fund deficiencies in our Closed Block assets; (28) a pandemic, terrorist attack, military action or other catastrophic event could adversely affect our net income; (29) our reinsurers could default on

their obligations or increase their rates, which could adversely impact our net income and financial condition; (30) we face risks arising from acquisitions of businesses; (31) loss of key vendor relationships or failure of a vendor to protect information of our customers or employees could adversely affect our business or result in losses; (32) our enterprise risk management framework may not be fully effective in identifying or mitigating all of the risks to which we are exposed and (33) our financial results may be adversely impacted by global climate changes. With respect to the acquisition of the Business (the “Acquisition”) in particular, additional risks and uncertainties that could cause actual results to differ materially from results anticipated in forward-looking statements include, but are not limited to: risks related to purchase price adjustments; our ability to obtain regulatory approvals; the successful fulfillment or waiver of all closing conditions to the Acquisition without unexpected delays or conditions; the successful closing of the Acquisition within the estimated timeframe or at all; and the failure to realize the expected synergies and benefits of the Acquisition or any delay in the realization thereof.

Overview

We provide financial products and services through the following reportable segments:

- Retirement and Income Solutions is organized into Retirement and Income Solutions – Fee, which includes full service accumulation, trust services and individual variable annuities; and Retirement and Income Solutions – Spread, which includes individual fixed annuities, investment only, full service payout and banking services. We offer a comprehensive portfolio of products and services for retirement savings and retirement income:
 - To businesses of all sizes with a concentration on small and medium-sized businesses, we offer products and services for defined contribution plans, including 401(k) and 403(b) plans, defined benefit pension plans, nonqualified executive benefit plans, employee stock ownership plan services and pension closeout services. For more basic retirement services, we offer SIMPLE IRAs and payroll deduction plans;
 - To large institutional clients, we also offer investment only products, including investment only guaranteed investment contracts (“GICs”); and
 - To employees of businesses and other individuals, we offer the ability to accumulate savings for retirement and other purposes through mutual funds, individual annuities and bank products, along with retirement income options.
- Principal Global Investors, which includes our mutual fund business, manages assets for sophisticated investors around the world, using a multi-boutique strategy that provides diverse investment capabilities including equity, fixed income, real estate and other alternative investments. We also have experience in asset allocation, stable value management and other structured investment strategies. We focus on providing services to our other segments in addition to our retail mutual fund and third party institutional clients.
- Principal International, which offers pension accumulation products and services, mutual funds, asset management, income annuities and life insurance accumulation products through operations in Latin America (Brazil, Chile and Mexico) and Asia (China, Hong Kong Special Administrative Region, India and Southeast Asia).
- U.S. Insurance Solutions is organized into Specialty Benefits insurance, which provides group dental and vision insurance, individual and group disability insurance, critical illness, accident, group life insurance and non-medical fee-for-service claims administration; and Individual Life insurance, which provides universal life, variable universal life, indexed universal life and traditional life insurance. We focus on solutions for individuals and small-to-medium sized businesses and their employees.
- Corporate, which manages the assets representing capital that has not been allocated to any other segment. Financial results of the Corporate segment primarily reflect our financing activities (including financing costs), income on capital not allocated to other segments, inter-segment eliminations, income tax risks and certain income, expenses and other adjustments not allocated to the segments based on the nature of such items. Results of PSI, our retail broker-dealer and RIA; RobustWealth, our financial technology company; and our exited group medical and long-term care insurance businesses are reported in this segment.

Effective January 1, 2019, we made changes to the allocation of certain compensation and other expenses and net investment income among the reportable segments. These allocation changes were made as a result of a global financial process improvement project. The expense allocation changes simplify the allocation processes, increase transparency and allow for more effective expense management across the enterprise. The net investment income allocation changes better align our internal capital allocation with enterprise capital targets. Segment results for prior periods were recast so they are reported on a comparable basis, with no impact to total company financial results.

Recent Event

Wells Fargo Institutional Retirement & Trust Business

On April 9, 2019, we announced the signing of a definitive agreement with Wells Fargo Bank, N.A. to acquire its Institutional Retirement & Trust business, which includes defined contribution, defined benefit, executive deferred compensation, employee stock ownership plans, institutional trust and custody, and institutional asset advisory businesses. The agreed upon purchase price consists of (i) \$1.2 billion cash paid at closing and (ii) an additional earn-out payment of up to \$150.0 million based upon the retention of fee revenue of the Business through December 31, 2020. The transaction is

expected to close during the third quarter 2019, subject to regulatory approval, and will be funded with available cash and debt financing.

Transactions Affecting Comparability of Results of Operations

Acquisitions

RobustWealth. On July 2, 2018, we finalized the acquisition of RobustWealth, a financial technology company. The acquisition adds RobustWealth's digital capabilities to our industry knowledge, asset management experience and technology to help consumers meet their financial goals on an enhanced digital advice platform. The RobustWealth platform will retain its open architecture philosophy, and RobustWealth will continue to sell its platform to outside firms as part of its growth strategy. RobustWealth is consolidated within the Corporate segment due to its strategic benefits across the organization with the majority of goodwill allocated to the Principal Global Investors segment.

INTERNOS. On April 16, 2018, we finalized the acquisition of INTERNOS, a London-based European real estate investment manager. Upon acquisition, INTERNOS became Principal Real Estate Europe Limited and operates as our dedicated European real estate private equity investment boutique, expanding our global real estate capabilities. At the time of closing, the acquisition increased our AUM by \$3.5 billion. Principal Real Estate Europe Limited is reported within the Principal Global Investors segment.

MetLife Afore, S.A. de C.V. On February 20, 2018, we finalized the acquisition of MetLife Afore, S.A. de C.V., which was MetLife, Inc.'s pension fund management business in Mexico. At the time of closing, the acquisition increased our AUM by \$3.8 billion, making us the fifth largest AFORE in Mexico in terms of AUM. The results of this acquisition are reflected in the Principal International segment.

Other

Real Estate Realignment. Effective August 1, 2018, we agreed to a realignment of one of our real estate investment teams. With the realignment, we no longer manage \$9.2 billion of assets for a large real estate client but accelerated the recognition of a significant performance fee that was earned due to our successful management of the assets, which drove market value appreciation of the real estate investments. During the third quarter we recognized, within the Principal Global Investors segment, \$253.1 million of fees and other revenue related to the performance fee. This was partially offset by \$151.9 million of operating expenses related to revenue sharing arrangements, resulting in a \$101.2 million increase to pre-tax operating earnings within the Principal Global Investors segment. Ongoing impacts to segment pre-tax operating earnings are not expected to be material.

CIMB Joint Ventures. On May 25, 2018, we and CIMB completed new ownership agreements in our joint ventures, CPAM and CPIAM. With the completion we increased our ownership stake to 60% with CIMB retaining 40% ownership and co-management of both CPAM and CPIAM. Our investment in both entities will continue to be reported using the equity method within the Principal International segment.

Other Factor Affecting Comparability of Results of Operations

Fluctuations in Foreign Currency to U.S. Dollar Exchange Rates

Fluctuations in foreign currency to U.S. dollar exchange rates for countries in which we have operations can affect reported financial results. In years when foreign currencies weaken against the U.S. dollar, translating foreign currencies into U.S. dollars results in fewer U.S. dollars to be reported. When foreign currencies strengthen, translating foreign currencies into U.S. dollars results in more U.S. dollars to be reported.

Foreign currency exchange rate fluctuations create variances in our financial statement line items. The most significant impact occurs within our Principal International segment where pre-tax operating earnings were negatively impacted \$10.0 million for the three months ended March 31, 2019, as a result of fluctuations in foreign currency to U.S. dollar exchange rates. This impact was calculated by comparing (a) the difference between current year results and prior year results to (b) the difference between current year results and prior year results translated using current year exchange rates for both periods. We use this approach to calculate the impact of exchange rates on all revenue and expense line items. For a discussion of our approaches to managing foreign currency exchange rate risk, see Item 3. "Quantitative and Qualitative Disclosures About Market Risk — Foreign Currency Risk."

Recent Accounting Changes

For recent accounting changes, see Item 1. “Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 1, Nature of Operations and Significant Accounting Policies” under the caption, “Recent Accounting Pronouncements.”

Results of Operations

The following table presents summary consolidated financial information for the periods indicated:

	For the three months ended March 31,		
	2019	2018	Increase (decrease)
	<i>(in millions)</i>		
Revenues:			
Premiums and other considerations	\$ 1,724.9	\$ 995.2	\$ 729.7
Fees and other revenues	973.5	1,011.3	(37.8)
Net investment income	961.0	902.2	58.8
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	91.3	(15.2)	106.5
Net other-than-temporary impairment (losses) recoveries on available-for-sale securities	(9.6)	1.3	(10.9)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from) other comprehensive income	2.8	(11.2)	14.0
Net impairment losses on available-for-sale securities	(6.8)	(9.9)	3.1
Net realized capital gains (losses)	84.5	(25.1)	109.6
Total revenues	<u>3,743.9</u>	<u>2,883.6</u>	<u>860.3</u>
Expenses:			
Benefits, claims and settlement expenses	2,195.1	1,411.1	784.0
Dividends to policyholders	30.1	30.5	(0.4)
Operating expenses	992.7	985.0	7.7
Total expenses	<u>3,217.9</u>	<u>2,426.6</u>	<u>791.3</u>
Income before income taxes	526.0	457.0	69.0
Income taxes	73.9	54.5	19.4
Net income	452.1	402.5	49.6
Net income attributable to noncontrolling interest	22.2	5.4	16.8
Net income attributable to Principal Financial Group, Inc.	<u>\$ 429.9</u>	<u>\$ 397.1</u>	<u>\$ 32.8</u>

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Net Income Attributable to Principal Financial Group, Inc.

Net income attributable to Principal Financial Group, Inc. increased primarily due to after-tax net realized capital gains in 2019 as compared to after-tax net realized capital losses in 2018 primarily due to a \$35.7 million increase from sponsored investment funds related primarily to mark-to-market changes and a \$34.3 million increase from fixed maturities, available-for-sale and trading – noncredit. These increases were partially offset by a \$31.9 million decrease in after-tax fees and other revenues due to lower average AUM.

Total Revenues

Premiums increased \$668.8 million for the Retirement and Income Solutions segment primarily due to higher sales of single premium group and individual annuities with life contingencies. The single premium group annuity product, which is typically used to fund defined benefit plan terminations, can generate large premiums from very few customers and therefore premiums tend to vary from period to period.

Fees and other revenues decreased \$30.4 million for the Principal Global Investors segment primarily due to lower average AUM.

Net investment income increased primarily due to \$40.8 million attributable to higher average invested assets in our U.S. operations and \$20.3 million attributable to higher investment yields on invested assets. For additional information, see “Investments — Investment Results — Net Investment Income.”

Net realized capital gains (losses) can be volatile due to other-than-temporary impairments of invested assets, mark-to-market adjustments of certain invested assets and our decision to sell invested assets. We had net realized capital gains in 2019 as compared to net realized capital losses in 2018 primarily due to a \$48.9 million increase from sponsored investment funds related primarily to mark-to-market changes and a \$43.4 million increase from fixed maturities, available-for-sale and trading — noncredit. For additional information, see “Investments — Investment Results — Net Realized Capital Gains (Losses).”

Total Expenses

Benefits, claims and settlement expenses increased \$712.5 million for the Retirement and Income Solutions segment primarily due to an increase in reserves, stemming from higher sales of single premium group and individual annuities with life contingencies.

Operating expenses increased \$22.1 million for the U.S. Insurance Solution segment primarily due to growth in our Specialty Benefits insurance business. Operating expenses increased \$14.0 million for the Corporate segment primarily due to increased pension and OPEB expenses. Operating expenses decreased \$11.8 million for the Principal Global Investors segment largely due to one-time items primarily consisting of a favorable legal settlement. Operating expenses decreased for the Principal International segment primarily in Latin America due to \$5.2 million attributable to weakening of the Latin American currencies against the U.S. dollar and \$2.8 million in Mexico primarily due to the MetLife Afore integration costs in the prior year quarter. Operating expenses decreased for the Retirement and Income Solutions segment primarily due to a \$19.9 million decrease in DAC and contract cost amortization expense primarily stemming from favorable equity markets in first quarter of 2019, which was partially offset by an \$8.6 million increase in commission expense due to growth in the business.

Income Taxes

The effective income tax rates were 14% and 12% for the three months ended March 31, 2019 and 2018, respectively. See Item 1. “Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 6, Income Taxes.”

Results of Operations by Segment

For results of operations by segment see Item 1. “Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 11, Segment Information.”

Retirement and Income Solutions Segment

Retirement and Income Solutions Segment Summary Financial Data

Net revenue is a key metric used to understand Retirement and Income Solutions earnings growth. Net revenue is defined as operating revenues less benefits, claims and settlement expenses less dividends to policyholders. Net revenue from Retirement and Income Solutions – Fee is primarily fee based and is impacted by changes in the equity markets. Net revenue from Retirement and Income Solutions – Spread is driven by the difference between investment income earned on the underlying general account assets and the interest rate credited to the contracts.

The following table presents the Retirement and Income Solutions net revenue for the periods indicated:

	For the three months ended March 31,		
	2019	2018	Increase (decrease)
		(in millions)	
Retirement and Income Solutions – Fee	\$ 379.7	\$ 401.1	\$ (21.4)
Retirement and Income Solutions – Spread	169.2	152.2	17.0
Total Retirement and Income Solutions	\$ 548.9	\$ 553.3	\$ (4.4)

The following table presents certain summary financial data relating to the Retirement and Income Solutions segment for the periods indicated:

	For the three months ended March 31,		
	2019	2018 <i>(in millions)</i>	Increase (decrease)
Operating revenues:			
Premiums and other considerations	\$ 958.6	\$ 289.8	\$ 668.8
Fees and other revenues	338.0	353.5	(15.5)
Net investment income	595.3	535.6	59.7
Total operating revenues	<u>1,891.9</u>	<u>1,178.9</u>	<u>713.0</u>
Expenses:			
Benefits, claims and settlement expenses, including dividends to policyholders	1,343.0	625.6	717.4
Operating expenses	308.3	309.4	(1.1)
Total expenses	<u>1,651.3</u>	<u>935.0</u>	<u>716.3</u>
Pre-tax operating earnings	<u>\$ 240.6</u>	<u>\$ 243.9</u>	<u>\$ (3.3)</u>

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Pre-Tax Operating Earnings

Pre-tax operating earnings decreased in our Spread business due to increased expenses stemming from growth in the block of business.

Net Revenue

Net revenue decreased in our Fee business primarily due to unfavorable equity market performance in the latter half of 2018. Net revenue increased in our Spread business primarily due to growth in the block of business.

Operating Expenses

Operating expenses decreased in our Fee business due to a \$16.7 million decrease in DAC and contract cost amortization expense primarily stemming from favorable equity markets in first quarter of 2019 and a \$4.8 million decrease in commission expense relating to changes in commission arrangements with advisors. Operating expenses increased in our Spread business due to a \$20.7 million increase resulting from growth in the business.

Principal Global Investors Segment

Principal Global Investors Segment Summary Financial Data

AUM is the base by which we generate management fee revenues. Market performance and net cash flow are the two main drivers of AUM growth. Market performance reflects equity, fixed income, real estate and other alternative investment performance. Net cash flow reflects client deposits and withdrawals. The fee levels on these client deposits and withdrawals are increasingly becoming the more important factor to revenue growth and will vary widely based on business and/or product mix.

The following table presents the AUM rollforward for assets managed by Principal Global Investors for the periods indicated:

	For the three months ended March 31,	
	2019	2018
	<i>(in billions)</i>	
AUM, beginning of period	\$ 393.5	\$ 430.9
Net cash flow	0.5	(6.2)
Investment performance (1)	28.2	(1.2)
Other (2)	0.9	0.3
AUM, end of period	<u>\$ 423.1</u>	<u>\$ 423.8</u>

(1) Variations in investment performance are primarily the result of fluctuations in market performance over time.

(2) Primarily reflects the January 2019 movement of Claritas, our investment management company in Brazil, from the Principal International segment to the Principal Global Investors segment and the effect of exchange rates.

The following table presents certain summary financial data relating to the Principal Global Investors segment for the periods indicated:

	For the three months ended March 31,		
	2019	2018	Increase (decrease)
	<i>(in millions)</i>		
Operating revenues:			
Fees and other revenues	\$ 336.6	\$ 367.0	\$ (30.4)
Net investment income	2.4	1.5	0.9
Total operating revenues	<u>339.0</u>	<u>368.5</u>	<u>(29.5)</u>
Expenses:			
Total expenses	237.0	253.1	(16.1)
Pre-tax operating earnings attributable to noncontrolling interest	1.3	1.7	(0.4)
Pre-tax operating earnings	<u>\$ 100.7</u>	<u>\$ 113.7</u>	<u>\$ (13.0)</u>

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Pre-Tax Operating Earnings

Pre-tax operating earnings decreased primarily due to \$23.6 million lower management fee revenue as a result of decreased average AUM. This was partially offset by an \$8.2 million decrease in expenses, which included one-time items primarily consisting of a favorable legal settlement.

Principal International Segment

Principal International Segment Summary Financial Data

AUM is generally a key indicator of earnings growth for the segment, as AUM is the base by which we can generate local currency profits. The Cuprum business in Chile differs in that the majority of fees are collected with each deposit by the mandatory retirement customers, based on a capped salary level, as opposed to asset levels. Net customer cash flow and market performance are the two main drivers of local currency AUM growth. Net customer cash flow reflects our ability to attract and retain client deposits. Market performance reflects the investment returns on our underlying AUM. Our financial results are also impacted by fluctuations of the foreign currency to U.S. dollar exchange rates for the countries in which we have business. AUM of our foreign subsidiaries is translated into U.S. dollar equivalents at the end of the reporting period using the spot foreign exchange rates. Revenue and expenses for our foreign subsidiaries are translated into U.S. dollar equivalents at the average foreign exchange rates for the reporting period.

The following table presents the Principal International segment AUM rollforward for the periods indicated:

	For the three months ended March 31,	
	2019	2018
	<i>(in billions)</i>	
AUM, beginning of period	\$ 155.5	\$ 160.7
Net cash flow	0.8	2.3
Investment performance (1)	5.5	2.2
Operations acquired (2)	—	3.8
Effect of exchange rates	1.0	2.3
Other (3)	(1.4)	(0.2)
AUM, end of period	<u>\$ 161.4</u>	<u>\$ 171.1</u>

- (1) Variations in investment performance are primarily the result of fluctuations in market performance over time.
(2) Reflects the February 2018 acquisition of MetLife, Inc.'s pension fund management business in Mexico.
(3) Primarily reflects the January 2019 movement of Claritas, our investment management company in Brazil, from the Principal International segment to the Principal Global Investors segment.

Net revenue is a key metric used to understand the earnings growth for the Principal International segment. The following table presents the net revenue of the Principal International segment for the periods indicated.

	For the three months ended March 31,		
	2019	2018	Increase (decrease)
	<i>(in millions)</i>		
Net revenue	<u>\$ 214.2</u>	<u>\$ 202.7</u>	<u>\$ 11.5</u>

The following table presents certain summary financial data relating to the Principal International segment for the periods indicated:

	For the three months ended March 31,		
	2019	2018	Increase (decrease)
	<i>(in millions)</i>		
Operating revenues:			
Premiums and other considerations	\$ 117.5	\$ 97.9	\$ 19.6
Fees and other revenues	116.6	123.1	(6.5)
Net investment income	146.4	162.1	(15.7)
Total operating revenues	<u>380.5</u>	<u>383.1</u>	<u>(2.6)</u>
Expenses:			
Benefits, claims and settlement expenses	166.3	180.4	(14.1)
Operating expenses	102.0	110.5	(8.5)
Total expenses	<u>268.3</u>	<u>290.9</u>	<u>(22.6)</u>
Pre-tax operating earnings attributable to noncontrolling interest	1.1	0.7	0.4
Pre-tax operating earnings	<u>\$ 111.1</u>	<u>\$ 91.5</u>	<u>\$ 19.6</u>

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Pre-Tax Operating Earnings

Pre-tax operating earnings increased \$20.1 million in Latin America primarily due to \$22.3 million of favorable relative market performance on our required regulatory investments relative to the year earlier period and \$6.1 million from growth in our Mexico operations, partially offset by \$9.1 million due to weakening of the Latin American currencies against the U.S. dollar.

Net Revenue

Net revenue increased \$10.4 million in Latin America due to \$22.7 million of favorable relative market performance on our required regulatory investments, partially offset by \$14.4 million due to the weakening of the Latin American currencies against the U.S. dollar.

U.S. Insurance Solutions Segment

U.S. Insurance Solutions Segment Summary Financial Data

Premium and fees are a key metric for growth in the U.S. Insurance Solutions segment. We receive premiums on our specialty benefits insurance products as well as our traditional life insurance products. Fees are generated from our specialty benefits fee-for-service products as well as our universal life, variable universal life and indexed universal life insurance products. We use several reinsurance programs to help manage the mortality and morbidity risk. Premium and fees is reported net of reinsurance premiums.

In our Specialty Benefits insurance business, premium and fees growth is a result of strong retention, sales and in-group growth. In our Individual Life insurance business, premium and fees growth is driven by recurring premiums and sales with a focus on maintaining a balanced product portfolio.

The following table presents the U.S. Insurance Solutions segment premium and fees for the periods indicated:

	For the three months ended March 31,		
	2019	2018	Increase (decrease)
	<i>(in millions)</i>		
Premium and fees:			
Specialty Benefits insurance	\$ 564.5	\$ 525.9	\$ 38.6
Individual Life insurance	297.1	285.6	11.5

The following table presents certain summary financial data relating to the U.S. Insurance Solutions segment for the periods indicated:

	For the three months ended March 31,		
	2019	2018	Increase (decrease)
	<i>(in millions)</i>		
Operating revenues:			
Premiums and other considerations	\$ 648.8	\$ 607.5	\$ 41.3
Fees and other revenues	212.8	204.0	8.8
Net investment income	206.5	205.2	1.3
Total operating revenues	<u>1,068.1</u>	<u>1,016.7</u>	<u>51.4</u>
Expenses:			
Benefits, claims and settlement expenses	653.6	606.8	46.8
Dividends to policyholders	30.0	30.5	(0.5)
Operating expenses	273.8	264.4	9.4
Total expenses	<u>957.4</u>	<u>901.7</u>	<u>55.7</u>
Pre-tax operating earnings	<u>\$ 110.7</u>	<u>\$ 115.0</u>	<u>\$ (4.3)</u>

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Pre-Tax Operating Earnings

Pre-tax operating earnings decreased \$6.5 million in our Specialty Benefits insurance business primarily due to a return to expected claims in first quarter of 2019 compared to very low claims in first quarter of 2018.

Revenues

Premiums and fees increased primarily due to growth in the business.

Total Expenses

Benefits, claims and settlement expenses increased primarily due to \$35.3 million resulting from growth in the business. In addition, benefits, claims and settlement expenses increased \$7.7 million primarily due to a return to expected claims in first quarter of 2019 compared to very low claims in first quarter of 2018.

Operating expenses increased \$11.3 million in our Specialty Benefits insurance business primarily due to growth in the business.

Corporate Segment

Corporate Segment Summary Financial Data

The following table presents certain summary financial data relating to the Corporate segment for the periods indicated:

	For the three months ended March 31,		
	2019	2018	Increase (decrease)
	<i>(in millions)</i>		
Operating revenues:			
Total operating revenues	\$ 1.2	\$ —	\$ 1.2
Expenses:			
Total expenses	85.8	64.5	21.3
Pre-tax operating earnings (losses) attributable to noncontrolling interest	(0.2)	3.1	(3.3)
Pre-tax operating losses	<u>\$ (84.4)</u>	<u>\$ (67.6)</u>	<u>\$ (16.8)</u>

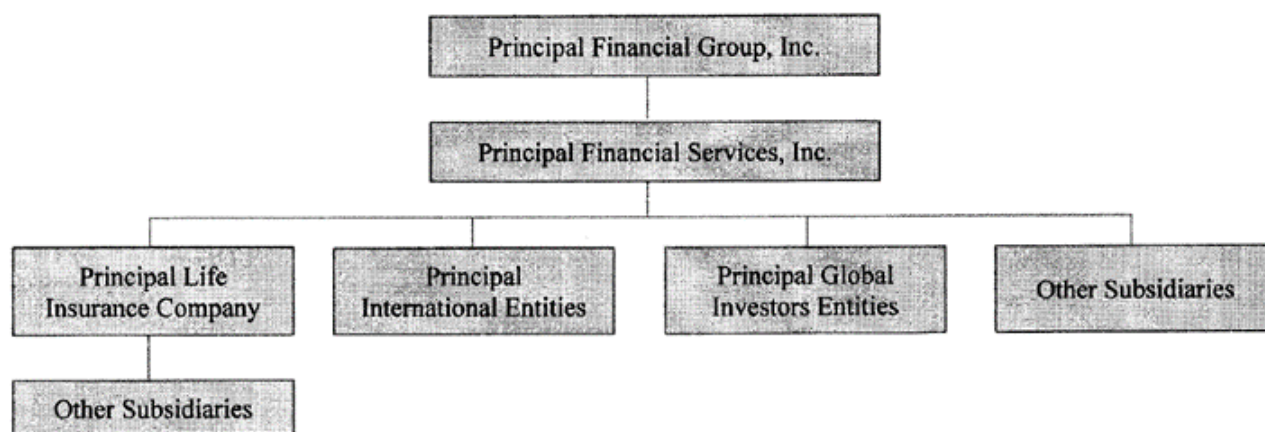
Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Pre-Tax Operating Losses

Pre-tax operating losses increased primarily due to a \$10.3 million increase in pension and OPEB expenses and \$5.1 million in RobustWealth operations due to the acquisition on July 2, 2018.

Liquidity and Capital Resources

Liquidity and capital resources represent the overall strength of a company and its ability to generate strong cash flows, borrow funds at a competitive rate and raise new capital to meet operating and growth needs. Our legal entity structure has an impact on our ability to meet cash flow needs as an organization. Following is a simplified organizational structure.



Liquidity

Our liquidity requirements have been and will continue to be met by funds from consolidated operations as well as the issuance of commercial paper, common stock, debt or other capital securities and borrowings from credit facilities. We believe the cash flows from these sources are sufficient to satisfy the current liquidity requirements of our operations, including reasonably foreseeable contingencies.

We maintain a level of cash and securities which, combined with expected cash inflows from investments and operations, we believe to be adequate to meet anticipated short-term and long-term payment obligations. We will continue our prudent capital management practice of regularly exploring options available to us to maximize capital flexibility, including accessing the capital markets and careful attention to and management of expenses.

We perform rigorous liquidity stress testing to ensure our asset portfolio includes sufficient high quality liquid assets that could be utilized to bolster our liquidity position under increasingly stressed market conditions. These assets could be utilized as collateral for secured borrowing transactions with various third parties or by selling the securities in the open market if needed.

We also manage liquidity risk by limiting the sales of liabilities with features such as puts or other options that can be exercised at inopportune times. For example, as of March 31, 2019, approximately \$9.2 billion, or 99%, of our institutional guaranteed investment contracts and funding agreements cannot be redeemed by contractholders prior to maturity. Our individual annuity liabilities also contain surrender charges and other provisions limiting early surrenders.

The following table summarizes the withdrawal characteristics of our domestic general account investment contracts as of March 31, 2019.

	<u>Contractholder funds</u> <i>(in millions)</i>	<u>Percentage</u>
Not subject to discretionary withdrawal	\$ 10,223.3	32.2%
Subject to discretionary withdrawal with adjustments:		
Specified surrender charges	8,697.0	27.4
Market value adjustments	7,166.3	22.5
Subject to discretionary withdrawal without adjustments	5,698.3	17.9
Total domestic investment contracts	<u>\$ 31,784.9</u>	<u>100.0%</u>

Universal life insurance and certain traditional life insurance policies are also subject to discretionary withdrawals by policyholders. However, life insurance policies tend to be less susceptible to withdrawal than our investment contracts because policyholders may be subject to a new underwriting process in order to obtain a new life insurance policy. In addition, our life insurance liabilities include surrender charges to discourage early surrenders.

We had the following short-term credit facilities with various financial institutions as of March 31, 2019:

<u>Obligor/Applicant</u>	<u>Financing structure</u>	<u>Maturity</u>	<u>Capacity</u>	<u>Amount outstanding (3)</u>
			<i>(in millions)</i>	
PFG, Principal Financial Services, Inc., and Principal Life as co-borrowers (1)	Credit facility	November 2023	\$ 600.0	\$ —
PFG, Principal Financial Services, Inc., Principal Life and Principal Financial Services V (UK) LTD as co-borrowers (1)	Credit facility	November 2023	200.0	—
Principal International Chile (2)	Unsecured lines of credit		144.0	43.9
Principal Life	Unsecured line of credit	September 2019	60.0	—
Total			<u>\$ 1,004.0</u>	<u>\$ 43.9</u>

(1) The credit facility was extended during the fourth quarter of 2018 and is supported by eighteen banks.

(2) The unsecured lines of credit can be used for repurchase agreements or other borrowings. Each line has a maturity of less than one year.

(3) The amount outstanding is reported in short-term debt on the consolidated statements of financial position.

The revolving credit facilities are committed and available for general corporate purposes. Most of the banks supporting the credit facilities have other relationships with us. Due to the financial strength and the strong relationships we have with these providers, we are comfortable we have very low risk the financial institutions would be unable or unwilling to fund these facilities.

The Holding Companies: Principal Financial Group, Inc. and Principal Financial Services, Inc. The principal sources of funds available to our parent holding company, PFG, are dividends from subsidiaries as well as its ability to borrow funds at competitive rates and raise capital to meet operating and growth needs. These funds are used by PFG to meet its obligations, which include the payment of dividends on common stock, debt service and the repurchase of stock. The declaration and payment of common stock dividends is subject to the discretion of our Board of Directors and will depend on our overall financial condition, results of operations, capital levels, cash requirements, future prospects, receipt of dividends from Principal Life (as described below), risk management considerations and other factors deemed relevant by the Board. No significant restrictions limit the payment of dividends by PFG, except those generally applicable to corporations incorporated in Delaware.

Dividends from Principal Life, our primary subsidiary, are limited by Iowa law. Under Iowa law, Principal Life may pay dividends only from the earned surplus arising from its business and must receive the prior approval of the Commissioner of Insurance of the State of Iowa (the “Commissioner”) to pay stockholder dividends or make any other distribution if such distribution would exceed certain statutory limitations. Iowa law gives the Commissioner discretion to disapprove requests for distributions in excess of these limitations. Extraordinary dividends include those made, together with dividends and other distributions, within the preceding twelve months that exceed the greater of (i) 10% of statutory policyholder surplus as of the previous year-end or (ii) the statutory net gain from operations from the previous calendar year, not to exceed earned surplus. Based on statutory results for the year ended December 31, 2018, the ordinary stockholder dividend limitation for Principal Life is approximately \$1,085.7 million in 2019. However, because the dividend test is based on dividends previously paid over rolling 12-month periods, if paid before a specified date during 2019, some or all of such dividends may be extraordinary and require regulatory approval.

Total stockholder dividends paid by Principal Life to its parent for the three months ended March 31, 2019, were \$170.0 million, all of which was extraordinary and approved by the Commissioner. As of March 31, 2019, we had \$1,702.5 million of cash and liquid assets held in our holding companies and other subsidiaries, which is available for corporate purposes. This includes assets in excess of targeted statutory capital ratios and immediate working capital needs.

Operations. Our primary consolidated cash flow sources are premiums from insurance products, pension and annuity deposits, asset management fee revenues, administrative services fee revenues, income from investments and proceeds from the sales or maturity of investments. Cash outflows consist primarily of payment of benefits to policyholders and beneficiaries, income and other taxes, current operating expenses, payment of dividends to policyholders, payments in connection with investments acquired, payments made to acquire subsidiaries, payments relating to policy and contract surrenders, withdrawals, policy loans, interest payments and repayment of short-term debt and long-term debt. Our investment strategies are generally intended to provide adequate funds to pay benefits without forced sales of investments. For a discussion of our investment objectives and strategies, see “Investments.”

Cash Flows. Cash flow activity, as reported in our consolidated statements of cash flows, provides relevant information regarding our sources and uses of cash. The following discussion of our operating, investing and financing portions of the cash flows excludes cash flows attributable to the separate accounts.

Net cash provided by operating activities was \$1,176.4 million and \$746.5 million for the three months ended March 31, 2019 and 2018, respectively. Our insurance business typically generates positive cash flows from operating activities, as premiums collected from our insurance products and income received from our investments exceed acquisition costs, benefits paid, redemptions and operating expenses. These positive cash flows are then invested to support the obligations of our insurance and investment products and required capital supporting these products. Our cash flows from operating activities are affected by the timing of premiums, fees and investment income received and benefits and expenses paid. The increase in cash provided by operating activities in 2019 compared to 2018 was primarily the result of fluctuations in receivables and payables associated with the timing of settlements.

Net cash used in investing activities was \$1,491.1 million and \$979.9 million for the three months ended March 31, 2019 and 2018, respectively. The increase in cash used in investing activities was driven by decreased net sales of fixed maturities available-for-sale and equity securities with intent to hold.

Net cash used in financing activities was \$403.1 million for the three months ended March 31, 2019, compared to net cash provided by financing activities of \$98.3 million for the three months ended March 31, 2018. The increase in cash used in

financing activities was the result of higher net investment contract withdrawals in 2019 as compared to 2018 and a net decrease in banking operation deposits.

Shelf Registration. Under our current shelf registration, we have the ability to issue, in unlimited amounts, unsecured senior debt securities or subordinated debt securities, junior subordinated debt, preferred stock, common stock, warrants, depositary shares, purchase contracts and purchase units of PFG. Our wholly owned subsidiary, PFS, may guarantee, fully and unconditionally or otherwise, our obligations with respect to any non-convertible securities, other than common stock, described in the shelf registration.

Short-Term Debt. The components of short-term debt were as follows:

	March 31, 2019	December 31, 2018
	(in millions)	
Other recourse short-term debt	\$ 43.9	\$ 42.9
Total short-term debt	<u>\$ 43.9</u>	<u>\$ 42.9</u>

The short-term credit facilities are used for general corporate purposes and borrowings outstanding can fluctuate as part of working capital management.

Long-Term Debt. As of March 31, 2019, no significant changes have occurred to long-term debt since December 31, 2018.

Contingent Funding Agreements for Senior Debt Issuance. In March 2018, we entered into two contingent funding agreements that give us the right at any time over a ten-year or thirty-year period to issue up to \$400.0 million or \$350.0 million, respectively, of senior notes.

Stockholders' Equity. The following table summarizes our dividends to stockholders and repurchase of common stock.

	For the three months ended March 31, 2019	For the year ended December 31, 2018
	(in millions)	
Dividends to stockholders	\$ 150.2	\$ 598.6
Repurchase of common stock	153.6	671.6
Total cash returned to common stockholders	<u>\$ 303.8</u>	<u>\$ 1,270.2</u>

For additional stockholders' equity information, see Item 1. "Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 9, Stockholders' Equity."

Capitalization

The following table summarizes our capital structure:

	March 31, 2019	December 31, 2018
	(\$ in millions)	
Debt:		
Short-term debt	\$ 43.9	\$ 42.9
Long-term debt	3,266.4	3,259.6
Total debt	<u>3,310.3</u>	<u>3,302.5</u>
Total stockholders' equity attributable to PFG	12,694.4	11,390.0
Total capitalization	<u>\$ 16,004.7</u>	<u>\$ 14,692.5</u>
Debt to equity	26%	29%
Debt to capitalization	21%	22%

Contractual Obligations and Contractual Commitments

As of March 31, 2019, no significant changes to contractual obligations and contractual commitments have occurred since December 31, 2018.

Off-Balance Sheet Arrangements

Variable Interest Entities. We have relationships with various types of special purpose entities and other entities where we have a variable interest as described in Item 1. “Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 2, Variable Interest Entities.” We have made commitments to fund certain limited partnerships, some of which are classified as unconsolidated variable interest entities.

Guarantees and Indemnifications. As of March 31, 2019, no significant changes to guarantees and indemnifications have occurred since December 31, 2018. For guarantee and indemnification information, see Item 1. “Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 8, Contingencies, Guarantees, Indemnifications and Leases” under the caption, “Guarantees and Indemnifications.”

Financial Strength and Credit Ratings

Our ratings are influenced by the relative ratings of our peers/competitors as well as many other factors including our operating and financial performance, capital levels, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), risk exposures, operating leverage and other factors.

On April 9, 2019, we announced the signing of a definitive agreement with Wells Fargo Bank, N.A. to acquire its Institutional Retirement & Trust business. Following the acquisition announcement in April 2019, Fitch and S&P affirmed our ratings and stable outlook. A.M. Best commented that ratings remain unchanged, while Moody’s commented the acquisition is a credit positive. For more information on the definitive agreement, see Item 1. “Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 16, Subsequent Event.”

In February 2019, A.M. Best affirmed the financial strength ratings of Principal Life and Principal National Life Insurance Company (“PNLIC”) at ‘A+’. The outlook remains ‘stable’ for all financial strength ratings. The affirmation reflects Principal’s very strong balance sheet strength as well as its strong operating performance, favorable business profile and appropriate enterprise risk management. The outlook for the Long-Term Issuer credit rating was upgraded from ‘stable’ to ‘positive’. The outlook upgrade reflects Principal’s continued strength and evolution of enterprise risk management capabilities.

In August 2018, Fitch affirmed the ‘AA-’ financial strength ratings of Principal Life and PNLIC. Fitch also affirmed PFG’s senior unsecured debt at ‘A-’. The outlook on all ratings remains ‘stable’. The rating reflects very strong and stable operating profitability and a very strong business profile, reflecting strong market position and significant operating scale focusing on small and midsize businesses in the retirement market.

In April 2018, S&P affirmed the financial strength ratings of Principal Life and PNLIC at ‘A+’. S&P upgraded PFG’s senior unsecured debt rating to ‘A-’ from ‘BBB+’. The outlook remains ‘stable’ for all ratings. Principal Life’s enterprise risk management rating was affirmed as ‘Strong’. The rating affirmation reflects S&P’s view that we have a very strong competitive position as a leader in the U.S. small to midsize 401(k) market, with strong asset management and insurance solution capabilities. The upgrade of the senior debt rating reflects growth in unregulated cash flow available to the holding company.

In the fourth quarter of 2018, A.M. Best changed its outlook on the U.S. life insurance sector to ‘stable’ from ‘negative’ due to increased profitability, improved regulatory and tax environments and a strengthening U.S. economy, along with overall reduced balance sheet risk due to a proactive approach taken by companies in recent years. Fitch, S&P and Moody’s continue to maintain a ‘stable’ outlook as well.

The following table summarizes our significant financial strength and debt ratings from the major independent rating organizations. The debt ratings shown are indicative ratings. Outstanding issuances are rated the same as indicative ratings unless otherwise noted. Actual ratings can differ from indicative ratings based on contractual terms. A rating is not a recommendation to buy, sell or hold securities. Such a rating may be subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating.

	<u>A.M. Best</u>	<u>Fitch</u>	<u>S&P</u>	<u>Moody's</u>
Principal Financial Group				
Senior Unsecured Debt (1)	a-	A-	A-	Baa2
Junior Subordinated Debt (2)	bbb+		BBB+	Baa3
Long-Term Issuer Default Rating		A		
Principal Financial Services				
Senior Unsecured Debt	a-		A-	Baa1
Long-Term Issuer Default Rating		A		
Principal Life Insurance Company				
Insurer Financial Strength	A+	AA-	A+	A1
Issuer Credit Rating	aa-			
Commercial Paper	AMB-1+		A-1+	P-1
Enterprise Risk Management Rating			Strong	
Principal National Life Insurance Company				
Insurer Financial Strength	A+	AA-	A+	A1

(1) Principal Financial Group's senior debt issuance has been rated "Baa1" by Moody's.

(2) Principal Financial Group's junior subordinated debt issuance has been rated "BBB" by S&P and "Baa2" by Moody's.

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority (Level 1) to unadjusted quoted prices in active markets for identical assets or liabilities and gives the lowest priority (Level 3) to unobservable inputs. The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety considering factors specific to the asset or liability. See Item 1. "Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 10, Fair Value Measurements" for further details, including a reconciliation of changes in Level 3 fair value measurements.

As of March 31, 2019, 40% of our net assets (liabilities) were Level 1, 56% were Level 2 and 4% were Level 3. Excluding separate account assets as of March 31, 2019, 3% of our net assets (liabilities) were Level 1, 97% were Level 2 and 0% were Level 3.

As of December 31, 2018, 39% of our net assets (liabilities) were Level 1, 57% were Level 2 and 4% were Level 3. Excluding separate account assets as of December 31, 2018, 3% of our net assets (liabilities) were Level 1, 97% were Level 2 and 0% were Level 3.

Changes in Level 3 Fair Value Measurements

Net assets (liabilities) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of March 31, 2019, were \$8,835.4 million as compared to \$8,729.4 million as of December 31, 2018. The increase was primarily related to gains, partially offset by net sales in our separate account assets.

Net assets (liabilities) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of March 31, 2018, were \$8,141.4 million as compared to \$7,791.7 million as of December 31, 2017. The increase was primarily related to net purchases and gains in our separate account assets.

Investments

We had total consolidated assets as of March 31, 2019, of \$259,419.9 million, of which \$88,543.9 million were invested assets. The rest of our total consolidated assets are comprised primarily of separate account assets for which we do not

bear investment risk; therefore, the discussion and financial information below does not include such assets.

Overall Composition of Invested Assets

Invested assets as of March 31, 2019, were predominantly high quality and broadly diversified across asset class, individual credit, industry and geographic location. Asset allocation is determined based on cash flow and the risk/return requirements of our products. As shown in the following table, the major categories of invested assets are fixed maturities and commercial mortgage loans. The remainder is invested in other investments, equity securities, real estate and residential mortgage loans. In addition, policy loans are included in our invested assets.

	March 31, 2019		December 31, 2018	
	Carrying amount	% of total	Carrying amount	% of total
	(\$ in millions)			
Fixed maturities:				
Public	\$ 41,942.8	47 %	\$ 40,168.2	48 %
Private	21,849.1	25	20,576.4	24
Equity securities	1,864.1	2	1,843.7	2
Mortgage loans:				
Commercial	14,249.5	16	13,972.0	16
Residential	1,348.0	2	1,364.9	2
Real estate held for sale	217.6	—	209.6	—
Real estate held for investment	1,519.1	2	1,520.1	2
Policy loans	798.5	1	801.4	1
Other investments	4,755.2	5	4,310.3	5
Total invested assets	<u>88,543.9</u>	<u>100 %</u>	<u>84,766.6</u>	<u>100 %</u>
Cash and cash equivalents	2,259.7		2,977.5	
Total invested assets and cash	<u>\$ 90,803.6</u>		<u>\$ 87,744.1</u>	

Investment Results

Net Investment Income

The following table presents the yield and investment income, excluding net realized capital gains and losses, for our invested assets for the periods indicated. We calculate annualized yields using a simple average of asset classes at the beginning and end of the reporting period. The yields for available-for-sale fixed maturities are calculated using amortized cost. All other yields are calculated using carrying amounts.

	For the three months ended March 31,					
	2019		2018		Increase (decrease)	
	Yield	Amount	Yield	Amount	Yield	Amount
	(\$ in millions)					
Fixed maturities (1)	4.2 %	\$ 635.0	4.2 %	\$ 605.3	— %	\$ 29.7
Equity securities	9.8	45.6	3.7	17.7	6.1	27.9
Mortgage loans - commercial	4.2	149.4	4.1	133.4	0.1	16.0
Mortgage loans - residential	4.4	14.9	5.4	17.6	(1.0)	(2.7)
Real estate	6.4	27.9	11.9	51.3	(5.5)	(23.4)
Policy loans	5.5	11.0	5.6	11.2	(0.1)	(0.2)
Cash and cash equivalents	2.5	16.2	1.6	9.5	0.9	6.7
Other investments (1)	7.9	89.6	8.8	80.1	(0.9)	9.5
Total	<u>4.5</u>	<u>989.6</u>	<u>4.5</u>	<u>926.1</u>	<u>—</u>	<u>63.5</u>
Investment expenses	<u>(0.1)</u>	<u>(28.6)</u>	<u>(0.1)</u>	<u>(23.9)</u>	<u>—</u>	<u>(4.7)</u>
Net investment income	<u>4.4 %</u>	<u>\$ 961.0</u>	<u>4.4 %</u>	<u>\$ 902.2</u>	<u>— %</u>	<u>\$ 58.8</u>

- (1) Upon adoption of authoritative guidance effective January 1, 2019, the change in fair value of fixed maturities, available-for-sale and the change in fair value of derivative hedging instruments in fair value hedging relationships are reported in net investment income with the earnings effect of fixed maturities, available-for-sale. Prior to 2019, the change in fair value of fixed maturities, available-for-sale and the change in fair value of derivative hedging instruments in fair value hedging relationships were reported in net realized capital gains (losses).

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Net investment income from fixed maturities increased primarily due to higher average invested assets in our U.S. operations.

Net investment income from equity securities increased primarily due to favorable relative market performance on our required regulatory investments in our Latin America business.

Net investment income from commercial mortgage loans increased primarily due to higher average invested assets in our U.S. operations.

Net investment income from real estate decreased primarily due to the sale of certain value-add real estate in the first quarter of 2018.

Net Realized Capital Gains (Losses)

The following table presents the contributors to net realized capital gains (losses) for the periods indicated.

	For the three months ended March 31,		
	2019	2018	Increase (decrease)
		<i>(in millions)</i>	
Fixed maturities, available-for-sale – credit impairments (1)	\$ (6.8)	\$ (9.9)	\$ 3.1
Commercial mortgage loans – credit impairments	(0.5)	(0.7)	0.2
Other – credit impairments	0.8	1.1	(0.3)
Fixed maturities, available-for-sale and trading – noncredit	10.7	(32.7)	43.4
Derivatives and related hedge activities (2)	13.8	4.6	9.2
Other gains	66.5	12.5	54.0
Net realized capital gains (losses)	<u>\$ 84.5</u>	<u>\$ (25.1)</u>	<u>\$ 109.6</u>

(1) Includes credit impairments as well as losses on sales of fixed maturities to reduce credit risk, net of realized credit recoveries on the sale of previously impaired securities.

(2) Includes fixed maturities, trading net gains (losses) of \$4.5 million and \$(0.4) million for the three months ended March 31, 2019 and 2018, respectively, which are a component of the GMWB embedded derivative hedging program net realized capital gains (losses) reflected in this line. Upon adoption of authoritative guidance effective January 1, 2019, the change in fair value of fixed maturities, available-for-sale and the change in fair value of derivative hedging instruments in fair value hedging relationships are reported in net investment income with the earnings effect of fixed maturities, available-for-sale. Prior to 2019, the change in fair value of fixed maturities, available-for-sale and the change in fair value of derivative hedging instruments in fair value hedging relationships were reported in net realized capital gains (losses).

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Fixed maturities, available-for-sale and trading – noncredit had net gains in 2019 as compared to net losses in 2018 primarily due to higher available-for-sale noncredit losses related to portfolio rebalancing during 2018 and gains versus losses on trading securities related to changes in interest rates and credit spreads.

Other gains increased primarily due to net gains in 2019 versus net losses in 2018 on sponsored investment funds related primarily to mark-to-market changes.

U.S. Investment Operations

Of our invested assets, \$80,685.5 million were held by our U.S. operations as of March 31, 2019. Our U.S. invested assets are managed primarily by our Principal Global Investors segment. Our Investment Committee, appointed by our Board of Directors, is responsible for establishing investment policies and monitoring risk limits and tolerances. Our primary investment objective is to maximize after-tax returns consistent with acceptable risk parameters. We seek to protect customers' benefits by optimizing the risk/return relationship on an ongoing basis, through asset/liability matching, reducing credit risk, avoiding high levels of investments that may be redeemed by the issuer, maintaining sufficiently liquid investments and avoiding undue asset concentrations through diversification. We are exposed to two primary sources of investment risk:

- credit risk, relating to the uncertainty associated with the continued ability of an obligor to make timely payments of principal and interest and
- interest rate risk, relating to the market price and/or cash flow variability associated with changes in market yield curves.

Our ability to manage credit risk is essential to our business and our profitability. We devote considerable resources to the credit analysis of each new investment. We manage credit risk through industry, issuer and asset class diversification.

A dedicated committee, comprised of senior investment professional staff members, approves the credit rating for the fixed maturities we purchase. We have teams of security analysts, organized by industry and asset class, that analyze and monitor these investments. Investments held in the portfolio are monitored on a continuous basis with a formal review documented annually or more frequently if material events affect the issuer. The analysis includes both fundamental and technical factors. The fundamental analysis encompasses both quantitative and qualitative analysis of the issuer. The qualitative analysis includes an assessment of both accounting and management aggressiveness of the issuer. In addition, technical indicators such as stock price volatility and credit default swap levels are monitored. We regularly review our investments to determine whether we should re-rate them, employing the following criteria:

- material changes in the issuer's revenues, margins, capital structure or collateral values;
- significant management or organizational changes;
- significant changes regarding the issuer's industry;
- debt service coverage or cash flow ratios that fall below industry-specific thresholds;
- violation of financial covenants and
- other business factors that relate to the issuer.

We purchase credit default swaps to hedge certain credit exposures in our investment portfolio. We economically hedged credit exposure in our portfolio by purchasing credit default swaps with a notional amount of \$95.0 million as of both March 31, 2019 and December 31, 2018. We sell credit default swaps to offer credit protection to investors when entering into synthetic replicating transactions. When selling credit protection, if there is an event of default by the referenced name, we are obligated to pay the counterparty the referenced amount of the contract and receive in return the referenced security. For further information on credit derivatives sold, see Item 1. "Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 4, Derivative Financial Instruments" under the caption, "Credit Derivatives Sold."

Our use of derivatives exposes us to counterparty risk, or the risk that the counterparty fails to perform the terms of the derivative contract. We actively manage this risk by:

- obtaining approval of all new counterparties by the Investment Committee;
- establishing exposure limits that take into account non-derivative exposure we have with the counterparty as well as derivative exposure;
- performing similar credit analysis prior to approval on each derivatives counterparty that we do when lending money on a long-term basis;
- diversifying our risk across numerous approved counterparties;
- implementing credit support annex (collateral) agreements ("CSAs") for over-the-counter derivative transactions or similar agreements with a majority of our counterparties to further limit counterparty exposures, which provide for netting of exposures;
- limiting exposure to A credit or better for over-the-counter derivative counterparties without CSAs;
- conducting stress-test analysis to determine the maximum exposure created during the life of a prospective transaction;
- daily monitoring of counterparty credit ratings, exposures and associated collateral levels and
- trading mandatorily cleared contracts through centralized clearinghouses.

We manage our exposure on a net basis, whereby we net positive and negative exposures for each counterparty with agreements in place. For further information on derivative exposure, see Item 1. "Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 3, Investments" under the caption, "Balance Sheet Offsetting."

A dedicated risk management team is responsible for centralized monitoring of the commercial mortgage loan portfolio. We apply a variety of strategies to minimize credit risk in our commercial mortgage loan portfolio. When considering new commercial mortgage loans, we review the cash flow fundamentals of the property, make a physical assessment of the underlying commercial real estate, conduct a comprehensive market analysis and compare against industry lending practices. We use a proprietary risk rating model to evaluate all new and substantially all existing loans within the portfolio. The

proprietary risk model is designed to stress projected cash flows under simulated economic and market downturns. Our lending guidelines are typically 75% or less loan-to-value ratio and a debt service coverage ratio of at least 1.2 times. We analyze investments outside of these guidelines based on cash flow quality, tenancy and other factors. The following table presents loan-to-value and debt service coverage ratios for our brick and mortar commercial mortgage loans:

	Weighted average loan-to-value ratio		Debt service coverage ratio	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
New mortgages	42%	50%	2.3X	2.2X
Entire mortgage portfolio	45%	45%	2.5X	2.5X

We also seek to manage call or prepayment risk arising from changes in interest rates. We assess and price for call or prepayment risks in all of our investments and monitor these risks in accordance with asset/liability management policies.

The amortized cost and weighted average yield, calculated using amortized cost, of non-structured fixed maturity securities that will be callable at the option of the issuer, excluding securities with a make-whole provision, were \$2,971.8 million and 3.7%, respectively, as of March 31, 2019, and \$3,027.6 million and 3.6%, respectively, as of December 31, 2018. In addition, the amortized cost and weighted average yield of residential mortgage-backed pass-through securities ("RMBS"), residential collateralized mortgage obligations, and asset-backed securities - home equity with material prepayment risk were \$6,593.6 million and 3.4%, respectively, as of March 31, 2019, and \$6,474.6 million and 3.3%, respectively, as of December 31, 2018.

Our investment decisions and objectives are a function of the underlying risks and product profiles of each primary business operation. In addition, we diversify our product portfolio offerings to include products that contain features that will protect us against fluctuations in interest rates. Those features include adjustable crediting rates, policy surrender charges and market value adjustments on liquidations. For further information on our management of interest rate risk, see Item 3. "Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk."

Overall Composition of U.S. Invested Assets

As shown in the following table, the major categories of U.S. invested assets are fixed maturities and commercial mortgage loans. The remainder is invested in other investments, real estate, residential mortgage loans and equity securities. In addition, policy loans are included in our invested assets. The following discussion analyzes the composition of U.S. invested assets, but excludes invested assets of the separate accounts.

	March 31, 2019		December 31, 2018	
	Carrying amount	% of total	Carrying amount	% of total
	(\$ in millions)			
Fixed maturities:				
Public	\$ 38,162.4	47 %	\$ 36,599.0	47 %
Private	21,786.0	27	20,527.8	27
Equity securities	434.5	1	418.6	1
Mortgage loans:				
Commercial	13,982.2	17	13,721.2	18
Residential	882.3	1	905.8	1
Real estate held for sale	216.8	—	207.7	—
Real estate held for investment	1,517.6	2	1,518.6	2
Policy loans	776.3	1	779.8	1
Other investments	2,927.4	4	2,596.0	3
Total invested assets	<u>80,685.5</u>	<u>100 %</u>	<u>77,274.5</u>	<u>100 %</u>
Cash and cash equivalents	2,009.8		2,728.1	
Total invested assets and cash	<u>\$ 82,695.3</u>		<u>\$ 80,002.6</u>	

Fixed Maturities

Fixed maturities include bonds, ABS, redeemable preferred stock and certain non-redeemable preferred securities. Included in the privately placed category as of March 31, 2019 and December 31, 2018, were \$15.9 billion and \$15.2 billion, respectively, of securities subject to certain holding periods and resale restrictions pursuant to Rule 144A of the Securities Act of 1933.

Fixed maturities were diversified by category of issuer, as shown in the following table for the periods indicated.

	March 31, 2019		December 31, 2018	
	Carrying amount	Percent of total	Carrying amount	Percent of total
	<i>(\$ in millions)</i>			
U.S. government and agencies	\$ 1,476.2	2 %	\$ 1,419.0	2 %
States and political subdivisions	6,614.5	11	6,214.1	11
Non-U.S. governments	810.2	1	732.0	1
Corporate - public	19,515.7	33	18,939.8	33
Corporate - private	14,144.3	24	13,502.8	24
Residential mortgage-backed pass-through securities	2,796.2	5	2,775.6	5
Commercial mortgage-backed securities	4,228.3	7	3,927.8	7
Residential collateralized mortgage obligations	3,563.9	6	3,368.7	6
Asset-backed securities	6,799.1	11	6,247.0	11
Total fixed maturities	\$ 59,948.4	100 %	\$ 57,126.8	100 %

We believe it is desirable to hold residential mortgage-backed pass-through securities due to their credit quality and liquidity as well as portfolio diversification characteristics. Our portfolio is comprised of Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation pass-through securities. In addition, our residential collateralized mortgage obligation portfolio offers structural features that allow cash flows to be matched to our liabilities.

We purchase CMBS to diversify the overall credit risks of the fixed maturities portfolio and to provide attractive returns. The primary risks in holding CMBS are structural and credit risks. Structural risks include the security's priority in the issuer's capital structure, the adequacy of and ability to realize proceeds from the collateral and the potential for prepayments. Credit risks involve collateral and issuer/servicer risk where collateral and servicer performance may deteriorate. CMBS are predominantly comprised of large pool securitizations that are diverse by property type, borrower and geographic dispersion. The risks to any CMBS deal are determined by the credit quality of the underlying loans and how those loans perform over time. Another key risk is the vintage of the underlying loans and the state of the markets during a particular vintage. In the CMBS market, there is a material difference in the outlook for the performance of loans originated in 2004 and earlier relative to loans originated in 2005 through 2008. For loans originated prior to 2005, underwriting assumptions were more conservative regarding required debt service coverage and loan-to-value ratios. For the 2005 through 2008 vintages, real estate values peaked and the underwriting expectations were that values would continue to increase, which makes those loan values more sensitive to market declines. The 2009 and later vintages represent a return to debt service coverage ratios and loan-to-value ratios that more closely resemble loans originated prior to 2005.

Similar to CMBS, we purchase ABS for diversification and to provide attractive returns. The primary risks in holding ABS are also structural and credit risks, which are similar to those noted above for CMBS. Our ABS portfolio is diversified by type of asset, issuer, and vintage. We actively monitor holdings of ABS to recognize adverse changes in the risk profile of each security. Prepayments in the ABS portfolio are, in general, insensitive to changes in interest rates or are insulated from such changes by call protection features. In the event we are subject to prepayment risk, we monitor the factors that impact the level of prepayment and prepayment speed for those ABS. In addition, we hold a diverse class of securities, which limits our exposure to any one security.

The international exposure held in our U.S. operation's fixed maturities portfolio was 19% of total fixed maturities as of March 31, 2019 and 20% as of December 31, 2018. It is comprised of corporate and foreign government fixed maturities. The following table presents the carrying amount of our international exposure for our U.S. operation's fixed maturities portfolio for the periods indicated.

	March 31, 2019	December 31, 2018
	<i>(in millions)</i>	
European Union, excluding UK	\$ 3,278.6	\$ 3,276.6
United Kingdom	2,375.2	2,343.5
Asia-Pacific	1,599.3	1,634.3
Australia/New Zealand	1,519.7	1,477.0
Latin America	1,088.9	1,014.5
Europe, non-European Union	742.7	759.2
Middle East and Africa	628.0	552.1
Other (1)	357.3	317.9
Total	<u>\$ 11,589.7</u>	<u>\$ 11,375.1</u>

(1) Includes exposure from two countries and various supranational organizations as of both March 31, 2019, and December 31, 2018.

International fixed maturities exposure is determined by the country of domicile of the parent entity of an individual asset. All international fixed maturities held by our U.S. operations are either denominated in U.S. dollars or have been swapped into U.S. dollar equivalents. Our international investments are analyzed internally by country and industry credit investment professionals. We control concentrations using issuer and country level exposure benchmarks, which are based on the credit quality of the issuer and the country. Our investment policy limits total international fixed maturities investments and we are within those internal limits. Exposure to Canada is not included in our international exposure. As of March 31, 2019 and December 31, 2018, our investments in Canada totaled \$1,846.9 million and \$1,833.6 million, respectively.

Fixed Maturities Credit Concentrations. One aspect of managing credit risk is through industry, issuer and asset class diversification. Our credit concentrations are managed to established limits. The following table presents our top ten exposures as of March 31, 2019.

	<u>Amortized cost</u>
	<i>(in millions)</i>
People's Republic of China (1)	\$ 231.0
Mars, Incorporated	210.2
The Walt Disney Company	203.8
Berkshire Hathaway Inc.	197.8
Duke Energy Corporation	191.4
JPMorgan Chase & Co.	188.3
SBA Communications Corporation	182.4
Microsoft Corporation	180.2
Wells Fargo & Company	178.5
Comcast Corporation	177.8
Total top ten exposures	<u>\$ 1,941.4</u>

(1) Primarily includes exposure to state-owned entities operating in the energy, electric and chemical sectors.

Fixed Maturities Valuation and Credit Quality. Valuation techniques for the fixed maturities portfolio vary by security type and the availability of market data. The use of different pricing techniques and their assumptions could produce different financial results. See Item 1. "Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 10, Fair Value Measurements" for further details regarding our pricing methodology. Once prices are determined, they are reviewed by pricing analysts for reasonableness based on asset class and observable market data. Investment analysts who are familiar with specific securities review prices for reasonableness through direct interaction with external sources, review of recent trade activity or use of internal models. All fixed maturities placed on the "watch list" are periodically analyzed by investment analysts. These analysts periodically meet with the Chief Investment Officer and the Portfolio Managers to determine reasonableness of the analysts' prices. The valuation of impaired bonds for which there is no quoted price is typically based on relative value analysis and the present value of the future cash flows expected to be received. Although we believe these values reasonably reflect the

fair value of those securities, the key assumptions about risk premiums, performance of underlying collateral (if any) and other market factors involve qualitative and unobservable inputs.

The Securities Valuation Office (“SVO”) of the National Association of Insurance Commissioners (“NAIC”) monitors the bond investments of insurers for regulatory capital and reporting purposes and, when required, assigns securities to one of six categories referred to as NAIC designations. Although NAIC designations are not produced to aid the investment decision making process, NAIC designations may serve as a reasonable proxy for Nationally Recognized Statistical Rating Organizations’ (“NRSRO”) credit ratings for certain bonds. For most corporate bonds, NAIC designations 1 and 2 include bonds generally considered investment grade by such rating organizations. Bonds are considered investment grade when rated “Baa3” or higher by Moody’s, or “BBB-” or higher by S&P. NAIC designations 3 through 6 include bonds generally referred to as below investment grade. Bonds are considered below investment grade when rated “Ba1” or lower by Moody’s, or “BB+” or lower by S&P.

However, for loan-backed and structured securities, as defined by the NAIC, the NAIC designation is not always a reasonable indication of an NRSRO rating as described below. For CMBS and non-agency RMBS, Blackrock Solutions undertakes the modeling of those NAIC designations. Prior to December 31, 2018, other loan-backed and structured securities may have also been subject to an intrinsic price matrix as provided by the NAIC. This may result in a final designation being higher or lower than the NRSRO credit rating.

The following table presents our total fixed maturities by NAIC designation as of the periods indicated as well as the percentage, based on fair value, that each designation comprises.

NAIC designation	March 31, 2019			December 31, 2018		
	Amortized cost	Carrying amount	Percent of carrying amount	Amortized cost	Carrying amount	Percent of carrying amount
	<i>(In millions)</i>					
1	\$ 40,590.6	\$ 41,766.8	70 %	\$ 39,482.7	\$ 39,638.6	69 %
2	15,333.4	15,857.3	26	15,332.9	15,293.1	27
3	1,923.5	1,948.4	3	1,932.9	1,873.3	3
4	274.9	255.9	1	288.2	266.7	1
5	65.6	55.1	—	48.6	32.6	—
6	73.8	64.9	—	24.2	22.5	—
Total fixed maturities	<u>\$ 58,261.8</u>	<u>\$ 59,948.4</u>	<u>100 %</u>	<u>\$ 57,109.5</u>	<u>\$ 57,126.8</u>	<u>100 %</u>

Fixed maturities included 29 securities with an amortized cost of \$475.2 million, gross gains of \$10.2 million, gross losses of \$0.1 million and a carrying amount of \$485.3 million as of March 31, 2019, that were still pending a review and assignment of a designation by the SVO. Due to the timing of when fixed maturities are purchased, legal documents are filed and the review by the SVO is completed, we will always have securities in our portfolio that are unrated over a reporting period. In these instances, an equivalent designation is assigned based on our fixed income analyst’s assessment.

Commercial Mortgage-Backed Securities. As of March 31, 2019, based on amortized cost, 99% of our CMBS portfolio had an NAIC designation of 1 and 96% was issued during the more conservative underwriting periods prior to 2005 and after 2008.

The following tables present our exposure by credit quality, based on NAIC designations, and vintage for our CMBS portfolio as of the periods indicated.

NAIC designation	March 31, 2019							
	2004 and prior		2005 to 2008		2009 and after		Total	
	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount
	(in millions)							
1	\$ 24.6	\$ 24.9	\$ 151.5	\$ 154.1	\$ 4,001.8	\$ 4,011.9	\$ 4,177.9	\$ 4,190.9
2	—	—	12.7	12.1	6.4	6.2	19.1	18.3
3	—	—	4.4	3.1	—	—	4.4	3.1
4	—	—	6.2	4.8	—	—	6.2	4.8
5	—	—	9.1	8.7	—	—	9.1	8.7
6	0.7	0.4	2.6	2.1	—	—	3.3	2.5
Total (1)	<u>\$ 25.3</u>	<u>\$ 25.3</u>	<u>\$ 186.5</u>	<u>\$ 184.9</u>	<u>\$ 4,008.2</u>	<u>\$ 4,018.1</u>	<u>\$ 4,220.0</u>	<u>\$ 4,228.3</u>

(1) The CMBS portfolio included agency CMBS with a \$280.0 million amortized cost and a \$276.2 million carrying amount.

NAIC designation	December 31, 2018							
	2004 and prior		2005 to 2008		2009 and after		Total	
	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount
	(in millions)							
1	\$ 27.0	\$ 27.6	\$ 176.4	\$ 179.4	\$ 3,763.6	\$ 3,686.7	\$ 3,967.0	\$ 3,893.7
2	—	—	5.5	5.2	6.3	5.9	11.8	11.1
3	—	—	5.8	4.6	—	—	5.8	4.6
4	—	—	5.9	5.7	—	—	5.9	5.7
5	0.1	—	10.0	9.6	—	—	10.1	9.6
6	0.9	0.6	2.8	2.5	—	—	3.7	3.1
Total (1)	<u>\$ 28.0</u>	<u>\$ 28.2</u>	<u>\$ 206.4</u>	<u>\$ 207.0</u>	<u>\$ 3,769.9</u>	<u>\$ 3,692.6</u>	<u>\$ 4,004.3</u>	<u>\$ 3,927.8</u>

(1) The CMBS portfolio included agency CMBS with a \$279.6 million amortized cost and a \$272.6 million carrying amount.

Fixed Maturities Watch List. We monitor any decline in the credit quality of fixed maturities through the designation of “problem securities,” “potential problem securities” and “restructured securities”. We define problem securities in our fixed maturity portfolio as securities: (i) with principal and/or interest payments in default or where default is perceived to be imminent in the near term, or (ii) issued by a company that went into bankruptcy subsequent to the acquisition of such securities. We define potential problem securities in our fixed maturity portfolio as securities included on an internal “watch list” for which management has concerns as to the ability of the issuer to comply with the present debt payment terms and which may result in the security becoming a problem or being restructured. The decision whether to classify a performing fixed maturity security as a potential problem involves significant subjective judgments by our management as to the likely future industry conditions and developments with respect to the issuer. We define restructured securities in our fixed maturity portfolio as securities where a concession has been granted to the borrower related to the borrower’s financial difficulties that would not have otherwise been considered. We determine that restructures should occur in those instances where greater economic value will be realized under the new terms than through liquidation or other disposition and may involve a change in contractual cash flows. If the present value of the restructured cash flows is less than the current cost of the asset being restructured, a realized capital loss is recorded in net income and a new cost basis is established.

The following table presents the total carrying amount of our fixed maturities portfolio, as well as its problem, potential problem and restructured fixed maturities for the periods indicated.

	March 31, 2019	December 31, 2018
	(\$ in millions)	
Total fixed maturities (public and private)	\$ 59,948.4	\$ 57,126.8
Problem fixed maturities (1)	\$ 71.7	\$ 69.0
Potential problem fixed maturities	52.5	50.0
Restructured fixed maturities	2.6	2.5
Total problem, potential problem and restructured fixed maturities	\$ 126.8	\$ 121.5
Total problem, potential problem and restructured fixed maturities as a percent of total fixed maturities	0.21 %	0.21 %

(1) The problem fixed maturities carrying amount is net of other-than-temporary impairment losses.

Fixed Maturities Impairments. We have a process in place to identify securities that could potentially have an 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, a group of individuals including the Chief Investment Officer, our Portfolio Managers, the assigned analysts and representatives from Investment Accounting review all securities to determine whether an other-than-temporary decline in value exists and whether losses should be recognized. The analysis focuses on each issuer's ability to service its debts in a timely fashion. Formal documentation of the analysis and our decision is prepared and approved by management.

We consider relevant facts and circumstances in evaluating whether a credit or interest rate-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 and (5) our intent to sell the security or whether it is more likely than not we will be required to sell the security before recovery of its amortized cost which, in some cases, may extend to maturity. To the extent we determine a security is deemed to be other than temporarily impaired, an impairment loss is recognized. For additional details, see Item 1. "Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 3, Investments."

We would not consider a security with unrealized losses to be other than temporarily impaired when it is not our intent to sell the security, it is not more likely than not that we would be required to sell the security before recovery of the amortized cost, which may be maturity, and we expect to recover the amortized cost basis. However, we do sell securities under certain circumstances, such as when we have evidence of a change in the issuer's creditworthiness, when we anticipate poor relative future performance of securities, when a change in regulatory requirements modifies what constitutes a permissible investment or the maximum level of investments held or when there is an increase in capital requirements or a change in risk weights of debt securities. Sales generate both gains and losses.

A number of significant risks and uncertainties are inherent in the process of monitoring impairments and determining if an impairment is other than temporary. These risks and uncertainties include: (1) the risk that our assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer, (2) the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated, (3) the risk that our investment professionals are making decisions based on fraudulent or misstated information in the financial statements provided by issuers and (4) the risk that new information obtained by us or changes in other facts and circumstances lead us to change our intent to not sell the security prior to recovery of its amortized cost. Any of these situations could result in a charge to net income in a future period.

The net realized loss relating to other-than-temporary credit impairments and credit related sales of fixed maturities was \$6.8 million and \$9.9 million for the three months ended March 31, 2019 and 2018, respectively.

Fixed Maturities Available-for-Sale

The following tables present our fixed maturities available-for-sale by industry category and the associated gross unrealized gains and losses, including other-than-temporary impairment losses reported in AOCI, as of the periods indicated.

	March 31, 2019			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
	(in millions)			
Finance — Banking	\$ 4,186.2	\$ 106.5	\$ 35.9	\$ 4,256.8
Finance — Brokerage	432.5	9.1	3.4	438.2
Finance — Finance Companies	341.9	6.2	1.8	346.3
Finance — Financial Other	491.5	20.2	5.2	506.5
Finance — Insurance	2,476.1	216.8	11.8	2,681.1
Finance — Real estate investment trusts (“REITs”)	1,542.5	38.6	9.2	1,571.9
Industrial — Basic Industry	1,028.6	52.6	6.8	1,074.4
Industrial — Capital Goods	2,139.1	63.7	18.9	2,183.9
Industrial — Communications	2,593.5	200.5	7.4	2,786.6
Industrial — Consumer Cyclical	1,607.0	55.2	13.6	1,648.6
Industrial — Consumer Non-Cyclical	3,946.4	151.0	35.6	4,061.8
Industrial — Energy	2,369.7	188.2	21.5	2,536.4
Industrial — Other	437.5	12.7	2.4	447.8
Industrial — Technology	1,942.1	52.3	16.2	1,978.2
Industrial — Transportation	1,651.8	40.5	15.6	1,676.7
Utility — Electric	3,143.8	149.3	37.7	3,255.4
Utility — Natural Gas	355.4	10.3	3.0	362.7
Utility — Other	272.6	7.8	3.3	277.1
Government guaranteed	1,339.7	104.8	4.5	1,440.0
Total corporate securities	<u>32,297.9</u>	<u>1,486.3</u>	<u>253.8</u>	<u>33,530.4</u>
Residential mortgage-backed pass-through securities	2,464.7	37.8	25.1	2,477.4
Commercial mortgage-backed securities	4,201.5	51.3	43.0	4,209.8
Residential collateralized mortgage obligations	3,548.9	39.3	30.2	3,558.0
Asset-backed securities — Home equity (1)	255.3	12.5	1.9	265.9
Asset-backed securities — All other	3,738.5	17.2	14.9	3,740.8
Collateralized debt obligations — Credit	16.8	—	3.9	12.9
Collateralized debt obligations — CMBS	0.1	—	—	0.1
Collateralized debt obligations — Loans	2,769.8	0.2	17.3	2,752.7
Total mortgage-backed and other asset-backed securities	<u>16,995.6</u>	<u>158.3</u>	<u>136.3</u>	<u>17,017.6</u>
U.S. government and agencies	1,445.1	40.2	9.1	1,476.2
States and political subdivisions	6,287.4	351.6	27.1	6,611.9
Non-U.S. governments	731.4	80.1	3.6	807.9
Total fixed maturities, available-for-sale	<u>\$ 57,757.4</u>	<u>\$ 2,116.5</u>	<u>\$ 429.9</u>	<u>\$ 59,444.0</u>

(1) This exposure is all related to sub-prime mortgage loans.

	December 31, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
	(in millions)			
Finance — Banking	\$ 4,556.4	\$ 48.2	\$ 119.6	\$ 4,485.0
Finance — Brokerage	416.6	4.2	11.5	409.3
Finance — Finance Companies	342.5	2.7	9.0	336.2
Finance — Financial Other	415.5	15.2	9.2	421.5
Finance — Insurance	2,441.0	158.3	43.7	2,555.6
Finance — REITs	1,482.5	9.1	38.9	1,452.7
Industrial — Basic Industry	1,052.8	32.2	27.3	1,057.7
Industrial — Capital Goods	2,148.3	29.3	62.2	2,115.4
Industrial — Communications	2,567.7	137.4	46.1	2,659.0
Industrial — Consumer Cyclical	1,580.7	31.2	46.6	1,565.3
Industrial — Consumer Non-Cyclical	3,900.9	77.1	119.1	3,858.9
Industrial — Energy	2,377.9	115.9	55.8	2,438.0
Industrial — Other	424.2	5.2	8.7	420.7
Industrial — Technology	1,858.7	12.3	46.7	1,824.3
Industrial — Transportation	1,595.8	19.7	53.4	1,562.1
Utility — Electric	3,020.0	83.6	81.6	3,022.0
Utility — Natural Gas	476.7	14.1	16.4	474.4
Utility — Other	301.5	4.3	7.7	298.1
Government guaranteed	1,321.3	73.5	21.6	1,373.2
Total corporate securities	<u>32,281.0</u>	<u>873.5</u>	<u>825.1</u>	<u>32,329.4</u>
Residential mortgage-backed pass-through securities	2,481.3	21.5	49.8	2,453.0
Commercial mortgage-backed securities	3,990.5	17.1	93.6	3,914.0
Residential collateralized mortgage obligations	3,400.8	18.9	56.4	3,363.3
Asset-backed securities — Home equity (1)	264.5	12.0	2.9	273.6
Asset-backed securities — All other	3,551.5	8.4	23.4	3,536.5
Collateralized debt obligations — Credit	16.8	—	3.9	12.9
Collateralized debt obligations — CMBS	0.2	—	—	0.2
Collateralized debt obligations — Loans	2,434.3	—	26.6	2,407.7
Total mortgage-backed and other asset-backed securities	<u>16,139.9</u>	<u>77.9</u>	<u>256.6</u>	<u>15,961.2</u>
U.S. government and agencies	1,419.6	16.2	16.8	1,419.0
States and political subdivisions	6,110.7	195.9	95.0	6,211.6
Non-U.S. governments	683.5	61.2	13.9	730.8
Total fixed maturities, available-for-sale	<u>\$ 56,634.7</u>	<u>\$ 1,224.7</u>	<u>\$ 1,207.4</u>	<u>\$ 56,652.0</u>

(1) This exposure is all related to sub-prime mortgage loans.

Of the \$429.9 million in gross unrealized losses as of March 31, 2019, \$3.1 million in losses were attributed to securities scheduled to mature in one year or less, \$34.4 million attributed to securities scheduled to mature between one to five years, \$76.3 million attributed to securities scheduled to mature between five to ten years, \$179.8 million attributed to securities scheduled to mature after ten years and \$136.3 million related to mortgage-backed and other ABS that are not classified by maturity year. As of March 31, 2019, we were in a \$1,686.6 million net unrealized gain position as compared to a \$17.3 million net unrealized gain position as of December 31, 2018. The \$1,669.3 million increase in net unrealized gains for the three months ended March 31, 2019, can be attributed to tightening of credit spreads and an approximate 28 basis points decrease in interest rates.

Fixed Maturities Available-For-Sale Unrealized Losses. We believe our long-term fixed maturities portfolio is well diversified among industry types and between publicly traded and privately placed securities. Each year, we direct the majority of our net cash inflows into investment grade fixed maturities. Our current policy is to limit the percentage of fixed maturities invested in below investment grade assets to 15%.

We invest in privately placed fixed maturities to enhance the overall value of the portfolio, increase diversification and obtain higher yields than are possible with comparable quality public market securities. Generally, private placements provide

broader access to management information, strengthened negotiated protective covenants, call protection features and, where applicable, a higher level of collateral. They are, however, generally not freely tradable because of restrictions imposed by U.S. federal and state securities laws and illiquid trading markets.

The following table presents our fixed maturities available-for-sale by investment grade and below investment grade and the associated gross unrealized gains and losses, including the other-than-temporary impairment losses reported in AOCI, as of the periods indicated.

	March 31, 2019				December 31, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
	(in millions)							
Investment grade:								
Public	\$ 35,420.8	\$ 1,570.1	\$ 238.4	\$ 36,752.5	\$ 35,064.8	\$ 938.0	\$ 729.4	\$ 35,273.4
Private	20,037.1	502.0	133.6	20,405.5	19,311.8	266.4	358.9	19,219.3
Below investment grade:								
Public	1,000.4	20.4	31.9	988.9	974.7	6.4	62.5	918.6
Private	1,299.1	24.0	26.0	1,297.1	1,283.4	13.9	56.6	1,240.7
Total fixed maturities, available-for-sale	<u>\$ 57,757.4</u>	<u>\$ 2,116.5</u>	<u>\$ 429.9</u>	<u>\$ 59,444.0</u>	<u>\$ 56,634.7</u>	<u>\$ 1,224.7</u>	<u>\$ 1,207.4</u>	<u>\$ 56,652.0</u>

The following tables present the carrying amount and the gross unrealized losses, including other-than-temporary impairment losses reported in AOCI, on investment grade fixed maturities available-for-sale by aging category as of the periods indicated.

	March 31, 2019					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	\$ 126.9	\$ 1.0	\$ 334.6	\$ 0.9	\$ 461.5	\$ 1.9
Greater than three to six months	171.6	3.7	824.0	5.7	995.6	9.4
Greater than six to nine months	225.5	6.0	676.3	7.0	901.8	13.0
Greater than nine to twelve months	653.0	24.3	837.7	8.9	1,490.7	33.2
Greater than twelve to twenty-four months	6,866.8	114.9	4,750.8	80.9	11,617.6	195.8
Greater than twenty-four to thirty-six months	2,231.2	76.6	829.3	21.5	3,060.5	98.1
Greater than thirty-six months	291.9	11.9	101.3	8.7	393.2	20.6
Total fixed maturities, available-for-sale	<u>\$ 10,566.9</u>	<u>\$ 238.4</u>	<u>\$ 8,354.0</u>	<u>\$ 133.6</u>	<u>\$ 18,920.9</u>	<u>\$ 372.0</u>

	December 31, 2018					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	\$ 1,615.5	\$ 31.8	\$ 1,874.6	\$ 26.4	\$ 3,490.1	\$ 58.2
Greater than three to six months	2,507.5	56.7	1,767.5	26.8	4,275.0	83.5
Greater than six to nine months	2,727.4	100.6	2,081.4	45.9	4,808.8	146.5
Greater than nine to twelve months	7,077.1	271.1	3,641.4	116.3	10,718.5	387.4
Greater than twelve to twenty-four months	4,002.7	119.5	2,553.6	91.7	6,556.3	211.2
Greater than twenty-four to thirty-six months	2,241.1	134.7	859.6	42.2	3,100.7	176.9
Greater than thirty-six months	287.2	15.0	96.7	9.6	383.9	24.6
Total fixed maturities, available-for-sale	<u>\$ 20,458.5</u>	<u>\$ 729.4</u>	<u>\$ 12,874.8</u>	<u>\$ 358.9</u>	<u>\$ 33,333.3</u>	<u>\$ 1,088.3</u>

The following tables present the carrying amount and the gross unrealized losses, including other-than-temporary impairment losses reported in AOCI, on below investment grade fixed maturities available-for-sale by aging category as of the periods indicated.

	March 31, 2019					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	<i>(in millions)</i>					
Three months or less	\$ 14.4	\$ 0.1	\$ 128.3	\$ 0.6	\$ 142.7	\$ 0.7
Greater than three to six months	57.2	1.8	206.3	1.6	263.5	3.4
Greater than six to nine months	21.3	0.6	64.9	8.2	86.2	8.8
Greater than nine to twelve months	45.9	3.7	103.5	2.6	149.4	6.3
Greater than twelve to twenty-four months	133.0	10.1	124.9	3.8	257.9	13.9
Greater than twenty-four to thirty-six months	5.6	2.0	—	—	5.6	2.0
Greater than thirty-six months	60.0	13.6	38.5	9.2	98.5	22.8
Total fixed maturities, available-for-sale	<u>\$ 337.4</u>	<u>\$ 31.9</u>	<u>\$ 666.4</u>	<u>\$ 26.0</u>	<u>\$ 1,003.8</u>	<u>\$ 57.9</u>

	December 31, 2018					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	<i>(in millions)</i>					
Three months or less	\$ 354.1	\$ 9.7	\$ 511.8	\$ 15.6	\$ 865.9	\$ 25.3
Greater than three to six months	73.4	3.7	93.8	6.3	167.2	10.0
Greater than six to nine months	76.1	6.8	148.2	7.6	224.3	14.4
Greater than nine to twelve months	146.6	15.0	227.9	14.1	374.5	29.1
Greater than twelve to twenty-four months	58.7	4.5	35.9	3.0	94.6	7.5
Greater than twenty-four to thirty-six months	6.4	2.3	4.3	0.2	10.7	2.5
Greater than thirty-six months	57.2	20.5	38.1	9.8	95.3	30.3
Total fixed maturities, available-for-sale	<u>\$ 772.5</u>	<u>\$ 62.5</u>	<u>\$ 1,060.0</u>	<u>\$ 56.6</u>	<u>\$ 1,832.5</u>	<u>\$ 119.1</u>

The following tables present the carrying amount and the gross unrealized losses, including other-than-temporary impairment losses reported in AOCI, on fixed maturities available-for-sale where the estimated fair value had declined and remained below amortized cost by 20% or more as of the periods indicated.

	March 31, 2019					
	Problem, potential problem and restructured		All other fixed maturity securities		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	<i>(in millions)</i>					
Three months or less	\$ —	\$ —	\$ 39.7	\$ 11.5	\$ 39.7	\$ 11.5
Greater than three to six months	5.9	2.5	18.1	5.3	24.0	7.8
Greater than six to nine months	7.0	5.3	4.9	2.0	11.9	7.3
Greater than nine to twelve months	0.2	0.8	12.0	3.2	12.2	4.0
Greater than twelve months	9.6	5.5	5.7	2.3	15.3	7.8
Total fixed maturities, available-for-sale	<u>\$ 22.7</u>	<u>\$ 14.1</u>	<u>\$ 80.4</u>	<u>\$ 24.3</u>	<u>\$ 103.1</u>	<u>\$ 38.4</u>

	December 31, 2018					
	Problem, potential problem and restructured		All other fixed maturity securities		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
			<i>(in millions)</i>			
Three months or less	\$ 10.4	\$ 5.7	\$ 66.6	\$ 20.8	\$ 77.0	\$ 26.5
Greater than three to six months	6.5	5.8	14.9	6.1	21.4	11.9
Greater than six to nine months	0.4	0.5	11.7	3.6	12.1	4.1
Greater than twelve months	9.2	6.5	5.3	2.7	14.5	9.2
Total fixed maturities, available-for-sale	<u>\$ 26.5</u>	<u>\$ 18.5</u>	<u>\$ 98.5</u>	<u>\$ 33.2</u>	<u>\$ 125.0</u>	<u>\$ 51.7</u>

Mortgage Loans

Mortgage loans consist of commercial mortgage loans on real estate and residential mortgage loans. The carrying amount of our commercial mortgage loan portfolio was \$13,982.2 million and \$13,721.2 million as of March 31, 2019 and December 31, 2018, respectively. The carrying amount of our residential mortgage loan portfolio was \$882.3 million and \$905.8 million as of March 31, 2019 and December 31, 2018, respectively.

Commercial Mortgage Loans. We generally report commercial mortgage loans on real estate at cost adjusted for amortization of premiums and accrual of discounts, computed using the interest method and net of valuation allowances.

Commercial mortgage loans play an important role in our investment strategy by:

- providing strong risk-adjusted relative value in comparison to other investment alternatives;
- enhancing total returns and
- providing strategic portfolio diversification.

As a result, we have focused on constructing a high quality portfolio of mortgages. Our portfolio is generally comprised of mortgages originated with conservative loan-to-value ratios, high debt service coverages and general purpose property types with a strong credit tenancy.

Our commercial mortgage loan portfolio consists primarily of non-recourse, fixed rate mortgages on fully or near fully leased properties. The mortgage portfolio is comprised primarily of office properties, apartments, well anchored retail properties and general-purpose industrial properties.

Our commercial mortgage loan portfolio is diversified by geography and specific collateral property type. Commercial mortgage lending in the state of California accounted for 21% of our commercial mortgage loan portfolio before valuation allowance as of both March 31, 2019 and December 31, 2018. We are, therefore, exposed to potential losses resulting from the risk of catastrophes, such as earthquakes, that may affect the region. Like other lenders, we generally do not require earthquake insurance for properties on which we make commercial mortgage loans. With respect to California properties, however, we obtain an engineering report specific to each property. The report assesses the building's design specifications, whether it has been upgraded to meet seismic building codes and the maximum loss that is likely to result from a variety of different seismic events. We also obtain a report that assesses, by building and geographic fault lines, the amount of loss our commercial mortgage loan portfolio might suffer under a variety of seismic events.

The typical borrower in our commercial loan portfolio is a single purpose entity or single asset entity. As of March 31, 2019 and December 31, 2018, the total number of commercial mortgage loans outstanding was 787 and 795, of which 47% and 48% were for loans with principal balances less than \$10.0 million, respectively. The average loan size of our commercial mortgage portfolio was \$17.8 million and \$17.3 million as of March 31, 2019 and December 31, 2018, respectively.

Commercial Mortgage Loan Credit Monitoring. For further details on monitoring and management of our commercial mortgage loan portfolio, see Item 1. "Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 3, Investments" under the caption, "Mortgage Loan Credit Monitoring."

We categorize loans that are 60 days or more delinquent, loans in process of foreclosure and loans with borrowers or credit tenants in bankruptcy that are delinquent as "problem" loans. Valuation allowances or charge-offs have been recognized on most problem loans. We categorize loans that are delinquent less than 60 days where the default is expected to be cured and loans with borrowers or credit tenants in bankruptcy that are current as "potential problem" loans. The decision whether to

classify a loan delinquent less than 60 days as a potential problem involves significant subjective judgments by management as to the likely future economic conditions and developments with respect to the borrower. We categorize loans for which the original note rate has been reduced below market and loans for which the principal has been reduced as “restructured” loans. We also consider loans that are refinanced more than one year beyond the original maturity or call date at below market rates as restructured.

The following table presents the carrying amounts of problem, potential problem and restructured commercial mortgages relative to the carrying amount of all commercial mortgages for the periods indicated.

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
	(\$ in millions)	
Total commercial mortgages	<u>\$ 13,982.2</u>	<u>\$ 13,721.2</u>
Potential problem commercial mortgages	<u>\$ —</u>	<u>\$ 5.9</u>
Total problem, potential problem and restructured commercial mortgages	<u>\$ —</u>	<u>\$ 5.9</u>
Total problem, potential problem and restructured commercial mortgages as a percent of total commercial mortgages	— %	0.04 %

Commercial Mortgage Loan Valuation Allowance. The valuation allowance for commercial mortgage loans 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. For further details on the commercial mortgage loan valuation allowance, see Item 1. “Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 3, Investments” under the caption, “Mortgage Loan Valuation Allowance.”

The following table represents our commercial mortgage loan valuation allowance for the periods indicated.

	<u>For the three months ended March 31, 2019</u>	<u>For the year ended December 31, 2018</u>
	(\$ in millions)	
Balance, beginning of period	\$ 24.3	\$ 25.8
Provision	<u>0.4</u>	<u>(1.5)</u>
Balance, end of period	<u>\$ 24.7</u>	<u>\$ 24.3</u>
Valuation allowance as % of carrying value before reserves	<u>0.18%</u>	<u>0.18 %</u>

Residential Mortgage Loans. The residential mortgage loan portfolio is composed of first lien mortgages with an amortized cost of \$870.6 million and \$893.3 million and home equity mortgages with an amortized cost of \$14.1 million and \$15.1 million as of March 31, 2019 and December 31, 2018, respectively. The home equity loans are generally second lien mortgages made up of closed-end loans and lines of credit. Non-performing residential mortgage loans, which are defined as loans 90 days or greater delinquent plus non-accrual loans, totaled \$6.3 million and \$7.2 million as of March 31, 2019 and December 31, 2018, respectively.

We establish the residential mortgage loan valuation allowance at levels considered adequate to absorb estimated probable losses within the portfolio based on management’s evaluation of the size and current risk characteristics of the portfolio. Such evaluation considers numerous factors, including, but not limited to net charge-off trends, loss forecasts, collateral values, geographic location, borrower credit scores, delinquency rates, industry condition and economic trends. The changes in the valuation allowance are reported in net realized capital gains (losses) on our consolidated statements of operations.

The following table represents our residential mortgage loan valuation allowance for the periods indicated.

	For the three months ended March 31, 2019	For the year ended December 31, 2018
	(\$ in millions)	
Balance, beginning of period	\$ 2.6	\$ 6.4
Provision	(0.8)	(4.5)
Charge-offs	(0.1)	(2.4)
Recoveries	0.7	3.1
Balance, end of period	\$ 2.4	\$ 2.6
Valuation allowance as % of carrying value before reserves	0.27%	0.29%

Real Estate

Real estate consists primarily of commercial equity real estate. As of March 31, 2019 and December 31, 2018, the carrying amount of our equity real estate investment was \$1,734.4 million and \$1,726.3 million, respectively. Our commercial equity real estate is held in the form of wholly owned real estate, real estate acquired upon foreclosure of commercial mortgage loans and majority owned interests in real estate joint ventures.

Equity real estate is categorized as either “real estate held for investment” or “real estate held for sale.” Real estate held for investment totaled \$1,517.6 million and \$1,518.6 million as of March 31, 2019 and December 31, 2018, respectively. The carrying value of real estate held for investment is generally adjusted for impairments whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. Such impairment adjustments are recorded as net realized capital losses in our consolidated results of operations. No such impairment adjustments were recorded for the three months ended March 31, 2019 or for the year ended December 31, 2018.

The carrying amount of real estate held for sale was \$216.8 million and \$207.7 million as of March 31, 2019 and December 31, 2018, respectively. Once we identify a real estate property to be sold and it is probable that it will be sold, we classify the property as held for sale. We establish a valuation allowance subject to periodic revisions, if necessary, to adjust the carrying value of the property to reflect the lower of its current carrying value or the fair value, less associated selling costs. The valuation allowance did not change for the three months ended March 31, 2019 or for the year ended December 31, 2018.

We use research, both internal and external, to recommend appropriate product and geographic allocations and changes to the equity real estate portfolio. We monitor product, geographic and industry diversification separately and together to determine the most appropriate mix.

Equity real estate is distributed across geographic regions of the country. As of March 31, 2019, our largest equity real estate portfolio concentration was in the Pacific (42%) region of the United States. By property type, our largest concentrations were in apartments (33%), office (31%), and industrial (25%) as of March 31, 2019.

Other Investments

Our other investments totaled \$2,927.4 million as of March 31, 2019, compared to \$2,596.0 million as of December 31, 2018. Other investments include interests in unconsolidated entities, which include real estate properties owned jointly with venture partners and operated by the partners; sponsored investment funds; the cash surrender value of company owned life insurance; derivative assets and other investments.

International Investment Operations

Of our invested assets, \$7,858.4 million were held by our Principal International segment as of March 31, 2019. The assets are primarily managed by the local Principal International affiliate. Due to the regulatory constraints in each location, each company maintains its own investment policies. As shown in the following table, the major category of international invested assets is fixed maturities. The following table excludes invested assets of the separate accounts.

	March 31, 2019		December 31, 2018	
	Carrying amount	Percent of total	Carrying amount	Percent of total
	(\$ in millions)			
Fixed maturities:				
Public	\$ 3,780.4	48 %	\$ 3,569.2	48 %
Private	63.1	1	48.6	1
Equity securities	1,429.6	18	1,425.1	19
Mortgage loans:				
Commercial	267.3	4	250.8	3
Residential	465.7	6	459.1	6
Real estate held for sale	0.8	—	1.9	—
Real estate held for investment	1.5	—	1.5	—
Policy loans	22.2	—	21.6	—
Other investments:				
Direct financing leases	850.9	11	830.7	11
Investment in unconsolidated entities	954.6	12	864.5	12
Derivative assets and other investments	22.3	—	19.1	—
Total invested assets	7,858.4	100 %	7,492.1	100 %
Cash and cash equivalents	249.9		249.4	
Total invested assets and cash	\$ 8,108.3		\$ 7,741.5	

Regulations in certain locations require investment in the funds we manage. These required regulatory investments are classified as equity securities within our consolidated statements of financial position, with all mark-to-market changes reflected in net investment income. Our investment is primarily dictated by client activity and all investment performance is retained by us.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Exposures and Risk Management

Market risk is the risk we will incur losses due to adverse fluctuations in market rates and prices. Our primary market risk exposures are to interest rates, equity markets and foreign currency exchange rates. The active management of market risk is an integral part of our operations. We manage our overall market risk exposure within established risk tolerance ranges using several approaches, including:

- rebalancing our existing asset or liability portfolios;
- controlling the risk structure of newly acquired assets and liabilities and
- using derivative instruments to modify the market risk characteristics of existing assets or liabilities or assets expected to be purchased.

Interest Rate Risk

Interest rate risk is the risk of economic losses due to adverse changes in interest rates. Interest rate risk arises primarily from our holdings in interest sensitive assets and liabilities. Changes in interest rates impact numerous aspects of our operations, including but not limited to:

- yield on our invested assets;
- rate of interest we credit to contractholder account balances;
- timing of cash flows on assets and liabilities containing embedded prepayment options;
- cost of hedging our GMWB rider;
- discount rate used in valuing our pension and OPEB obligations;

- estimated gross profits and the amortization of our DAC asset and related actuarial balances;
- statutory reserve and capital requirements;
- asset-based fees earned on the fixed income assets we manage;
- interest expense on our long-term borrowings;
- fair value of intangible assets in our reporting units and
- fair value of financial assets and liabilities held at fair value on our consolidated statements of financial position.

Lower interest rates generally result in lower profitability in the long-term. Conversely, higher interest rates generally result in higher profitability in the long-term. However, an increase in market interest rates may cause a decline in the value of financial assets held at fair value on our consolidated statements of financial position.

Impact of Changes in Long-Term Interest Rate Assumptions

We use long-term interest rate assumptions to calculate reserves, DAC, other actuarial balances and benefit plan obligations in accordance with U.S. GAAP. In setting these assumptions, we consider a variety of factors, including historical experience, emerging trends and future expectations. We evaluate our assumptions on at least an annual basis. Due to the long-term nature of our assumptions, we generally do not revise our assumptions in response to short-term fluctuations in market interest rates. However, we will consider revising our assumptions if a significant change occurs in the factors noted above.

A reduction in our long-term interest rate assumptions may result in increases in our reserves and/or unlocking of our DAC asset and other actuarial balances. For additional information, see Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Deferred Acquisition Costs and Other Actuarial Balances” in our Annual Report on Form 10-K for the year ended December 31, 2018.

In addition, we have implemented reinsurance transactions utilizing affiliated reinsurers and highly rated third parties to finance a portion of the statutory reserves for our term life insurance policies and universal life insurance policies with secondary guarantees. We calculate an economic reserve, which represents an estimate of our liability associated with these contracts. The excess of the required statutory reserve over the economic reserve is secured by financing provided by highly rated third parties. The long-term interest rate assumption is a key input in the calculation of the economic reserve. A reduction in our long-term interest rate assumption would reduce the portion of the statutory reserve that can be financed through affiliated reinsurers, thus increasing the amount of invested assets we must maintain to support statutory reserves. For additional information, see Item 8. “Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 15, Statutory Insurance Financial Information” in our Annual Report on Form 10-K for the year ended December 31, 2018.

Impact of Changes in Interest Rates

Changes in interest rates or a sustained low interest rate environment may result in the following impacts, which would impact our financial position and results of operations:

Impact of Falling Interest Rates or Sustained Low Interest Rates	Impact of Rising Interest Rates
Adverse Impacts:	Positive Impacts:
A reduction in investment income, which may be partially offset by a reduction in the interest we credit on contractholder account balances; however, our ability to lower crediting rates may be constrained by guaranteed minimum interest rates and competitive pressures	An increase in investment income, which may be partially or fully offset by an increase in the interest we credit on contractholder account balances
An increase in the cost of hedging our GMWB rider	A decrease in the cost of hedging our GMWB rider
An increase in reserves and/or a true-up or unlocking of our DAC asset and other actuarial balances	A true-up or unlocking of our DAC asset and other actuarial balances
A reduction in the discount rate used in valuing our pension and OPEB obligations, leading to an increase in our Projected Benefit Obligation, Net Periodic Pension Cost, Accumulated Postretirement Benefit Obligation and Net Periodic Benefit Cost	An increase in the discount rate used in valuing our pension and OPEB obligations, leading to a decrease in our Projected Benefit Obligation, Net Periodic Pension Cost, Accumulated Postretirement Benefit Obligation and Net Periodic Benefit Cost
An increase in statutory capital we are required to hold as well as the amount of assets we must maintain to support statutory reserves	A decrease in statutory capital we are required to hold as well as the amount of assets we must maintain to support statutory reserves
An increase in prepayments or redemptions on mortgages and bonds we own, which would force us to reinvest the proceeds at lower interest rates	
Positive Impacts:	Adverse Impacts:
An increase in the value of the fixed income assets we manage, resulting in an increase in our fee revenue in the short-term	A decrease in the value of the fixed income assets we manage, resulting in a decrease in our fee revenue in the short-term
A decrease in the interest expense on our long-term borrowings, to the extent we are able to refinance our obligations at lower interest rates	An increase in the interest expense on our long-term borrowings, to the extent we refinance our obligations at higher interest rates
An increase in the fair value of certain financial assets held at fair value on our consolidated statements of financial position	A decrease in the fair value of certain financial assets held at fair value on our consolidated statements of financial position, as discussed below
	A reduction in the fair value of intangible assets in our reporting units, potentially leading to an impairment of goodwill or other intangible assets

We estimate a hypothetical 100 basis point immediate, parallel decrease in interest rates would reduce segment pre-tax operating earnings by less than 1% over the next 12 months excluding the impact of any potential unlocking of our DAC asset and other actuarial balances. This estimate reflects the impact of routine management actions in response to a drop in interest rates, such as reducing the interest rates we credit on contractholder account balances; however, it does not reflect the impact of other actions management may consider, such as curtailing sales of certain products. We anticipate the adverse segment pre-tax operating earnings impacts of a decrease in market interest rates will grow over time as assets mature and we are forced to reinvest at lower interest rates.

The selection of a 100 basis point immediate, parallel decrease in interest rates should not be construed as a prediction by us of future market events, but rather as an illustration of the impact of such an event. Our exposure will change as a result of ongoing portfolio transactions in response to new business, management's assessment of changing market conditions and changes in our mix of business.

If market rates increase rapidly, policy surrenders, withdrawals and requests for policy loans may increase as customers seek to achieve higher returns. This may result in unlocking of our DAC and other actuarial balances. We may be required to sell assets to raise the cash necessary to respond to such surrenders, withdrawals and loans, thereby realizing capital losses on the assets sold.

Guaranteed Minimum Interest Rate Exposure. The following table provides detail on the differences between the interest rates being credited to contractholders as of March 31, 2019, and the respective guaranteed minimum interest rates (“GMIRs”). Account values are broken down by GMIR level within the Retirement and Income Solutions and U.S. Insurance Solutions segments.

	Account values (1)					Total
	At GMIR	Excess of crediting rates over GMIR:				
	Up to 0.50% above GMIR	0.51% to 1.00% above GMIR	1.01% to 2.00% above GMIR	2.01% or more above GMIR		
	(\$ in millions)					
Guaranteed minimum interest rate						
Retirement and Income Solutions						
Up to 1.00%	\$ 262.3	\$ 312.7	\$ 816.2	\$ 3,757.3	\$ 2,553.7	\$ 7,702.2
1.01% - 2.00%	615.5	4,633.0	9.1	649.8	—	5,907.4
2.01% - 3.00%	5,269.4	—	—	0.2	—	5,269.6
3.01% - 4.00%	201.5	—	—	—	—	201.5
Subtotal	<u>6,348.7</u>	<u>4,945.7</u>	<u>825.3</u>	<u>4,407.3</u>	<u>2,553.7</u>	<u>19,080.7</u>
U.S. Insurance Solutions						
Up to 1.00%	—	22.6	2.4	—	—	25.0
1.01% - 2.00%	335.8	—	276.7	343.1	122.0	1,077.6
2.01% - 3.00%	1,846.8	762.6	487.6	104.1	—	3,201.1
3.01% - 4.00%	1,724.6	56.2	17.4	23.9	3.4	1,825.5
4.01% - 5.00%	52.6	6.1	2.9	1.7	—	63.3
Subtotal	<u>3,959.8</u>	<u>847.5</u>	<u>787.0</u>	<u>472.8</u>	<u>125.4</u>	<u>6,192.5</u>
Total	<u>\$ 10,308.5</u>	<u>\$ 5,793.2</u>	<u>\$ 1,612.3</u>	<u>\$ 4,880.1</u>	<u>\$ 2,679.1</u>	<u>\$ 25,273.2</u>
Percentage of total	40.8 %	22.9 %	6.4 %	19.3 %	10.6 %	100.0 %

(1) Includes only the account values, net of policy loans, for products with GMIRs and discretionary crediting rates.

In addition to the domestic account values shown in the table above, Principal International had \$633.1 million and \$510.9 million of account values with GMIRs in Hong Kong and Brazil, respectively, as of March 31, 2019. The Brazil amount includes account values from an equity method subsidiary, adjusted to reflect the proportion of the subsidiary’s results reflected in our net income. Our liabilities in Principal International are generally denominated in the functional currency of the location of operation. The pattern of interest rate movements in our international operations will likely differ from the pattern of interest rate movements in the U.S.

Impact of Rising Interest Rates on the Fair Value of Financial Assets. An increase in market interest rates may cause a decline in the value of financial assets held at fair value on our consolidated statements of financial position. Although changes in the fair value of our financial assets due to changes in interest rates may impact the amount of equity reported in our consolidated statements of financial position, these changes will not cause an economic gain or loss unless we sell investments, terminate derivative positions, determine an investment is other than temporarily impaired, or determine a derivative instrument is no longer an effective hedge.

We estimate a hypothetical 100 basis point immediate, parallel increase in interest rates would reduce the net reported fair value of our financial assets and derivatives by \$4,098.8 million as of March 31, 2019, compared to \$3,893.7 million as of December 31, 2018. This estimate only reflects the change in fair value for financial assets and derivatives reported at fair value on our consolidated statements of financial position. Assets and liabilities not reported at fair value on our consolidated statements of financial position – including mortgage loans, liabilities relating to insurance contracts, investment contracts, debt and bank deposits – are excluded from this sensitivity analysis. We believe the excluded liability items would economically serve as a partial offset to the net interest rate risk of the financial instruments included in the sensitivity analysis. Separate account assets and liabilities are also excluded from this estimate, as any interest rate risk is borne by the holder of the separate account. For more information on fair value measurements, see Item 8. “Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 14, Fair Value Measurements” in our Annual Report on Form 10-K for the year ended December 31, 2018.

Our selection of a 100 basis point immediate, parallel increase in interest rates is a hypothetical rate scenario we use to demonstrate potential risk. While a 100 basis point immediate, parallel increase does not represent our view of future market

changes, it is a near term reasonably possible hypothetical change that illustrates the potential impact of such events. While this sensitivity analysis provides a representation of interest rate sensitivity, it is based on our portfolio exposures at a point in time and may not be representative of future market results. These exposures will change as a result of ongoing portfolio transactions in response to new business, management's assessment of changing market conditions and available investment opportunities.

Our net estimated potential loss in fair value as of March 31, 2019, increased \$205.1 million from December 31, 2018, primarily due to an increase in the balance of fixed maturities, available-for-sale. The increase in the balance of fixed maturities, available-for-sale was primarily driven by an increase in net unrealized gains resulting primarily from a decrease in interest rates and tightening of spreads, and net purchase activity.

Interest Rate Risk Management

We manage interest rate risk through the use of an integrated risk management framework. This helps us identify, assess, monitor, report and manage our risks within established limits and risk tolerances. Our internal risk committees monitor and discuss our risk profile and identify necessary actions to mitigate impacts from interest rate risk.

The product designs within our business units result in a variety of different interest rate risk profiles. Therefore, our business units use a variety of different approaches for managing their asset and liability interest rate risks.

- *Retirement Business Stable Cash Flows* – For stable and predictable cash flow liabilities, such as pension risk transfer, full service accumulation, investment only, and newer fixed deferred annuities, we use investment strategy and hedges to tightly align the cash flow run off of these asset and liability cash flows. Immunization and embedded value analysis are also utilized in the management of interest rate risk.
- *Retirement Business Dynamic Cash Flows* – Dynamic liability cash flows, such as older fixed deferred annuities, are sensitive to policyholder behavior and the current interest rate environment. The risk and return metrics from deterministic and stochastic interest rate scenarios are used to manage the interest rate risk for these liabilities.
- *U.S. Insurance Stable Cash Flows* – Our insurance businesses in many instances contain long-term guarantees with stable and predictable liability cash flows and recurring premiums. We manage the interest rate risk through investment strategy, product crediting rates and analyzing duration and embedded value sensitivity.
- *Principal International* – Our international businesses operate within local regulations and financial market conditions (e.g., derivative markets, assets available) to achieve similar asset and liability cash flow management objectives. In locations with a limited availability of long-dated assets and derivative markets, the duration gap is managed to risk tolerances specific to each location.

We also limit our exposure to interest rate risk through our business mix and strategy. We have intentionally limited our exposure to specific products where investment margins are critical to the product's profitability, and we continue to emphasize the sale of products that generate revenues in the form of fees for service or premiums for insurance coverage and expose us to minimal interest rate risk.

Prepayment risk is controlled by limiting our exposure to investments that are prepayable without penalty prior to maturity at the option of the issuer. We also require additional yield on these investments to compensate for the risk the issuer will exercise such option. Prepayment risk is also controlled by limiting the sales of liabilities with features such as puts or other options that can be exercised at inopportune times. We manage the interest rate risk associated with our long-term borrowings by monitoring the interest rate environment and evaluating refinancing opportunities as maturity dates approach.

The plan fiduciaries use a Dynamic Asset Allocation strategy for our qualified defined benefit pension plan, which strategically allocates an increasing portion of the assets of the pension plan to fixed income securities as the funding status improves. The intended purpose of using the Dynamic Asset Allocation strategy is that the expected change in the value of the plan assets and the change in pension benefit obligation due to market movements are more likely to have more correlation versus a static allocation of assets between categories. For more information see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Benefit Plans" and Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 11, Employee and Agent Benefits" in our Annual Report on Form 10-K for the year ended December 31, 2018.

Use of Derivatives to Manage Interest Rate Risk. We use various derivative financial instruments to manage our exposure to fluctuations in interest rates, including interest rate swaps, interest rate options, swaptions and futures. We use interest rate swaps and futures contracts to hedge changes in interest rates subsequent to the issuance of an insurance liability,

such as a guaranteed investment contract, but prior to the purchase of a supporting asset, or during periods of holding assets in anticipation of near term liability sales. We use interest rate swaps primarily to more closely match the interest rate characteristics of assets and liabilities. They can be used to change the sensitivity to the interest rate of specific assets and liabilities as well as an entire portfolio. We use interest rate options to manage prepayment risks in our assets and minimum guaranteed interest rates and lapse risks in our liabilities. We purchase swaptions to hedge interest rate exposure for certain assets and liabilities.

Foreign Currency Risk

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 issued to nonqualified institutional investors in the international market, foreign currency-denominated fixed maturity and equity securities, and our international operations, including expected cash flows and potential acquisition and divestiture activity.

We estimate as of March 31, 2019, a 10% immediate unfavorable change in each of the foreign currency exchange rates to which we are exposed would result in no material change to the net fair value of our foreign currency-denominated instruments identified above because we effectively hedge foreign currency-denominated instruments to minimize exchange rate impacts, which is consistent with our estimate as of December 31, 2018. However, fluctuations in foreign currency exchange rates do affect the translation of segment pre-tax operating earnings and equity of our international operations into our consolidated financial statements.

For our Principal International segment, we estimate a 10% immediate unfavorable change in each of the foreign currency exchange rates to which we were exposed would have resulted in a \$326.8 million, or 10%, reduction in the total equity excluding noncontrolling interests of our international operations as of March 31, 2019, as compared to an estimated \$313.9 million, or 10%, reduction as of December 31, 2018. We estimate a 10% unfavorable change in the average foreign currency exchange rates to which we were exposed through our international operations would have resulted in a \$12.9 million, or 12%, reduction in segment pre-tax operating earnings of our international operations for the three months ended March 31, 2019, as compared to an estimated \$10.9 million, or 13%, reduction for the three months ended March 31, 2018.

The selection of a 10% immediate unfavorable change in all currency exchange rates should not be construed as a prediction by us of future market events, but rather as an illustration of the potential impact of such an event. These exposures will change as a result of a change in the size and mix of our foreign operations.

Use of Derivatives to Manage Foreign Currency Risk. The foreign currency risk on funding agreements and fixed maturities in our U.S. operations is mitigated by using currency swaps that swap the foreign currency interest and principal payments to our functional currency. The notional amount of our currency swap agreements associated with foreign-denominated liabilities was \$128.3 million and \$155.2 million as of March 31, 2019 and December 31, 2018, respectively. The notional amount of our currency swap agreements associated with foreign-denominated fixed maturities was \$542.5 million as of both March 31, 2019 and December 31, 2018. The notional amount of our currency forwards hedging foreign-denominated equity securities was \$50.4 million and \$50.5 million as of March 31, 2019 and December 31, 2018, respectively.

With regard to our international operations, in order to enhance the diversification of our investment portfolios we may invest in bonds denominated in a currency that is different than the currency of our liabilities. We use foreign exchange derivatives to economically hedge the currency mismatch. Our Principal International operations had currency swaps with a notional amount of \$192.7 million and \$200.9 million as of March 31, 2019 and December 31, 2018, respectively. Our Principal International operations also utilized currency forwards with a notional amount of \$755.7 million and \$738.6 million as of March 31, 2019 and December 31, 2018, respectively.

We sometimes use derivatives to hedge currency risk associated with expected cash flows from our foreign operations. We held currency forwards with a notional amount of \$68.7 million and \$74.5 million as March 31, 2019 and December 31, 2018, respectively. We also utilized currency options with a notional amount of \$604.3 million and \$525.2 million as of March 31, 2019 and December 31, 2018, respectively.

Equity Risk

Equity risk is the risk we will incur economic losses due to adverse fluctuations in common stock prices. As of March 31, 2019 and December 31, 2018, the fair value of our equity securities was \$1,864.1 million and \$1,843.7 million, respectively. We estimate a 10% decline in the prices of the equity securities would result in a decline in fair value of our equity securities of \$186.4 million as of March 31, 2019, as compared to a decline in fair value of our equity securities of \$184.4 million as of December 31, 2018.

We are also exposed to the risk that asset-based fees decrease as a result of declines in assets under management due to changes in investment prices and the risk that asset management fees calculated by reference to performance could be lower. The risk of decreased asset-based and asset management fees could also impact our estimates of total gross profits used as a basis for amortizing DAC and other actuarial balances. For further discussion, see Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Deferred Acquisition Costs and Other Actuarial Balances” in our Annual Report on Form 10-K for the year ended December 31, 2018.

We also have equity risk associated with (1) fixed deferred annuity and universal life contracts that credit interest to customers based on changes in an external equity index; (2) variable annuity contracts that have a GMWB rider that 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 reduced to zero; (3) variable annuity contracts that have a guaranteed minimum death benefit (“GMDB”) that allows the death benefit to be paid, even if the account value has fallen below the GMDB amount and (4) investment contracts in which the return is subject to minimum contractual guarantees. We are also subject to equity risk based upon the assets that support our employee benefit plans. For further discussion of equity risk associated with these plans, see Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Benefit Plans” in our Annual Report on Form 10-K for the year ended December 31, 2018.

We estimate an immediate 10% decline in the S&P 500 index, followed by a 2% per quarter increase would reduce our annual segment pre-tax operating earnings by approximately 4% to 6%. This estimate excludes the impact of any potential unlocking of our DAC asset and other actuarial balances. The selection of a 10% unfavorable change in the S&P 500 index should not be construed as a prediction by us of future market events, but rather as an illustration of the potential impact of such an event. Our exposure will change as a result of changes in our mix of business.

Use of Derivatives to Manage Equity Risk. We economically hedge the fixed deferred annuity and universal life products, where the interest credited is linked to an external equity index, by purchasing options that match the product’s profile or selling options to offset existing exposures. We economically hedged the GMWB exposure, which includes interest rate risk and equity risk, using futures, options and interest rate swaps with notional amounts of \$531.0 million, \$1,004.6 million, and \$3,627.8 million, respectively, as of March 31, 2019, and notional amounts of \$751.7 million, \$1,004.6 million, and \$3,492.8 million, respectively, as of December 31, 2018. The fair value of both the GMWB embedded derivative and associated hedging instruments are sensitive to financial market conditions and the variance related to the change in fair value of these items for a given period is largely dependent on market conditions at the end of the period.

Item 4. Controls and Procedures

Changes in Internal Control Over Financial Reporting

We had no change in our internal control over financial reporting during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Disclosure Controls and Procedures

In order to ensure that the information that we must disclose in our filings with the SEC is recorded, processed, summarized and reported on a timely basis, we have adopted disclosure controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file with or submit to the SEC is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our Chief Executive Officer, Daniel J. Houston, and our Chief Financial Officer, Deanna D. Strable-Soethout, have reviewed and evaluated our disclosure controls and procedures as of March 31, 2019, and have concluded our disclosure controls and procedures are effective.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Disclosure concerning legal proceedings can be found in Part I, Item 1. “Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 8, Contingencies, Guarantees, Indemnifications and Leases” under the caption, “Litigation and Regulatory Contingencies,” which is incorporated here by this reference.

Item 1A. Risk Factors

In addition to the other information set forth in this report, consideration should be given to the factors discussed in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018. If any of those factors were to occur, they could materially adversely affect our business, financial condition or future results, and could cause actual results to differ materially from those expressed in forward-looking statements in this report. While we have not had material changes with respect to the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2018, we are adding risk factors set out below related to our acquisition (the “Acquisition”) of the Business of Wells Fargo Bank, N.A. (the “Seller”) as discussed in Part I, Item 1. “Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 16, Subsequent Event” and Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the caption “Recent Event.”

We may not complete the Acquisition within the timeframe we anticipate, or at all, which could have a negative effect on our business or our results of operations.

On April 9, 2019, we signed a purchase agreement (the “Purchase Agreement”) with the Seller under which we have agreed to acquire the Business. The closing of the transactions contemplated by the Purchase Agreement (the “Closing”) is subject to a number of conditions, including, but not limited to, (i) the expiration or termination of any required waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, (ii) the absence of any order or injunction prohibiting the Closing (or a pending proceeding brought by a governmental entity seeking to enjoin the Closing) and (iii) subject to certain exceptions, the accuracy of the representations and warranties of, and compliance with covenants by, each of PFS and the Seller. These closing conditions may not be satisfied or may take longer to receive than we expect. The Acquisition is subject to other risks and uncertainties, such as the possibility that either PFS or the Seller could exercise their respective termination rights. Failure to complete the Acquisition would, and any delay in completing the Acquisition could, prevent us from realizing the benefits that we expect from the Acquisition.

We may not realize the expected benefits of the Acquisition because of integration difficulties, delays in the transfer of purchased assets and other challenges.

The success of the Acquisition will depend, in part, on our ability to successfully integrate and operate the Business in conjunction with our existing businesses. The integration process may be complex, costly and time-consuming. The potential difficulties of integrating the operations of the Business include, among others:

- implementing our business plan for the combined business;
- unanticipated issues in integrating logistics, information, communications and other systems;
- retaining and integrating key employees of the Seller;
- retaining and growing the Business’ customers;
- timely receipt of approval from the Office of the Comptroller of the Currency in order for Principal Bank, our wholly-owned subsidiary, to receive certain assets and liabilities of the Business;
- changes in applicable laws and regulations or conditions imposed by regulators;
- operating risks inherent in the Business and our existing businesses and

- realizing revenue and expense synergies.

We may not accomplish the integration of the Business smoothly, successfully or within the anticipated costs or timeframe we anticipate. In particular, it is expected that the transfer to us of many of the purchased assets, including contracts with customers and vendors of the Business, will not be effectuated until sometime after the Closing (and, if the requisite consents of contractual counterparties of the Business or other third parties are not received, may not be effectuated at all). Furthermore, the Business will be reliant upon the Seller to continue to provide services to the Business for a transitional period following the Closing. Any difficulties or delays encountered in combining operations could prevent us from realizing the full benefits anticipated to result from the Acquisition and could adversely affect our business, results of operations and financial condition. In addition, the Business may not meet our expectations, causing our financial results to differ from our own or the investment community's expectations. It is possible that the Business may be adversely affected by regulatory, political, economic, business or competitive factors before or after the Closing, which could prevent us from realizing the anticipated benefits of the Acquisition. The Acquisition may also divert our management's attention from our current operations to the integration effort, which could have a negative effect on our business, results of operations and financial condition.

The obligations and liabilities of the Seller, some of which may be unanticipated or unknown, may be greater than we have anticipated, which may diminish the value of the Business to us.

In connection with the Acquisition, we will assume certain liabilities of the Seller and its affiliates, including, among others: specified current liabilities; liabilities arising under the terms (or from the performance) of specified transferred contracts; liabilities arising out of the employment or termination of employment of employees of the Business and liabilities relating to certain purchased assets. The assumed liabilities may be greater than we have anticipated. The obligations and liabilities of the Seller could have a material adverse effect on the value of the Business to us or on our business, financial condition or results of operations. We have only limited indemnification rights from the Seller under the Purchase Agreement with respect to obligations or liabilities of the Seller, whether known or unknown.

The Business may present risks that could have a negative effect on our business, results of operations, or financial condition.

As a result of the Acquisition, we will for the first time provide trust and custody services for non-retirement plan assets of corporations, foundations, municipalities and other institutions. In addition, as a result of the Acquisition, we will expand the size of the trust and custody services we currently provide to defined contribution 401(k), defined benefit, employee stock ownership and non-qualified plans. The entry into and expansion of these business lines may present risks and uncertainties that could have a negative effect on our business, results of operations, or financial condition. If we do not obtain all desired regulatory approvals, our ability to pursue the Business may be impaired. Moreover, even on an ongoing basis, our bank regulators will closely watch our capability to successfully manage this expansion, and they may compel remediation activities and potentially impose fines if they find our compliance to be insufficient.

Trust and custody services primarily are a fee-based business, and fees for such trust and custody services may be based on the market value of assets under management, administration or custody; the volume of transactions processed and fees for other services rendered. Disruptions, uncertainty or volatility in the capital markets; weak economic conditions and/or declines in the financial markets may decrease our fee-based revenue, which may negatively impact our results of operations. The market for trust and custody business is highly competitive. In the event that competitors charge lower fees for substantially similar trust and custody services, we may face pressure to lower our prices in order to attract and retain customers, and any reductions in the fees we charge for these services may adversely affect our revenue, and, accordingly, negatively impact our results of operations.

The Business involves the risk that clients or others may sue us, claiming that we or third parties for whom they say we are responsible have failed to perform under a contract or otherwise failed to carry out a duty perceived to be owed to them, including perceived fiduciary or contractual duties. This risk may be heightened during periods when credit, equity or other financial markets are deteriorating in value or are particularly volatile, or when clients or investors are experiencing losses. Actions brought against us may result in lawsuits, enforcement actions, injunctions, settlements, damages, fines or penalties, which could have a negative effect on our financial condition or results of operations or require changes to our business. These risks could result in increased regulatory supervision and affect our ability to attract and retain customers.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities**

The following table presents the amount of our common share purchase activity for the periods indicated.

<u>Period</u>	<u>Total number of shares purchased (1)</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of publicly announced programs</u>	<u>Maximum dollar value of shares that may yet be purchased under the programs (in millions) (2)</u>
January 1, 2019 — January 31, 2019	1,468,212	\$ 47.10	1,467,368	\$ 355.9
February 1, 2019 — February 28, 2019	1,671,267	\$ 50.39	1,224,506	\$ 295.3
March 1, 2019 — March 31, 2019	4,050	\$ 52.99	—	\$ 295.3
Total	<u>3,143,529</u>		<u>2,691,874</u>	

(1) Includes the number of shares of common stock utilized to execute certain stock incentive awards and shares purchased as part of publicly announced programs.

(2) In May 2018, our Board of Directors authorized a share repurchase program of up to \$300.0 million of our outstanding common stock, which was completed in December 2018. In November 2018, our Board of Directors authorized a share repurchase program of up to \$500.0 million of our outstanding common stock. In the first quarter of 2019, we suspended purchases of the remaining amount available under the November 2018 authorization.

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
2.1	Purchase Agreement, dated as of April 9, 2019, by and between Wells Fargo Bank, N.A., Principal Financial Services, Inc. and (for certain limited purposes) Wells Fargo & Company
31.1	Certification of Daniel J. Houston
31.2	Certification of Deanna D. Strable-Soethout
32.1	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code – Daniel J. Houston
32.2	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code – Deanna D. Strable-Soethout
101	The following materials from Principal Financial Group, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2019 formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Position, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Unaudited Consolidated Financial Statements.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PRINCIPAL FINANCIAL GROUP, INC.

Dated: May 2, 2019

By /s/ Deanna D. Strable-Soethout

Deanna D. Strable-Soethout

Executive Vice President and Chief Financial Officer

Duly Authorized Officer, Principal Financial Officer, and Principal Accounting Officer

PURCHASE AGREEMENT

by and between

WELLS FARGO BANK, N.A.,

PRINCIPAL FINANCIAL SERVICES, INC.

and

WELLS FARGO & COMPANY

(solely for purposes of Sections 5.8(a), (b) & (d) and 5.20)

Dated as of April 9, 2019

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PURCHASE AGREEMENT

THIS PURCHASE AGREEMENT (this “**Agreement**”) is made and entered into as of the 9th day of April, 2019, by and among Wells Fargo Bank, N.A., a national banking association (“**Seller**”), Principal Financial Services, Inc., a Delaware corporation (“**Buyer**”), and, solely for purposes of Sections 5.8(a), (b) & (d) and 5.20, Wells Fargo & Company, a Delaware corporation (“**Seller Parent**”).

RECITALS

WHEREAS, Seller owns, directly or indirectly, the Purchased Assets (as defined below);

WHEREAS, the parties hereto desire that Seller shall sell, transfer and assign to Buyer (or one or more Affiliates of Buyer designated in writing by Buyer to Seller no later than five (5) Business Days prior to the Closing (each, a “**Designated Purchaser**”), and that Buyer shall (or shall cause a Designated Purchaser to) accept and purchase from Seller, the Purchased Assets, and that Buyer shall (or shall cause a Designated Purchaser to) assume the Assumed Liabilities (as defined below), in the manner and upon the terms and subject to the conditions set forth herein; and

WHEREAS, Seller and/or its applicable Affiliates, and Buyer and/or its applicable Affiliates, at the Closing (as defined below) will execute and deliver each of the Ancillary Agreements (as defined below) as contemplated by this Agreement.

NOW, THEREFORE, in consideration of the foregoing, the representations, warranties, covenants and agreements set forth in this Agreement, and other good and valuable consideration, the adequacy and receipt of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Definitions. For purposes of this Agreement, the following terms, when used in this Agreement, shall have the meanings assigned to them in this Section 1.1.

“**Accounts Receivable**” means all of the accounts receivable of the Business (other than those relating to Taxes). Solely for purposes of Section 2.9 and Section 2.10 and the computation of the Net Accounts Receivable, the “Accounts Receivable” shall exclude the Charged-Off Receivables and shall be calculated in accordance with the Agreed Accounting Principles and otherwise in the manner in which the “Trust fees receivable, excluding Advantage receivables”, “Advantage receivables” and “Accounts receivable reserve — WYSTAR” line items on the Reference Statement were calculated.

“**Acquired Business**” shall have the meaning set forth in Section 5.8(a)(ii).

“**Action**” means any action, claim, audit, investigation, suit, summons, subpoena, written notice of violation or arbitration by or before any Governmental Entity or arbitral body.

“**Affiliate**” of any Person means, with respect to such Person, any Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such first Person. A Person shall be deemed to control another Person if such first Person possesses, directly or indirectly, the power to direct, or cause the direction of, the management and policies of such other Person, whether through the ownership of voting securities, by contract or otherwise.

“**Agreed Accounting Principles**” means the accounting policies and principles set forth in Section 1.1(A) of the Seller Disclosure Letter.

“**Agreement**” shall have the meaning set forth in the Preamble hereof.

“**Ancillary Agreements**” means the Transitional Services Agreement, the Bill of Sale, the Assignment and Assumption Agreement and the Sweep Deposit and Servicing Agreement.

“**Anti-Money Laundering Laws**” means, collectively, (i) the USA Patriot Act of 2001 (Pub. L. No. 107-56), (ii) the U.S. Money Laundering Control Act of 1986, as amended, and (iii) any other Law of any applicable jurisdiction having the force of Law and relating to anti-money laundering.

“**Asserted Liability**” shall have the meaning set forth in Section 8.3(a).

“**Assignment and Assumption Agreement**” means a customary Assignment and Assumption Agreement to be entered into by Buyer and/or the applicable Designated Purchasers, on the one hand, and Seller, on the other hand, transferring to Buyer and/or the Designated Purchasers all of the Assumed Liabilities and (subject to Section 5.9) effecting the assignment of the Transferred Contracts, in a form reasonably acceptable to Seller and Buyer.

“**Assumed Leases**” shall have the meaning set forth in Section 2.1(h).

“**Assumed Liabilities**” shall have the meaning set forth in Section 2.3.

“**Balance Sheet**” shall have the meaning set forth in the definition of Financial Statements.

“**Bankruptcy and Equity Exceptions**” shall have the meaning set forth in Section 3.2(b).

“**Base Date**” means December 31, 2018.

“**Base Date Consultation Period**” shall have the meaning set forth in Section 2.11(d).

“**Base Date Customers**” shall have the meaning set forth in Section 1.1(B) of the Seller Disclosure Letter.

“**Base Date Disputed Item**” shall have the meaning set forth in Section 2.11(e).

“**Base Date Fee Revenue**” shall have the meaning set forth in Section 1.1(C) of the Seller Disclosure Letter.

“**Base Date Fee Revenue Statement**” shall have the meaning set forth in Section 2.11(a).

“**Base Date Notice of Disagreement**” shall have the meaning set forth in Section 2.11(c).

“**Base Date Review Period**” shall have the meaning set forth in Section 2.11(b).

“**Base Purchase Price**” shall have the meaning set forth in Section 2.6.

“**Bill of Sale**” means a customary Bill of Sale to be entered into by Seller, on the one hand, and Buyer and/or the Designated Purchasers, as applicable, on the other hand, transferring to Buyer and/or the Designated Purchasers all of Seller’s right, title and interest in and to the Purchased Assets, in a form reasonably acceptable to Buyer and Seller.

“**Books and Records**” means books, documents (including related to Software), records, files, agreements, manuals and other information in the possession or control of Seller, whether in hard copy or computer format, that are (a) exclusively related to the Business and (b) reasonably available to Seller and reasonably accessible and severable by Business Employees without unreasonable effort or expense, including emails as provided in Section 1.1(G) of the Seller Disclosure Letter; provided that “Books and Records” shall not include the Excluded Books and Records.

“**Bundled Business**” means, collectively, the Retirement Business and the Executive Benefits Business; provided, however, that the “Bundled Business” shall exclude the T&C Business, the Discretionary Business and the Excluded Business.

“**Business**” means, collectively, the Retirement Business, the Executive Benefits Business, the T&C Business and the Discretionary Business; provided, however, that the “Business” shall exclude the Excluded Businesses.

“**Business Confidential Information**” shall have the meaning set forth in Section 5.4(d).

“**Business Day**” means any day other than a Saturday, Sunday or day on which national banks are authorized or required to be closed in Des Moines, Iowa, New York, New York, Charlotte, North Carolina, or San Francisco, California.

“**Business Employee List**” shall have the meaning set forth in Section 3.8(c).

“**Business Employees**” means the employees of Seller or its Affiliates who dedicate at least eighty percent (80%) of their total working time servicing the Business and are listed in Section 1.1(D) of the Seller Disclosure Letter (which shall be updated by Seller as of the Closing Date (with information as of five (5) Business Days prior to the Closing Date)), including any such individuals who are on Leave (provided that, in accordance with Section 5.2(a), any such

individual employed by Seller who is on Leave and returns to active employment on a date later than one year following the Closing Date will not be a Business Employee for purposes of this Agreement).

“**Business IP**” means Seller’s and its Affiliates’ right, title and interest in and to the Intellectual Property that is (i) owned by Seller or its Affiliates and exclusively used or held for use in connection with the Business or (ii) set forth in Section 1.1(E) of the Seller Disclosure Letter.

“**Buyer**” shall have the meaning set forth in the Preamble hereof.

“**Buyer 401(k) Plan**” shall have the meaning set forth in Section 5.2(e).

“**Buyer Directions**” shall have the meaning set forth in Section 5.12(f)(i)(2) of the Seller Disclosure Letter.

“**Buyer Disclosure Letter**” means the letter delivered by Buyer to Seller concurrently with the execution and delivery of this Agreement, setting forth, among other things, items the disclosure of which is called for by this Agreement, either in response to a disclosure requirement contained in a provision of this Agreement or as an exception to one or more of the representations, warranties, covenants or agreements contained in this Agreement, except that the mere inclusion of an item in the Buyer Disclosure Letter as an exception to a representation or warranty will not be deemed an admission by Buyer that such item (or any non-disclosed item or information of comparable or greater significance) represents a material exception or fact or that such item constitutes noncompliance with, or a violation of, any Law or other topic to which such disclosure is applicable.

“**Buyer Fundamental Representations**” shall have the meaning set forth in Section 6.2(a)(i).

“**Buyer Governmental Filings**” shall have the meaning set forth in Section 4.3.

“**Buyer Indemnified Parties**” shall have the meaning set forth in Section 8.1(a).

“**Buyer Party**” means each of Buyer, each Designated Purchaser and each other Affiliate of Buyer that is a party to any Ancillary Agreement.

“**Buyer Tax Act**” shall have the meaning set forth in Section 9.1(a).

“**Cap**” shall have the meaning set forth in Section 8.1(b)(ii).

“**Charged-Off Receivables**” means all accounts receivable of the Business that have been charged off as of the Effective Time. For purposes of Section 2.9 and Section 2.10, the “Charged-Off Receivables” shall be calculated in accordance with the Agreed Accounting Principles and otherwise in the manner in which the “Charged-Off Receivables” line item on the Reference Statement was calculated.

“**Claim Notice**” shall have the meaning set forth in Section 8.3(a).

“Closing” shall have the meaning set forth in [Section 2.7\(a\)](#).

“Closing Consideration” shall have the meaning set forth in [Section 2.6](#).

“Closing Date” shall have the meaning set forth in [Section 2.7\(a\)](#).

“Code” means the Internal Revenue Code of 1986, as amended.

“Comparable Job Offer” means an offer of employment with Buyer or any of its Affiliates that provides for the following terms of employment:

(a) a substantially comparable position, including substantially the same scheduled number of hours of employment, to the applicable employee’s position with Seller or its Affiliates immediately prior to the applicable Hire Date, (b) an annual base salary rate (or in the case of an hourly employee, base hourly rate of pay), at least equal to such employee’s base salary or rate of pay as in effect immediately prior to the applicable Hire Date, (c) eligibility for Buyer’s or any of its Affiliates’, as applicable, employee benefit plans available to similarly situated employees of Buyer or any of its Affiliates, as applicable, (which benefits for all Business Employees shall include, at a minimum, health insurance, a tax-qualified defined contribution retirement plan, and paid or flexible time off for sick/medical reasons and personal reasons, including vacation, and, without limiting the foregoing, for Non-U.S. Business Employees shall also include other employee benefit plans that are no less favorable than the employee benefit plans that are provided by Seller or any of its Affiliates to the Non-U.S. Business Employees, immediately prior to the applicable Hire Date), effective as of the Hire Date, (d) an incentive compensation opportunity that is no less favorable than (i) with respect to U.S. Business Employees, that afforded to similarly situated employees of Buyer and its Affiliates and (ii) with respect to Non-U.S. Business Employees, that afforded by Seller and its Affiliates immediately prior to the applicable Hire Date, (e) a primary work location which, (i) with respect to each U.S. Business Employee, does not result in a Material Change of Work Location, and (ii) with respect to each Non-U.S. Business Employee, is substantially comparable to such Non-U.S. Business Employee’s Existing Work Location, (f) prior service credit for the employee’s recognized service with Seller (or any of its Affiliates) prior to the Hire Date in accordance with [Section 5.2](#) and (g) for Non-U.S. Business Employees, other terms and conditions of employment (including duties, responsibility, scheduled hours of employment, seniority and tenure), that are no less favorable than terms and conditions of employment (including duties, responsibility, scheduled hours of employment, seniority and tenure) in effect immediately prior to the applicable Hire Date.

“Competing Business” means the performance of participant-level recordkeeping for tax qualified defined benefit retirement plans, tax qualified defined contribution retirement plans and non-qualified executive deferred compensation plans of institutional clients in the United States.

“Competing Revenue” shall have the meaning set forth in [Section 5.8\(a\)\(ii\)\(1\)](#).

“Completed Period Bonuses” shall have the meaning set forth in [Section 5.2\(f\)](#).

“Confidentiality Agreement” shall have the meaning set forth in [Section 5.4\(a\)](#).

“Consultation Period” shall have the meaning set forth in [Section 2.10\(b\)](#).

“**Contract**” means any written or enforceable oral contract, subcontract, agreement, lease, license, commitment, sale and purchase order, or other instrument, arrangement or understanding of any kind to which a Person or any of its assets or properties is bound.

“**Corporate-Level Services**” shall mean the corporate-level support services provided by Seller and/or its Affiliates to the Business, including those set forth in Section 1.1(F) of the Seller Disclosure Letter.

“**Customer Contract**” means any Contract exclusively related to the Business that is entered into by (a) Seller or any of its Affiliates, on the one hand, and (b) a customer of the Business, on the other hand.

“**Data Breach**” means the unauthorized access to or use or disclosure of Business Confidential Information collected, used or held for use on information technology systems operated by, or on behalf of, Seller or one of its Affiliates and used in the Business.

“**De Minimis Amount**” shall have the meaning set forth in Section 8.1(b)(ii).

“**Deductible**” shall have the meaning set forth in Section 8.1(b)(i).

“**Delayed Transfer Purchased Assets**” means Purchased Assets that are (i) Software (A) owned by Seller or one of its Affiliates, or (B) owned by a third party and licensed to Seller or its Affiliates pursuant to a Transferred Contract, in each case that resides on Seller’s information technology systems and is used by Seller to provide Services under the Transitional Services Agreement, (ii) Transferred Contracts related to any Software identified in the foregoing clause (i), including any Software maintenance or support agreements relating to such Software, (iii) any Assumed Lease set forth in Section 1.1(G) of the Seller Disclosure Letter and (iv) to the extent mutually agreed in good faith by Buyer and Seller prior to the Closing, such other Purchased Assets (other than Contracts and rights thereunder) that Seller or any Provider (as such term is defined in the Transitional Services Agreement) will use in connection with providing Transition Services (as such term is defined in the Transitional Services Agreement) pursuant to the Transitional Services Agreement.

“**Delayed Transfer Time**” shall have the meaning set forth in Section 9.7(b).

“**Deposits**” means deposits made by or on behalf of a customer of the Business with Seller or its Affiliates, including interest bearing and non-interest bearing deposits and amounts attributable to positive cash balances and unpaid checks, in each case, specifically attributable to the Business.

“**Designated Purchaser**” shall have the meaning set forth in the Recitals.

“**Diligence Report**” shall have the meaning set forth in Section 3.4(d).

“**Discretionary Business**” means the performance by Seller of discretionary investment management and/or investment advisory services that is primarily managed by the IRT Management Team for (or with respect to the assets of) customers of the Retirement Business, the Executive Benefits Business and/or the T&C Business (in their capacity as such), including

(a) management and development of outsourced chief investment officer programs and (b) directed trustee, discretionary trustee, custody and payment services, in the case of clauses (a) and (b), to the extent related to such discretionary investment management and/or investment advisory services.

“**Disputed Item**” shall have the meaning set forth in Section 2.10(c).

“**Earn-Out Consultation Period**” shall have the meaning set forth in Section 2.11(i).

“**Earn-Out Disputed Item**” shall have the meaning set forth in Section 2.11(j).

“**Earn-Out Notice of Disagreement**” shall have the meaning set forth in Section 2.11(h).

“**Earn-Out Payment**” means:

- (i) if the Final Measurement Date Fee Revenue is less than or equal to 77.5% of the Final Base Date Fee Revenue, then zero;
- (ii) if the Final Measurement Date Fee Revenue is greater than 77.5% of the Final Base Date Fee Revenue but less than 85.0% of the Final Base Date Fee Revenue, then an amount equal to the product of (A) one hundred fifty million dollars (\$150,000,000) multiplied by (B) a fraction, the numerator of which is equal to the result of (x) the Final Measurement Date Fee Revenue minus (y) 77.5% of the Final Base Date Fee Revenue, and the denominator of which is equal to 7.5% of the Final Base Date Fee Revenue; and
- (iii) if the Final Measurement Date Fee Revenue is equal to or greater than 85.0% of the Final Base Date Fee Revenue, then one hundred fifty million dollars (\$150,000,000).

“**Earn-Out Payment Date**” shall have the meaning set forth in Section 2.11(k).

“**Earn-Out Period**” shall have the meaning set forth in Section 2.11(l).

“**Earn-Out Review Period**” shall have the meaning set forth in Section 2.11(g).

“**Effective Time**” means 12:01 a.m. (New York City time) on the first Business Day of the month in which the Closing occurs.

“**Employee Benefit Plan**” means any (a) “employee benefit plan” within the meaning of Section 3(3) of ERISA (whether or not subject to ERISA) and (b) other employment, bonus, profit sharing, deferred compensation, incentive compensation, holiday, vacation, medical insurance, dental care, vision care, prescription drug, sick leave, short-term or long-term disability, salary continuation, welfare, long service awards, retention plan, severance or termination pay, change of control, pension, retirement, death, life insurance, accidental death, or post-retirement medical benefit plan, program, agreement or arrangement, in each case, that is sponsored or maintained by Wells Fargo & Company or any of its Affiliates and in which any

Business Employee participates; provided that an Employee Benefit Plan shall not include any plan, program, agreement or arrangement that is required to be maintained by a Governmental Entity or pursuant to Law.

“**Encumbrance**” means any lien, encumbrance, security interest, pledge, mortgage, deed of trust or hypothecation, other than any of the foregoing if created by an action of Buyer or its Affiliates.

“**ERISA**” means the Employee Retirement Income Security Act of 1974, as amended.

“**Estimated Accounts Receivable**” shall have the meaning set forth in Section 2.9(a).

“**Estimated Charged-Off Receivables**” shall have the meaning set forth in Section 2.9(a).

“**Estimated Closing Statement**” shall have the meaning set forth in Section 2.9(a).

“**Estimated Specified Current Liabilities**” shall have the meaning set forth in Section 2.9(a).

“**Excluded Assets**” shall have the meaning set forth in Section 2.2.

“**Excluded Books and Records**” means any (a) without limiting subclauses (b)-(j) of this definition, emails or other electronic communications, in accordance with and except as provided in Section 1.1(H) of the Seller Disclosure Letter, (b) materials that contain information that does not exclusively relate to the Business, (c) personnel files relating to employees of Seller or its Affiliates (including the Transferred Employees), (d) information subject to attorney-client privilege of Seller or its Affiliates that cannot be transferred to Buyer or its Affiliates without jeopardizing such privilege; provided that Seller shall have taken commercially reasonable steps, such as redacting information or entering into a joint defense agreement, to enable the transfer of such information to Buyer without jeopardizing such privilege, (e) information relating to the Excluded Businesses, the Excluded Assets or the Retained Liabilities, (f) Seller’s or its Affiliates’ minute books, organizational documents, stock registers, record books containing minutes of meetings of its directors, managers or shareholders or other corporate governance matters and such other similar books and records pertaining to Seller’s or its Affiliates’ ownership, organization or existence, (g) information the transfer or disclosure of which is prohibited or restricted by Law or any Contract to which Seller or its Affiliates is bound (other than an agreement between or among Seller or any of its Affiliate and such information is otherwise not excluded by another provision of this definition) (in which case, copies of which, to the extent permitted by such Law or Contract, will be made available to Buyer upon Buyer’s reasonable request); provided that Seller shall have taken commercially reasonable efforts to obtain waivers or make other arrangements that would enable the transfer or disclosure of such information without contravening such Law or breaching such Contract, (h) policies or other proprietary information of Seller or its Affiliates, (i) correspondence with any Governmental Entity or (j) Tax Returns, Tax records or any other information related to Taxes of Seller or its Affiliates, except to the extent related to Seller’s and its Affiliates’ compliance with Tax reporting, withholding or disclosure requirements applicable to the plans established or administered in the Business.

“Excluded Businesses” means the businesses, services, operations and activities conducted by Seller and/or its Affiliates, other than the Business, including (a) deposit, lending, financing and other retail, consumer, commercial or corporate banking activities that are not primarily managed by the IRT Management Team; (b) issuing, marketing, providing and/or servicing debit cards, credit cards, gift cards or prepaid cards (including similar products not utilizing a card); (c) investment banking and market making activities; (d) asset management, investment advisory, private banking, personal trust, wealth management, personal retirement and insurance planning and advisory services, merchant banking, private equity and/or securities trading or brokerage activities or services, in each case, that are not primarily managed by the IRT Management Team; (e) insurance activities; (f) maintaining and managing collective investment funds, mutual funds and separately managed accounts for the investment and reinvestment of assets of certain qualified retirement plans, except, solely in respect of separately managed accounts, those that are primarily managed by the IRT Management Team; (g) serving as trustee or custodian for (x) individual retirement accounts and other similar individual retail retirement accounts that are not primarily managed by the IRT Management Team, (y) non-retirement assets of institutional clients, including mutual funds, separately managed accounts, foundations, endowments and corporate assets, that are not primarily managed by the IRT Management Team or (z) assets of Seller and its Affiliates (and their employee benefit plans); (h) depository, custodial, trustee, agency, fiduciary, escrow, treasury management and corporate trust services, including serving as registrar or paying agent or providing other administrative services with respect to securities, bonds, collateral and various warehouse and conduit programs, in each case that are not primarily managed by the IRT Management Team; (i) businesses, services, operations and activities provided by (x) Wells Fargo Clearing Services, LLC, (y) the Abbot Downing business unit of Seller and/or (z) Wells Fargo Asset Management, including self-directed brokerage activities (including those provided pursuant to any Transferred Contract) and management and development of outsourced chief investment officer programs; (j) investments made by Seller and/or its Affiliates pursuant to the Federal Reserve’s Merchant Banking authority contained in Section 4K and passive investment authority contained in Section 4(c)(6) of the Bank Holding Company Act of 1956, as amended, and the regulations promulgated thereunder and private equity/venture investments made by Seller’s Affiliates, including Norwest Equity Partners, Norwest Venture Partners and Wells Fargo Central Pacific Holdings, Inc., and (k) any businesses, services, operations or activities that are ancillary or incidental to the businesses, services, operations or activities described in clauses (a) through (j) of this definition.

“Excluded Contracts” means all Contracts to which Seller or its Affiliates is bound, other than the Transferred Contracts and the Assumed Leases.

“Excluded Revenue” shall have the meaning set forth in Section 1.1(I) of the Seller Disclosure Letter.

“Executive Benefits Business” means the performance by Seller of non-qualified plan administration and recordkeeping for executive deferred compensation plans of institutional clients, including (a) plan participant education and communication and (b) trustee, custody and payment services, in the case of clauses (a) and (b), to the extent related to such non-qualified plan administration and recordkeeping; provided, however, that the “Executive Benefits Business” shall exclude the T&C Business, the Discretionary Business and the Retirement Business.

“**Existing Work Location**” means, with respect to any particular employee, the employee’s primary work location as in effect immediately prior to the applicable Hire Date (whether at a location owned or leased by Seller or any of its Affiliates or otherwise).

“**Final Base Date Fee Revenue**” means the Base Date Fee Revenue as finally determined pursuant to Section 2.11.

“**Final Closing Statement**” shall have the meaning set forth in Section 2.10(d).

“**Final Measurement Date Fee Revenue**” means the Measurement Date Fee Revenue as finally determined pursuant to Section 2.11.

“**Financial Statements**” means the (i) unaudited statement of Purchased Assets and Assumed Liabilities as of December 31, 2018 (the “**Reference Statement**”) and December 31, 2017 (the “**Balance Sheets**”) and (ii) unaudited and unadjusted statements of income for the Business for the twelve (12) months ended each of December 31, 2018 and December 31, 2017 (the “**Income Statements**”); provided, however, that the Balance Sheets and Income Statements shall not include any amounts attributable to Seller’s (x) employee benefits plans as outlined in Section 2.2(s) of the Seller Disclosure Letter or (y) maintaining and managing collective investment funds.

“**Fraud**” means an intentional misrepresentation of a representation or warranty expressly stated in Article III or Article IV of this Agreement, which such misrepresentation was (a) material to the Business (taken as a whole), and inaccurate, in each case, as of the date hereof, (b) made by Seller or Buyer, as applicable, with (i) the intent of inducing the other party to enter into this Agreement and (ii) actual knowledge of the material inaccuracy of such intentional misrepresentation and (c) actually and reasonably relied upon by such other party to its detriment; provided, however, that, notwithstanding anything herein to the contrary, “**Fraud**” shall not include any fraud claim (including equitable fraud, promissory fraud and unfair dealings fraud) based on constructive or imputed knowledge, negligent misrepresentation or a similar theory.

“**Fundamental Representations**” means, collectively, the Buyer Fundamental Representations and the Seller Fundamental Representations.

“**Furniture and Equipment**” means all furniture, fixtures, furnishings, equipment, vehicles, leasehold improvements, and other tangible personal property owned by Seller or any of its applicable Affiliates that are Related to the Business and located at the Leased Real Property, including desks, chairs, tables, tools, cubicles and miscellaneous office furnishings and supplies, but excluding any such items that are (a) Hardware or (b) leased to the Business pursuant to a Contract to which Seller or its Affiliate is bound, other than a Transferred Contract.

“**GAAP**” means United States generally accepted accounting principles.

“**Governance Plan**” shall have the meaning set forth in Section 5.12(f).

“**Government Official**” means any officer, employee or agent of any Governmental Entity or any Person acting in an official capacity or performing public duties or functions on

behalf of any such Governmental Entity, which Governmental Entity has authorized such Person to perform (in each case, in his or her capacity as such).

“**Governmental Entity**” means any federal, state, provincial, territorial, local, municipal or foreign government, regulatory, self-regulatory, legislative or administrative body, or any agency, bureau, board, commission, court, department, tribunal or instrumentality thereof.

“**Governmental Filings**” shall have the meaning set forth in [Section 4.3](#).

“**Governmental Order**” means any judgment, ruling, decision, verdict, determination, settlement, injunction, order, award or decree of any Governmental Entity.

“**Hardware**” means any and all computer and computer-related hardware, including computers, file servers, facsimile servers, scanners, color printers and laser printers, copiers, telecopy machines and other telecommunications equipment.

“**HIPAA**” means the U.S. Health Insurance Portability and Accountability Act of 1996, as amended.

“**Hire Date**” shall have the meaning set forth in [Section 5.2\(a\)](#).

“**HSR Act**” means the U.S. Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the related regulations and published interpretations.

“**Inadequate Offer Payments**” shall have the meaning set forth in [Section 2.3\(d\)](#). For purposes of this Agreement, to the extent that continued participation in Seller’s benefits plans or arrangements is included as a component of Inadequate Offer Payments, the dollar amount treated as an Inadequate Offer Payment attributable to such continued benefits participation shall be the dollar amount (which may be determined as a stated percentage of the affected Business Employee’s base salary or other objective measure of such Business Employee’s compensation) that Seller ascribes in the ordinary course of business to the provision of such benefits participation for purposes of allocation of such costs across its respective business units, as adjusted to reflect the actual period of such Business Employee’s continued participation by reason of the failure of Buyer and its Affiliates to timely provide a Comparable Job Offer to such Business Employee.

“**Income Statement**” shall have the meaning set forth in the definition of Financial Statements.

“**Indebtedness**” means, without duplication, any of the following Liabilities, in each case, including the principal amount and all accrued interest and any related prepayment premiums, penalties, indemnities, breakage costs, make-whole payments or other similar costs, fees or expenses (if any) that would be required in order to fully discharge any such Liabilities and obligations: all (a) obligations for borrowed money; (b) obligations evidenced by bonds, debentures, notes or similar instruments or debt securities; (c) obligations under conditional sale or other title retention agreements relating to any property; (d) obligations under interest rate, currency or commodity derivatives or hedging transactions (valued at the termination value thereof); (e) letters of credit and performance bonds (including surety bonds and customs bonds),

in each case, to the extent drawn; (f) obligations as lessee that are capitalized in accordance with GAAP; (g) obligations (contingent or otherwise) for the deferred purchase price of assets, property or equity securities, including any “earn out” or similar obligations (whether contingent or otherwise); and (h) guarantees and keepwell arrangements of any Indebtedness of any Person of the type described in the foregoing clauses (a) through (g).

“**Indemnified Party**” shall have the meaning set forth in Section 8.3(a).

“**Indemnifying Party**” shall have the meaning set forth in Section 8.3(a).

“**Independent Accounting Firm**” means a nationally recognized firm of independent certified public accountants selected by Buyer and Seller; provided that, if Buyer and Seller cannot agree on such firm, each shall (a) select one nationally recognized firm of independent certified public accountants (which may be the applicable party’s existing accounting firm) and (b) cause such firm to select, jointly with the firm selected by such other party, a third nationally recognized firm of independent certified public accountants, which shall be the “Independent Accounting Firm” for all purposes of this Agreement.

“**Initial Closing Statement**” shall have the meaning set forth in Section 2.9(b).

“**Intellectual Property**” means all patents, Trademarks, copyrights (including rights in Software), Trade Secrets, and all other similar intellectual property rights (whether registered or unregistered, and any applications for the foregoing) that may subsist anywhere in the world.

“**Intercompany Agreements**” means any agreement, arrangement or commitment, including any intergroup banking, cash pooling, credit, financing or funding agreement, facility or other arrangement, receivable, payable, claim, demand, right, loan and Contract between Seller, on the one hand, and any of its Affiliates, on the other hand.

“**IRS**” means the U.S. Internal Revenue Service.

“**IRT Management Team**” means (a) the individuals set forth in Section 1.1(J) of the Seller Disclosure Letter (in their capacity, as of the date hereof, as employees of Seller) and (b) any successor of the foregoing individuals (in such foregoing individuals’ capacity, as of the date hereof, as employees of Seller).

“**Knowledge of Seller**” means the actual knowledge of the individuals listed in Section 1.1(K) of the Seller Disclosure Letter (in their capacity, as of the date hereof, as officers or employees of Seller), after reasonable inquiry of their direct reports, including the other members of the IRT Management Team and, with respect to intellectual property matters, after due inquiry of intellectual property personnel.

“**Labor Agreement**” shall have the meaning set forth in Section 3.8(e).

“**Law**” means any applicable law, statute, code, rule, regulation, Governmental Order, writ, ordinance, judgment, decree, treaty or other pronouncement of any Governmental Entity having the effect of law.

“**Leased Real Property**” shall have the meaning set forth in Section 2.1(h).

“**Leave**” means absence from work on account of short- or long-term disability, workers’ compensation leave, military leave, pregnancy or maternity leave, paternity leave, parental leave, or any other statutory leave (including under the Family Medical Leave Act or such other applicable employment legislation) or other approved leave of absence or for whom an obligation to recall, rehire or otherwise return to employment exists under a contractual obligation or Law.

“**Liabilities**” means any and all Losses, debts, obligations and liabilities, whether accrued or unaccrued, fixed or variable, known or unknown, absolute or contingent, matured or unmatured or determined or determinable.

“**Losses**” means any and all damages, judgments, awards, liabilities, losses, claims, fines, costs, expenses, interest and penalties, whether or not arising out of third-party claims; provided that with respect to costs of investigation, enforcement and collection, “Losses” shall include only such costs (x) as are reasonable, documented and paid out-of-pocket, or (y) paid to a Third Party in respect of an Asserted Liability; provided, further, that “Losses” shall not include Taxes.

“**Material Adverse Effect**” means any change, circumstance, condition, effect or event that, individually or in the aggregate, (a) has a material adverse effect on the business, results of operations, financial condition or other condition of the Business, taken as a whole, except that none of the following changes, circumstances, conditions, effects or events shall be deemed, either alone or in combination, to constitute a Material Adverse Effect, or be taken into account in determining whether there has been or will be a Material Adverse Effect: (i) general economic, political, regulatory or social conditions in, or directly affecting, any of the geographical areas in which the Business operates; (ii) any change in the financial, banking, securities, capital or credit markets in general (whether in the United States or any other country or in any international market), including changes in interest rates and credit ratings; (iii) conditions generally affecting any of the industries in which the Business operates; (iv) acts of God, natural disasters, national or international political conditions, weather conditions, the engagement in, or escalation or worsening of, hostilities, whether commenced before or after the date hereof and whether or not pursuant to the declaration of a national emergency, the occurrence of any cyber (not directed specifically at Seller or the Business to the exclusion of others), military or terrorist attack, whether inside or outside the United States; (v) the failure to achieve any projections, forecasts, estimates, plans or predictions, or performance metrics or operating statistics that were forward-looking when they were established (but not any underlying change, circumstance, condition, effect or event which causes such failure); (vi) any action taken by Buyer or any of its Affiliates not contemplated by this Agreement; (vii) other than for purposes of alleged breaches of the representations and warranties set forth in Section 3.5, the negotiation, announcement or consummation of the transactions contemplated hereby, the disclosure of the fact that Buyer is the prospective acquirer of the Business, or any communication by Buyer regarding plans or intentions of Buyer with respect to the Business or the operation of the recordkeeping, trust and custody and discretionary business of Buyer and its Affiliates from and after the Effective Time including the impact of any of the matters specified in this clause (vii) on relationships with customers, suppliers or employees; (viii) any changes in applicable accounting regulations or accounting principles (or interpretations thereof that are

generally accepted) or any change in Laws or the interpretation thereof; and (ix) compliance with the express terms of, or the taking of any action expressly contemplated by, this Agreement or the Ancillary Agreements or any action taken, or failure to take action, at the request of Buyer or following receipt of Buyer's consent; except in the case of clauses (i), (ii), (iii), (iv) and (viii), to the extent such change, circumstance, condition, effect or event has a disproportionately greater adverse impact on the Business, taken as a whole, as compared to the adverse impact such change, circumstance, condition, effect or event has on other businesses operating in the industries (taken as a whole) in which the Business operates; or (b) would materially impair or delay the consummation of the transactions contemplated hereby and by the Ancillary Agreements.

"Material Change of Work Location" means a change in an employee's primary work location from the employee's Existing Work Location, such that: (a) the distance between such employee's new primary work location and the Existing Work Location exceeds twenty (20) miles (one way); (b) the number of miles between such employee's home and such employee's new primary work location exceeds the number of miles between such employee's home and the Existing Work Location; and (c) the number of miles between such employee's home and such employee's new primary work location exceeds forty (40) miles (one way).

"Material Contracts" shall have the meaning set forth in [Section 3.18\(a\)](#).

"Measurement Date" means December 31, 2020.

"Measurement Date Fee Revenue" shall have the meaning set forth in Section 1.1(L) of the Seller Disclosure Letter.

"Measurement Date Fee Revenue Statement" shall have the meaning set forth in [Section 2.11\(f\)](#).

"Migration Services" shall have the meaning set forth in the Transitional Services Agreement.

"Net Accounts Receivable" means Accounts Receivable, plus (without duplication) the Charged-Off Receivables, minus Specified Current Liabilities.

"Net Estimated Accounts Receivable" means Estimated Accounts Receivable, plus Estimated Charged-Off Receivables, minus Estimated Specified Current Liabilities.

"Non-U.S. Business Employee" means a Business Employee who is not a U.S. Business Employee.

"Notice of Disagreement" shall have the meaning set forth in [Section 2.10\(a\)](#).

"Notice Period" shall have the meaning set forth in [Section 8.3\(a\)](#).

"Other Contracts" means the Contracts to which Seller or its Affiliates is bound set forth in Section 1.1(O) of the Seller Disclosure Letter.

“**Outside Date**” shall have the meaning set forth in [Section 7.1\(b\)](#).

“**Oversight Committee**” shall have the meaning set forth in Section 5.12(f)(i)(2) of the Seller Disclosure Letter.

“**Participation Agreement**” means any Contract between Seller or its Affiliates, on the one hand, and any mutual fund organization or other asset manager (which may be an Affiliate of Seller), on the other hand, providing for the use of such organization’s or asset manager’s mutual funds or other investment products as investment options with respect to the Business.

“**Permitted Encumbrances**” means (a) mechanics’, carriers’, workers’, repairers’, materialmen’s, warehousemen’s, contractors’, subcontractors’ and other similar Encumbrances for sums not yet due and payable that have arisen in the ordinary course of business, including Encumbrances arising in the ordinary course of business by operation of Law for sums not yet due or payable; (b) Encumbrances approved in writing by Buyer or created by act or omission of Buyer or resulting from Buyer or its or its Affiliates’ status; (c) Encumbrances for Taxes or other charges and assessments of a Governmental Entity that are not yet due and payable or that are being contested in good faith and for which adequate reserves have been established in accordance with GAAP; (d) statutory liens of landlords, lessors or renters for amounts not yet due and payable; (e) easements, rights of way, zoning ordinances and other similar encumbrances affecting the Leased Real Property that are not violated in any material respect by the current use and operation of the Leased Real Property; (f) non-exclusive licenses and other grants of rights or obligations with respect to Intellectual Property granted by Seller or its Affiliates in the ordinary course of the Business; (g) liens arising under conditional sales contracts and equipment leases with Third Parties entered into in the ordinary course of business; (h) Encumbrances that will be released at or prior to the Effective Time; and (i) Encumbrances (other than those for Taxes or other charges and assessments of a Governmental Entity) that, in the aggregate, are not material in amount and do not materially detract from the value of, and are not reasonably likely to impair, in any material respect, the continued use of, the asset or property to which they relate, as used on the date hereof.

“**Person**” means an association, a corporation, an individual, a sole proprietorship, a partnership, a limited liability company, a trust, or any other entity or organization, including a Governmental Entity.

“**Personal Information**” means information, in any form, about or that identifies an individual person, including such individual’s combined first and last names, home address, telephone number, email address, social security number, driver’s license number, passport number, or other government-issued identifier, credit card or other financial information, medical, health, or insurance information, gender, date of birth, educational or employment information, marital or other status, photograph, any other data used to identify, contact or locate an individual, and any other information within definition of personal information (or similar terms) under any applicable Privacy Laws.

“**Personnel File**” shall have the meaning set forth in [Section 5.2\(h\)](#).

“**Plan**” means each plan or contractual arrangement that is subject to ERISA or that provides deferred compensation, pursuant to which Seller or its Affiliates performs plan administration, recordkeeping, trustee, custody or payment services in connection with the Business, other than any Employee Benefit Plan.

“**plan**” means, solely for purposes of the definitions and provisions of Section 2.11, an account or accounts under the same contract with a Base Date Customer, as recorded in the Business’s fee system.

“**Post-Closing Adjustment**” shall have the meaning set forth in Section 2.10(e)(i).

“**Post-Closing Tax Period**” shall have the meaning set forth in Section 9.1(b).

“**Pre-Closing Tax Period**” shall have the meaning set forth in Section 9.1(a).

“**Privacy Laws**” means all Laws and binding industry guidelines (including the then-applicable version of the Payment Card Industry Data Security Standard with respect to any payment card data) regarding the collection, use, storage, disclosure or other processing of Personal Information.

“**Purchase Price**” shall have the meaning set forth in Section 2.10(f).

“**Purchased Assets**” shall have the meaning set forth in Section 2.1.

“**Reference Statement**” shall have the meaning set forth in the definition of Financial Statements.

“**Registered Business IP**” means all Business IP that is registered, or is the subject of an application for registration, by any Governmental Entity or, in the case of domain names, by any domain name registrar.

“**Related to the Business**” means (a) used or held for use exclusively or primarily in, exclusively or primarily arising directly or indirectly out of, or (b) exclusively or primarily relating to, in each case, the operation or conduct of the Business.

“**Representatives**” shall have the meaning set forth in Section 5.5.

“**Retained Liabilities**” shall have the meaning set forth in Section 2.4.

“**Retention Bonus Arrangement**” shall have the meaning set forth in Section 5.2(l).

“**Retirement and Income Solutions**” means the Retirement and Income Solutions business segment of Buyer and its Affiliates as described in the Annual Report of Principal Financial Group, Inc. for the fiscal year ended December 31, 2018, as filed with the Securities and Exchange Commission.

“**Retirement Business**” means the performance by Seller and its Affiliates of tax-qualified plan administration and recordkeeping that is primarily managed by the IRT

Management Team for defined benefit retirement plans and defined contribution retirement plans of institutional clients, including (a) plan participant education and communication and (b) trustee, custody and payment services, in the case of clauses (a) and (b), to the extent related to such tax-qualified plan administration and recordkeeping; provided, however, that the “Retirement Business” shall exclude the T&C Business, the Discretionary Business and the Executive Benefits Business.

“**Review Period**” shall have the meaning set forth in Section 2.9(c).

“**RFP/RFI**” shall have the meaning set forth in Section 5.17(c).

“**Seller**” shall have the meaning set forth in the Preamble hereof.

“**Seller Confidential Information**” shall have the meaning set forth in Section 5.4(d).

“**Seller-Controlled Assets**” shall mean, collectively, the (i) Delayed Transfer Purchased Assets and Customer Contracts that have not been (x) assigned to Buyer or a Designated Purchaser or (y) terminated in accordance with Section 5.9 and (ii) the TSA Business Employees.

“**Seller Disclosure Letter**” means the letter delivered by Seller to Buyer concurrently with the execution and delivery of this Agreement, setting forth, among other things, items the disclosure of which is called for by this Agreement, either in response to a disclosure requirement contained in a provision of this Agreement or as an exception to one or more of the representations, warranties, covenants or agreements contained in this Agreement, except that the mere inclusion of an item in the Seller Disclosure Letter as an exception to a representation or warranty will not be deemed an admission by Seller that such item (or any non-disclosed item or information of comparable or greater significance) represents a material exception or fact, event, effect or circumstance, that such item has had, or is expected to result in, a Material Adverse Effect, or that such item constitutes noncompliance with, or a violation of, any Law, permit or Contract to which Seller or its Affiliates is bound or other topic to which such disclosure is applicable.

“**Seller Fundamental Representations**” means the representations and warranties of Seller contained in Section 3.1 (Due Organization and Good Standing), Section 3.2 (Authorization of Transaction), Section 3.16 (Brokers’ Fees) and Section 3.17(a) (Assets).

“**Seller Funds**” shall have the meaning set forth in Section 5.17.

“**Seller Governmental Filings**” shall have the meaning set forth in Section 3.3.

“**Seller Indemnified Parties**” shall have the meaning set forth in Section 8.2(a).

“**Seller Party**” means each of Seller and Seller Parent.

“**Services**” shall have the meaning set forth in the Transitional Services Agreement.

“**Software**” means any and all computer programs, applications and software, including any and all software implementations of algorithms, databases, models, methodologies, report formats and menus (whether in source code, object code or other form).

“**Specified Current Liabilities**” means accrued expenses and other liabilities of the Business (other than those relating to Taxes) included in the calculation of the “Accr. expenses, excl. bonus accr., client pay. & other tax pay.”, “Payable to clients” and “Bonus plan accrual” line items on the Reference Statement. For purposes of Section 2.9 and Section 2.10 and the computation of the Net Accounts Receivable, the “Specified Current Liabilities” shall be calculated in accordance with the Agreed Accounting Principles and otherwise in the manner in which the “Accr. expenses, excl. bonus accr., client pay. & other tax pay.”, “Payable to clients” and “Bonus plan accrual” line items on the Reference Statement were calculated.

“**Straddle Period**” means any taxable period that begins at or before the date on which the Effective Time occurs and ends after such date.

“**Subsidiary**” of any Person means any Person of which securities or other ownership interests representing more than fifty percent (50%) of the equity or more than fifty percent (50%) of the ordinary voting power or, in the case of a partnership, more than fifty percent (50%) of the general partnership ownership interests are, as of such date, owned, controlled or held by, or a majority of such entity’s gains or losses is entitled to be allocated to, the applicable Person or one or more subsidiaries of such Person.

“**Sweep Deposit and Servicing Agreement**” means the sweep deposit and servicing agreement to be entered into as of the Effective Time, by and between Seller and Buyer, substantially in the form attached hereto as Exhibit A.

“**T&C Business**” means the performance by Seller of trustee, custody and payment services that are primarily managed by the IRT Management Team for tax-qualified retirement plans and non-retirement assets of institutional clients (including insurance companies and other financial institutions), Governmental Entities, institutional foundations and endowments, Taft-Hartley plans and/or health and welfare plans, including recordkeeping to the extent related to such trustee, custody and payment services; provided, however, that the “T&C Business” shall exclude the Retirement Business, Executive Benefits Business and the Discretionary Business.

“**Target Net Accounts Receivable**” means fifty million dollars (\$50,000,000).

“**Tax**” or “**Taxes**” means any governmental, federal, state, county, local or foreign income, sales and use, excise, franchise, real and personal property, gross receipts, capital stock, production, business and occupation, stamp, disability, employment, payroll, severance, workers’ compensation, unemployment, social security, estimated, value added, ad valorem or withholding or other tax or any duty, fee, assessment or other governmental charge in the nature of (or similar to) taxes, including any interest, addition to tax or penalties related thereto.

“**Tax Authority**” means any government, state or municipality or any local, state, federal, foreign or other fiscal, revenue, customs or excise authority, body or official charged with the administration of any Tax Law.

“**Tax Claim**” shall have the meaning set forth in Section 9.4.

“**Tax Law**” means any Law relating to Tax.

“**Tax Return**” means any return, report, declaration, information return, election, filing or other document required to be filed with any Tax Authority with respect to Taxes, including any amendments thereof.

“**Termination Date**” shall have the meaning set forth in Section 5.9(c).

“**Third Party**” means any Person other than Buyer, Seller or any of their respective Affiliates.

“**Third Party Accounting Firm**” shall have the meaning set forth in Section 3.4(d).

“**Third Party TSA Consent**” shall have the meaning set forth in Section 5.9(g).

“**Trade Secrets**” means trade secrets and other confidential and proprietary information, ideas, data, databases, and other compilations of data, know-how, inventions, processes, technology, algorithms, procedures, processes, technology, formulae, models, business plans and strategies, and methodologies that derive independent economic value from not being generally known to the public.

“**Trademarks**” means all trademarks, service marks, trade dress, logos, brand names, trade names, corporate names, domain names, any other indicia of source or origin and all registrations and applications for registration of the foregoing, together with the goodwill symbolized by any of the foregoing.

“**Transfer Taxes**” means any sales, use, value added, conveyance, stock transfer, real property transfer, transfer, stamp, registration, documentary, recording or similar Tax incurred in connection with the transactions contemplated hereby, but does not include (a) any income or gains Taxes or similar Taxes and (b) any Taxes attributable to the Pre-Closing Reorganization.

“**Transferred Contracts**” means (a) all Customer Contracts, (b) all supplier or vendor Contracts of Seller and its Affiliates that are exclusively related to the Business, including the Contracts set forth in Section 1.1(P)(b)(1) of the Seller Disclosure Letter, but excluding the Contracts set forth in Section 1.1(P)(b)(2) of the Seller Disclosure Letter, (c) the Intellectual Property licenses set forth in Section 1.1(P)(c) of the Seller Disclosure Letter and (d) the Other Contracts; in the case of the foregoing clauses (a) through (d), as in effect immediately prior to the Effective Time.

“**Transferred Employees**” means those Business Employees who accept a Comparable Job Offer from Buyer or one of its Affiliates in accordance with Section 5.2.

“**Transitional Services Agreement**” means the transitional services agreement to be entered into as of the Effective Time, by and between Seller and Buyer, substantially in the form attached hereto as Exhibit B.

“**Treasury Regulations**” means the regulations promulgated under the Code.

“**TSA Business Employee**” means each Business Employee who is (a) covered by or subject to a transitional services or other agreement or arrangement by and between Seller or one of its Affiliates, on the one hand, and Buyer or one of its Affiliates, on the other hand, during the TSA Services Period and (b) listed in Section 1.1(Q) of the Seller Disclosure Letter, which Seller may update from time to time prior to the Closing.

“**TSA End Date**” shall have the meaning set forth in Section 5.2(a).

“**TSA Representative**” shall have the meaning set forth in Section 5.12(a).

“**TSA Services Period**” means the period following the Effective Time that is specified in the Transitional Services Agreement during which the applicable TSA Business Employee provides services to Seller or one of its Affiliates for the benefit of Buyer or one of its Affiliates in accordance with the terms and conditions of the Transitional Services Agreement.

“**U.S. Business Employee**” means a Business Employee whose principal place of employment is located in the United States.

“**WARN Act**” shall have the meaning set forth in Section 5.13.

“**Wells Fargo 401(k) Plan**” means the Wells Fargo & Company 401(k) Plan, as amended from time to time.

“**Wells Fargo Annual Bonus Plan**” means the applicable annual bonus plan that applies to a Business Employee as in effect immediately prior to the applicable Hire Date. For the avoidance of doubt, Wells Fargo Annual Bonus Plan does not include any sales or commission bonus plans.

“**Wells Fargo Asset Management**” means the asset management businesses of Affiliates of Seller (for the avoidance of doubt, which shall not include Seller).

“**Wells Fargo Marks**” means (a) “Wells Fargo”, (b) any other Trademarks owned by Seller or any of its Affiliates, and/or (c) any Trademark derived from, or incorporating, referencing, combining or similar to, any of the foregoing terms or designs. Notwithstanding the foregoing, Wells Fargo Marks shall not include any Trademarks set forth in Section 1.1(E) of the Seller Disclosure Letter.

“**Wells Fargo Retained IP**” means Intellectual Property of Seller or its Affiliates that is not Business IP, in each case, irrespective of whether related to the Business, including (i) the Wells Fargo Marks and (ii) the assets set forth in Section 1.1(R) of the Seller Disclosure Letter.

“**Wells Fargo Severance Plan**” means for (i) U.S. Business Employees, the Wells Fargo & Company Salary Continuation Pay Plan, as in effect immediately prior to the applicable Hire Date, and (ii) Non-U.S. Business Employees, any applicable severance or termination benefit plan or practice that applies to such Non-U.S. Business Employee as of immediately prior to the applicable Hire Date.

ARTICLE II

PURCHASE AND SALE

Section 2.1 Purchase and Sale of Purchased Assets. Upon the terms, and subject to the conditions, set forth herein and subject to the exclusions set forth in Section 2.2, at the Effective Time, Seller shall sell, convey, assign, transfer and deliver to Buyer (or one or more Designated Purchasers), and Buyer shall (or shall cause one or more Designated Purchasers to) purchase, acquire and accept from Seller, free and clear of all Encumbrances, other than Permitted Encumbrances, all of the following assets, properties and rights as the same shall exist immediately prior to the Effective Time (collectively, the “**Purchased Assets**”):

- (a) subject to Section 5.9, the Transferred Contracts, including all right, title and interest thereunder in amounts actually received or receivable by Seller or its Affiliates in respect of periods at or after the Effective Time;
- (b) all right, title and interest in amounts actually received or receivable by Seller or its Affiliates in respect of periods at or after the Effective Time pursuant to the Participation Agreements, to the extent attributable to the account of the Business (and, for the avoidance of doubt, not held or received by Seller or its Affiliates for the benefit of any other Person);
- (c) the Business IP;
- (d) the Accounts Receivable and the Charged-Off Receivables;
- (e) subject to Section 2.2(c), Section 2.2(e) and Section 2.2(g), Seller’s rights to any refunds, claims, causes of action, rights of set off and rights of recoupment against Third Parties, to the extent Related to the Business, except to the extent arising under or in respect of Contracts and attributable to any time prior to the Effective Time (for the avoidance of doubt, other than the Accounts Receivable or Charged-Off Receivables);
- (f) existing written and electronic lists of current and, to the extent such records are maintained by Seller in the ordinary course of business, historical customers (in the case of historical customers, only such lists reflecting customers of the Business during the period between the Effective Time and twenty four (24) months prior to the Effective Time) of the Business, including customer contacts;
- (g) sales, marketing and other promotional information, literature, manuals, marketing studies and other similar materials, in each case that are exclusively related to the Business;
- (h) subject to Section 5.9, Seller’s right, title and interest in the leases listed in Section 2.1(h) of the Seller Disclosure Letter (the “**Assumed Leases**”) pursuant to which Seller holds a leasehold estate in any land, buildings, structures, improvements, fixtures or other

interest in real property, which such land, building structure, improvement, fixture or other interest is held under any Assumed Lease (the “**Leased Real Property**”);

(i) all Furniture and Equipment; provided that, to the extent any Third Party consent is required to transfer any Assumed Lease in accordance with Section 5.9, the Furniture and Equipment located at the associated Leased Real Property shall not be transferred until such (x) Third Party consent is obtained and (y) Assumed Lease is transferred;

(j) the Books and Records and all Business Confidential Information; provided that Seller may retain copies of the Books and Records and Business Confidential Information subject to Section 5.4;

(k) all other assets (other than Intellectual Property and Contracts (and rights arising under Contracts)) that are Related to the Business, other than assets (x) that Seller or its applicable Affiliate is required by Law to retain or prohibited by Law to transfer to Buyer or its Affiliate or (y) used by Seller or its Affiliates primarily or exclusively in connection with the provision of Corporate-Level Services; and

provided, however, that in case of any asset or right contemplated by Section 2.1(i) or (k) that is not exclusively related to the Business immediately prior to the Effective Time, Seller may request that the Steering Committee (as defined in Transitional Services Agreement) consider in good faith whether Buyer or its Affiliate shall provide access to such asset to Seller on a transitional basis or, if agreed by Buyer, retransferred to Seller for no consideration or such consideration as the parties may agree;

(l) the assets set forth in Section 2.1(l) of the Seller Disclosure Letter.

Notwithstanding anything to the contrary in this Agreement, the parties hereto hereby acknowledge and agree that the Delayed Transfer Purchased Assets may be transferred to Buyer (or the Designated Purchasers) after the Closing, but no later than the earliest of (i) promptly following such time as the applicable Delayed Transfer Purchased Asset is no longer used by or necessary for Seller to provide services under the Transitional Services Agreement, (ii) expiration of the Term (as defined in the Transitional Services Agreement) or (iii) such earlier date as may be mutually agreed in writing by the parties hereto.

Section 2.2 Excluded Assets. Notwithstanding any provision in this Agreement to the contrary, Seller shall not, and shall cause its Affiliates not to, transfer to Buyer pursuant to this Agreement any assets, rights or properties that are not Purchased Assets, including any assets, properties or rights that are exclusively related to the Excluded Businesses, or any of the following (collectively, the “**Excluded Assets**”):

(a) all cash and cash equivalents on hand, in transit or held by any bank or other Third Party;

(b) all intercompany accounts (including any intercompany receivables) between Seller or its Affiliates, on the one hand, and any of Seller’s Affiliates, on the other hand, and all Intercompany Agreements;

- (c) any rights to refunds, credits or other benefits or claims in respect of Taxes imposed on Seller or any of its Affiliates or relating to a Pre-Closing Tax Period;
- (d) all rights to the Wells Fargo Marks and Wells Fargo Retained IP, including those rights under the Transferred Contracts to use the same (if any);
- (e) all claims by Seller or its Affiliates and rights of such Persons to sue for, and receive and recover, damages arising from any infringement or other violation of the Business IP prior to the Effective Time;
- (f) all policies of insurance and interests in insurance pools and programs, including any right to make any claim thereunder (other than any claim Buyer or its Affiliates are permitted to make pursuant to and in accordance with [Section 5.18](#));
- (g) all claims, causes of action (including counterclaims), rights of set-off and defenses against Third Parties relating to any of the Excluded Business, the Excluded Assets or the Retained Liabilities;
- (h) the Excluded Contracts and any other interest in Contracts other than, subject to [Section 5.9](#), the Transferred Contracts and Assumed Leases;
- (i) all assets in respect of all Employee Benefit Plans;
- (j) goodwill;
- (k) any leasehold interest in any real property, other than the Leased Real Property, and any leases related to such leasehold interest other than the Assumed Leases;
- (l) permits;
- (m) all ownership interests of Seller or its Affiliates in any Person;
- (n) the Excluded Books and Records;
- (o) any assets that Seller or its Affiliates are required by Law to retain;
- (p) all rights of Seller and its Affiliates under this Agreement or the Ancillary Agreements or any document contemplated hereby or thereby;
- (q) all assets held by Seller underlying or associated with the Deposits;
- (r) Hardware; and
- (s) all of Seller's and its Affiliates' right, title and interest in the assets listed in Section 2.2(s) of the Seller Disclosure Letter.

Section 2.3 **Assumption of Assumed Liabilities.** Upon the terms, and subject to the conditions, set forth herein, Buyer agrees, effective as of the Effective Time, to assume and to satisfy and discharge when due, the following Liabilities of Seller and its applicable Affiliates,

which shall exclude the Retained Liabilities (all of the following Liabilities being herein collectively referred to as the “**Assumed Liabilities**”):

(a) the Specified Current Liabilities as of immediately prior to the Effective Time;

(b) subject to Section 5.9, all Liabilities arising under the terms (or from the performance) of the Transferred Contracts and Assumed Leases at or after the Effective Time, other than any Liability resulting from a breach of the applicable Transferred Contract or Assumed Lease by Seller prior to the Closing;

(c) any (i) Taxes attributable to or imposed on the Purchased Assets or the operation of the recordkeeping, trust and custody and discretionary business of Buyer and its Affiliates, in each case with respect to any Post-Closing Tax Period and (ii) Transfer Taxes for which Buyer is liable pursuant to Section 9.3;

(d) all Liabilities (i) arising out of the employment or termination of employment of any Transferred Employees (including all Liabilities with respect to their dependents and beneficiaries), whenever incurred, that are not expressly retained by Seller or its Affiliates pursuant to Section 5.2; (ii) relating to the failure of Buyer and its Affiliates to timely provide a Comparable Job Offer to any Business Employee, including any severance, notice or other termination payments resulting from a termination of employment of such Business Employee with Seller and its Affiliates (any such Liabilities or payments, the “**Inadequate Offer Payments**”); and (iii) that are assumed by Buyer or one of its Affiliates pursuant to Section 5.2;

(e) all Liabilities (other than those assumed pursuant to any other clause of this Section 2.3) relating to, resulting from or arising out of the Purchased Assets (other than the Transferred Contracts and Assumed Leases, which are subject to clause (b) of this Section 2.3) from and after the Effective Time; and

(f) any Liability set forth in Section 2.3(f) of the Seller Disclosure Letter.

Section 2.4 **Retained Liabilities.** Notwithstanding any provision in this Agreement to the contrary, Seller shall retain and be responsible for, or cause its applicable Affiliates to retain and be responsible for, and Buyer shall not assume or accept, any Liabilities of Seller or its Affiliates other than the Assumed Liabilities (the “**Retained Liabilities**”), including:

(a) Liabilities (other than the Liabilities expressly contemplated in any subclause of Section 2.3) relating to, resulting from or arising out of the operation of the Business, including any Liabilities with respect to all Employee Benefit Plans or Business Employees, prior to the Effective Time;

(b) intercompany accounts between Seller or any of its Affiliates, on the one hand, and the Business, on the other hand, including intercompany payables between Seller or any of its Affiliates and the Business and all Liabilities under any Intercompany Agreements and any funding arrangement from Seller or any of its Affiliates to the Business;

(c) the portion of any Liability attributable to any Excluded Asset or the Excluded Business;

(d) any Taxes attributable to or imposed on the Purchased Assets or the Business, in each case with respect to any Pre-Closing Tax Period, except Transfer Taxes for which Buyer is liable pursuant to Section 9.3;

(e) Liabilities (i) in respect of any Business Employees who do not become Transferred Employees, whenever incurred, except in respect of the Inadequate Offer Payments and (ii) that are retained by Seller or one of its Affiliates pursuant to Section 5.2;

(f) deposit Liabilities of Seller or its Affiliates arising from the Deposits;

(g) the portion of Liabilities arising out of any Actions, whether initiated before, at or after the Effective Time, attributable to the conduct of the Business prior to the Effective Time;

(h) Liabilities arising out of the Pre-Closing Reorganization;

(i) Liabilities for Indebtedness; and

(j) any Liability set forth in Section 2.4(j) of the Seller Disclosure Letter.

Section 2.5 Pre-Closing Reorganization.

(a) The parties hereto hereby acknowledge and agree that, in order to facilitate proper transfer of the Purchased Assets and the Assumed Liabilities to Buyer and/or proper retention of the Excluded Assets and the Retained Liabilities by Seller and its Affiliates, Seller and its Affiliates shall use reasonable best efforts to effectuate an intercompany assignment from Affiliates of Seller to Seller of all Transferred Contracts to which an Affiliate of Seller is a party, including the Transferred Contracts set forth in Section 2.5(a) of the Seller Disclosure Letter.

(b) Buyer or its Affiliate shall, with the reasonable cooperation of Seller, use commercially reasonable efforts to enter into an agreement with the applicable Affiliate of Seller that is a party to each (i) intercompany arrangement set forth in Section 2.5(b)(i) of the Seller Disclosure Letter or (ii) other Contract set forth in Section 2.5(b)(ii) of the Seller Disclosure Letter, in order to obtain, effective as of the Effective Time, on arm's length terms, the rights, benefits and Liabilities that Seller or its Affiliates (in connection with the Business) have received through such arrangements, or to which they are entitled under such Contracts (the actions described in clauses (a) and (b) of this Section 2.5, the "**Pre-Closing Reorganization**").

Section 2.6 Closing Consideration. At the Closing, Buyer shall pay to Seller or its designee, in consideration for the purchase of the Purchased Assets pursuant to Section 2.1, an amount of cash (the "**Closing Consideration**") equal to (a) one billion and two hundred million dollars (\$1,200,000,000) (the "**Base Purchase Price**") plus (b) the positive difference, if any, of the Net Estimated Accounts Receivable minus the Target Net Accounts Receivable, or minus (c) the positive difference, if any, of the Target Net Accounts Receivable minus the Net

Estimated Accounts Receivable, by wire transfer of immediately available funds to an account or accounts designated by Seller at least two (2) Business Days prior to the Closing.

Section 2.7 **Closing.**

(a) **Closing.** The closing of the transactions contemplated by this Agreement (the “**Closing**”) shall be held at (i) the offices of Skadden, Arps, Slate, Meagher & Flom LLP, located at 4 Times Square, New York, New York 10036, at 10:00 a.m. (New York City time) on (A) the first Business Day of the month immediately following the month in which all of the conditions set forth in Article VI have been satisfied or, to the extent permitted under Law, waived (other than conditions which by their nature are to be satisfied at the Closing, but subject to the satisfaction, or, to the extent permitted under Law, waiver, of those conditions) (the “**Condition Satisfaction**”) or (B) if the Condition Satisfaction has not occurred on or before the second (2nd) Business Day prior to the first Business Day of such month and the parties do not have prior notice that the Condition Satisfaction is reasonably likely to occur prior to the first Business Day of such month, then the Closing shall take place on the first Business Day of the second month immediately following the month in which the Condition Satisfaction occurs; provided that in no event shall the Closing occur prior to July 1, 2019, or (ii) such other place, time or date as may be agreed to in writing by Buyer and Seller. The date on which the Closing actually occurs is referred to herein as the “**Closing Date.**”

(b) **Deliveries by Seller.** At the Closing, Seller shall deliver, or cause to be delivered, to Buyer:

(i) the certificate provided for in Section 6.1(a)(iii);

(ii) a certificate of non-foreign status from Seller complying with the requirements of Treasury Regulation Section 1.1445-2(b)(2);

(iii) duly executed counterparts to the Ancillary Agreements to which Seller is contemplated to become a party;

(iv) a customary certificate duly executed by the Secretary or an Assistant Secretary of Seller, dated as of the Closing Date, in form and substance reasonably acceptable to Buyer; and

(v) such other agreements, instruments or documents as are necessary or appropriate to give effect to the transactions contemplated by this Agreement or the Ancillary Agreements.

(c) **Deliveries by Buyer.** At the Closing, Buyer shall deliver, or cause to be delivered, to Seller:

(i) the Closing Consideration in accordance with Section 2.6;

(ii) the certificate provided for in Section 6.2(a)(iii);

(iii) duly executed counterparts to the Ancillary Agreements to which Buyer or any of its Affiliates is contemplated to become a party; and

(iv) such other agreements, instruments or documents as are necessary or appropriate to give effect to the transactions contemplated by this Agreement or the Ancillary Agreements.

Section 2.8 **Proceedings at the Closing.** All proceedings to be taken, documents to be executed and delivered, payments to be made and consideration to be delivered at the Closing shall be deemed to have been taken, executed, delivered and made simultaneously, and, except as provided hereunder, no proceedings shall be deemed taken nor any documents executed or delivered until all have been taken, executed and delivered.

Section 2.9 **Closing and Post-Closing Statements.**

(a) Seller shall deliver to Buyer, no later than three (3) Business Days prior to the Closing Date, a statement (the “**Estimated Closing Statement**”) setting forth Seller’s good-faith estimate, in each case as of the Effective Time, of the (i) Specified Current Liabilities (the “**Estimated Specified Current Liabilities**”), (ii) Accounts Receivable (the “**Estimated Accounts Receivable**”) and (iii) Charged-Off Receivables (the “**Estimated Charged-Off Receivables**”), together with such schedules and data as may be appropriate to support such statement. The Estimated Closing Statement shall be prepared in the same manner as the Reference Statement, including in accordance with the Agreed Accounting Principles and shall otherwise contain the same line items as the Reference Statement.

(b) Within one hundred and eighty (180) days after the Closing Date, or such earlier time as determined by Seller, Seller shall prepare and deliver to Buyer a statement setting forth Seller’s good-faith determination of the Net Accounts Receivable as of the Effective Time (the “**Initial Closing Statement**”). The Initial Closing Statement shall be prepared in the same manner as the Reference Statement and shall otherwise contain the same line items as the Reference Statement. In connection with Seller’s preparation of the Initial Closing Statement, Buyer shall (i) provide Seller and its Representatives with reasonable access to all records, books, work papers, reports, correspondence and other similar materials in the possession of Buyer or its Affiliates that relate to information reasonably relevant to the preparation of the Initial Closing Statement, (ii) make available employees of Buyer and its Affiliates knowledgeable about the subject matter of the Initial Closing Statement (including Transferred Employees) to discuss the Initial Closing Statement with Seller and its Representatives and (iii) cause its and its Affiliates’ employees (including Transferred Employees) to provide reasonable cooperation and assistance to Seller and its Representatives in connection with the preparation of the Initial Closing Statement, in each case, upon reasonable advance notice and during normal business hours.

(c) During the thirty (30) Business Day period immediately following Buyer’s receipt of the Initial Closing Statement (the “**Review Period**”), Seller shall (i) provide Buyer and its Representatives with reasonable access to Seller’s books, records, work papers, reports, correspondence and other similar materials, and any working papers of Seller’s independent accountants, that relate to information reasonably relevant to the preparation of the Initial

Closing Statement; provided, however, that Seller's independent accountants shall not be obligated to make any work papers, reports, correspondence or other similar materials available to Buyer or its Representatives except in accordance with such accountants' normal disclosure procedures and then only after Buyer or its Representatives, as applicable, have signed a customary agreement relating to such access to work papers, reports, correspondence, or other similar materials in form and substance reasonably acceptable to such accountants, (ii) make available employees of Seller and its Affiliates knowledgeable about the Initial Closing Statement to discuss the Initial Closing Statement with Buyer and its Representatives and (iii) cause its and its Affiliates' employees to provide reasonable cooperation and assistance to Buyer and its Representatives in connection with the review of the Initial Closing Statement, in each case, upon reasonable advance notice and during normal business hours.

(d) Each party agrees that, following the Effective Time through the date that the Final Closing Statement becomes final and binding in accordance with Section 2.10, it will (and will cause its Affiliates to) act in good faith to preserve (and not destroy) any records related to the Accounts Receivable, the Charged-Off Receivables or the Specified Current Liabilities, to the extent relevant to the preparation of the Final Closing Statement. Seller agrees that, following the Effective Time through the date that the Final Closing Statement becomes final and binding in accordance with Section 2.10, it will (and will cause its Affiliates to) maintain records in a manner consistent with past practice of Seller or any of its Affiliates with respect to the Business to the extent required to meet Seller's obligations set forth in this Section 2.9 and Section 2.10. Seller and Buyer acknowledge that the sole purpose of the determination of the Net Accounts Receivable is to adjust the Closing Consideration so as to accurately reflect the Net Accounts Receivable as of the Effective Time.

Section 2.10 Reconciliation of Estimated Closing Statement; Adjustment.

(a) Buyer shall notify Seller in writing (the "**Notice of Disagreement**") prior to the expiration of the Review Period if Buyer disagrees with the Initial Closing Statement. The Notice of Disagreement shall set forth in reasonable detail (i) the basis for such dispute, (ii) the amounts involved and (iii) Buyer's determination of the amount of the Net Accounts Receivable as of the Effective Time. If no Notice of Disagreement is delivered by Buyer prior to the expiration of the Review Period, then the Initial Closing Statement shall be deemed to have been accepted by Buyer and shall become final and binding upon the parties hereto in accordance with Section 2.10(e).

(b) During the twenty (20) Business Days immediately following the delivery of a Notice of Disagreement (the "**Consultation Period**"), Seller and Buyer shall seek in good faith to resolve any differences that they may have with respect to the matters specified in the Notice of Disagreement. If, during the Consultation Period, Seller and Buyer mutually agree upon any matters set forth in the Notice of Disagreement, they shall signify such agreement in a writing signed by both such parties.

(c) If, at the end of the Consultation Period, Seller and Buyer have been unable to resolve one or more differences with respect to the matters specified in the Notice of Disagreement, Seller and Buyer shall submit such matters that remain in dispute with respect to the Notice of Disagreement to the Independent Accounting Firm (each a "**Disputed Item**"). At

the time of the submission of the Disputed Items to the Independent Accounting Firm, each of Seller and Buyer shall submit to the Independent Accounting Firm a written statement setting forth in reasonable detail their respective positions with respect to the Disputed Items. Seller and Buyer shall also have the opportunity to submit a written response to the other party's written statement to the Independent Accounting Firm, no later than ten (10) days following the date of receipt of such other party's initial written statement. The failure of either such party to timely deliver its initial written statement or response to such other party's initial written statement shall constitute a waiver of such party's right to submit the same, unless the Independent Accounting Firm determines otherwise. During the review by the Independent Accounting Firm, each of Buyer and Seller and their respective accountants will make available to the Independent Accounting Firm individuals, information, books and records and work papers, as may be reasonably requested by the Independent Accounting Firm to fulfill its obligations under this [Section 2.10\(c\)](#) and [Section 2.10\(d\)](#); provided, however, that Seller's and Buyer's respective accountants shall not be obligated to make any work papers available to the Independent Accounting Firm or to the other party hereto except in accordance with such accountants' normal disclosure procedures and then only after the Independent Accounting Firm has signed a customary agreement relating to such access to work papers in form and substance reasonably acceptable to such accountants. In acting under this Agreement, the Independent Accounting Firm shall act as experts in accounting and not as arbitrators. All written communications to or from the Independent Accounting Firm, on the one hand, and Seller or Buyer (or any of their respective Representatives), on the other hand, shall be delivered simultaneously to Seller and Buyer, as applicable. In determining the Disputed Items, the Independent Accounting Firm shall be bound by the terms of this Agreement (including the Reference Statement) and shall not conduct any independent review of any matters.

(d) With respect to each Disputed Item, such determination, if not in accordance with the position of either Seller or Buyer, shall not be in excess of the higher, nor less than the lower, of the amounts advocated by Buyer in the Notice of Disagreement or by Seller in the Initial Closing Statement with respect to such disputed line item. During such determination period, the Independent Accounting Firm also shall be instructed to (i) prepare a statement of the Net Accounts Receivable as of the Effective Time based upon all of the line items not disputed by the parties hereto and the line items determined by the Independent Accounting Firm in accordance with the foregoing provisions and (ii) determine the amount of the Net Accounts Receivable reflected on such statement. Seller and Buyer shall instruct the Independent Accounting Firm to (A) make a final determination only in respect of Disputed Items, (B) make such determination in a manner consistent with the manner in which the Reference Statement was prepared and (C) deliver such determination to such parties within thirty (30) Business Days after such submission, which determination shall be binding on the parties hereto and shall not be subject to appeal (absent manifest or mathematical error); provided that the failure of the Independent Accounting Firm to deliver its written decision within such time period shall not constitute a defense or objection to the finality or enforcement of such determination. The statement of the Net Accounts Receivable that is final and binding on the parties hereto, as determined either through agreement of the parties hereto pursuant to [Section 2.10\(a\)](#) or [2.10\(b\)](#) or through the action of the Independent Accounting Firm, pursuant to this [Section 2.10\(d\)](#), is referred to as the "**Final Closing Statement.**" The cost of, and expenses associated with, the Independent Accounting Firm's review and determination shall be shared equally by Seller, on the one hand, and Buyer, on the other hand.

(e) Not later than three (3) Business Days after the Final Closing Statement is final and binding on the parties hereto, as determined either through agreement of the parties hereto pursuant to Section 2.10(a) or 2.10(b), or through the action of the Independent Accounting Firm, pursuant to Section 2.10(d):

(i) The “**Post-Closing Adjustment**” shall be the amount of the (A) Net Accounts Receivable set forth in the Final Closing Statement minus (B) Net Estimated Accounts Receivable, which amount shall be positive or negative.

(ii) If the Post-Closing Adjustment is a positive amount, then Buyer shall pay in cash to an account designated by Seller (for its own account or as agent for the account of its applicable Affiliates) the amount of the Post-Closing Adjustment.

(iii) If the Post-Closing Adjustment is a negative amount, then Seller shall pay in cash to an account designated by Buyer (for its own account or as agent for the account of its applicable Affiliates) the absolute value of the amount of the Post-Closing Adjustment.

(f) The “**Purchase Price**” shall be equal to the Closing Consideration, as adjusted in accordance with this Article II. Notwithstanding anything to the contrary contained herein, any payments under this Section 2.10 shall be treated as adjustments to the Purchase Price for any Tax purposes, except as otherwise required by Law.

Section 2.11 **Earn-Out Payment.**

(a) Seller shall deliver to Buyer, on the Closing Date, a statement (the “**Base Date Fee Revenue Statement**”) setting forth Seller’s calculation of the Base Date Fee Revenue, together with such schedules and data as may be appropriate to support such statement.

(b) During the sixty (60) day period immediately following Buyer’s receipt of the Base Date Fee Revenue Statement (the “**Base Date Review Period**”), Seller shall provide Buyer and its Representatives with reasonable access to (x) all records, books, work papers, reports, correspondence and other relevant materials in the possession of Seller or its Affiliates that relate to the calculation of the Base Date Fee Revenue and the preparation of the Base Date Fee Revenue Statement and (y) employees, accountants and auditors of Seller and its Affiliates knowledgeable about the subject matter of the Base Date Fee Revenue Statement, in each case, upon reasonable advance notice during normal business hours.

(c) Buyer shall notify Seller in writing (the “**Base Date Notice of Disagreement**”) prior to the expiration of the Base Date Review Period if Buyer disagrees with the Base Date Fee Revenue Statement. The Base Date Notice of Disagreement shall set forth in reasonable detail (i) the basis for such dispute and (ii) the amounts involved, to the extent available at the time. If no Base Date Notice of Disagreement is delivered by Buyer prior to the expiration of the Base Date Review Period, then the Base Date Fee Revenue Statement shall be deemed to have been accepted by Buyer and shall become final and binding upon the parties hereto, which sets forth the Final Base Date Fee Revenue. The parties hereto acknowledge and agree that the Federal Rules of Evidence Rule 408 and comparable state rules of evidence shall

apply to negotiations during the Base Date Consultation Period and any subsequent compromise negotiations.

(d) During the twenty (20) Business Days immediately following the delivery of the Base Date Notice of Disagreement (the “**Base Date Consultation Period**”), Seller and Buyer shall seek in good faith to resolve any differences that they may have with respect to the matters specified in the Base Date Notice of Disagreement. If, during the Base Date Consultation Period, Seller and Buyer mutually agree upon any matters set forth in the Base Date Notice of Disagreement, they shall signify such agreement in a writing signed by both such parties, and if all such matters are resolved, they shall agree upon a final and binding Base Date Fee Revenue Statement, which sets forth the Final Base Date Fee Revenue.

(e) If, at the end of the Base Date Consultation Period, Seller and Buyer have been unable to resolve one or more differences with respect to the matters specified in the Base Date Notice of Disagreement, Seller and Buyer shall submit such matters that remain in dispute with respect to the Base Date Notice of Disagreement to the Independent Accounting Firm (each a “**Base Date Disputed Item**”). The Independent Accounting Firm shall resolve each Base Date Disputed Item in accordance with the procedures applicable to resolution of Disputed Items as set forth in Section 2.10(c), *mutatis mutandis*. The statement of the Base Date Fee Revenue that is final and binding on the parties hereto, as determined either through agreement of the parties hereto pursuant to Section 2.11(c) or Section 2.11(d) or through the action of the Independent Accounting Firm, pursuant to this Section 2.11(e), is referred to as the “**Final Base Date Fee Revenue**”. The cost of, and expenses associated with, the Independent Accounting Firm’s review and determination of the Final Base Date Fee Revenue shall be shared equally by Seller, on the one hand, and Buyer, on the other hand.

(f) Buyer shall (or shall cause an Affiliate of Buyer to) deliver to Seller, no earlier than January 1, 2021 or later than March 31, 2021, a statement (the “**Measurement Date Fee Revenue Statement**”) setting forth Buyer’s calculation of the Measurement Date Fee Revenue, together with such schedules and data as may be appropriate to support such statement. Seller shall reasonably cooperate with and assist Buyer and its Representatives in connection with Buyer’s preparation of the Measurement Date Fee Revenue Statement, including providing Buyer and its Representatives with reasonable access to (x) all records, books, work papers, reports, correspondence and other relevant materials in the possession of Seller or its Affiliates that relate to the calculation of the Measurement Date Fee Revenue and information reasonably relevant to the preparation of the Measurement Date Fee Revenue Statement and (y) employees of Seller and its Affiliates knowledgeable about the calculation of the Measurement Date Fee Revenue and the subject matter of the Measurement Date Fee Revenue Statement, in each case, upon reasonable advance notice during normal business hours.

(g) During the sixty (60) day period immediately following Seller’s receipt of the Measurement Date Fee Revenue Statement (the “**Earn-Out Review Period**”), Buyer shall provide Seller and its Representatives with reasonable access to (x) all records, books, work papers, reports, correspondence and other relevant materials in the possession of Buyer or its Affiliates that relate to the calculation of the Measurement Date Fee Revenue and the preparation of the Measurement Date Fee Revenue Statement and (y) employees, accountants and auditors of

Buyer and its Affiliates knowledgeable about the subject matter of the Measurement Date Fee Revenue Statement, in each case, upon reasonable advance notice during normal business hours.

(h) Seller shall notify Buyer in writing (the “**Earn-Out Notice of Disagreement**”) prior to the expiration of the Earn-Out Review Period if Seller disagrees with the Measurement Date Fee Revenue Statement. The Earn-Out Notice of Disagreement shall set forth in reasonable detail (i) the basis for such dispute and (ii) the amounts involved, to the extent available at the time. If no Earn-Out Notice of Disagreement is delivered by Seller prior to the expiration of the Earn-Out Review Period, then the Measurement Date Fee Revenue Statement shall be deemed to have been accepted by Seller and shall become final and binding upon the parties hereto, which sets forth the Final Measurement Date Fee Revenue. The parties hereto acknowledge and agree that the Federal Rules of Evidence Rule 408 and comparable state rules of evidence shall apply to negotiations during the Earn-Out Consultation Period and any subsequent compromise negotiations.

(i) During the twenty (20) Business Days immediately following the delivery of the Earn-Out Notice of Disagreement (the “**Earn-Out Consultation Period**”), Seller and Buyer shall seek in good faith to resolve any differences that they may have with respect to the matters specified in the Earn-Out Notice of Disagreement. If, during the Earn-Out Consultation Period, Seller and Buyer mutually agree upon any matters set forth in the Earn-Out Notice of Disagreement, they shall signify such agreement in a writing signed by both such parties, and if all such matters are resolved, they shall agree upon a final and binding Measurement Date Fee Revenue Statement, which sets forth the Final Measurement Date Fee Revenue.

(j) If, at the end of the Earn-Out Consultation Period, Seller and Buyer have been unable to resolve one or more differences with respect to the matters specified in the Earn-Out Notice of Disagreement, Seller and Buyer shall submit such matters that remain in dispute with respect to the Earn-Out Notice of Disagreement to the Independent Accounting Firm (each, an “**Earn-Out Disputed Item**”). The Independent Accounting Firm shall resolve the each Earn-Out Disputed Item in accordance with the procedures applicable to resolution of Disputed Items as set forth in Section 2.10(c), *mutatis mutandis*. The statement of the Measurement Date Fee Revenue that is final and binding on the parties hereto, as determined either through agreement of the parties hereto pursuant to Section 2.11(h) or Section 2.11(i) or through the action of the Independent Accounting Firm, pursuant to this Section 2.11(j), is referred to as the “**Final Measurement Date Fee Revenue**”. The cost of, and expenses associated with, the Independent Accounting Firm’s review and determination of the Final Measurement Date Fee Revenue shall be shared equally by Seller, on the one hand, and Buyer, on the other hand.

(k) If the Earn-Out Payment is a positive amount, then not later than the later of (i) the fifth (5th) Business Day after the Final Measurement Date Fee Revenue becomes final and binding in accordance with this Section 2.11(k) and (ii) the second anniversary of the Closing Date (the “**Earn-Out Payment Date**”), Buyer shall pay to Seller or its designee, by wire transfer of immediately available funds to an account or accounts designated by Seller at least two (2) Business Days prior to the Earn-Out Payment Date, an amount in cash equal to the Earn-Out Payment.

(l) From the Closing until the Measurement Date (the “**Earn-Out Period**”), Buyer shall (and shall cause its Affiliates to):

(i) use commercially reasonable efforts to retain the Base Date Customers as customers of Buyer or its applicable Affiliates, and maintain the fee revenue associated with the Base Date Customers and each plan (as defined herein), by applying a degree of care and diligence no less stringent, in aggregate, than they apply in retaining customers of, and maintaining fee revenue associated with, customers of Buyer and its Affiliates’ similar businesses; and

(ii) not take, or cause to be taken, any action, including any action with respect to Transferred Employees who are relationship managers or serve in a similar role, that reduces the revenue of Buyer and its Affiliates generated, or to be generated, in respect of any Customer Contract (and plan (as defined herein) thereunder) acquired by Buyer or its Affiliates hereunder, unless (A) such action is (x) undertaken in the ordinary course of business or (y) in the best interests of Buyer or its Affiliates, as applicable, as determined in good faith by senior management of Buyer or its Affiliates, as applicable (but excluding for purposes of such determination the possible benefit to Buyer and its Affiliates of not paying all or any portion of the Earn-Out Payment), and (B) the primary purpose of such action is a legitimate business purpose other than effecting a reduction of the Earn-Out Payment

(m) In the event that, during the Earn-Out Period, Buyer or any of its Affiliates shall, directly or indirectly, either in one or a series of transactions, (i) sell, transfer, assign or otherwise dispose of all or substantially all of the Customer Contracts and/or the recordkeeping, trust and custody and discretionary business of Buyer and its Affiliates to any Person who is not an Affiliate of Buyer or (ii) consummate any consolidation, merger, combination or other similar transaction in which the voting control of Buyer or any of its Affiliates that operates or conducts a non-de minimis portion of the recordkeeping, trust and custody and/or discretionary business of Buyer and its Affiliates is transferred to a Person who is not an Affiliate of Buyer (any transaction contemplated by clauses (i) or (ii) being referred to as a “**Sale Transaction**”), then, in each case, the obligation of Buyer to pay the Earn-Out Payment to Seller (at maximum performance levels) hereunder shall be accelerated and Buyer shall (A) promptly provide notice of the Sale Transaction to Seller (upon the entry into an agreement to effect and consummation of a Sale Transaction) and (B) no later than ten (10) calendar days following the earlier of the entry into an agreement to effect a Sale Transaction or the consummation of a Sale Transaction, pay the Earn-Out Payment to Seller (at maximum performance levels). For avoidance of doubt, if Buyer is merged, consolidated or combined into any other person, the successor of Buyer shall expressly assume the obligations of Buyer, as applicable, under this Section 2.11.

(n) No later than thirty (30) days following the conclusion of any calendar quarter during the Earn-Out Period, Buyer shall provide a report to Seller that sets forth in reasonable detail, with respect to such concluded quarter, applicable information affecting the determination of Measurement Date Fee Revenue (as specified in the definition thereof). Seller shall treat information provided pursuant to this Section as Business Confidential Information in accordance with Section 5.4(c). Upon Seller’s request, Buyer shall promptly provide to Seller reasonable back-up information evidencing the manner in which the amounts set forth in the

foregoing quarterly reports were calculated. Seller shall provide Buyer reasonable cooperation and assistance in connection with the preparation of the reports contemplated by this Section, including access to Books and Records relating to the relevant Customer Contracts pursuant to Section 5.6(c), and shall make available employees of Seller who maintain such Books and Records or who may otherwise assist in the preparation of such reports.

(o) Buyer shall, and shall cause its Affiliates to, maintain books and records and data that reasonably support Buyer's compliance with the covenants and obligations set forth in Section 5.6(a), and 5.6(b).

(p) For the avoidance of doubt, (i) any disagreement or other dispute among the parties in connection with Section 2.11(l)-(o) shall not be subject to the dispute procedures set forth in Section 2.11(a)-(k), but rather shall be subject to the procedures set forth in Article VIII hereof and (ii) Buyer shall not be liable for any breach of Section 2.11(l)-(o) to the extent such breach was caused by Seller's breach of Sections 2.12-2.14 of the Transitional Services Agreement.

Section 2.12 Purchase Price Allocation.

(a) The parties hereto agree to report the allocation of the total consideration (including any Assumed Liabilities) as determined for U.S. federal income Tax purposes among the Purchased Assets in a manner consistent with Section 1060 of the Code and report such allocation on IRS Form 8594 and any other forms or statements required by the Code, Treasury Regulations, the IRS or any other applicable state or local Tax Authority.

(b) Buyer shall deliver its proposed allocation on IRS Form 8594 to Seller within one hundred and twenty (120) days following the Closing Date. Seller and Buyer shall discuss Buyer's proposed allocation in good faith; provided, however, that each party will be entitled to report the allocation it determines appropriate (pursuant to Section 1060 of the Code) to the IRS or any applicable state or local Tax Authority.

Section 2.13 Tax Withholding. Notwithstanding any provision herein to the contrary, Buyer shall not be entitled to deduct or withhold from the Purchase Price any amount, except as required by Law. If any Law requires the deduction or withholding of any Tax from the Purchase Price, Buyer shall be entitled to deduct or withhold such amounts; provided that as soon as reasonably practicable after Buyer becomes aware that any amount is required to be so withheld and in no event later than seven (7) Business Days prior to the Closing, Buyer shall provide to Seller written notice of the amounts to be so deducted or withheld and Buyer shall cooperate with Seller in good faith to minimize or eliminate such withholding Taxes. Any amounts so deducted or withheld shall be remitted to the applicable Tax Authority and shall be treated for all purposes of this Agreement as having been paid.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF SELLER

As an inducement to Buyer to enter into this Agreement and to consummate the transactions contemplated hereby, and except as set forth in the Seller Disclosure Letter (subject

to Section 10.11), Seller hereby represents and warrants to Buyer as of the date hereof and as of the Effective Time as follows:

Section 3.1 Due Organization and Good Standing. Seller is a national banking association organized, validly existing and in good standing under the Laws of the United States of America, and Seller Parent is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization. Seller has the organizational power and authority to own, lease and operate all of the properties and assets to the extent related to the Business and to carry on the Business as it is now being conducted. Each Seller Party is duly licensed or qualified to do business in each jurisdiction in which the nature of the Business makes such licensing or qualification necessary to the operation of the Business, except where the failure to be so licensed or qualified would not reasonably be expected to be material and adverse to the Business, taken as a whole.

Section 3.2 Authorization of Transaction.

(a) Seller has all requisite corporate (or other organizational) power and authority to execute, deliver and perform its obligations under this Agreement and the Ancillary Agreements to which it is or will be a party, as applicable, and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance by Seller of this Agreement and the Ancillary Agreements to which it is or will become a party, and the consummation by Seller of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary corporate (or other organizational) action on the part of Seller, and no other corporate proceedings on the part of Seller are necessary to authorize the execution, delivery and performance by Seller of this Agreement and the Ancillary Agreements to which it is or will become a party, or to consummate the transactions contemplated hereby or thereby.

(b) This Agreement has been duly executed and delivered by Seller and, assuming due authorization, execution and delivery by Buyer, constitutes a valid and binding obligation of Seller, and each Ancillary Agreement to which Seller is a party will be duly executed and delivered by Seller and will, assuming such Ancillary Agreement has been duly executed and delivered by the applicable Buyer Party, constitute a valid and binding obligation of Seller, in each case enforceable against each party thereto in accordance with its terms (except as may be limited by bankruptcy, insolvency, fraudulent transfer, moratorium, reorganization, preference or similar Laws of general applicability relating to or affecting the rights of creditors generally and subject to general principles of equity (regardless of whether enforcement is sought in equity or at law) (the “**Bankruptcy and Equity Exceptions**”)).

(c) Seller Parent has all requisite corporate power and authority to execute, deliver and perform its obligations under this Agreement and the Ancillary Agreements to which it is or will be a party. The execution, delivery and performance by Seller Parent of this Agreement and the Ancillary Agreements to which it is or will become a party have been duly and validly authorized by all necessary corporate action on the part of Seller Parent, and no other corporate proceedings on the part of Seller Parent are necessary to authorize the execution, delivery and performance by Seller Parent of this Agreement and the Ancillary Agreements to which it is or will become a party. This Agreement has been duly executed and delivered by

Seller Parent and, assuming due authorization, execution and delivery by Buyer, constitutes a valid and binding obligation of Seller Parent, and each Ancillary Agreement to which Seller Parent is a party will be duly executed and delivered by Seller Parent and will, assuming such Ancillary Agreement has been duly executed and delivered by the applicable Buyer Party, constitute a valid and binding obligation of Seller Parent, in each case enforceable against each party thereto in accordance with its terms (except as may be limited by the Bankruptcy and Equity Exceptions).

Section 3.3 **Governmental Filings.** No filing or registration with, notification to, or authorization, consent or approval of, any Governmental Entity (collectively, the “**Seller Governmental Filings**”) is required in connection with the execution, delivery and performance of this Agreement or the Ancillary Agreements by Seller, except for (a) the Seller Governmental Filings set forth in Section 3.3 of the Seller Disclosure Letter, (b) the Seller Governmental Filings under applicable United States or foreign competition and antitrust Laws, (c) the Seller Governmental Filings that become applicable as a result of matters specifically related to Buyer or its Affiliates and (d) such other Seller Governmental Filings that would not have, or be reasonably expected to have, a Material Adverse Effect should Seller fail to make or obtain them.

Section 3.4 **Financial Statements.**

(a) Section 3.4 of the Seller Disclosure Letter sets forth true and complete copies of the Financial Statements. The Financial Statements (i) are unaudited, (ii) were derived from the applicable books and records of Seller, (iii) have been prepared in accordance with the Agreed Accounting Principles, and (iv) fairly present, in all material respects, in the case of the Balance Sheets, the financial position of the Purchased Assets and Assumed Liabilities and, in the case of the Income Statements, the results of operations the Business (subject to customary year-end adjustments and the absence of notes) in accordance with such Agreed Accounting Principles as of the respective dates thereof and the results of operations for the periods then ended.

(b) Seller maintains a system of internal accounting controls to provide reasonable assurances regarding the reliability of financial reporting related to the Business, including that (i) transactions are executed in accordance with management’s general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of the Financial Statements, and to maintain reasonably accurate accountability for its assets related to the Business, and (iii) access to assets is permitted only in accordance with management’s general or specific authorization.

(c) Except (i) as reflected or reserved against in the Financial Statements, (ii) for Liabilities incurred in the ordinary course of business since December 31, 2018, (iii) for the Retained Liabilities, (iv) as set forth in Section 3.4(c) of the Seller Disclosure Letter and (v) for liabilities that would not, individually or in the aggregate, reasonably be expected to be material to the Business, taken as a whole, there are no Liabilities of the Business that would be required under GAAP to be reflected in the Financial Statements.

(d) Seller has delivered to Buyer a true, correct and complete copy of the due diligence report dated October 31, 2018 prepared by a Third Party accounting firm (the “**Third Party Accounting Firm**”) with respect to the Business (together with any exhibits and appendices thereto, the “**Diligence Report**”). Seller has complied in all material respects with all information requests by the Third Party Accounting Firm in connection with its preparation of the Diligence Report. All of the factual information and data furnished by Seller and its Affiliates to the Third Party Accounting Firm in connection with the preparation of the Diligence Report were (i) derived from the relevant Books and Records and (ii) accurate in all material respects as of the date delivered to the Third Party Accounting Firm, subject in each case to any limitations and qualifications contained in the Diligence Report.

(e) The representations and warranties set forth in Section 3.4(e) of the Seller Disclosure Letter are hereby incorporated herein by reference.

Section 3.5 **No Conflict or Violation.** Assuming all Governmental Filings described in Section 3.3 or Section 4.3, or listed in Section 3.3 of the Seller Disclosure Letter or Section 4.3 of the Buyer Disclosure Letter, have been obtained or made (and any applicable waiting period has expired or terminated), the execution, delivery and performance by Seller of this Agreement and the Ancillary Agreements to which it is a party and the consummation by Seller of the transactions contemplated hereby and thereby do not:

- (a) violate (i) any Law to which Seller or the Business is subject, or (ii) the terms of any permit applicable to the operation of the Business (as of the date hereof) issued by any Governmental Entity to Seller;
- (b) require a consent or approval under, conflict with, result in a violation or breach of, or a loss or impairment of any right under, or constitute a default under, result in the acceleration of, or create in any party the right to terminate, any Material Contract or Assumed Lease;
- (c) result in the creation or imposition of any Encumbrance (other than Permitted Encumbrances) upon any of Purchased Assets; or
- (d) violate the constituent organizational documents of Seller;

except, with respect to clauses (a), (b) and (c), as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 3.6 **Legal Proceedings.** There are no Actions pending or, to the Knowledge of Seller, threatened in any written notice addressed and delivered to Seller or any of its Affiliates against Seller (in respect of the Business, the Purchased Assets or the Assumed Liabilities) except as (a) set forth in Section 3.6 of the Seller Disclosure Letter or (b) would not, if adversely determined, (i) reasonably be expected to result in a judgment, settlement or order for Liabilities to the Business in excess of one hundred thousand dollars (\$100,000) in the aggregate or (ii) materially impair or delay the consummation of the transactions contemplated hereby or by the Ancillary Agreements. Seller is not subject to any material final, binding and non-appealable Governmental Order relating to the Business.

Section 3.7 **Absence of Certain Changes.** Except as otherwise contemplated hereby, since December 31, 2018 through the date of this Agreement (a) the Business has been conducted in the ordinary course of business consistent with past practice in all material respects; (b) there has not been any Material Adverse Effect and (c) none of Seller or any of its Affiliates has taken any action or failed to take any action that would have resulted in a breach of clauses (vi), (xii) or (xiii) of Section 5.1(b), had such clauses of Section 5.1(b) been in effect following December 31, 2018.

Section 3.8 **Labor and Employees.**

(a) As of the date hereof, (i) no labor strike, lockout or material work stoppage is pending or, to the Knowledge of Seller, threatened against the Business, and no such labor strike, lockout or material work stoppage has occurred within the last three (3) years preceding the date of this Agreement; (ii) to the Knowledge of Seller, no Business Employee has filed any pending arbitration, lawsuit or administrative proceeding against Seller (exclusively with respect to the Business) that, if decided adversely to Seller, would reasonably be expected to create a Liability to the Business in excess of one hundred thousand dollars (\$100,000); (iii) Seller is not a party to or bound by any collective bargaining agreement with respect to the Business Employees; (iv) no labor unions, works councils, or other organizations or groups represent, or to the Knowledge of Seller, purport to represent any Business Employees with respect to their employment in the Business; and (v) to the Knowledge of Seller, no union organizing activities, campaigns, petitions or other unionization activities directed at Seller seeking recognition of a bargaining unit with respect to Business Employees are pending or threatened.

(b) As of the date hereof, Seller and its Affiliates are in compliance, with respect to Business Employees, in all material respects, with all Laws respecting labor, employment, fair employment practices, employment standards, terms and conditions of employment, workers' compensation, occupational safety and health requirements, employment classification, the WARN Act, the Fair Labor Standards Act, withholding of taxes, employment discrimination, equal opportunity, employee leave issues and unemployment insurance and related matters.

(c) Section 1.1(D) of the Seller Disclosure Letter sets forth a true and complete listing, as of the date hereof, of each Business Employee by name (the "**Business Employee List**"), along with (i) his or her currently effective annual base salary or currently effective hourly wage rate, as applicable, and the amount of any bonuses or commissions paid or payable in respect of such Business Employee's service in 2018 and 2019, (ii) his or her corporate hire date, as stated in Seller's system of record and completed years of service with Seller, (iii) his or her current position or title, (iv) the city and state (or, as applicable, country) of such Business Employee's current primary work location (other than Business Employees who primarily work from a home location, in which case the closest work location to such Business Employee's home), (v) his or her current target cash incentive opportunity (if applicable), (vi) full-time or part-time status, and (vii) exempt or non-exempt status under the Fair Labor Standards Act for U.S. Business Employees. The Business Employee List does not include any employees of Seller or its Affiliates who are not Business Employees. Seller represents and warrants that, except to the extent specified in Section 1.1(D) of the Seller Disclosure Letter, the

Business Employees constitute all of the employees of Seller and its Affiliates whose services are required to administer, operate and oversee the Business in a efficient and effective manner.

(d) Since December 31, 2018, Seller and its Affiliates have not transferred or modified the job responsibilities of any person employed by Seller or any of its Affiliates who was providing services primarily to or on behalf of the Business that has resulted in such person not meeting the definition of a Business Employee, except for such transfers or modifications in the ordinary course of business and consistent with past practice and that would not adversely affect or impair the Business in any material respect.

(e) Except as set forth in Section 3.8(e) of the Seller Disclosure Letter, as of the date hereof and to the Knowledge of Seller, with respect to Business Employees, (i) there are no collective bargaining, works council or similar labor agreements concerning any Business Employee (each, a “**Labor Agreement**”) to which Seller or its Affiliates are parties or bound, nor is Seller or any of its Affiliates negotiating any such Labor Agreement with any labor organization, labor union, workers’ association, works council or similar employee representative organization; (ii) none of the Business Employees is represented by any labor union, workers’ association, works council or similar employee representative organization with respect to their employment with Seller or any of its Affiliates, (iii) (A) there are no organizational campaigns, petitions, certification proceedings or other material unionization activities seeking recognition of a bargaining unit or a representation proceeding pending or threatened by or with respect to any Business Employees, (B) there are no material strikes, slowdowns, lockouts, work stoppages, or similar material labor disputes pending or threatened against or affecting the Business, or (C) there are no inspections and investigations of Seller or its Affiliates by any labor authority pending or threatened with respect to the Business; and (iv) there is no material unfair labor practice charge or complaint or labor arbitration pending against Seller or its Affiliates related to any Business Employee. The execution of this Agreement and the consummation of the transactions contemplated by this Agreement will not result in any breach or other violation of any Labor Agreement, to which Seller or any of its Affiliates is a party or bound.

Section 3.9 Taxes. (a) All material Tax Returns with respect to the Purchased Assets and the Business have been timely filed (taking into account applicable extensions) and are correct and complete in all material respects and all material Taxes (whether or not reflected on such filed Tax Returns) required to be paid with respect to the Purchased Assets and the Business have been paid, or adequate reserves therefor have been provided on the Financial Statements; (b) there are no Encumbrances for Taxes on any of the Purchased Assets, other than Permitted Encumbrances; and (c) except insofar as Section 3.4, Section 3.10 and Section 3.13 relate to Taxes, notwithstanding anything in this Agreement to the contrary, the representations and warranties made by Seller in this Section 3.9 constitute the sole and exclusive representations and warranties made regarding Taxes or other Tax matters.

Section 3.10 Plan Administration.

(a) Each Plan, including all related trust documents, custody agreements and funding instruments, has been administered and operated by Seller, to the extent of Seller’s

obligations with respect thereto, materially in accordance with (i) its terms and conditions and any associated recordkeeping or administrative agreements as provided to Seller, including any direction or election properly made in accordance with such terms by the Plan sponsor, any Plan participant or any other third party entitled to provide such a direction or make such an election under the Plan and (ii) the applicable requirements of the Code and the Treasury Regulations. Without limiting the generality of the foregoing, (A) any and all loans administered under any Plan that is intended to qualify under Section 401(a) of the Code have been administered by Seller materially in compliance with (x) its obligations with respect to the Plan pursuant to the Plan's terms provided to Seller, (y) any applicable Seller loan procedures and (z) Law, and (B) each Plan that is a nonqualified deferred compensation plan subject to the requirements of Section 409A of the Code has been administered by Seller to the extent of its obligations thereto materially in compliance with (x) the terms of the Plan as provided to Seller and (y) Law, in each case, except to the extent that any such non-compliance can be corrected under applicable procedures issued by the IRS without any material penalty to any Plan participant or any material expense to Seller or, following the Closing, Buyer or any of its Affiliates.

(b) To the Knowledge of Seller, no circumstance or condition exists or has occurred with respect to any Plan, including all related trust documents, custody agreements and funding instruments, or the administration or operation thereof, that has caused or would reasonably be expected to cause Seller or any of its Affiliates or, following the Closing, Buyer or any of its Affiliates, to incur any material liability for breach of Seller's or its Affiliates' fiduciary responsibilities (including co-fiduciary liabilities).

Section 3.11 Compliance With Law.

(a) Except for compliance with Privacy Laws, and except as it relates to operation of the Employee Benefit Plans, which shall be governed exclusively by [Section 3.12](#) and [Section 3.13](#), respectively, since July 1, 2017, the Business has been operated in compliance in all material respects with all Laws. Since July 1, 2017, Seller has not (i) received any written notice from any Governmental Entity regarding any material violation of Law by Seller or written request from any Governmental Entity for changes to the operation of the Business to comply or increase compliance with Law or (ii) filed with, or otherwise provided to, any Governmental Entity any written notice regarding any material violation of Law by Seller, in each case, with respect to the Business.

(b) Seller (with respect to the Business) has timely filed (subject to valid extensions) all reports, forms, schedules, registrations and statements, together with any amendments required to be made with respect thereto, that it was required to file since July 1, 2017 with any Governmental Entity and has paid all fees and assessments due and payable in connection therewith, except, in each case, where the failure to do so would not, individually or in the aggregate, reasonably be expected to be material to the Business, taken as a whole.

(c) Since July 1, 2017, Seller (with respect to the Business) has been in compliance in all material respects with (i) the U.S. Foreign Corrupt Practices Act of 1977 (as amended) and all other Laws relating to anti-corruption or anti-bribery applicable to Seller (with respect to the Business) and the Business (the "**Anti-Corruption Laws**"); (ii) Laws relating to economic restrictions, export controls, trade embargoes and other restrictive measures imposed,

administered or enforced by a Governmental Entity, in each case, applicable to Seller (with respect to the Business) and the Business and (iii) Anti-Money Laundering Laws applicable to Seller (with respect to the Business) and the Business.

(d) Seller has not, and to the Knowledge of Seller none of the officers, directors, employees or agents of Seller (with respect to the Business) (acting in his or her capacity as such) have, since July 1, 2017, made, in connection with the Business, any payments of money, property, or anything else of value to any (i) Government Official or (ii) other Person to obtain special concessions or to secure some other improper advantage, in each case, where such payment would violate applicable Anti-Corruption Laws.

(e) Other than with respect to Plans, (i) since July 1, 2017, Seller, with regard to all accounts related to the Business for which it acts as a fiduciary, including accounts for which it serves as a trustee, agent, custodian, or investment advisor, has not failed in any material respect to administer such accounts in accordance with the applicable governing documents and Law, other than as set forth in Section 3.11(e) of the Seller Disclosure Letter and (ii) neither Seller, nor to the Knowledge of Seller, any of its directors, officers or employees, has committed any breach of trust or fiduciary duty with respect to any such fiduciary account. The accountings for each such fiduciary account are true and correct in all material respects and accurately reflect in all material respects the assets of such fiduciary account.

Section 3.12 Privacy Laws and Policies. Since July 1, 2017, Seller and its Affiliates have, (a) posted privacy statements addressing the collection, retention, use and distribution of Personal Information Related to the Business, except where the absence of such statement has not had, or reasonably could have been expected to have had, a material and adverse effect on the Business, and (b) complied in all material respects with such statements and all of their respective contractual commitments to customers, website visitors or other end users regarding the collection, retention, use, disclosure, disposal and security of such Personal Information. The operation of the Business has, since July 1, 2017, complied in all material respects with applicable Privacy Laws. Since July 1, 2017, neither Seller nor any of its Affiliates has received any written claims, notices or complaints alleging misuse or violations of Law with respect to Personal Information collected by or on behalf of Seller or its Affiliates and used in the Business or the disclosure, retention, misuse or security of any such Personal Information, or alleging a violation of any person's privacy, personal or confidentiality rights. To the Knowledge of Seller, since July 1, 2017, there has been no Data Breach that had, or reasonably could have been expected to have had, a material and adverse effect on the Business.

Section 3.13 Employee Benefit Plans.

(a) Section 3.13(a) of the Seller Disclosure Letter sets forth a list of all material Employee Benefit Plans. Seller has provided or made available to Buyer, with respect to each material Employee Benefit Plan, as applicable, (i) a true and complete copy of the applicable plan document (and all amendments thereto) comprising an Employee Benefit Plan or a summary thereof and (ii) the most recent determination letter or opinion letter from the IRS.

(b) Except as would not reasonably be expected to result in a material Liability to Buyer or its Affiliates (taken as a whole), each Employee Benefit Plan has been

established, maintained, administered and operated in compliance with Law and the terms of such Employee Benefit Plan, in each case, as it relates to Business Employees.

(c) Each Employee Benefit Plan that is intended to be qualified under Section 401(a) of the Code has been determined to be so qualified and, to the Knowledge of Seller, no event has occurred that would reasonably be expected to adversely affect the qualified status of any such Employee Benefit Plan.

(d) Except as set forth in Section 3.13(d) of the Seller Disclosure Letter or as would not reasonably be expected to result in material Liability to Buyer or its Affiliates (taken as a whole), no (i) Liability under Section 302 or Title IV of ERISA or Section 412 of the Code has been incurred by Seller or any of its Affiliates that has not been satisfied in full, (ii) condition exists that would reasonably be expected to result in any such Liability, (iii) Employee Benefit Plan is a “multiemployer plan” within the meaning of Section 4001(A)(3) of ERISA, and (iv) Employee Benefit Plan, program, or arrangement provides for medical, life insurance or other welfare type benefits after termination of employment (except to the extent required by Law).

(e) Except as set forth in Section 3.13(e) of the Seller Disclosure Letter and subject to Buyer’s compliance with its obligations to make (and comply with its obligations in respect of) a Comparable Job Offer to each Business Employee, the consummation of the transactions contemplated by this Agreement, alone or together with any other event, shall not (i) entitle any Business Employee to any payment, including severance pay or an increase in severance pay, (ii) accelerate the time of payment, funding or vesting of compensation or benefits, or increase the amount of compensation or benefits, under any Employee Benefit Plan, due to any Business Employee or (iii) result in any payment (whether cash or property or the vesting of property) to any “disqualified individual” (as such term is defined in Treasury Regulation Section 1.280G-1) that could reasonably be construed, individually or in combination with any other such payment, to constitute an “excess parachute payment” (as defined in Section 280G(b)(1) of the Code). No Business Employee is entitled to receive any additional payment (including any Tax gross-up or other payment) from Seller or any of its Affiliates as a result of the imposition of the excise Taxes required by Section 4999 of the Code or any Taxes required by Section 409A of the Code.

Section 3.14 Real Property.

(a) Section 3.14(a) of the Seller Disclosure Letter sets forth the address of each Leased Real Property, and a true and complete list of all Assumed Leases (including all material amendments, extensions, renewals, guaranties and other material agreements with respect thereto) for each such Leased Real Property. Seller has made available to Buyer true and complete copies of each Assumed Lease. Each Assumed Lease is a legal, valid and binding obligation of Seller and, to the Knowledge of Seller, each other party thereto, enforceable against Seller, subject to proper authorization and execution of such Assumed Lease by the other parties thereto, and, to the Knowledge of Seller, each other party thereto in accordance with its terms, and is in full force and effect, subject to the Bankruptcy and Equity Exceptions. Seller is not in material breach or material default under any such Assumed Lease, and, to the Knowledge of Seller, no other party is in material breach or material default under any Assumed Lease and no

event has occurred or circumstance exists that, with the delivery of notice, the passage of time or both, would constitute such a material breach or default.

(b) Seller and its Affiliates do not own any real property used in or relating to the Business, and the Purchased Assets do not include any interest in any real property.

Section 3.15 Intellectual Property.

(a) Section 3.15(a) of the Seller Disclosure Letter sets forth a true, correct and complete list of all Registered Business IP. For each item of Registered Business IP, Section 3.15(a) of the Seller Disclosure Letter lists (i) the record owner of such item and, if different, the legal owner and beneficial owner of such item; (ii) the applicable issuance, application, or registration date or serial or other identification number for such item; and (iii) for each domain name registration, the applicable domain name registrar, the name of the registrant, and the expiration date for the registration.

(b) As of the date hereof, Seller or one of its Affiliates is the sole and exclusive owner of all right, title and interest in and to each item of Business IP that is material to the Business, free and clear of all Encumbrances, other than Permitted Encumbrances. Each Person who is or was an employee or independent contractor of Seller or one of its Affiliates and who made a material contribution to the creation or development of any Business IP that is material to the Business has signed an agreement that effectively and validly assigns to Seller or such Affiliate all of such Person's rights in such contribution or Seller and its Affiliates otherwise own all such rights as a matter of Law. The Registered Business IP issued or granted by a Governmental Entity is subsisting and, to the Knowledge of Seller, is valid and enforceable.

(c) From July 1, 2017 through the date hereof, (i) the Business as conducted did not and does not infringe, misappropriate or otherwise violate any Third Party's Intellectual Property (other than rights in any patent), (ii) to the Knowledge of Seller, the Business as conducted did not and does not infringe, misappropriate or otherwise violate any Third Party's rights in any patent, (iii) to the Knowledge of Seller, no Person has been and is infringing, misappropriating or otherwise violating any Business IP and (iv) no claim has been brought or made, and there is no claim pending or, to the Knowledge of Seller, threatened in writing, by or against Seller or any of its Affiliates related to either of the foregoing.

(d) Seller has taken and takes commercially reasonable actions to protect (i) the confidentiality of any Trade Secrets included in the Business IP, or Trade Secrets of any Third Party with respect to which Seller and its Affiliates have a confidentiality obligation, and that, in either case, are material to the Business (including execution of confidentiality agreements by officers, directors and employees of, and consultants to, Seller and its Affiliates who have access to such Trade Secrets) and (ii) the confidentiality and data security of all Personal Information held by Seller or one of its Affiliates and used in the Business against a Data Breach. To the Knowledge of Seller, there has not been any disclosure of any such material Trade Secret included in the Business IP to any Person in a manner that has resulted or is likely to result in the loss of Trade Secret rights in and to such information.

(e) The Software included in the Business IP does not include any open source or “copyleft” Software that would (i) require, based on the use of such Software as used prior to the date hereof, any material components of such Software to be licensed, disclosed or distributed to any Third Party under any terms, including making the source code publicly available or (ii) otherwise have a material adverse effect on the Business.

(f) The Software included in the Business IP (i) to the Knowledge of Seller, includes no malicious code, program, or other internal component (e.g., computer virus, computer worm, computer time bomb, or similar component) that is intended to damage, destroy, impede the operation of, allow unauthorized access to or alter any such Software or present a material risk of disclosure of Business Confidential Information; and (ii) has not materially malfunctioned or failed in a manner that has had a material adverse effect on the Business during the six (6) months prior to the date of this Agreement. Since July 1, 2017, Seller has not been notified by any Third Party (including pursuant to an audit) of, nor, to the Knowledge of Seller, is there, any data security, information security or other technological deficiency with respect to such Software, in each case, that has caused or could reasonably be expected to cause any disruption to the conduct of the Business or present a risk of unauthorized access, disclosure, use, corruption, destruction or loss of any material Business Confidential Information, in each case, that would be material to the Business (taken as a whole). Seller has implemented reasonable business continuity, back-up and disaster recovery technology, plans, procedures and facilities consistent with generally accepted industry practices with respect to the Business Confidential Information and to the Software included in the Business IP.

Section 3.16 Brokers’ Fees. Except for the advisor(s) set forth in Section 3.16 of the Seller Disclosure Letter, the fees and expenses of whom shall be paid by Seller, no broker, investment banker or financial advisor is entitled to any broker’s, finder’s, financial advisor’s or other similar fee or commission in connection with this Agreement or the Ancillary Agreements or the transactions contemplated hereby and thereby based upon arrangements made by or on behalf of Seller or its Affiliates.

Section 3.17 Assets.

(a) Except as otherwise provided in this Agreement, Seller will immediately prior to the Effective Time, have valid title to, or own, lease or have the legal right to use, all of the Purchased Assets, free and clear of all Encumbrances (other than Permitted Encumbrances).

(b) Except (i) as set forth in Section 3.17(b) of the Seller Disclosure Letter, (ii) until transferred to Buyer or an Affiliate, the Seller-Controlled Assets, (iii) Excluded Services (as such term is defined in the Transitional Services Agreement) or (iv) subject to Section 5.9, the Purchased Assets, together with the services and, to the extent applicable, assets to be provided pursuant to the Ancillary Agreements and the licenses granted pursuant to Section 5.15, shall, in the aggregate, constitute all of the assets, rights, title and interest sufficient for Buyer and any of its Subsidiaries to conduct the Business in all material respects after the Closing as conducted by Seller and Affiliates as of the date hereof and immediately prior to the Effective Time.

Section 3.18 **Material Contracts.**

(a) Section 3.18(a) of the Seller Disclosure Letter lists Contracts of the types described below to which Seller or any of its Affiliates is a party or by which any of the Purchased Assets are bound and that are in effect as of the date of this Agreement, excluding Transferred Contracts that will terminate prior to or as of the Effective Time without any remaining Liabilities to the Business (such Contracts, whether or not so listed in the Seller Disclosure Letter, subject to the foregoing exclusions, “**Material Contracts**”):

- (i) any Contract concerning the establishment or operation of a partnership, strategic alliance, joint venture, or limited liability company or other similar agreement or arrangement, with respect to the Business;
- (ii) any Transferred Contract that limits, or purports to limit, the ability of Seller or its applicable Affiliates (or, following the Closing, Buyer or any of its Affiliates) to engage in any business with any Person or to compete in any line of business or with any Person or in any geographic area or during any period of time or to solicit customers;
- (iii) any Transferred Contract that contains a “most favored nation” or similar provision in favor of any customer or other counterparty;
- (iv) any Transferred Contract that obligates Seller or its Affiliates to purchase or otherwise obtain any product or service exclusively from a single party or sell any product or service exclusively to a single party;
- (v) any Transferred Contract creating or granting an Encumbrance (other than Permitted Encumbrances) on any Purchased Asset, other than purchase money security interests in connection with the acquisition of equipment in the ordinary course of business consistent with past practice;
- (vi) any Contract (A) that provides for the license to a Third Party of any Business IP material to the Business (other than non-exclusive licenses entered in the ordinary course of business consistent with past practice) or (B) by which any Third Party has developed or develops any Software that is material to the Business and is included in the Business IP;
- (vii) any Customer Contract of the (A) Bundled Business under which Seller or any of its Affiliates received or was entitled to receive payment in an amount in excess of approximately one million and five hundred and fifty thousand dollars (\$1,550,000) for services related to the Bundled Business, (B) T&C Business under which Seller or any of its Affiliates received or was entitled to receive payment in an amount in excess of approximately seven hundred and ten thousand dollars (\$710,000) for services related to the T&C Business or (C) Discretionary Business under which Seller or any of its Affiliates received or was entitled to receive payment in an amount in excess of approximately three hundred and twenty-seven thousand dollars (\$327,000) for services related to the Discretionary Business, in each case during the consecutive twelve (12) month period ended January 31, 2019. For the avoidance of doubt, any payments, fees or other monies received or entitled to be received by Seller or any of its Affiliates in

respect of the Deposits shall be included in the calculation or determination of the payment thresholds in this Section 3.18(a)(vii) solely with respect to the T&C Business;

(viii) any Transferred Contract with a Third Party vendor pursuant to which goods or services are provided to the Business, or that is a license to Seller or one of its Affiliates (primarily for the benefit of the Business) of any Intellectual Property, involving aggregate payments in connection with the Business in the consecutive twelve (12) month period ended December 31, 2018 in excess of one million dollars (\$1,000,000);

(ix) any Customer Contract identified in Section 3.18(a)(vii) of the Seller Disclosure Letter that (A) requires Seller or its applicable Affiliate be a bank or hold any other license, permit or authorization issued by any Governmental Entity, or would give any other party thereto any rights due to any failure of Seller or its applicable Affiliate to hold any such license, permit or authorization or (B) requires that Seller or its Affiliates hold or maintain any minimum level of assets, capital, surplus or shareholders' equity; and

(x) any inter-affiliate Contract between or among Seller and/or its Affiliates pursuant to which material services are provided to the Business.

(b) Seller has delivered or made available to Buyer true and complete copies of each Material Contract (except amendments, supplements, exhibits, schedules and ancillary documents relating to a particular Material Contract, where the contents of such amendment, supplement, exhibit, schedule or ancillary document does not materially affect such Material Contract). Each Material Contract is a legal, valid and binding obligation of Seller or its applicable Affiliates and, to the Knowledge of Seller, each other party to such Material Contract, and is in full force and effect and enforceable against Seller or its applicable Affiliate and, to the Knowledge of Seller, each such other party in accordance with its terms, in each case, subject to the Bankruptcy and Equity Exceptions. None of Seller or its applicable Affiliates nor, to the Knowledge of Seller, any other Person that is party to a Material Contract, is in material default or material breach of a Material Contract, and, to the Knowledge of Seller, there does not exist any event, condition or omission that would constitute such a material breach or material default (whether by lapse of time or notice or both).

Section 3.19 Disclaimer of Warranties. NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, IT IS THE EXPLICIT INTENT OF THE PARTIES HERETO THAT NEITHER SELLER NOR ANY OF ITS AFFILIATES IS MAKING ANY REPRESENTATION OR WARRANTY WHATSOEVER, EXPRESS OR IMPLIED (INCLUDING ANY IMPLIED WARRANTY OR REPRESENTATION AS TO THE VALUE, CONDITION, MERCHANTABILITY OR SUITABILITY AS TO ANY OF THE PURCHASED ASSETS), BEYOND THOSE EXPRESSLY GIVEN IN ARTICLE III OF THIS AGREEMENT AND, EXCEPT AS EXPRESSLY PROVIDED IN ARTICLE III OF THIS AGREEMENT, IT IS UNDERSTOOD THAT BUYER TAKES THE PURCHASED ASSETS COMPRISING THE BUSINESS AND THE ASSUMED LIABILITIES, AS IS AND WHERE IS WITH ALL FAULTS AS OF THE CLOSING AND WITH ANY AND ALL DEFECTS. IT IS UNDERSTOOD THAT ANY ESTIMATES, FORECASTS, PROJECTIONS OR OTHER

PREDICTIONS AND ANY OTHER INFORMATION OR MATERIALS THAT HAVE BEEN OR SHALL HEREAFTER BE PROVIDED OR MADE AVAILABLE TO BUYER OR ANY OF ITS AFFILIATES OR ITS OR THEIR RESPECTIVE REPRESENTATIVES (INCLUDING IN THE PROJECT NOVA TEASER AND CONFIDENTIAL INFORMATION PRESENTATION, EACH DATED OR CIRCULATED TO BUYER IN OCTOBER OR NOVEMBER 2018 OR ANY PRESENTATION BY SELLER OR ANY OF ITS AFFILIATES OR ANY OF THEIR RESPECTIVE REPRESENTATIVES OR MANAGEMENT OF THE BUSINESS OR OTHERWISE) ARE NOT, AND SHALL NOT BE DEEMED TO BE, REPRESENTATIONS AND WARRANTIES OF SELLER OR ANY OF ITS AFFILIATES OR ANY OF THEIR RESPECTIVE REPRESENTATIVES.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF BUYER

As an inducement to Seller to enter into this Agreement and to consummate the transactions contemplated hereby, and except as set forth in the Buyer Disclosure Letter (subject to Section 10.11), Buyer hereby represents and warrants to Seller as of the date hereof and as of the Effective Time as follows:

Section 4.1 **Due Organization and Good Standing.** Buyer is duly incorporated, validly existing and in good standing under the Laws of Delaware and each Buyer Party is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization.

Section 4.2 **Authorization of Transaction.** Each Buyer Party has all requisite corporate (or other organizational) power and authority to execute, deliver and perform its obligations under this Agreement and the Ancillary Agreements to which it is or will be a party, as applicable, and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance by Buyer of this Agreement, and by the applicable Buyer Parties of the Ancillary Agreements to which each of them will become a party, and the consummation by the Buyer Parties of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary corporate (or other organizational) action on the part of each Buyer Party, and no other corporate (or other organizational) proceedings on the part of any Buyer Party are necessary to authorize the execution, delivery and performance by any Buyer Party of this Agreement and the Ancillary Agreements to which it is or will become a party or to consummate the transactions contemplated hereby or thereby. This Agreement has been duly executed and delivered by Buyer and, assuming due authorization, execution and delivery by Seller, constitutes a valid and binding obligation of Buyer, and each Ancillary Agreement, when executed and delivered by the applicable Buyer Party (assuming due authorization and delivery by the other parties thereto) will constitute, a valid and binding obligation of the applicable Buyer Parties, enforceable against each Buyer Party in accordance with its terms (except as may be limited by the Bankruptcy and Equity Exceptions).

Section 4.3 **Governmental Filings.** No filing or registration with, notification to, or authorization, licenses, consent or approval of, any Governmental Entity is required in connection with the execution, delivery and performance of this Agreement or the Ancillary Agreements or the operation of the recordkeeping, trust and custody and discretionary business

of Buyer and its Affiliates from and after the Effective Time by any Buyer Party (collectively, the “**Buyer Governmental Filings**” and together with the Seller Governmental Filings, the “**Governmental Filings**”), except for (a) the Buyer Governmental Filings set forth in Section 4.3 of the Buyer Disclosure Letter, (b) the Buyer Governmental Filings under applicable United States or foreign competition and antitrust Laws, (c) the Buyer Governmental Filings that become applicable as a result of matters specifically related to Seller or its Affiliates or (d) such other Buyer Governmental Filings that would not materially impair or delay the Buyer Party’s ability to consummate the transactions contemplated hereby on a timely basis should any Buyer Party fail to make or obtain them.

Section 4.4 **Compliance With Law.** Buyer and its Affiliates have operated Buyer’s business in compliance with Laws, except to the extent any non-compliance therewith would not reasonably be expected to materially impair or delay the ability of Buyer to consummate the transactions contemplated by, or perform its obligations under, this Agreement or the Ancillary Agreements.

Section 4.5 **No Conflict or Violation.** Assuming all Governmental Filings described in Section 3.3 or Section 4.3, or listed in Section 3.3 of the Seller Disclosure Letter or Section 4.3 of the Buyer Disclosure Letter, have been obtained or made (and any applicable waiting period has expired or terminated), the execution, delivery and performance by each Buyer Party of this Agreement and the Ancillary Agreements to which it is a party and the consummation by the Buyer Parties of the transactions contemplated hereby and thereby do not (a) violate any Law to which any Buyer Party is (or the operation of the recordkeeping, trust and custody and discretionary business of Buyer and its Affiliates (immediately following the Effective Time) will be) subject; (b) require a consent or approval under, conflict with, result in a violation or breach of, or constitute a default under, result in the acceleration of, create in any party the right to terminate any contract to which any Buyer Party is a party (or its assets are bound); or (c) violate the constituent organizational documents of any Buyer Party, except with respect to the foregoing clauses (a) and (b), as would not materially impair the Buyer Party’s ability to consummate the transactions contemplated hereby or thereby on a timely basis.

Section 4.6 **Legal Proceedings.** There are no Actions pending or, to the knowledge of Buyer, threatened in any written notice addressed and delivered to Buyer or any of its Affiliates against Buyer or any of its Affiliates that would, if adversely determined, materially impair or delay the consummation of the transactions contemplated hereby or by the Ancillary Agreements. Buyer is not subject to Governmental Order which would materially impair or delay Buyer’s ability to consummate the transactions contemplated hereby or by the Ancillary Agreements on a timely basis. Neither Buyer nor any of its Affiliates is subject to any Governmental Order that would materially impair or delay the transactions contemplated hereby or by the Ancillary Agreements.

Section 4.7 **Qualification to Perform.** Immediately following the Effective Time, subject to Seller’s performance in accordance with the terms of this Agreement and the Ancillary Agreements, Buyer or its Affiliates, as applicable, will (a) be qualified to and capable of performing under all of the Transferred Contracts, and (b) satisfy all requirements and conditions (whether in Law, contract or otherwise) necessary to provide (i) plan administration and recordkeeping (and related plan participant education and communication and trustee, custody),

(ii) investment management and/or investment advisory services (and related management and development of outsourced chief investment officer programs and directed trustee, discretionary trustee, custody and payment services) and (iii) trustee, custody and payment services (and related recordkeeping), in each case, as was required of or provided by Seller or its Affiliates under any Customer Contract or other Transferred Contract immediately prior to the Effective Time.

Section 4.8 **Investigation by Buyer.** Each Buyer Party has conducted its own evaluation of the Business and an independent investigation of the financial condition, liabilities and results of operations of the Business, and has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of its purchase of the Purchased Assets and of its assumption of the Assumed Liabilities. Buyer confirms that it can bear the economic risk of its investment in and acquisition of the Purchased Assets and the assumption of the Assumed Liabilities and can afford to lose its entire investment in the Purchased Assets.

Section 4.9 **Funding.** Buyer has, as of the date of this Agreement, and at the Closing will have, sufficient funds to enable Buyer to consummate the transactions contemplated by this Agreement and the Ancillary Agreements and to satisfy all of its obligations hereunder and thereunder, including payment of the Purchase Price and fees and expenses relating to the transactions contemplated by this Agreement and the Ancillary Agreements, and to fund any capital requirements associated with the Purchased Assets and the operation of the recordkeeping, trust and custody and discretionary business of Buyer and its Affiliates as of immediately after the Effective Time. Buyer hereby acknowledges and agrees that its obligations hereunder are not subject to any conditions regarding Buyer's or any other Person's ability to obtain financing for the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements.

Section 4.10 **Brokers' Fees.** No broker, investment banker, financial advisor or other Person, other than Lazard Frères & Co. LLC, the fees and expenses of which shall be paid by Buyer and its Affiliates, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with this Agreement or the Ancillary Agreements or the transactions contemplated hereby or thereby based upon arrangements made by or on behalf of Buyer or any of its Affiliates.

Section 4.11 **No Buyer Stockholder Vote Required.** No vote or other action of the stockholders of Buyer or its Affiliates is required pursuant to any requirement of Law, the organizational documents of Buyer or its Affiliates or otherwise in order for Buyer or its applicable Affiliates to consummate the transactions contemplated by this Agreement and the Ancillary Agreements.

Section 4.12 **No Reliance.** Buyer, for itself and on behalf of each Buyer Party, hereby expressly acknowledges that its purchase of the Purchased Assets, assumption of the Assumed Liabilities and consummation of the transactions contemplated hereby and by the Ancillary Agreements to which it is or will be a party, as applicable, are not done in reliance upon any representation or warranty or omission by, or information from, Seller or its Affiliates or Representatives, whether oral or written, express or implied, including any implied warranty of

merchantability or of fitness for a particular purpose, except for the representations and warranties expressly set forth in Article III of this Agreement, the Ancillary Agreements and any certificates delivered pursuant hereto and thereto, and Buyer hereby expressly acknowledges that Seller and its Affiliates expressly disclaim any other representations and warranties. Such purchase and consummation are instead done entirely on the basis of the Buyer Parties' own investigation, analysis, judgment and assessment of the present and potential value and earning power of the Business and the operation of the recordkeeping, trust and custody and discretionary business of Buyer and its Affiliates following the Effective Time, as well as those representations and warranties by Seller expressly set forth in Article III of this Agreement, the Ancillary Agreements and any certificates delivered pursuant hereto and thereto. Buyer further acknowledges that neither Seller nor any other Person has made any representation or warranty, express or implied, as to the accuracy or completeness of any information regarding the probable success or profitability of the Business, the operation of the recordkeeping, trust and custody and discretionary business of Buyer and its Affiliates or the Purchased Assets, the Assumed Liabilities or the Business as of immediately after the Effective Time or any other matters except as expressly provided in Article III of this Agreement, the Ancillary Agreements and any certificates delivered pursuant hereto and thereto. Without limiting the generality of the foregoing, Buyer hereby acknowledges and agrees that neither Seller nor any other Person has made a representation or warranty to any Buyer Party and none of Seller and its Affiliates nor any other Person shall be subject to any liability or any indemnification claim by any Buyer Party, for any inaccuracy, misstatement or omission with respect to any (a) forecasts, predictions, projections or estimates for, or business plan information of, the Business or the operation of the recordkeeping, trust and custody and discretionary business of Buyer and its Affiliates following the Effective Time, or (b) materials, documents or information relating to the Business, the Purchased Assets, the Assumed Liabilities or the transactions contemplated hereby or by the Ancillary Agreements, whether written or oral, made available to any Buyer Party or its respective Representatives in any data room, confidential information memorandum, presentation by Seller or management of the Business or Representatives of Seller, discussion or otherwise, except to as expressly covered by a representation or warranty set forth in Article III, the Ancillary Agreements and any certificates delivered pursuant hereto and thereto.

ARTICLE V

COVENANTS

Section 5.1 Conduct of Business.

(a) Seller agrees that, during the period from the date of this Agreement until the earlier of the Closing or the termination of this Agreement in accordance with Article VII, except as (i) required or prohibited by Law or by existing fiduciary obligation, (ii) set forth in Section 5.1(a) of the Seller Disclosure Letter or Section 5.1(b) of the Seller Disclosure Letter, (iii) expressly contemplated by this Agreement or reasonably necessary to complete the transactions contemplated hereby or by the Ancillary Agreements or (iv) subject to Law, consented to by Buyer in writing (which consent shall not be unreasonably withheld, delayed or conditioned), Seller shall, and shall cause its applicable Affiliates to, conduct the Business in the ordinary course of business, consistent with past practice, and use commercially reasonable efforts to preserve substantially intact the Business as a whole, including relationships with

customers, suppliers and vendors, as presently conducted, except that no action by Seller or its applicable Affiliates with respect to matters specifically addressed by any provision of Section 5.1(b) shall be deemed a breach of the foregoing unless such action would constitute a breach of such provision of Section 5.1(b).

(b) Seller agrees that, during the period from the date of this Agreement until the earlier of the Closing or the termination of this Agreement in accordance with Article VII, except as (i) required or prohibited by Law or by existing fiduciary obligation, (ii) set forth in Section 5.1(b) of the Seller Disclosure Letter, (iii) expressly contemplated by this Agreement or reasonably necessary to complete the transactions contemplated hereby or by the Ancillary Agreements or (iv) subject to Law, consented to by Buyer in writing (which consent shall not be unreasonably withheld, delayed or conditioned), Seller shall not, and shall cause its applicable Affiliates not to (with respect to the Business):

(i) except for the purchase of assets in the ordinary course of business consistent with past practice, acquire for the Business any material assets, business or properties that would be Purchased Assets (assuming the Closing Date were to occur on the date of such asset purchase);

(ii) except (x) in the ordinary course of business consistent with past practice (for the avoidance of doubt, including in connection with a request for proposal or similar process, including ongoing remediation actions) and (y) as expressly permitted by Section 5.9, (A) terminate any Transferred Contract or amend or modify in any material respect any Transferred Contract, or (B) waive, release, or assign any material rights or claims of Seller under any Transferred Contract, which such material right or claim is a Purchased Asset;

(iii) except Contracts entered into in the ordinary course of business, enter into any Transferred Contract that, if entered into prior to the date hereof, would be required to be disclosed in Section 3.18 of the Seller Disclosure Letter; provided that, for the avoidance of doubt, as of and following the effective date of such Contracts, Seller shall adhere to its obligations set forth in Section 5.9 in respect of such Contracts;

(iv) amend or modify any material terms or conditions of, or consent to the termination of (other than at its stated expiry date), or waive, release, or assign any material rights or claims of Seller under, any Assumed Lease;

(v) except in the ordinary course of business consistent with past practice, sell, lease, transfer, mortgage, pledge or otherwise dispose of any Purchased Assets, or subject any Purchased Assets to any Encumbrance (other than Permitted Encumbrances), in each case, that are material, either individually or in the aggregate, to the Business (taken as a whole);

(vi) acquire by merging or consolidating with, or by purchasing a substantial portion of the stock or assets of, any business or any corporation, partnership, association or other business organization or division thereof, if (x) such acquisition

would be prohibited following the Closing by Section 5.8(a) or (y) such stock or assets would be Purchased Assets;

(vii) (x) waive or amend any Business Confidentiality Agreement or (y) except in the ordinary course of business consistent with past practice, waive or amend any other confidentiality agreement between Seller or any of its Affiliates and any Third Party to the extent such waiver or amendment lowers the standards of obligation of such Third Party in respect of the confidentiality of material information related to the Business in a manner that would reasonably be expected to be materially adverse to the Business (taken as a whole);

(viii) make any change in the Business's financial accounting principles, policies and practices applied in the preparation of the Financial Statements, except (x) as may have been required by Law or change in GAAP or other accounting principles or regulations applicable to Seller, (y) to the extent made with respect to the Excluded Businesses or (z) for changes to the accounting policies and practices of Seller generally;

(ix) settle or compromise any pending or threatened Actions relating to the Business, which settlement or compromise (x) contains or requires any material limitations on, or requirements that will materially impact the operation of, the Business following the Effective Time, (y) involves an express admission of any violation of Law by the Business or (z) involves payment to or by the Business in excess of one hundred thousand dollars (\$100,000) in any single instance (or series of substantially similar or related instances) or five hundred thousand dollars (\$500,000) in the aggregate;

(x) except in the ordinary course of business, license any Business IP material to the Business to a Third Party;

(xi) except either (A) in the ordinary course of business consistent with past practice or (B) for employment transfers resulting from Seller's or its Affiliates' internal job postings (which postings are not specifically targeted at Business Employees), (1) transfer the employment of any Business Employee to another role such that the applicable individual would no longer meet the criteria necessary to qualify as a Business Employee; (2) transfer the employment of any individual who is not a Business Employee into another role such that the applicable individual would meet the criteria necessary to qualify as a Business Employee; (3) terminate the employment of any Business Employee (other than for cause or as a result of the resignation of such Business Employee); or (4) hire any new employee who would meet the criteria necessary to qualify as a Business Employee, other than to replace any Business Employee whose employment terminates after the date hereof or who has transferred to another open position with Seller or an Affiliate;

(xii) except (A) as required by the terms of any Employee Benefit Plan, (B) in the ordinary course of business consistent with past practices or (C) as would not reasonably be expected to result in material Liability to Buyer or any of its Affiliates, (1) adopt, enter into, materially amend or terminate any Employee Benefit Plan (or any plan or agreement that would be an Employee Benefit Plan if in effect on the date hereof),

other than the adoption, entry into, amendment or termination of any Employee Benefit Plan that is generally applicable to employees of Seller and its Affiliates or a subset thereof that is not specific to Business Employees; (2) enter into any severance, retention, change in control, transaction bonus or similar agreement or arrangement with any Business Employee, in each case, other than at the sole cost and expense of Seller or its Affiliates; or (3) take any action to accelerate the vesting or payment of, or otherwise fund or secure the payment of, any compensation payable to a Business Employee under an Employee Benefit Plan;

(xiii) except as required by the terms of any Employee Benefit Plan or otherwise expressly permitted under this Agreement, grant any increase in the wages, salary, bonus or other compensation, remuneration or benefits of any Business Employee, other than increases in the ordinary course of business consistent with past practice;

(xiv) except with respect to income Taxes of Seller or any of its Affiliates, make or change any material Tax election, amend any material Tax Returns or file any claims for material Tax refunds, enter into any material closing agreement within the meaning of Section 7121 of the Code (or any similar provision of state, local or foreign Tax Law), settle any material Tax Claim, in each case, that (i) is Related to the Business and (ii) could reasonably be expected to adversely affect the Business in a Post-Closing Tax Period in any material respect; and

(xv) agree or resolve to take any of the actions prohibited by the foregoing clauses (i) through (xiv).

(c) Seller shall, starting in respect of the calendar month in which this Agreement is executed and delivered and until the earlier of the Effective Time or the termination of this Agreement in accordance with Article VII, make available to Buyer, not later than twenty (20) days after the last day of each calendar month, the (i) unaudited statement of Purchased Assets and Assumed Liabilities as of the last day of each such calendar month, and (ii) unaudited and unadjusted year-to-date statements of income for the Business, each substantially in a form consistent with the Financial Statements; provided, however, that such statements shall not include any amounts attributable to Seller's (x) employee benefits plans as outlined in Section 2.2(s) of the Seller Disclosure Letter or (y) maintaining and managing collective investment funds. Seller shall make available to Buyer (upon reasonable advance notice and during normal business hours) Seller's Representatives knowledgeable about the preparation of such statements to discuss such statements upon Buyer's reasonable request, subject to Section 5.5.

(d) Other than Buyer's right to consent or withhold consent with respect to the foregoing matters (which consent shall not be unreasonably withheld, delayed or conditioned), nothing contained in this Agreement shall give to Buyer or its Affiliates, directly or indirectly, any right to control or direct the operation of the Business or Seller or its Affiliates prior to the Effective Time. Subject to the foregoing sentence and consistent with the terms of this Agreement, prior to the Effective Time, Seller and its Affiliates shall exercise complete control and supervision of the operation of the Business.

(e) For the avoidance of doubt, and notwithstanding anything set forth in Section 5.1(b)(i)-(b)(xiv), the following actions of Seller and its Affiliates shall not be restricted or prohibited:

(i) any action (including any payments or transfers) by Seller or its Affiliates relating exclusively to the Excluded Business, the Excluded Assets or the Retained Liabilities; or

(ii) any matter necessary or desirable to comply or increase compliance with Law, or any action or ceasing to take any action requested or required by a Governmental Entity, or any action or ceasing to take any action required by the policies or procedures generally adopted by Seller or its Affiliates to comply with Law or the requirements or requests of Governmental Entities in the ordinary course of business consistent with past practice. Seller shall promptly notify Buyer of any such matter materially affecting the Business and advise Buyer of Seller's understanding of how the implementation of any such matter is expected to affect the Business, and, to the extent practical and permitted by Law, shall consult with and consider in good faith recommendations of Buyer with respect to any changes to the Business in accordance with Section 5.12(f).

Section 5.2 Employment Matters.

(a) Buyer shall, or shall cause one of its Affiliates to, make a Comparable Job Offer to each Business Employee no later than (i) ten (10) Business Days prior to the anticipated Closing Date (or, with respect to any TSA Business Employee, the date on which the TSA Services Period expires (or such earlier date or dates as the parties shall agree to effect the transfer of the employment of such TSA Business Employee, as necessary or appropriate to effect a smooth and orderly transition of the operation of the Business to Buyer and its Affiliates), as applicable, any such date, a "**TSA End Date**"), which offer shall be irrevocable and provide that employment shall be effective as of the Closing Date (or, with respect to any TSA Business Employee, the applicable TSA End Date), or, (ii) for Business Employees who are on Leave, ten (10) Business Days prior to the date that such Business Employee is anticipated to return to active employment if such date is within one (1) year following the Closing Date, which offer shall be irrevocable and provide that employment shall be effective as of the date that such Business Employee returns to active employment (the Closing Date or such later date that the Business Employee commences employment with Buyer or one of its Affiliates, as applicable, any such date, a "**Hire Date**"); provided that any Comparable Job Offer made to a Non-U.S. Business Employee shall be made at such earlier time as is necessary to comply with Law, local practice and any applicable notice periods (and, with respect to any TSA Business Employee who is a Non-U.S. Business Employee, at least one hundred and twenty (120) days prior to the applicable TSA End Date). If Buyer declines to make or otherwise fails to make a Comparable Job Offer to any applicable Business Employee as and when otherwise required pursuant to this Section 5.2, the consequence shall be that Buyer will be responsible for any and all Inadequate Offer Payments that are payable in respect of such Business Employee. At least ten (10) Business Days prior to the date any Comparable Job Offer is provided to any Business Employee, Buyer shall provide Seller with a template offer of employment to be used for purposes of the Comparable Job Offers, and Buyer shall in good faith consider and incorporate

any reasonable comments provided by Seller. As of the applicable Hire Date, each Transferred Employee shall have a “separation from service” as that term is defined by Section 409A of the Code and the regulations promulgated thereunder. No later than thirty (30) days prior to the date Buyer or its Affiliate is expected to be required to make any Comparable Job Offer, Seller shall provide or make available to Buyer or its Affiliate a schedule listing the following for each Business Employee who is expected to receive such an offer on such date: then current base salary, target cash incentive opportunity, position, primary work location, and other compensation then in effect for Buyer and its Affiliates to fulfill their obligations under this Section 5.2. Notwithstanding anything to the contrary in this Agreement, neither Seller nor any of its Affiliates guarantee that any offer made by Buyer to any Business Employee which constitutes a Comparable Job Offer will be accepted by such Business Employee or that any Business Employee will not make a counter offer to such offer of employment.

(b) As of the applicable Hire Date and for a period of one (1) year thereafter, while employed by Buyer or any of its Affiliates, each Transferred Employee shall be employed on terms no less favorable than the terms required by the applicable Comparable Job Offer. Notwithstanding any provision herein to the contrary, neither Buyer nor any of its Affiliates shall be obligated to continue to employ any Transferred Employee for any specific period of time following the Closing Date, subject to Law.

(c) Buyer shall, or shall cause its Affiliates to, provide each Transferred Employee whose employment terminates within one (1) year following the applicable Hire Date with cash severance payments and availability for partial reimbursement of continued medical coverage under the provisions of COBRA that collectively are no less favorable than the greater of the cash salary continuation severance payments and subsidized health benefits that (i) would have been provided to the Transferred Employee under the Wells Fargo Severance Plan applicable to such Business Employee upon a similar termination of employment occurring immediately prior to the applicable Hire Date or (ii) are provided to similarly situated employees of Buyer and its Affiliates upon a similar termination of employment, in each case taking into account (A) the Transferred Employee’s service with (x) Seller and its Affiliates prior to the applicable Hire Date and (y) Buyer and its Affiliates after the applicable Hire Date and (B) any increase (but not decrease) in compensation applicable to the Transferred Employee after the applicable Hire Date. Notwithstanding the foregoing, regardless of whether the amount of any severance benefits payable shall be determined in accordance with the provisions of the applicable Wells Fargo Severance Plan, payment of such benefits shall be in the form (i.e., cash severance paid in a lump sum and continued medical coverage as a partial reimbursement of COBRA premiums) applicable under the terms of the severance plan maintained by Buyer and its Affiliates.

(d) For all purposes, including determining eligibility to participate in, and benefit accrual, vesting and retirement eligibility under, any employee benefit plan, program, agreement or arrangement of Buyer or any of its Affiliates in which a Transferred Employee is eligible to participate following the Hire Date, each Transferred Employee shall be credited with the Transferred Employee’s service with Seller and its Affiliates prior to the applicable Hire Date and Buyer and its Affiliates after the applicable Hire Date; provided that such service shall not be recognized either (x) with respect to U.S. Business Employees, for purposes of benefit accruals under any defined benefit retirement plan or retiree medical benefits arrangement maintained by

Buyer or any of its Affiliates or (y) to the extent it would result in a duplication of benefits. Buyer shall, or shall cause one of its Affiliates to (1) waive any preexisting conditions, actively at work requirements and waiting periods under the employee benefit plans, programs, agreements and arrangements of Buyer and its Affiliates that provide healthcare and disability benefits in which the Transferred Employees are eligible to participate, to the same extent that such conditions and waiting periods were waived or previously satisfied under the comparable Employee Benefit Plan prior to the applicable Hire Date, and (2) with respect to U.S. Business Employees cause such plans, programs, agreements and arrangements to honor any expenses incurred by such Transferred Employees and their eligible dependents under Employee Benefit Plans that are healthcare benefit plans during the portion of the calendar year in which he or she becomes a Transferred Employee for purposes of satisfying applicable deductible, co-insurance, maximum out-of-pocket, and similar expenses, to the same extent that such expenses were recognized under the comparable Employee Benefit Plan. Buyer shall not, and shall cause its Affiliates not to, provide any payment, encouragement or incentive to any Business Employee or Transferred Employee to induce such employee to elect continued participation in any healthcare benefit plan, program, agreement or arrangement of Seller or any of its Affiliates. Seller, Buyer and each of their respective Affiliates shall cooperate to effect the transfer of information reasonably required to enable Buyer to comply with this Section 5.2(d) as soon as practicable after the applicable Hire Date.

(e) Buyer shall, or shall cause one of its Affiliates to, have in effect a tax-qualified defined contribution retirement plan as of the Effective Time that includes a qualified cash or deferred arrangement within the meaning of Section 401(k) of the Code in which each Transferred Employee primarily located in the U.S. shall be eligible to participate as of the applicable Hire Date (the “**Buyer 401(k) Plan**”). Buyer shall, or shall cause one of its Affiliates to, permit each Transferred Employee to effect a direct rollover (as described in Section 401(a)(31) of the Code and including the in-kind rollover of notes evidencing loans) of such Transferred Employee’s balance (including after-tax employee contributions) under the Wells Fargo 401(k) Plan to the Buyer 401(k) Plan within a reasonable time from and after the Effective Time (or, with respect to the in-kind rollover of notes evidencing loans, as soon as practicable, but in no event later than sixty (60) days, following the applicable Hire Date) if such direct rollover is elected in accordance with Law by such Transferred Employee. Seller, Buyer and their respective Affiliates, as applicable, shall cooperate to take any and all commercially reasonable actions needed to permit each Transferred Employee with an outstanding loan balance under the Wells Fargo 401(k) Plan as of the Effective Time to continue to make scheduled loan payments to the Wells Fargo 401(k) Plan after the Effective Time, pending the distribution and in-kind rollover of the notes evidencing such loans from the Wells Fargo 401(k) Plan to the Buyer 401(k) Plan so as to prevent, to the extent reasonably possible, a deemed distribution or loan offset with respect to such outstanding loans.

(f) Seller and its Affiliates shall be solely responsible for the payment of any (i) annual cash incentive payments to a Transferred Employee that relate to a performance period that has been completed prior to the applicable Hire Date of the Transferred Employee (the “**Completed Period Bonuses**”); provided that Buyer and its Affiliates shall promptly reimburse Seller and its Affiliates for the portion of any Completed Period Bonuses that relates to the period between the Closing Date and the Hire Date in respect of a TSA Business Employee, (ii) long-term cash awards in respect of a Transferred Employee that have not been paid to the

applicable Transferred Employee as of the applicable Hire Date and (iii) any incremental compensation that Seller determines to provide to any such TSA Business Employee (other than pursuant to the Retention Bonus Arrangement) to induce such individual to remain employed with the Seller and its Affiliates during and/or through the TSA End Date. Any such payments shall be made to the applicable Transferred Employees, less applicable withholding for Taxes, at substantially the same time as such payments are made to similarly situated employees of Seller and its Affiliates. Seller and its Affiliates shall also remain solely responsible with respect to any equity awards relating to shares of Wells Fargo & Company common stock that are held by Transferred Employees and outstanding immediately prior to the applicable Hire Date.

(g) Seller or one of its Affiliates shall make a prorated annual cash bonus payment to each Transferred Employee in respect of the performance period in effect as of the applicable Hire Date of the Transferred Employee in accordance with the terms and conditions of the Wells Fargo Annual Bonus Plan, with each such payment being made on the same day as payments are made to employees under the terms and conditions of the applicable Wells Fargo Annual Bonus Plan; provided that Buyer and its Affiliates shall promptly reimburse Seller and its Affiliates for the portion of any such payment that relates to the period between the Closing Date and the Hire Date in respect of a TSA Business Employee. Buyer and its Affiliates shall take all actions necessary such that each Transferred Employee shall be eligible to receive a prorated annual cash bonus opportunity for the portion of the year in which the Closing occurs following the applicable Hire Date of the Transferred Employee that is (i) with respect to U.S. Transferred Employees, no less favorable than the annual cash bonus opportunity afforded to similarly situated employees of Buyer and its Affiliates and (ii) with respect to non-U.S. Transferred Employees, no less favorable than that afforded by Seller and its Affiliates immediately prior to the applicable Hire Date.

(h) Prior to the Hire Date, and to the extent required by Law, Seller and its Affiliates shall use commercially reasonable efforts to obtain consent from each Business Employee who receives offers of employment pursuant to Section 5.2(a) to transfer to Buyer or any of its Affiliates copies of such Business Employees' official personnel file (the "**Personnel File**"). Subject to and in accordance with Law, Seller and its Affiliates shall cooperate in good faith to grant access to or transfer copies of all Transferred Employees' Personnel Files to Buyer at or promptly following the applicable Hire Date of each Transferred Employee; provided, however, that neither Seller nor any of its Affiliates will grant access to or transfer a copy of any Business Employee's Personnel File to Buyer or any of its Affiliates (A) prior to the receipt by Seller or any of its Affiliates of such Business Employee's consent to such access or transfer and (B) unless such employee is a Transferred Employee.

(i) Seller, Buyer and their respective Affiliates, as applicable, shall timely execute and deliver to each other a HIPAA non-disclosure agreement in the form and substance reasonably determined by Seller and Buyer to comply with HIPAA.

(j) Any communications by Buyer or any of its Affiliates with the Business Employees prior to the applicable Hire Date shall be subject to and in compliance with the terms of this Agreement. During the period from the date hereof through the applicable Hire Date, Buyer and Seller shall reasonably cooperate to communicate to the Business Employees the details of the proposed terms and conditions of their employment with Buyer or its Affiliates.

All communications (other than the Comparable Job Offer) between Buyer or its Affiliates and the Business Employees prior to the Hire Date shall be subject to Seller's reasonable prior approval which shall not be unreasonably withheld.

(k) With respect to any Transferred Employee, (i) Seller or one of its Affiliates shall be solely responsible for workers' compensation claims by or with respect to such Transferred Employee based on injuries or illnesses that occurred prior to the applicable Hire Date and (ii) Buyer or one of its Affiliates shall be solely responsible for workers' compensation claims by or with respect to any Transferred Employee based on injuries or illnesses that occur on or after the applicable Hire Date. For purposes of this Section 5.2(k), the date an injury or illness resulting in a workers' compensation claim occurred shall be determined in accordance with the terms of Law in respect of workers' compensation. The parties hereto agree that they will cooperate fully with such other party and with the applicable insurers and/or third-party claims administrators by providing needed information to determine the date of the injury or illness.

(l) Buyer and Seller shall implement the retention bonus arrangement set forth in Section 5.2(l) of the Seller Disclosure Letter (the "**Retention Bonus Arrangement**").

(m) If, after the date hereof, Seller determines that any employee of Seller or any of its Affiliates who is not listed in Section 1.1(D) of the Seller Disclosure Letter meets the definition of a Business Employee, then (i) Seller shall promptly make available to Buyer the information contemplated by Section 3.8(c) with respect to such individual and (ii) if mutually determined by Buyer and Seller in good faith, such individual shall thereafter be determined to be a Business Employee for all purposes of this Agreement.

(n) Nothing contained in this Agreement is intended to, or does, (i) constitute an amendment, waiver or modification of any Employee Benefit Plan (or the terms thereof), (ii) prevent Seller, Buyer or any of their respective Affiliates from amending or terminating any of their respective benefit plans in accordance with the applicable terms therein, (iii) constitute a contract of employment (or guarantee any particular term or condition of employment) or prevent Buyer or any of its Affiliates, after the applicable Hire Date, from terminating the employment of any Transferred Employee, in each case, subject to the provisions of Law, or (iv) create any third-party beneficiary rights, claims or causes of action in favor of any Business Employee, or any beneficiary or dependents thereof, with respect to the compensation, terms and conditions of employment and/or benefits that may be provided to any Business Employee by Seller, Buyer or any of their respective Affiliates or under any benefit plan that Seller, Buyer or any of their respective Affiliates may maintain.

Section 5.3 Publicity. Buyer and Seller agree, and shall cause their respective Affiliates, to cooperate with each other with respect to any public disclosure of this Agreement, the Ancillary Agreements or the transactions contemplated hereby or thereby prior to such public disclosure. Buyer and Seller agree that no public release or announcement concerning the terms of this Agreement, the Ancillary Agreements or the transactions contemplated hereby or thereby shall be issued by either party hereto or any of their respective Affiliates without the prior consent of Buyer and Seller, as applicable, except for any such release or announcement (i) as may be required by Law or the rules and regulations of any applicable stock exchange or the

requirements of any self-regulatory body, in which case, to the extent practical and permitted by Law, the party hereto required to make the release or announcement shall use reasonable best efforts to allow the other party reasonable time to comment on such release (and will consider any such comments in good faith) or announcement in advance of such issuance (ii) as would be commercially reasonable in the course of non-written communications with either party's or their respective Affiliates' investors, and any written summaries or transcripts of any such communications or (iii) that is substantially similar to any release or announcement previously approved pursuant to this [Section 5.3](#).

Section 5.4 Confidentiality.

(a) Buyer and its Representatives shall treat all nonpublic information obtained in connection with this Agreement and the Ancillary Agreements and the transactions contemplated hereby and thereby as confidential in accordance with the terms of the Confidentiality Agreement, dated as of October 25, 2018, by and between Principal Financial Group, Inc. and Seller Parent (the "**Confidentiality Agreement**"). In the event of a conflict or inconsistency between the terms expressly set forth in this Agreement (rather than incorporated by reference herein) and the Confidentiality Agreement, the terms of this Agreement will govern. The terms of the Confidentiality Agreement are hereby incorporated by reference and shall continue in full force and effect until the Closing, at which time such Confidentiality Agreement shall terminate. If this Agreement is, for any reason, terminated prior to the Closing, the Confidentiality Agreement shall continue in full force and effect as provided in [Section 7.2](#) in accordance with its terms.

(b) From and after the Closing, Buyer shall, and shall cause its Affiliates and its and its Affiliates' Representatives to (i) maintain the confidentiality of, (ii) not disclose to any other Person (other than Buyer's Affiliates and their respective Representatives who need to know such information) and (iii) not use any Seller Confidential Information, except that Buyer or its Affiliates may disclose Seller Confidential Information (A) to the extent required by Law, in any report, statement, testimony or other submission to any Governmental Entity having jurisdiction over Buyer or its Affiliates, as applicable, (B) in order to comply with any Law or fiduciary obligation applicable to Buyer or its Affiliates, as applicable, or on behalf of a Third Party in its capacity as trustee (to the extent authorized to do so by such Third Party) (C) in response to any summons, subpoena or other legal process or formal or informal investigative demand issued to Buyer or its Affiliates, as applicable, in the course of any litigation, investigation or administrative proceeding or (D) to report a violation of Law to the appropriate Governmental Entity, including to the U.S. Department of Labor with respect to any Plan subject to ERISA, in connection with (x) any required filing, (y) any request for relief from any applicable prohibitions or (z) any effort (undertaken in good faith) to mitigate damages arising from such violation or as otherwise may be reasonably necessary under the circumstances in respect of addressing such violation. If Buyer or any of its Affiliates becomes legally compelled by deposition, interrogatory, request for documents, subpoena, civil investigative demand or similar judicial or administrative process to disclose any Seller Confidential Information, Buyer shall, to the extent permitted by Law and reasonably practicable, (I) provide Seller with prompt prior written notice of such requirement and (II) cooperate with Seller and Seller's Affiliates (at Seller's expense) to obtain a protective order or similar remedy to cause such Seller Confidential Information not to be disclosed, including interposing all available objections thereto, such as

objections based on settlement privilege. In the event that such protective order or other similar remedy is not obtained, Buyer or its applicable Affiliates shall furnish only that portion of Seller Confidential Information that has been legally compelled, and shall exercise its reasonable best efforts to obtain assurance that confidential treatment will be accorded such disclosed Seller Confidential Information. Buyer hereby agrees, and shall cause its Affiliates and its and its Affiliates' Representatives, to protect Seller Confidential Information by using the same degree of care, but no less than a reasonable degree of care, to prevent the unauthorized disclosure of Seller Confidential Information as Buyer uses to protect its own confidential information of a like nature.

(c) From and after the Closing, Seller shall, and shall cause its Affiliates and its and their Representatives (i) to, maintain the confidentiality of, (ii) not disclose to any other Person (other than Seller's Affiliates and their respective Representatives who need to know such information) and (iii) not use any Business Confidential Information, except that Seller and its Affiliates may disclose Business Confidential Information (A) to the extent required by Law, in any report, statement, testimony or other submission to any Governmental Entity having jurisdiction over Seller or its Affiliates, as applicable, (B) as may be reasonably necessary or advisable in connection with any Tax Returns, accounting records or financial reporting obligations of Seller, (C) in order to comply with any Law or fiduciary obligation applicable to Seller or its Affiliates, as applicable, or on behalf of a Third Party in its capacity as trustee (to the extent authorized to do so by such Third Party) or (D) in response to any summons, subpoena or other legal process or formal or informal investigative demand issued to Seller or its Affiliates, as applicable, in the course of any litigation, investigation or administrative proceeding. If Seller or any of its Affiliates becomes legally compelled by deposition, interrogatory, request for documents, subpoena, civil investigative demand or similar judicial or administrative process to disclose any Business Confidential Information, Seller shall, to the extent permitted by Law and reasonably practicable, (I) provide Buyer with prompt prior written notice of such requirement and (II) cooperate with Buyer and Buyer's Affiliates (at Buyer's expense) to obtain a protective order or similar remedy to cause Business Confidential Information not to be disclosed, including interposing all available objections thereto, such as objections based on settlement privilege. In the event that such protective order or other similar remedy is not obtained, Seller or its applicable Affiliates shall furnish only that portion of Business Confidential Information that has been legally compelled, and shall exercise its reasonable best efforts to obtain assurance that confidential treatment will be accorded such disclosed Business Confidential Information. Seller hereby agrees, and shall cause its Affiliates and its and their Representatives, to protect the Business Confidential Information by using the same degree of care, but no less than a reasonable degree of care, to prevent the unauthorized disclosure of Business Confidential Information as Seller or its applicable Affiliate uses to protect its own confidential information of a like nature.

(d) "**Seller Confidential Information**" means, other than Business Confidential Information, all information made available to Buyer or its Affiliates prior to the Closing by Seller or its Affiliates or their respective Representatives (including information disclosed in the course of negotiation of this Agreement or the Ancillary Agreements) regarding Seller or its Affiliates, and not directly related to the Business, except that "Seller Confidential Information" shall not include, except with respect to Personal Information, information that (i) is or becomes generally available to the public (other than as a result of its disclosure in violation

of Section 5.4(b) above), (ii) was already known to Buyer or its Affiliates (other than by previous disclosure by Seller or its Affiliates or their respective Representatives) as of the date hereof and not subject to any duty of confidentiality to Seller or its Affiliates, (iii) is independently developed by Buyer or its Affiliates without reference to any Seller Confidential Information or (iv) after the Closing Date, is lawfully made available or known to Buyer or its Affiliates by a Person not known by Buyer or its Affiliates, after reasonable inquiry, to be subject to any duty of confidentiality to Seller or its Affiliates or their respective Representatives. “**Business Confidential Information**” means all information (including Personal Information) to the extent related to the Business, other than any information used in, or related to, Seller’s or its Affiliates’ other businesses, including the Excluded Businesses, except that “Business Confidential Information” shall not include, except with respect to Personal Information that is Business Confidential Information, information that (1) is or becomes generally available to the public (other than as a result of its disclosure in violation of Section 5.4(c) above), (2) is independently developed by Seller or its Affiliates after the Closing Date without reference to any Business Confidential Information or (3) after the Closing Date, is lawfully made available or known to Seller or its Affiliates by a Person (x) not known by Seller or its Affiliates, after reasonable inquiry, to be subject to any duty of confidentiality to Buyer or its Affiliates or their Representatives, or (y) that was bound by a duty of confidentiality to Seller or its Affiliates with respect to such information prior to or as of the Closing Date.

Section 5.5 **Access to Information.** Subject to Section 5.4 and Law, prior to the earlier of the Closing Date or termination of this Agreement pursuant to Article VII, upon reasonable prior notice, Seller shall cause its officers, managers, directors, employees, auditors and other agents to afford the officers, managers, directors, employees, auditors, advisors and other agents (collectively, “**Representatives**”) of Buyer reasonable access during normal business hours to the Representatives, properties, offices and other facilities of Seller and its Affiliates (in respect of the Business), and its and its Affiliates’ respective books and records (solely to the extent in respect of the Business), and shall furnish Buyer with such existing financial, operating and other data and information solely to the extent related to the Business, as Buyer, through its Representatives, may reasonably request (in each case, other than any Form I-9 and any Personnel File of any Business Employee). In exercising its rights hereunder, Buyer shall, and shall cause its Representatives to, conduct itself and themselves so as not to interfere in the conduct of the Business or the other businesses of Seller or its Affiliates prior to the Closing. Buyer acknowledges and agrees that any contact by Buyer, its Affiliates and/or their Representatives with Representatives of Seller or its Affiliates hereunder shall be arranged and supervised by Representatives of Seller, unless Seller otherwise expressly consents in writing with respect to any specific contact. Notwithstanding anything to the contrary set forth in this Agreement, neither Seller nor any of its Affiliates shall be required to disclose to Buyer, its Affiliates or any Representative thereof any (i) information, if doing so (A) in Seller’s good faith determination, would reasonably be expected to violate any Law or obligation of confidentiality owed by Seller or its Affiliates to a Third Party, or any fiduciary obligation, (B) could reasonably be expected to result in a loss of the ability to successfully assert a claim of privilege (including the attorney-client and work product privileges) in the good faith opinion of Seller or any of its Affiliates, as applicable, (C) would result in the disclosure of any competitively sensitive information unrelated to the Business of Seller or any of its Affiliates or (D) would result in the disclosure of any information set forth in Section 2.2(s) of the Seller Disclosure Letter; provided that Seller shall use commercially reasonable efforts to obtain waivers or make other

arrangements (including redacting information or making substitute disclosure arrangements) that would enable disclosure to Buyer or its Representatives to occur without contravening such Law, obligation of confidentiality, or fiduciary obligation, disclosing such competitively sensitive information unrelated to the Business, or jeopardizing such privilege, and (ii) Tax Return that includes Seller or any of its Affiliates or any Tax-related work papers.

Section 5.6 **Post-Closing Access.**

(a) Each of Seller and Buyer shall, and shall cause any its respective Affiliates (as applicable) to, preserve and keep all books and records and all information relating to the accounting, legal, regulatory, business and financial affairs of the Business that are retained by Seller or any of its Affiliates, or generated by the Seller-Controlled Assets held or employed by Seller or any of its Affiliates, or are obtained by Buyer hereunder, as the case may be, for a reasonable period (not less than ten (10) years) after the Closing Date, or for any longer period as may be (i) required by Law (including any statute of limitations and applicable extensions thereof) or any Governmental Entity or (ii) reasonably necessary with respect to the investigation, prosecution or defense of any legal or regulatory action that is then pending or threatened or audit and with respect to which the requesting party has notified the other party as to the need to retain such books, records or information; provided, however, that such information shall not include in the case of Seller or any of its Affiliates, the information set forth in Section 2.2(s) of the Seller Disclosure Letter. Each of Seller and Buyer shall provide the other with written notice thirty (30) Business Days prior to transferring, destroying or discarding the last copy of any records, books, work papers, reports, correspondence and other similar materials, and the other party shall have the right, at Seller's expense, to reproduce or take any such materials, if such other party provides written notice stating its intent to reproduce or take such materials no later than twenty (20) Business Days after having received notice that such materials are to be transferred, destroyed, or discarded.

(b) Following the Closing, for so long as such information is retained by Buyer in accordance with Section 5.6(a), Buyer and any applicable Affiliates shall permit Seller or its Affiliates and their authorized Representatives to have reasonable access and duplication rights during normal business hours, upon reasonable prior notice to Buyer or such Affiliates, to the information described in Section 5.6(a) to the extent that such access may be reasonably required in connection with (i) preparation of any accounting records or with any audits or similar proceedings, (ii) any Action relating to Seller or its Affiliates or the operation of the Business prior to the Effective Time, (iii) any Governmental Filing or regulatory matter or (iv) subject to Section 5.4(c), any other valid legal or business purpose. For a period of ten (10) years following the Closing Date, Buyer and any applicable Affiliates shall allow Seller or its Affiliates and their authorized Representatives to have access to Buyer's Representatives, upon reasonable prior notice and during normal business hours, for any reasonable business purpose relating to the Business, including in connection with Seller's preparation or examination of regulatory and statutory filings and financial statements, and the conduct of any audit or investigation by a Governmental Entity or any litigation relating to the Business (other than any litigation or dispute between Seller or its Affiliates, on the one hand, and Buyer or its Affiliates, on the other hand), or the pursuit or defense of any other Asserted Liability (whether or not such Asserted Liability is the subject of an indemnification claim by a Buyer Indemnified Party or Seller Indemnified Party), whether pending or threatened.

(c) Following the Closing, for so long as such information is retained by Seller in accordance with Section 5.6(a), Seller shall permit Buyer and its authorized Representatives to have reasonable access and duplication rights during normal business hours, upon reasonable prior notice to Seller, to the information described in Section 5.6(a) to the extent that such access may be reasonably required in connection with (i) preparation of any accounting records or with any audits or similar proceedings, (ii) any Action relating to the Business, the Purchased Assets or the Assumed Liabilities, (iii) any Governmental Filing or regulatory matter or (iv) any other valid legal or business purpose. For a period of ten (10) years following the Closing Date, Seller and any applicable Affiliates shall allow Buyer or its Affiliates and their authorized Representatives to have access to Seller's Representatives, upon reasonable prior notice and during normal business hours, for any reasonable business purpose relating to the Business, including in connection with Buyer's preparation or examination of regulatory and statutory filings and financial statements, and the conduct of any audit or investigation by a Governmental Entity or any litigation relating to the Business (other than any litigation or dispute between Seller or its Affiliates, on the one hand, and Buyer or its Affiliates, on the other hand), or the pursuit or defense of any other Asserted Liability (whether or not such Asserted Liability is the subject of an indemnification claim by a Buyer Indemnified Party or Seller Indemnified Party), whether pending or threatened.

Section 5.7 Appropriate Actions.

(a) Upon the terms and subject to the conditions set forth in this Agreement, each of the parties hereto shall (and shall cause its applicable Affiliates to) use its respective reasonable best efforts to promptly (i) take, or to cause to be taken, all actions, and to do, or to cause to be done, and to assist and cooperate with the other parties hereto and their respective Affiliates in doing all things necessary, proper or advisable under Law to consummate and make effective the transactions contemplated by this Agreement and the Ancillary Agreements in the most expeditious manner practicable; (ii) subject to Section 5.7(b) and Section 5.7(c), obtain from any Governmental Entity any actions, non-actions, approvals, clearances, waivers, permits, licenses or orders required to be obtained by Seller or Buyer or any of their Affiliates in connection with the authorization, execution, delivery and performance of this Agreement, the Ancillary Agreements and the consummation of the transactions contemplated hereby and thereby; (iii) make all Governmental Filings (in each case, promptly after the date of this Agreement unless filed prior to the date hereof) which are necessary or advisable, and thereafter promptly make any other required submissions and responses with respect to the transactions contemplated hereby and thereby, required under (A) the HSR Act and any applicable foreign competition or antitrust Law (such Governmental Filings required under the HSR Act shall be made no later than twenty (20) Business Days after the date of this Agreement; with respect to Governmental Filings required under any applicable foreign competition or antitrust Law, each of the parties hereto shall use its respective reasonable best efforts to file as promptly as practicable after the date hereof) and (B) any other Law; (iv) furnish all information reasonably required for any Governmental Filings to be made pursuant to any Law in connection with the transactions contemplated by this Agreement; (v) act in good faith and reasonably cooperate with the other parties hereto in connection with any Governmental Filings (including providing copies of all such Governmental Filings to outside counsel for the non-filing party) and, if requested by another party hereto, to consider in good faith all reasonable additions, deletions or changes suggested by such other party hereto; (vi) to the extent reasonably practicable, provide the other

parties with prior notice of any substantive communication with, and any proposed understanding, undertaking or agreement with, any Governmental Entity regarding any such Governmental Filings (unless prohibited by Law); (vii) keep such other party informed in all material respects of any material communication received by such party from, or given by such party to, any Governmental Entity and of any material communication received or given in connection with any proceeding by a private party, in each case, relating to the transactions contemplated by this Agreement and the Ancillary Agreements (unless prohibited by Law); (viii) reasonably consult cooperate with each other party hereto in connection with any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals submitted by or on behalf of either party hereto in connection with proceedings relating to or arising out of such Governmental Filings and consider in good faith any reasonable comments such other party may have in such submissions; (ix) not participate independently in any meeting, or engage in any substantive conversation, with any Governmental Entity in respect of any such Governmental Filings or any investigations or other inquiries relating thereto without giving such other party prior notice of the meeting or conversation and, unless prohibited by such Governmental Entity, the opportunity to attend or participate; and (x) avoid the entry of, or have vacated or terminated, any decree, order, or judgment that would restrain, prevent or delay the consummation of the transactions contemplated hereby and the Ancillary Agreements, including vigorously defending any lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement, the Ancillary Agreements or the transactions contemplated hereby or thereby, except as otherwise provided in Section 5.7(a) of the Seller Disclosure Letter; provided, in each case, that each party need not disclose to any other party, and may redact from any information otherwise required to be provided to another party or its counsel pursuant to this Section 5.7(a), any (x) personally identifiable information of any individual or (y) information that constitutes “confidential supervisory information”, and may disclose commercially sensitive information of Buyer, Seller, or any of their respective Affiliates (other than information primarily related to the Business) only to outside counsel for the other party and designate such information for treatment as “outside counsel only”. Neither party shall consent to any voluntary delay of the consummation of the transactions contemplated by this Agreement without the prior written consent of the other party (such other party’s consent shall not be unreasonably withheld, delayed or conditioned).

(b) Each party shall cooperate, and Buyer shall and shall cause its Affiliates to use reasonable best efforts, to take any and all steps, and to make any and all undertakings, necessary to avoid or eliminate each and every impediment under any antitrust, merger control, competition, or trade regulation Laws that may be asserted by any Governmental Entity with respect to the transactions contemplated by this Agreement and the Ancillary Agreements so as to enable the consummation of the transactions contemplated hereby and thereby to occur as soon as reasonably possible (and in any event, no later than the Outside Date), including proposing, negotiating, committing to and effecting, by consent decree, hold separate order, or otherwise, the sale, divestiture or disposition of businesses, product lines or assets (or licensing of assets) of Buyer or its Affiliates, in each case, as may be required in order to avoid the adoption or entry of, or to effect the dissolution or lifting of, any decisions, injunction, temporary restraining order, or other order in any suit or proceeding (whether temporary, preliminary or permanent), which would otherwise have the effect of preventing or delaying the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements; provided, however, that Buyer and its Affiliates shall have no obligation to sell, divest, dispose or license

any assets of (I) the Retirement and Income Solutions business or (II) the Business, in each case, if the impact of such sale, divestiture, disposal or license would reasonably be expected to be materially financially burdensome to the business, operations, financial condition or results of the Retirement and Income Solutions business, in the case of subclause (I), or the Business measured as of December 31, 2018, in the case of subclause (II).

(c) In addition, Buyer shall not, and shall not permit any of its Affiliates to, acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of or equity in, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets, if the entering into of a definitive agreement relating to, or the consummation of, such acquisition, merger, consolidation could reasonably be expected to (i) impose any delay in the obtaining of, or significantly increase the risk of not obtaining, any actions, non-actions, approvals, clearances, waivers, permits, licenses or orders of any Governmental Entity necessary to consummate the transactions contemplated by this Agreement and the Ancillary Agreements, or delay the expiration or termination of any applicable waiting period, (ii) significantly increase the risk of any Governmental Entity entering an order prohibiting the consummation of the transactions contemplated by this Agreement or the Ancillary Agreements, (iii) significantly increase the risk of not being able to remove any such order on appeal or otherwise or (iv) delay or prevent the Closing.

Section 5.8 Non-Competition and Non-Solicitation.

(a) During the period following the Closing until the three (3) year anniversary of the Closing Date, (x) Seller shall not, and shall cause its controlled Affiliates not to, and (y) Seller Parent shall not, and shall cause its Affiliates (other than Seller and Seller's controlled Affiliates) not to, directly or indirectly engage in any Competing Business; provided, however, in each case, that, notwithstanding anything in this Agreement to the contrary:

(i) Seller Parent, Seller and their respective Affiliates shall not be restricted, limited or prohibited in any respect from:

(1) engaging in any Excluded Business;

(2) carrying out any obligations or exercising its or their respective rights under this Agreement or the Ancillary Agreements;

(3) acquiring, owning or holding any debt securities or other debt instruments of any Person engaged, directly or indirectly, in any Competing Business, or any other securities of any such Person, if such securities are acquired, owned or held (A) in a fiduciary, agency, nominee, custodial or similar capacity, (B) in connection with any hedging or similar product or transaction or (C) in connection with any asset management, private banking, merchant banking, private equity or securities trading, underwriting or brokerage activities or services;

(4) owning in the aggregate not more than fifteen percent (15%) of the outstanding voting securities or similar equity interests of a Person that, directly or indirectly, engages in a Competing Business; provided that the ownership of

such equity interests does not give Seller or its Affiliates the right to designate a majority, or such higher amount constituting a controlling number, of the members of the board of directors (or similar governing body) of such Person;

(5) performing any services for Seller and/or its Affiliates;

(6) selling products (including products to be repackaged, repurposed or bundled by the purchaser, white labeling, outsourcings and other technology-based solutions) to, distributing, marketing, underwriting, lending, servicing, soliciting, or receiving products or services from or otherwise engaging in any commercial activities with, a Person engaged in a Competing Business, or any customer, supplier, licensor or licensee of a Person engaged in a Competing Business, or Buyer or any of its Affiliates; provided that neither Seller nor its Affiliates otherwise engage in operation of the Competing Business operated by such Person;

(7) foreclosing on (or effecting any transaction in lieu of foreclosure that has substantially the same effect, such as a debt for equity swap or deed or transfer in lieu of foreclosure) any collateral securing any bona fide financing or other transaction with a Person in which all or any portion of the collateral represents the equity interests or assets of any Person that operates a Competing Business, and thereafter operating such Competing Business; or

(8) conducting any business activity that is ancillary to the conduct of the Excluded Business, it being understood that the business activity will be deemed ancillary to an Excluded Business if the business activity is not conducted as a separate business offering.

(ii) in the event Seller Parent, Seller or their respective Affiliates acquire any business or assets (whether by way of asset acquisition, stock purchase, merger, business combination, tender offer or otherwise) (an “**Acquired Business**”) and conducting such Acquired Business would otherwise violate this Section 5.8, nothing in this Agreement shall restrict in any manner:

(1) the conduct, use, retention or disposition of such Acquired Business, so long as less than twenty percent (20%) of the gross revenues of such Acquired Business (as of the last completed fiscal year of (x) the Acquired Business or (y) the Person who owned the Acquired Business at such time, as applicable, and which such fiscal year precedes the acquisition by Seller or its Affiliates) constitute Competing Business (the “**Competing Revenue**”); provided that the gross revenue of such Acquired Business in the fiscal year in which the Closing occurs and the immediately following fiscal year does not exceed one hundred and fifteen percent (115%) of the Competing Revenue for the fiscal year prior to the acquisition by Seller or its Affiliates;

(2) the conduct, use or retention of such Acquired Business, without limiting Section 5.8(a)(ii)(1), so long as (I) greater than twenty percent (20%) and less than forty percent (40%) of the gross revenues of such Acquired Business constitutes Competing Revenue and (II) Seller or its Affiliates, as applicable, (A) (x)

enter into a definitive agreement to divest such portion of the Acquired Business that is a Competing Business within twelve (12) months of the consummation of the acquisition of such Acquired Business and (y) use reasonable best efforts and act in good faith to promptly consummate the divestiture contemplated by such definitive agreement, or (B) otherwise terminate or dispose of the Competing Business activity, product lines or assets of such Acquired Business within twelve (12) months of the consummation of the acquisition of such Acquired Business; or

(3) the conduct, use or retention of such Acquired Business if the definitive agreement to acquire such Acquired Business is executed and delivered after the second (2nd) anniversary of the Closing Date.

(b) Seller Parent and Seller agree that, for the period commencing on the applicable Hire Date and expiring on the first (1st) anniversary thereof, neither they nor any of their Affiliates shall, directly or indirectly, (i) induce, solicit, knowingly encourage or hire any Transferred Employee to leave his or her position of employment with Buyer or any of its Affiliates or (ii) solicit or hire for employment or any similar arrangement any Transferred Employee; provided, however, that the foregoing provisions of this Section 5.8(b) shall not (A) apply to any Transferred Employee if such Transferred Employee (x) had ceased to be employed by Buyer or any of its Affiliates at the time of Seller Parent's, Seller's or their Affiliates' first post-Closing contact with such Transferred Employee (such contact being in respect of employment solicitation), or (y) was terminated at the initiative of Buyer or its Affiliates, (B) prohibit general solicitations (not specifically targeted at Transferred Employees) for employment through advertisements, *bona fide* third-party recruiting firms or other similar means and (C) prohibit the inducement, encouragement, solicitation and/or hiring of any Transferred Employee who approaches Seller Parent, Seller or any of their Affiliates at his or her own instigation (including following any solicitation permitted by the foregoing subclause (B)).

(c) Buyer agrees that, for the period commencing on the Closing Date and expiring on the first (1st) anniversary thereof (or, with respect to any TSA Business Employee and any other employee of Seller or its Affiliates who is otherwise directly and personally involved in the provision of services to the Buyer or any of its Affiliates under the Transitional Services Agreement, the expiration of the TSA Services Period, if later), neither it nor any of its Affiliates shall, directly or indirectly, unless mutually agreed in advance between the parties in good faith, (i) induce, solicit, knowingly encourage or hire any employee of Seller or any of its Affiliates and with whom Buyer or any of its Affiliates or their respective Representatives have had contact or who (or whose performance) became known to such persons in connection with the transactions contemplated by this Agreement or the Ancillary Agreements to leave his or her position of employment with Seller or any of its Affiliates or (ii) solicit or hire for employment or any similar arrangement any such employee as described in the foregoing clause (i); provided, however, that the foregoing provisions of this Section 5.8(c) shall not (A) apply to any person who (x) is a Business Employee (including a TSA Business Employee) who receives a Comparable Job Offer, (y) has ceased to be employed by Seller or any of its Affiliates at the time of Buyer's or its Affiliates' first contact with them (such contact being in respect of employment solicitation), or (z) was terminated at the initiative of Seller or its Affiliates (other than a Business Employee who did receive a Comparable Job Offer), (B) prohibit general solicitations (not specifically targeted at such employees as described in the foregoing clause (i)) for

employment through advertisements, *bona fide* third-party recruiting firms or other similar means and (C) prohibit the inducement, encouragement, solicitation and/or hiring of any person who approaches Seller or any of its Affiliates at his or her own instigation (including following any solicitation permitted by the foregoing subclause (B)).

(d) During the period following the Closing until the three (3) year anniversary of the Closing Date, (x) Seller shall not, and shall cause its controlled Affiliates not to, and (y) Seller Parent shall not, and shall cause its Affiliates (other than Seller and Seller's controlled Affiliates) not to:

(i) solicit any customer of the T&C Business (whose Customer Contract is a Transferred Contract) for financial products or services provided to such customer under such Transferred Contract, which solicitation is made on the basis of such customer having been a customer of the T&C Business (e.g., through use of a list of customers of the T&C Business); or

(ii) solicit any customer of the Discretionary Business (whose Customer Contract is a Transferred Contract) for financial products or services provided to such customer under such Transferred Contract, which solicitation is made on the basis of such customer having been a customer of the Discretionary Business (e.g., through use of a list of customers of the Discretionary Business);

provided, however, that, for the avoidance of doubt, this Section 5.8(d) shall not prohibit Seller or any of its Affiliates from conducting or operating the Excluded Businesses.

Section 5.9 **Consents.**

(a) Notwithstanding anything in this Agreement to the contrary, this Agreement shall not constitute an assignment, transfer or conveyance of (or an agreement to assign, transfer or convey) any Transferred Contract or Assumed Lease (or any claim, right, benefit or Liability of Seller or its Affiliates arising thereunder or resulting therefrom) to Buyer if the assignment, transfer or conveyance of such Transferred Contract or Assumed Lease (or any claim, right, benefit or Liability of Seller or its Affiliates arising thereunder or resulting therefrom) would, without the consent, waiver or approval of any Third Party that has not been obtained (or lapse of statutory or contractual period to object that has not occurred), (x) constitute a breach or other contravention thereof or (y) violate any Law.

(b) Prior to the Closing, subject to Section 5.9(f), with respect to any Transferred Contract or Assumed Lease referred to in Section 5.9(a) (or any claim, right, benefit or Liability of Seller or its Affiliates arising thereunder or resulting therefrom):

(i) Seller shall use reasonable best efforts, and Buyer and its Affiliates shall cooperate with Seller and its Affiliates in good faith, to, as promptly as reasonably practicable, obtain (A) the consent, waiver or approval (or cause the lapse of statutory or contractual period to object) related to such Transferred Contract or Assumed Lease (x) for the assignment pursuant to the Assignment and Assumption Agreement thereof to Buyer or a Designated Purchaser or (y) otherwise to the extent required to effect the transfer or conveyance thereof to Buyer or a Designated Purchaser pursuant to this

Agreement and the Ancillary Agreements or (B) written confirmation from the necessary person(s) employed by the applicable counterparty to such Transferred Contract or Assumed Lease, in form and substance reasonably satisfactory to both Seller and Buyer, that no such consent, waiver or approval is required to so assign, transfer or convey such Transferred Contract or Assumed Lease to Buyer. Seller and Buyer shall keep such other party reasonably apprised of the status of the foregoing.

(ii) Seller or its Affiliates may (but are not required to) make commercially reasonable accommodations, waivers, modifications or amendments to such Transferred Contracts or Assumed Leases in order to obtain any required consent, waiver or approval with respect to such Transferred Contracts or Assumed Leases; provided, however, that Seller shall obtain Buyer's consent (not to be unreasonably withheld, conditioned or delayed) prior to making any accommodations, waivers, modifications or amendments if the effect of such accommodations, waivers, modifications or amendments would reasonably be expected to have a material and adverse economic impact on the commercial relationship between the Business and the applicable customer.

(iii) Seller shall (or shall cause its Affiliates to) use reasonable best efforts to deliver to the necessary employee(s) of the applicable counterparty to such Transferred Contracts and Assumed Leases documentation, in form and substance reasonably acceptable to Buyer, seeking the consent, waiver or approval of such necessary employee(s) of such applicable counterparty thereto to permit the transfer, assignment and/or conveyance of all or the applicable portion of Seller's or its applicable Affiliate's claims, rights, benefits and Liabilities thereunder to Buyer or its Designated Purchaser. Buyer shall (or shall cause its Affiliates to) reasonably cooperate with and assist Seller in the preparation of such documentation.

(c) Immediately following the Closing, until the earlier of the (w) time that the requisite consent, waiver, approval or confirmation is obtained, (x) expiration date (if any) of the term of any Transferred Contract or Assumed Lease referred to in Section 5.9(a) (after giving effect to any replacement, extension or renewal thereof in accordance with the Transitional Services Agreement) or (y) time at which Seller would be entitled to deliver notice of termination of such Contract in accordance with Section 5.9(f) in order to terminate such Contract as of the applicable date provided for in Section 5.9(f)(iv)(y), subject to Section 5.9(f), with respect to any Transferred Contract or Assumed Lease referred to in Section 5.9(a) for which any required consent, waiver, approval or confirmation to transfer such Transferred Contract or Assumed Lease to Buyer has not been obtained (or for which the statutory or contractual period to object has not lapsed) (such Transferred Contract's or Assumed Lease's "**Termination Date**):

(i) Seller and Buyer shall use reasonable best efforts and cooperate in good faith to, as promptly as reasonably practicable, obtain (A) the consent, waiver or approval (or cause the lapse of statutory or contractual period to object) related to such Transferred Contract or Assumed Lease (x) for the assignment thereof to Buyer or a Designated Purchaser or, (y) otherwise to the extent required to effect the transfer or conveyance thereof to Buyer or a Designated Purchaser or (B) written confirmation from

the necessary employee(s) of the applicable counterparty with respect to such Transferred Contract or Assumed Lease, in form and substance reasonably satisfactory to both Seller and Buyer, that no such consent, waiver or approval is required to so assign, transfer or convey such Transferred Contract or Assumed Lease and, in either case, promptly upon receipt thereof, for no additional consideration, Seller, on the one hand, and Buyer (or a Designated Purchaser) on the other hand, shall enter into an assignment and assumption agreement, in substantially the same form as the Assignment and Assumption Agreement (to the extent related to the assignment and assumption of Transferred Contracts), to effect the assignment and transfer of such Transferred Contract or Assumed Lease to Buyer (or a Designated Purchaser). Seller and Buyer shall keep such other party reasonably apprised of the status of the foregoing.

(ii) Seller and/or its Affiliates may (but are not required to) make commercially reasonable accommodations, waivers, modifications or amendments to such Transferred Contracts or Assumed Leases in order to obtain any required consent, waiver or approval with respect to such Transferred Contracts or Assumed Leases; provided, however, that Seller shall obtain Buyer's consent (not to be unreasonably withheld, conditioned or delayed) prior to making any accommodations, waivers, modifications or amendments to such Transferred Contracts or Assumed Leases if the effect of such accommodations, waivers, modifications or amendments would reasonably be expected to have a material and adverse economic impact on the commercial relationship between the Business and the applicable customer.

The parties acknowledge and agree that Seller's obligation to use "reasonable best efforts" pursuant to this Section 5.9(c) with regard to the assignment of any Customer Contract shall be interpreted giving due regard to any transfer of Business Employees with (1) the title of Relationship Manager or (2) responsible for management of the commercial relationship with the counterparty to such Customer Contract to Buyer or its Affiliates in accordance with this Agreement.

(d) Following the date hereof, and until (x) the transfer of the applicable Transferred Contract or Assumed Lease contemplated by Section 5.9(c)(i) or (y) the Termination Date applicable thereto, without limiting the parties' obligations under Section 5.9(c), Seller and Buyer shall cooperate to establish an agency relationship or other similar arrangement reasonably satisfactory to Seller and Buyer under which Buyer would obtain, as of the Effective Time, to the fullest extent practicable and not prohibited by any Law or any Contract to which Seller or its Affiliate and a Third Party are bound, all of the claims, rights and benefits, and assume the corresponding Liabilities and obligations under Transferred Contracts with suppliers or vendors and under the Assumed Leases (it being understood that Transferred Contracts with customers of the Business are addressed in Section 5.9(c) and Section 5.9(e) and Section 2.12.2 of the Transitional Services Agreement) in accordance with this Agreement (including by means of any subcontracting, sublicensing or subleasing arrangement) or under which Seller would enforce at the direction of and for the benefit of Buyer, with Buyer assuming and agreeing to pay Seller's or its applicable Affiliate's obligations and expenses, any and all claims, rights and benefits of Seller or its applicable Affiliate against a Third Party thereto. In connection with such arrangement, with respect to the period from and after the Effective Time, (A) Seller will promptly pay, assign and remit to Buyer when received (or, with respect to monies or other

consideration in respect of such Transferred Contract or Assumed Lease received prior to the inception of such arrangement in respect of periods from and after the Effective Time, then upon inception of such arrangement) all monies and other consideration received by it or an Affiliate under any applicable Transferred Contract or Assumed Lease (or any claim, right, benefit arising thereunder or resulting therefrom) not otherwise transferred pursuant to this Section 5.9 and (B) Buyer will promptly pay, perform or discharge when due any Liability arising thereunder assumed pursuant to Section 2.3(b). Buyer shall indemnify the Seller Indemnified Parties (as defined below) for all Losses arising out of any actions (or omissions to act) of Seller or its Affiliates taken at the direction of Buyer or its Affiliates with respect to such Transferred Contract or Assumed Lease in connection with the arrangements contemplated by this Section 5.9(d). Seller shall, at Buyer's expense, take all such actions and execute all such documents as required by Buyer, to the extent commercially reasonable, to facilitate the performance by Buyer of its obligations under this Section 5.9(d) or to amend, modify or otherwise alter, or waive any rights under, any such Transferred Contract or Assumed Lease as reasonably requested by Buyer in fulfilling its obligations under this Section 5.9(d).

(e) From and after the Closing Date, Seller shall remit to Buyer (or such of Buyer's Affiliates as Buyer may direct) all amounts received by or on behalf of Seller or its Affiliates (i) in respect of periods at or after the Effective Time under the Customer Contracts and the Participation Agreements (to the extent contemplated by Section 2.1(b)), whether collected prior to, at or after the Effective Time, (ii) in respect of the Accounts Receivable or the Charged-Off Receivables collected at or after the Effective Time, (iii) all interest, fees and other amounts allocable to the Business in respect of Deposits (net of amounts paid to customers) in respect of periods at or after the Effective Time and (iv) any other revenues attributable to the Purchased Assets (including the Delayed Transfer Purchased Assets) in respect of periods at or after the Effective Time. Seller shall remit such amounts actually collected during a calendar month not later than the third (3rd) Business Day of the month immediately following such month or as otherwise agreed by the parties, except that any such amounts collected prior to the Closing in respect of periods at or after the Effective Time shall be paid to Buyer on the Closing Date. Promptly following the date hereof, the parties shall cooperate in good faith to develop and agree upon the form, content, method and frequency of delivery of reports to be prepared by Seller with respect to amounts to be paid to Buyer or its Affiliates pursuant to this Section 5.9(e), and Seller shall commence providing such reports immediately following the Closing. Seller shall permit Buyer, at Buyer's expense, to audit Seller's collection, calculation and payment of the amounts contemplated by this Section 5.9(e) in accordance with Section 5.6(c).

(f) Notwithstanding anything in this Section 5.9 to the contrary:

(i) Buyer, on the one hand, and Seller, on the other hand, shall, subject to Section 5.9(f)(ii), each pay fifty percent (50%) of any and all reasonable out-of-pocket costs, expenses and fees in connection with obtaining any consent, waiver or approval contemplated in this Section 5.9; it being understood that no customer of the Business shall be charged a conversion or "set up" fee in connection with the transactions contemplated by this Agreement.

(ii) None of Seller, Buyer or their respective Affiliates shall be obligated to pay any money (other than a *de minimis* amount) or to offer or grant other

financial or other accommodations in connection with obtaining any consent, waiver or approval with respect to such Transferred Contracts or Assumed Leases or making any accommodations, waivers, modifications or amendments to such Transferred Contracts or Assumed Leases in order to obtain any such required consent, waiver or approval.

(iii) The failure to obtain any consent, waiver or approval with respect to any Transferred Contract or Assumed Lease, shall not (A) constitute a failure to satisfy any condition set forth in Article VI or (B) relieve Buyer from its obligation to consummate the transactions contemplated by this Agreement or any of the Ancillary Agreements.

(iv) Seller shall be entitled to terminate, in a manner permitted by Law and the terms of the applicable Transferred Contract, any Transferred Contract or Assumed Lease referred to in Section 5.9(a) (or any claim, right, benefit or Liability of Seller or its Affiliates arising thereunder or resulting therefrom) at any time upon the earlier of (x) the date on which any counterparty to such Transferred Contract or Assumed Lease, as applicable, notifies Seller or Buyer in writing of its intent not to provide the requisite consent, waiver or approval related to such Transferred Contract or Assumed Lease contemplated by Section 5.9(b)(i) or Section 5.9(c)(i) (but in no event earlier than ninety (90) days following the Closing Date) and (y) January 1, 2020; provided that in no event shall Seller or any of its Affiliates deliver any notice of termination of any Customer Contract prior to the date that is six (6) months after the Closing Date, unless otherwise agreed by the parties. Seller may effect such termination by commencing a proceeding in a court of competent jurisdiction to substitute Buyer or an Affiliate of Buyer (if requested by Buyer) or another Person (if declined by Buyer) as fiduciary for Seller or its Affiliates under Law. In the sole discretion of Buyer, Buyer or an Affiliate of Buyer may join any such proceeding as a party; provided, however, that Buyer shall provide all assistance reasonably requested by Seller to cause Buyer or its applicable Affiliate (if requested by Buyer) or another Person (if declined by Buyer) to be substituted as fiduciary for Seller or its Affiliates with respect to such Transferred Contract or Assumed Lease.

(g) Prior to the Closing, Seller shall use its commercially reasonable efforts to procure any license, permit, consent or approval needed from a Third Party in order for Seller to provide, or procure the provision of, any Service to Buyer under the Transitional Services Agreement (a "**Third Party TSA Consent**"). Buyer shall use commercially reasonable efforts to provide Seller with such assistance as Seller may reasonably require in order to obtain or maintain any Third Party TSA Consent, including assistance with negotiating the terms of such consent with the relevant Third Party. All costs and expenses incurred in connection with procuring any Third Party TSA Consent shall be allocated as set forth in Section 5.9(g) of the Seller Disclosure Letter.

Section 5.10 **Further Assurances.**

(a) Subject to, and not in limitation of, Section 5.7 and Section 5.9, each of Seller and Buyer shall, and shall cause its respective Affiliates to, (i) execute and deliver such documents and other papers and take such further actions as may be reasonably required to carry

out the provisions of this Agreement and each of the Ancillary Agreements and give effect to the transactions contemplated by this Agreement and each of the Ancillary Agreements, (ii) refrain from taking any actions that would reasonably be expected to impair, delay or impede the Closing, (iii) cooperate and use commercially reasonable efforts to obtain, no later than the Closing Date, the consent, waiver or approval of any Third Party that may be or may become reasonably necessary, proper or advisable to be made or obtained (as applicable) by Seller, Buyer or their respective Affiliates to consummate and make effective the transactions contemplated by this Agreement and the Ancillary Agreements and (iv) without limiting the foregoing, use its reasonable best efforts to cause all of the conditions to the obligations of the other party to consummate the transactions contemplated by this Agreement to be met on or prior to the Outside Date.

(b) After the Closing, each of Seller and Buyer shall, and shall cause its respective Affiliates to, use its or their reasonable best efforts, from time to time, to execute and deliver, at the reasonable request of the other party, such additional documents and instruments, including any assignment or assumption agreements, bills of sale, instruments of assignment, consents and other similar instruments in addition to those required by this Agreement, as may be reasonably required to give effect to this Agreement and the Ancillary Agreements and the transactions contemplated hereby and thereby, and to provide any documents or other evidence of ownership as may be reasonably requested by Buyer to confirm Buyer's ownership of the Purchased Assets and the assumption of the Assumed Liabilities.

Section 5.11 Wrong Pockets.

(a) In the event that record or beneficial ownership or possession of any property, right, agreement or asset that is not a Purchased Asset has been assigned, conveyed or transferred by Seller or its Affiliates to Buyer or any of its Affiliates on or after the Effective Time, Buyer shall, promptly following Seller's request, use its (and shall cause its Affiliates to use their) commercially reasonable efforts to assign, convey and transfer such property, right, agreement or asset to Seller or its designated Affiliate (it being understood that if any consent, waiver or approval of any Third Party that has not been obtained (or lapse of statutory or contractual period to object that has not occurred) is required, Section 5.9 (Consents) shall apply). Pending such transfer to Seller or its designated Affiliate, Buyer shall hold such property, right, agreement or asset and provide to Seller or its designated Affiliate all of the benefits, rights, obligations and liabilities associated with the ownership and operation of such property, right, agreement or asset and, accordingly, Buyer shall cause such property, right, agreement or asset to be operated or retained as may reasonably be instructed by Seller, and Seller shall indemnify Buyer for the Losses resulting from such operation or retention, so long as such operation or retention by Buyer or its Affiliates are in accordance with Seller's instructions, except that Seller shall not be required to indemnify Buyer for any Losses arising from such operation or retention that are finally judicially determined to have resulted primarily from Buyer's or its Affiliates' willful misconduct or gross negligence.

(b) Subject to Section 5.9 and Section 2.12.2 of the Transitional Services Agreement, in the event that record or beneficial ownership or possession of a Purchased Asset has not been assigned, conveyed or transferred by Seller to Buyer or its Affiliates on or after the Effective Time, Seller shall use its commercially reasonable efforts to assign, convey and

transfer such asset to Buyer or its designated Affiliate (it being understood that if any consent, waiver or approval of any Third Party that has not been obtained (or lapse of statutory or contractual period to object that has not occurred) is required, Section 5.9 (Consents) or Section 2.12.2 of the Transitional Services Agreement, as applicable, shall apply). Pending such transfer to Buyer or its Affiliates, Seller shall hold such Purchased Asset and provide to Buyer or its designated Affiliate all of the benefits, rights, obligations and liabilities associated with the ownership and operation of such Purchased Asset and, accordingly, Seller shall cause such Purchased Asset to be operated or retained as may reasonably be instructed by Buyer, and Buyer shall indemnify Seller or its Affiliates for the Losses resulting from such operation or retention so long as such operation or retention are in accordance with Buyer's or its Affiliates' instructions, except that Buyer shall not be required to indemnify Seller for any Losses arising from such operation or retention that are finally judicially determined to have resulted primarily from Seller's or its Affiliates' willful misconduct or gross negligence.

(c) In the event that any information, including Personal Information, is transmitted between Seller or its Affiliates (or their Representatives), on the one hand, to Buyer or its Affiliates (or their Representatives), on the other hand, that Seller or its Affiliates or Buyer or its Affiliates, as applicable, was not permitted or entitled to transmit by Law or fiduciary obligation at the time of transmittal, upon notice of such from the disclosing party, the receiving party shall (and shall cause its Affiliates and Representatives to) (i) promptly return or destroy such information (to the extent such information is capable of being returned or destroyed) and (ii) keep such information confidential in accordance with Section 5.4.

(d) In the event that either Seller or Buyer becomes aware of the circumstances specified in the foregoing subsections of this Section 5.11, it shall promptly notify the other thereof.

Section 5.12 TSA Coordination.

(a) Promptly after the date hereof, with effect from the Effective Time, each of Seller and Buyer shall appoint one representative (each, a "**TSA Representative**"), each of whom shall act as the principal points of contact between the parties hereto in relation to matters arising under the Transitional Services Agreement. The TSA Representatives shall be an assistant vice president or more senior level employee in order to facilitate productive meetings.

(i) Section 5.12(a)(i) of the Seller Disclosure Letter sets forth the name, address, phone number and email address for the initial Seller TSA Representative.

(ii) Section 5.12(a)(ii) of the Buyer Disclosure Letter sets forth the name, address, phone number and email address for the initial Buyer TSA Representative.

(b) Each of Seller and Buyer shall be entitled to replace its respective TSA Representative at any time with a person of comparable seniority, but shall give the other party as much notice as reasonably practicable of such replacement.

(c) Commencing after the date hereof, and continuing until the Effective Time, the TSA Representatives shall meet at least bi-weekly to discuss the matters described in this Section 5.12, and/or as otherwise agreed.

(d) Commencing promptly after the date hereof, the TSA Representatives shall discuss in good faith and (i) use reasonable best efforts to agree on (A) the final schedules describing the Services to be provided pursuant to the Transitional Services Agreement, (B) a final schedule of Migration Services and Separation Services to be provided pursuant to the Transitional Services Agreement and (C) a final list of Delayed Transfer Purchased Assets, in each case to facilitate the efficient provision of services pursuant to the Transitional Services Agreement, and (ii) begin to develop the Migration Services and Separation Plan (as such term is defined in the Transitional Services Agreement). The fees for Services to be provided pursuant to the Transitional Services Agreement shall be set in a manner consistent with that contemplated by the Form of Transitional Services Agreement attached hereto as Exhibit B.

(e) At least ten (10) days prior to the Closing, Seller shall provide Buyer with a written description of any continued use of the Leased Real Property that will be required by or on behalf of Seller's and its Affiliates' employees, which use will not extend beyond the term of the Transitional Services Agreement, will be in the ordinary course consistent with past practice and will be on a "pass-through" cost basis.

(f) The parties agree that until a given Seller-Controlled Asset has been transferred to Buyer or its Affiliates as set forth in this Agreement, such Seller-Controlled Asset shall be operated in a manner consistent with Section 5.12(f) of the Seller Disclosure Letter and otherwise as mutually agreed by Buyer and Seller. Commencing promptly after the date hereof, the parties shall discuss in good faith and shall cooperate to agree on a governance plan to provide a framework to resolve any disputes between the parties hereto with respect to the operation of the Seller-Controlled Assets that have not yet been transferred to Buyer or its Affiliates as set forth in this Agreement (the "**Governance Plan**") as contemplated in Section 5.12(f) of the Seller Disclosure Letter.

Section 5.13 Compliance with WARN Act. The parties hereto agree to cooperate in good faith, including by sharing information about terminations of employment in a timely manner, until ninety (90) days following the Hire Date, to determine whether any notification may be required under the Worker Adjustment and Retraining Notification Act of 1988, as amended, or any similar applicable state and local Law (the "**WARN Act**") as a result of the transactions contemplated by this Agreement. Buyer shall be responsible for any obligation with respect to the Transferred Employees under the WARN Act arising or accruing on or after the Effective Time. Seller shall be responsible for any such obligation arising or accruing before the Effective Time.

Section 5.14 Notice; Supplemental Disclosure.

(a) Until the Effective Time, subject to Section 5.4 (Confidentiality), Buyer and Seller promptly shall notify each other in writing of any fact, change, condition, circumstance or occurrence or nonoccurrence of any event of which it is aware that is reasonably

likely to result in any of the conditions set forth in Article VI of this Agreement becoming incapable of being satisfied.

(b) Seller shall be permitted to reference as an exception to the certificate required to be delivered to Buyer pursuant to Section 6.1(a)(iii), and Buyer shall be permitted to reference as an exception to the certificate required to be delivered to Seller pursuant to Section 6.2(a)(iii), any fact, change, condition, circumstance or occurrence or nonoccurrence of any event that it has disclosed to the other party prior to the Closing; provided, however, that any such exception will not affect or be deemed to modify any representation or warranty in Article III or Article IV of this Agreement, any condition set forth in Section 6.1(a)(i) or Section 6.2(a)(i), or any of the parties' rights to indemnification hereunder (pursuant to Article VIII or otherwise).

Section 5.15 Intellectual Property Matters.

(a) Buyer hereby acknowledges and agrees that (i) neither Buyer nor its Affiliates are acquiring, and the Purchased Assets do not include any right, title or interest in or to, or right to use, any (A) Wells Fargo Marks or (B) other Wells Fargo Retained IP and (ii) prior to and following the Effective Time, none of Buyer or any of its Affiliates shall have any right, title or interest in or to, or right to use, and Buyer covenants that it and its Affiliates (including, after the Effective Time, in its use of the Purchased Assets or otherwise) will not hereafter adopt, use, apply to register or register, or authorize others to adopt, use, apply to register or register, any (A) Wells Fargo Marks, except as expressly set forth in Section 5.15(b) or (B) other Wells Fargo Retained IP, except as expressly set forth in the Transitional Services Agreement, in Section 5.15(f) or as otherwise agreed by the parties.

(b) Buyer and its Affiliates may, solely in its or their use of the Purchased Assets, utilize materials and assets (including stationery, forms, business cards and other similar items) that bear the Wells Fargo Marks as of the Closing Date for the periods set forth in this Section. Buyer shall, and shall cause its Affiliates to, remove, strike over, or otherwise obliterate all Wells Fargo Marks from all such assets and materials, within thirty (30) days after, (i) with respect to customer-facing materials (such as statements, Software and interfaces to software), the date on which the Software platform used to service the products provided to such customers (or potential customers) is migrated to Buyer or its designee pursuant to the Transitional Services Agreement, (ii) with respect to other Purchased Assets, the date on which such Purchased Asset is transferred to Buyer or its designee, or (iii) such later date as may be consented to in writing by Seller (such consent shall not be unreasonably withheld, conditioned or delayed). Notwithstanding the foregoing, Buyer and its Affiliates may retain such assets and materials with Wells Fargo Marks for internal, non-promotional archival purposes, to indicate the historic affiliation of the Business with Seller or otherwise to the extent required by applicable document retention policies. Any use by Buyer or any of its Affiliates under this Section 5.15(b) of any materials and assets that bear the Wells Fargo Marks is subject to the use of such materials and assets in a form and manner, and with standards of quality, as in effect for such materials, assets and Wells Fargo Marks as of the Closing Date. None of Buyer or any of its Affiliates shall use the Wells Fargo Marks in a manner that may reflect negatively on the Wells Fargo Marks or on Seller or its Affiliates. Seller may terminate the foregoing license, effective immediately, if Buyer or any of its Affiliates fails to promptly comply with the foregoing terms and conditions or

any reasonable direction of Seller or one of its Affiliates in relation to the use of the Wells Fargo Marks. Following the Effective Time, Buyer shall, and shall cause its Affiliates to, not hold itself out as having any affiliation with Seller or any of its Affiliates. Each of the parties hereto acknowledges and agrees that the remedy at Law for any breach of the requirements of this Section 5.15(b) would be inadequate and agrees and consents that without intending to limit any additional remedies that may be available, Seller and its Affiliates shall be entitled to specific performance of the terms hereof and immediate injunctive relief and other equitable relief, without the necessity of proving the inadequacy of money damages as a remedy, and the parties hereto further hereby agree to waive any requirement for the securing or posting of bond or other undertaking, in any action which may be brought to enforce any of the provisions of this Section 5.15(b).

(c) Prior to using any materials and assets that bear the Wells Fargo Marks as permitted under Section 5.15(b), Buyer and its Affiliates shall, at their sole cost and expense and in a form acceptable to Seller, notify customers of the Business (as of immediately prior to the Effective Time) of the consummation of the transactions contemplated by this Agreement.

(d) Buyer and its Affiliates shall indemnify and hold harmless Seller and its Affiliates for all Losses arising from or relating to the matters described in this Section 5.15, including the use by Buyer or any of its Affiliates of the Wells Fargo Marks (and materials and assets that bear the Wells Fargo Marks) pursuant to Section 5.15(b).

(e) Subject to the terms of this Section 5.15(e), Buyer hereby grants, on behalf of itself and its Affiliates, to Seller and its Affiliates, effective as of the Effective Time, a non-exclusive, fully paid-up, irrevocable, worldwide, perpetual right and license to use, reproduce, store, distribute, communicate, copy, modify, display, transmit and create derivative works of the Business IP (excluding any rights in Trademarks) for any and all purposes following the Effective Time. Seller and its Affiliates shall not have any rights to any enhancements, improvements or other modifications to the Business IP made by or on behalf of Buyer or its Affiliates after the Effective Time, and neither Buyer nor its Affiliates shall have any rights to any enhancements, improvements or other modifications to the Business IP made by or on behalf of Seller or its Affiliates after the Effective Time. All use of the Business IP by or under authority of Seller or its Affiliates (or their successors and assigns) from and after the Effective Time shall be on an "AS IS, WHERE IS" basis, with all faults and all express and implied representations and warranties disclaimed, and at their sole risk. The license to the Business IP granted under this Section 5.15(e) shall be sublicensable to Third Party service providers of Seller or its Affiliates, and shall be assignable and transferable to successors in interest to all or a portion of the businesses of Seller or its Affiliates, in each case without the prior written consent of Buyer.

(f) Subject to the terms of this Section 5.15(f), Seller hereby grants, on behalf of itself and its Affiliates, to Buyer and its Affiliates, effective as of the Effective Time, a non-exclusive, fully paid-up, irrevocable, worldwide, perpetual right and license to use, reproduce, store, distribute, communicate, copy, modify, display, transmit and create derivative works of, for any and all purposes, solely in connection with the Business, any Wells Fargo Retained IP that is reasonably necessary for the conduct of the Business following the Effective Time and migration of any applicable Services under the Transitional Services Agreement; provided that

such license shall not apply to any Wells Fargo Retained IP that (i) is a Trademark, (ii) Seller or any of its Affiliates uses to provide services pursuant to the Transitional Services Agreement or (iii) during the twelve (12) months prior to the Effective Time, is only used in connection with the Business because it was used in connection with an Excluded Service (as such term is defined in the Transitional Services Agreement). Buyer and its Affiliates shall not have any rights to any enhancements, improvements or other modifications to such Wells Fargo Retained IP made by or on behalf of Seller or its Affiliates after the Effective Time, and neither Seller nor its Affiliates shall have any rights to any enhancements, improvements or other modifications to such Wells Fargo Retained IP made by or on behalf of Buyer or its Affiliates after the Effective Time. All use of such Wells Fargo Retained IP by or under authority of Buyer or its Affiliates (or their successors and assigns) from and after the Effective Time shall be on an “AS IS, WHERE IS” basis, with all faults and all express and implied representations and warranties disclaimed, and at their sole risk. The license to the Wells Fargo Retained IP granted under this [Section 5.15\(f\)](#) shall be sublicensable to Third Party service providers of Buyer or its Affiliates, and shall be assignable and transferable to successors in interest to all or a portion of the businesses of Buyer or its Affiliates, in each case without the prior written consent of Seller.

Section 5.16 **[Reserved].**

Section 5.17 **Investment Management Matters.** Subject to (i) any and all rights of a client at such client’s initiative to request or direct a change, (ii) a client’s continued right to remain in the share classes in which it is invested and (iii) any actions deemed necessary or appropriate for Buyer and its Affiliates to comply with any and all applicable fiduciary duties and responsibilities, including those imposed under ERISA, Buyer and its Affiliates shall not target replacing any of the Seller-affiliated or Seller Affiliate-affiliated investment assets identified in Section 5.17 of the Seller Disclosure Letter (“**Seller Funds**”) held as of immediately prior to the Effective Time by Plans (excluding any managed account) with at least ten million dollars (\$10,000,000) in assets under administration, for a period of two (2) years after the Closing Date. Notwithstanding the foregoing:

(a) the continued inclusion of Seller Funds in Buyer’s and its Affiliates’ investment product options for the Plans shall be subject to the criteria applicable to other similarly situated investment product options of Buyer and its Affiliates, including performance criteria, risk-adjusted returns, compliance and disclosure standards, maximum fee requirements and minimum asset requirements;

(b) Buyer and its Affiliates and their respective Representatives shall not be restricted from providing any good faith investment advice or other investment advisory services as long as the advice or services do not target Seller Funds; and

(c) Buyer and its Affiliates shall not be restricted from highlighting any investment product as a prospective investment option in connection with any response to a request for proposal or request for information made by a customer of the Business, including in connection with the repricing of the services provided to an existing Plan (collectively, “**RFP/RFI**”), or from subsequently replacing Seller Funds with such investment products in connection with any such Plan; provided, however, that Buyer and its Affiliates shall not target

the funds set forth in Section 5.17(c) of the Seller Disclosure Letter as part of an RFP/RFI unless otherwise permitted by this Section 5.17.

Section 5.18 Insurance. Buyer acknowledges that all insurance coverage for the Business under policies of Seller and its Affiliates may be terminated as of the Effective Time and, following the Effective Time, no claims may be brought against any insurance policy of Seller or its Affiliates by Buyer or its Affiliates, other than, if the events underlying such claim occurred prior to the Effective Time, under any occurrence-based policy of Seller and its Affiliates with respect to the Business. In connection with claims brought under any such policy, (a) Buyer and its Affiliates, on the one hand, and Seller and its Affiliates, on the other hand, shall cooperate and provide to each other any information and assistance that is reasonably requested and is capable of being provided without unreasonably undue cost or burden and (b) claims brought under any such policy (and assistance in connection therewith) shall be at Buyer's sole cost and expense (including any applicable retentions or deductibles in connection with such claims).

Section 5.19 Participation Agreements.

(a) Following the date hereof, Seller shall reasonably cooperate with Buyer and its applicable Affiliates in connection with their negotiation of and entry into new participation agreements between Buyer or Buyer's applicable Affiliates, on the one hand, and each applicable mutual fund organization or asset manager that is an Affiliate of Seller that provides the Business mutual funds or other investment products as investment options, on the other hand, upon arm's length terms and conditions, in order for Buyer or its applicable Affiliates to obtain rights, benefits and obligations of a similar nature to those that Seller or its Affiliates (in connection with the Business) received through Participation Agreements with Affiliates of Seller prior to the date hereof.

(b) To the extent that Buyer or its applicable Affiliates have not entered into such agreements by the Closing, Seller shall cooperate with Buyer to implement a mutually agreeable arrangement pursuant to the Transitional Services Agreement, under which Buyer and its Affiliates would, to the extent in compliance with Law and the fiduciary obligations of Seller and/or its Affiliates, obtain the benefits and assume the obligations of Seller under the Participation Agreements, in accordance with the terms and conditions set forth in the Transitional Services Agreement, to mitigate any interruption in access or use of the Seller-affiliated or Seller Affiliate-affiliated investment assets mutual funds or other investment products as investment options.

Section 5.20 Confidentiality Agreements. From and after the Closing, Seller Parent shall give Buyer prompt written notice of any breach or default (or any event that, with or without notice, lapse of time or both, would reasonably be expected to give rise to any default or breach) by any Third Party to any nondisclosure, confidentiality or similar agreements that Seller Parent entered into on or after October 1, 2018 with bidders or other Third Parties in connection with the sale of the Business (each, a "**Business Confidentiality Agreement**") of which such breach Seller Parent or any of its Affiliates become aware, or the receipt of any notice or other communication from any Third Party to any Business Confidentiality Agreement with respect to any such breach by any Third Party to such Third Party's applicable Business Confidentiality

Agreement. From and after the Closing, Seller Parent shall promptly provide Buyer any information reasonably requested by Buyer relating to any such breach of a Business Confidentiality Agreement, whether occurring on or after the date hereof, to the extent such information is permitted to be disclosed to Buyer pursuant to the terms of the applicable Business Confidentiality Agreement. As and when directed by Buyer, in connection with any such breach of any Business Confidentiality Agreement that is or would reasonably be expected to be detrimental to Buyer or its Affiliates, Seller Parent shall, at Buyer's sole cost and expense, enforce its rights and pursue all reasonable remedies under any Business Confidentiality Agreement in accordance with the terms and conditions set forth therein.

Section 5.21 Settlement of Intercompany Accounts. Seller shall use reasonable best efforts to, effective upon the Effective Time, execute and deliver such releases, termination agreements and discharges as are necessary to terminate, eliminate or release, as applicable (by way of capital contribution, cash settlement or as otherwise determined by Seller in its sole discretion), each and every arrangement, commitment, receivable, payable, claim, demand, right and loan, in each case, arising under a Transferred Contract between Seller, on the one hand, and any of Seller's Affiliates, on the other hand (collectively, "**Terminating Intercompany Agreements**"). Seller shall, on the one hand, and Buyer shall, and shall cause its Affiliates, on the other hand, to, fully and finally waive and release, effective as of the Effective Time, any Liabilities or other rights arising under any Terminating Intercompany Agreement (including such Liabilities or other rights that may arise as a result of the termination of such Terminating Intercompany Agreement).

Section 5.22 Performance by Seller. Subject to Law, Seller shall cause its Affiliates to comply with the terms of, and satisfy the conditions in, this Agreement that apply to such Affiliates, and to perform the obligations to be performed by such Affiliates prior to the Effective Time or the Closing, as applicable, under this Agreement, in each case subject to the terms, conditions and limitations set forth herein.

Section 5.23 Performance by Buyer. Subject to Law, Buyer shall cause its Affiliates to comply with the terms and conditions of this Agreement that apply to such Affiliates, and to perform the obligations to be performed by such Affiliates prior to the Effective Time or the Closing, as applicable, under this Agreement, in each case subject to the terms, conditions and limitations set forth herein.

ARTICLE VI

CONDITIONS TO CLOSING

Section 6.1 Conditions to Obligations of Buyer. The obligations of Buyer to effect the Closing shall be subject to the following conditions, except if waived in writing, if permissible, by Buyer:

(a) ***Representations and Warranties and Covenants of Seller.***

(i) The representations and warranties of Seller contained in Section 3.1 (Due Organization and Good Standing) (other than the second sentence therein),

Section 3.2 (Authorization of Transaction), clause (b) of Section 3.7 (Absence of Certain Changes) and Section 3.16 (Brokers' Fees) shall be true and correct as of the Effective Time as though made on and as of the Effective Time. The representations and warranties of Seller contained in Section 3.1 (Due Organization and Good Standing) (second sentence only) shall be true and correct in all but *de minimis* respects as of the Effective Time as though made on and as of the Effective Time. The representations and warranties of Seller contained in Section 3.17(a) (Assets) shall be true and correct in all material respects as of the Effective Time as though made on and as of the Effective Time. The representations and warranties of Seller contained in Article III of this Agreement (other than the representations and warranties of Seller contained in Section 3.1 (Due Organization and Good Standing), Section 3.2 (Authorization of Transaction), clause (b) of Section 3.7 (Absence of Certain Changes) and Section 3.16 (Brokers' Fees)), without giving effect to any materiality or Material Adverse Effect qualifications therein, shall be true and correct as of the Effective Time as though made on and as of the Effective Time (except for representations and warranties that expressly speak as of an earlier date, which representations and warranties shall be true and correct as of such specified date), except for such failures to be true and correct as have not had, and would not, individually or in the aggregate, reasonably be expected to have, a Material Adverse Effect.

(ii) Seller shall have performed in all material respects all of the obligations and covenants in this Agreement that Seller is required by this Agreement to perform or comply with at or prior to the Effective Time; and

(i) and (ii). (iii) Seller shall have delivered to Buyer a certificate of Seller, dated the Closing Date, to the effect of the foregoing clauses

(b) **Requisite Antitrust Approvals.** The waiting period applicable under the HSR Act shall have expired or been terminated.

(c) **No Prohibition.** There shall be no order or injunction of a court of competent jurisdiction in effect restraining, enjoining or prohibiting the consummation of the transactions contemplated hereby, and there shall not be any legal action, suit or regulatory proceeding with respect to which Seller, Buyer or any of their respective Affiliates is the defendant or respondent or is otherwise subject instituted by any Governmental Entity, which legal action, suit or regulatory proceeding expressly seeks to enjoin the consummation of the transactions contemplated by this Agreement.

Section 6.2 **Conditions to Obligations of Seller.** The obligations of Seller to effect the Closing shall be subject to the following conditions except if waived in writing, if permissible, by Seller:

(a) **Representations and Warranties and Covenants of Buyer.**

(i) The representations and warranties of Buyer contained in Section 4.1 (Due Organization and Good Standing), Section 4.2 (Authorization of Transaction), Section 4.10 (Brokers' Fees), and Section 4.11 (No Buyer Stockholder Vote Required)

(collectively, the “**Buyer Fundamental Representations**”) shall be true and correct as of the Effective Time as though made on and as of the Effective Time. The representations and warranties of Buyer contained in Article IV of this Agreement (other than the Buyer Fundamental Representations), without giving effect to any materiality or similar qualifications therein, shall be true and correct as of the Effective Time as though made on and as of the Effective Time (except for representations and warranties that expressly speak as of an earlier date, which representations and warranties shall be true and correct as of such specified date), except for such failures to be true and correct as have not materially impaired or delayed, and would not, individually or in the aggregate, reasonably be expected to materially impair or delay, Buyer’s ability to consummate the transactions contemplated by this Agreement on a timely basis;

(ii) Buyer shall have performed in all material respects all of the obligations and covenants in this Agreement that Buyer is required by this Agreement to perform or comply with at or prior to the Effective Time; and

(iii) Buyer shall have delivered to Seller a certificate of Buyer, dated the Closing Date, to the effect of the foregoing clauses (i) and (ii).

(b) **Requisite Antitrust Approvals.** The waiting period applicable under the HSR Act shall have expired or been terminated.

(c) **No Prohibition.** There shall be no order or injunction of a court of competent jurisdiction in effect restraining, enjoining or prohibiting the consummation of the transactions contemplated hereby, and there shall not be any legal action, suit or regulatory proceeding with respect to which Buyer, Seller or any of their respective Affiliates is the defendant or respondent or is otherwise subject instituted by any Governmental Entity, which legal action, suit or regulatory proceeding expressly seeks to enjoin the consummation of the transactions contemplated by this Agreement.

Section 6.3 Frustration of Condition. No party hereto may rely on the failure of any condition set forth in Section 6.1 or Section 6.2 to be satisfied if such failure was caused by such party’s failure to act in good faith or use its reasonable best efforts to consummate the transactions contemplated by this Agreement, including as required by Section 5.7.

ARTICLE VII

TERMINATION

Section 7.1 Termination of Agreement. This Agreement may be terminated at any time prior to the Closing Date as follows:

(a) by mutual written consent of Buyer and Seller;

(b) by Seller if the Closing shall not have occurred on or before the first Business Day of January 2020 (the “**Outside Date**”), except that the right to terminate this Agreement under this Section 7.1(b) shall not be available to Seller if Seller’s breach of any

covenants or agreements contained in this Agreement shall have been the cause of, or shall have resulted in, the failure of the Closing to occur on or prior to such date;

(c) by Buyer if the Closing shall not have occurred on or before the Outside Date, except that the right to terminate this Agreement under this Section 7.1(c) shall not be available to Buyer if Buyer's breach of any covenants or agreements contained in this Agreement shall have been the cause of, or shall have resulted in, the failure of the Closing to occur on or prior to such date;

(d) by Seller if (i) Buyer shall have breached any of the covenants or agreements contained in this Agreement to be performed by Buyer such that the condition set forth in Section 6.2(a)(ii) would not be satisfied, or (ii) there exists a breach of any representation or warranty of Buyer contained in this Agreement such that the condition set forth in Section 6.2(a)(i) would not be satisfied and, in the case of clause (i) or (ii), such breach (A) has not been cured within forty-five (45) days following Seller's delivery to Buyer of written notice of such breach (or, if earlier, by the Outside Date) or (B) is incapable of being cured;

(e) by Buyer if (i) Seller shall have breached any of the covenants or agreements contained in this Agreement to be performed by Seller such that the condition set forth in Section 6.1(a)(ii) would not be satisfied, or (ii) there exists a breach of any representation or warranty of Seller contained in this Agreement such that the condition set forth in Section 6.1(a)(i) would not be satisfied and, in the case of clauses (i) or (ii), such breach (A) has not been cured within forty-five (45) days following Buyer's delivery to Seller of written notice of such breach (or, if earlier, by the Outside Date) or (B) is incapable of being cured; or

(f) by either Buyer or Seller if any Governmental Entity having jurisdiction over Seller or Buyer shall have issued an order or injunction or taken any other action, in each case permanently enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement, and such order or injunction or other action shall have become final and non-appealable, except that the (i) right to terminate this Agreement under this Section 7.1(f) shall not be available to a party hereto whose failure to fulfill any obligation under this Agreement has been the primary cause of, or primarily resulted in, such order, injunction or action and (ii) party hereto seeking to terminate this Agreement under this Section 7.1(f) shall have used its reasonable best efforts to cause any such order, injunction or action to be vacated or lifted or to ameliorate the effects thereof.

Section 7.2 **Effect of Termination.** In the event of termination of this Agreement by a party hereto pursuant to and in accordance with Section 7.1, written notice thereof shall forthwith be given by the terminating party to the other party hereto in accordance with Section 10.6, and this Agreement shall thereupon terminate and become void and have no force or effect, and the transactions contemplated hereby and by the Ancillary Agreements shall be abandoned without further action by the parties hereto, except that (a) the provisions of Section 5.4 and Article X and the Confidentiality Agreement shall survive the termination of this Agreement, (b) no party hereto shall be relieved or released from any Liabilities or damages arising out of (i) Fraud or (ii) any willful breach of this Agreement and (c) Buyer shall not be relieved or released from any Liabilities or damages arising out of a material breach by Buyer of the representations and warranties in Section 4.9.

ARTICLE VIII

INDEMNIFICATION

Section 8.1 **Obligations of Seller.**

(a) If the Closing occurs, subject to the terms of this Article VIII and Section 10.1, except in respect of Taxes (indemnification in respect of Taxes, including Section 3.9, being governed exclusively by Article IX), Seller agrees to indemnify and hold harmless Buyer and Buyer's Affiliates and each of their respective directors, officers and employees (in their capacity as such) (collectively, the "**Buyer Indemnified Parties**") from and against, and will pay and reimburse the Buyer Indemnified Parties for, any and all Losses incurred by any Buyer Indemnified Party arising out of or resulting from: (i) any breach of or inaccuracy in any of the representations or warranties of Seller in this Agreement; (ii) any breach of any of the covenants or other obligations of Seller in (x) this Agreement or (y) Section 2.12 of the Transitional Services Agreement; (iii) any Excluded Assets, Excluded Businesses or Retained Liabilities (in the case of Retained Liabilities, other than for Taxes related to any Pre-Closing Tax Period, which shall be governed by Article IX); and (iv) any failure of Seller or its Affiliates to implement the Buyer Directions from and after the Closing, except to the extent such failure was consistent with Section 5.12(f) of the Seller Disclosure Letter.

(b) The obligation of Seller to indemnify the Buyer Indemnified Parties for Losses is subject to the following limitations:

(i) Seller shall not be required to provide indemnification to any Buyer Indemnified Party pursuant to Section 8.1(a)(i) (other than with respect to any breach or inaccuracy of any Seller Fundamental Representations, or in the case of Fraud) unless the aggregate amount of Losses incurred by the Buyer Indemnified Parties in respect of all claims against Seller for indemnification under Section 8.1(a)(i), subject to Section 8.3(d) and (e), exceeds twelve million dollars (\$12,000,000) (the "**Deductible**"), and then the Buyer Indemnified Parties shall be entitled to indemnification for only the amount in excess of the Deductible.

(ii) In no event shall the aggregate amount of Losses for which Seller is obligated to indemnify the Buyer Indemnified Parties pursuant to Section 8.1(a)(i) (other than with respect to any breach or inaccuracy of any Seller Fundamental Representations, or in the case of Fraud), subject to Section 8.3(d) and (e), exceed one hundred and fifty million dollars (\$150,000,000) (the "**Cap**"). Notwithstanding Section 8.1(a), in no event shall Seller be required to provide indemnification to any Buyer Indemnified Party for any single claim or aggregated claims arising out of substantially similar or related events or circumstances under Section 8.1(a)(i) (other than with respect to Fraud) unless the amount of such claim or aggregated claims arise out of substantially similar or related events or circumstances exceeds one hundred thousand dollars (\$100,000) (the "**De Minimis Amount**").

(c) For purposes of determining any breach or inaccuracy of any representation or warranty of Seller in this Agreement (other than Section 3.4(a)(iv), clause (b))

of [Section 3.7](#), [Section 3.13\(a\)](#), the first sentence of [Section 3.14\(a\)](#) and references to “Material Contracts”), and the amount of any Losses under [Section 8.1\(a\)\(i\)](#), all qualifications and limitations as to materiality and Material Adverse Effect and other similar materiality qualifiers set forth in [Article III](#) and in [Section 3.4\(e\)](#) of the Seller Disclosure Letter shall be disregarded.

Section 8.2 Obligations of Buyer.

(a) If the Closing occurs, subject to the terms of this [Article VIII](#) and [Section 10.1](#), except in respect of Taxes (indemnification in respect of Taxes being governed exclusively by [Article IX](#)), Buyer agrees to indemnify and hold harmless Seller and its Affiliates and each of their respective directors, officers and employees (in their capacity as such) (collectively, the “**Seller Indemnified Parties**”) from and against, and will pay and reimburse the Seller Indemnified Parties for, any and all Losses incurred by any Seller Indemnified Party arising out of or resulting from: (i) any breach of or inaccuracy in any of the representations or warranties of Buyer in this Agreement; (ii) any breach of any of the covenants or other obligations of Buyer in this Agreement; (iii) solely to the extent such Losses are incurred following the Effective Time (other than those Losses incurred as a result of the Liabilities assumed pursuant to [Section 2.3\(a\)](#), [Section 2.3\(c\)\(ii\)](#) or [Section 2.3\(d\)](#)), any Purchased Assets or Assumed Liabilities (in the case of Assumed Liabilities, other than for Taxes related to any Post-Closing Tax Period, which shall be governed by [Article IX](#)); (iv) except as otherwise provided in this Agreement (including [Section 8.1\(a\)\(iv\)](#)), the Ancillary Agreements, or any other written agreement between Seller or any of its Affiliates, on the one hand, and Buyer or any of its Affiliates, on the other hand, Buyer’s and its Affiliates’ operation of the recordkeeping, trust and custody and discretionary businesses acquired from Seller pursuant to the terms hereof from and after the Effective Time, (v) the implementation of a Buyer Direction by Seller or its Affiliates or (vi) the operation of the Seller-Controlled Assets (provided that, in the case of subclause (vi), Buyer shall have no indemnity obligation in respect of Losses arising out of or resulting from Seller’s or its Affiliates’ failure to implement any Buyer Direction (other than pursuant to [Section 5.12\(f\)](#) of the Seller Disclosure Letter)).

(b) The obligation of Buyer to indemnify the Seller Indemnified Parties for Losses is subject to the following limitations: (i) Buyer shall not be required to provide indemnification to any Seller Indemnified Party pursuant to [Section 8.2\(a\)\(i\)](#) (other than with respect to any breach or inaccuracy of any Buyer Fundamental Representations or in the case of Fraud) unless the aggregate amount of Losses actually incurred by the Seller Indemnified Parties in respect of any claim against Buyer for indemnification under [Section 8.2\(a\)\(i\)](#), subject to [Section 8.3\(d\)](#) and (e), exceeds the Deductible, and then the Seller Indemnified Parties shall be entitled to indemnification for only the amount in excess of the Deductible, (ii) in no event shall the aggregate amount of Losses for which Buyer is obligated to indemnify Seller Indemnified Parties pursuant to [Section 8.2\(a\)\(i\)](#) (other than with respect to any breach or inaccuracy of any Buyer Fundamental Representations, or in the case of Fraud), subject to [Section 8.3\(d\)](#) and (e), exceed the Cap and (iii) in no event shall Buyer be required to provide indemnification to any Seller Indemnified Party for any single claim or aggregated claims arising out of substantially similar or related events or circumstances under [Section 8.2\(a\)\(i\)](#) (other than with respect to Fraud) unless the amount of such claim or aggregated claims arise out of substantially similar or related events or circumstances exceeds the De Minimis Amount.

(c) For purposes of determining any breach or inaccuracy of any representation or warranty of Buyer in this Agreement, and the amount of any Losses under Section 8.2(a)(i), all qualifications and limitations as to materiality and other similar materiality qualifiers set forth in Article IV shall be disregarded.

Section 8.3 Indemnification Procedures.

(a) In the event that any action, claim, investigation, suit or arbitration is threatened in writing or commenced by a Third Party involving any action, claim, investigation, suit or arbitration for which a party may be required to provide indemnity (an “**Indemnifying Party**”) pursuant to this Agreement (other than pursuant to Section 9.1, which shall be handled in accordance with Article IX) to any other party hereto (an “**Indemnified Party**”) (an “**Asserted Liability**”), the Indemnified Party shall promptly notify (but in any event within fifteen (15) days of the Indemnified Party first receiving such written threat or notice of commencement of such action, claim, investigation, suit or arbitration by a Third Party, or such shorter period of time within which a response or action may be required or advisable by counsel (taking into account the Indemnifying Party’s reasonably required time to prepare such response or action)) the Indemnifying Party of such Asserted Liability in a writing that (i) describes such Asserted Liability in reasonable detail (including the facts underlying each particular claim (or series of substantially similar or related claims if it would reasonably be unduly burdensome to provide such information for each particular claim) and an identification of each section of this Agreement pursuant to which indemnification is being sought); (ii) attaches copies of any material written evidence upon which such Asserted Liability is based (it being understood that, to the extent that such written evidence is not reasonably available at such time, the Indemnified Party shall so indicate, and shall promptly provide such evidence when it becomes available); and (iii) sets forth the Indemnified Party’s good faith estimate (based on information then known by the Indemnified Party) of the amount (broken down by each individual claim or series of substantially similar (or related claims if it would reasonably be unduly burdensome to provide such information for each particular claim)) for which the Indemnified Party may be liable (the “**Claim Notice**”); except that no delay on the part of the Indemnified Party in giving any Claim Notice shall relieve the Indemnifying Party of any indemnification obligation hereunder unless (and then only to the extent) the Indemnifying Party is materially damaged or prejudiced by such delay (in which case the Indemnifying Party shall be relieved only of any portion of the indemnification obligation hereunder that resulted from such delay). The Indemnifying Party shall have thirty (30) days from its receipt of a Claim Notice that complies with the requirements set forth herein (the “**Notice Period**”) to notify the Indemnified Party whether the Indemnifying Party desires, at the Indemnifying Party’s sole cost and expense and with counsel of its own choosing, to assume and control the defense of an Asserted Liability; provided that in no event may the Indemnifying Party assume control of the defense of an Asserted Liability involving criminal liability or in which injunctive or other non-monetary relief against the Indemnified Party is the sole relief sought against the Indemnified Party, unless the Indemnifying Party could also be subject to criminal liability or injunctive or non-monetary relief thereunder, in which case the Indemnifying Party and the Indemnified Party may each retain its own counsel at its own cost and expense. If the Indemnifying Party undertakes to assume and control the defense of an Asserted Liability, the Indemnifying Party shall (A) not, without the prior written consent of the Indemnified Party (which consent shall not be unreasonably withheld or delayed), consent to any settlement that (w) does not contain a full and final release of the Indemnified Party from the

subject matter of such Asserted Liability and settlement, (x) provides for injunctive or other non-monetary relief affecting the Indemnified Party in any way, (y) provides for payment of any money damages that, together with any other Losses incurred by the Buyer Indemnified Parties or Seller Indemnified Parties (as the case may be) and indemnifiable pursuant to Section 8.1(a)(i) or Section 8.2(a)(i) (as the case may be), would exceed the Cap or (z) includes an express admission of any violation of Law by any Indemnified Party, and (B) have the sole right to control the defense of any Asserted Liability, including the appointment, removal or replacement of counsel at its sole discretion, and the filing (at its reasonable discretion) of any counterclaim as part of a defense strategy. The party not in control of the defense of an Asserted Liability shall fully cooperate with the other party and its counsel in the investigation, defense and settlement of such Asserted Liability, including promptly (w) executing and delivering documents, (x) procuring potential witnesses and witness statements, (y) furnishing documentary evidence to the extent available to it or its Affiliates and (z) providing access to any other relevant party, including any employees or agents of, or advisors to, the parties as reasonably needed, to ensure the proper and adequate defense of such Asserted Liability. Notwithstanding the foregoing, other than any Asserted Liability under which the Indemnifying Party could be subject to criminal liability or injunctive or non-monetary relief, the Indemnified Party shall have the right to settle any Asserted Liability in accordance with Section 8.3(b) that the Indemnifying Party shall have undertaken to defend only if (I) as part of such settlement, the Indemnified Party unconditionally and irrevocably releases the Indemnifying Party from any and all Liabilities as part of any such settlement, including any right to indemnification by the Indemnifying Party with respect to the Asserted Liability, or (II) the Indemnifying Party provides its prior written consent to such settlement (which consent shall not be unreasonably withheld, conditioned or delayed). Notwithstanding an election by the Indemnifying Party to assume and control the defense of such Asserted Liability, (1) the Indemnified Party shall have the right to employ separate legal counsel, at the expense of the Indemnified Party, and to participate in the defense of such Asserted Liability, and (2) if, and only if, there exists a material conflict of interest that would make it inappropriate for the same counsel to represent both the Indemnified Party and the Indemnifying Party, then the Indemnified Party shall be entitled to retain its own counsel, at the expense of the Indemnifying Party, except that the Indemnifying Party shall not be obligated to pay costs, fees or expenses of more than one separate counsel for all Indemnified Parties, taken together.

(b) To the extent the Indemnifying Party (i) elects not to defend an Asserted Liability, (ii) does not undertake to assume and control the defense against an Asserted Liability within the Notice Period or (iii) fails to contest in good faith the Asserted Liability, the Indemnified Party may retain counsel and control the investigation and defense of the Asserted Liability at the cost and expense of the Indemnifying Party and may take any other actions the Indemnified Party deems reasonably advisable without in any way waiving or otherwise affecting the Indemnified Party's rights to indemnification pursuant to this Agreement; provided that the Indemnifying Party shall have the right to participate in any such defense at its sole cost and expense; provided, further, that the Indemnified Party shall not consent to any settlement of an Asserted Liability without the prior written consent of the Indemnifying Party (which consent shall not be unreasonably withheld, conditioned or delayed). In any event, the Indemnified Party and its counsel shall keep the Indemnifying Party informed of all developments relating to any such Asserted Liability, including by promptly providing copies of all relevant correspondence and documentation relating thereto.

(c) In the event that any Indemnified Party has a claim against any Indemnifying Party under this Article VIII for Losses not involving a claim by a Third Party that such Indemnified Party believes gives rise to a claim for indemnification in accordance with the terms hereunder, the Indemnified Party shall promptly notify the Indemnifying Party of such Losses in a writing that meets the requirements set forth in Section 8.3(a), except that no delay on the part of the Indemnified Party in giving any notice pursuant to this Section 8.3(c) shall relieve the Indemnifying Party of any indemnification obligation hereunder unless (and then only to the extent) the Indemnifying Party is materially damaged or prejudiced by such delay (in which case the Indemnifying Party shall be relieved only of any portion of the indemnification obligation hereunder that resulted from such delay).

(d) In calculating amounts payable to an Indemnified Party, the amount of any indemnified Losses shall be determined without duplication of any other Loss for which an indemnification claim has been made under any other representation, warranty, covenant, or agreement in this Agreement or any Ancillary Agreement and shall be computed net of (i) payments actually recovered by the Indemnified Party under any insurance policy with respect to such Losses (after giving effect to any deductible or other reasonable and documented out-of-pocket cost of recovery) and (ii) any other amount actually recovered previously by the Indemnified Party from any Third Party with respect to such Losses.

(e) The parties hereto are in agreement that where one and the same set of facts qualifies under more than one provision entitling an Indemnified Party to a claim or remedy under this Agreement, such Indemnified Party shall not be entitled to duplicative recovery of Losses arising out of such facts. In particular, the foregoing shall apply if one and the same set of facts would entitle Buyer to rights under this Article VIII and a Purchase Price adjustment pursuant to Section 2.10. The parties hereto hereby acknowledge and agree that no Buyer Indemnified Party shall be entitled to any recovery pursuant to this Article VIII for a Loss to the extent the amount of such Loss has been included in the calculation of the Post-Closing Adjustment pursuant to Section 2.10.

(f) Notwithstanding any other provision of this Agreement, in no event shall any Indemnified Party be entitled to indemnification pursuant to this Article VIII to the extent any Losses were attributable to such Indemnified Party's own gross negligence or willful misconduct.

(g) To the extent that an Indemnifying Party makes any payment pursuant to this Article VIII in respect of Losses for which an Indemnified Party has a right to recover against a Third Party (including any insurance company in its capacity as an insurer), such Indemnified Party shall use commercially reasonable efforts to seek recovery from such Third Party on such Indemnifying Party's behalf, and at the Indemnifying Party's sole cost and expense (for reasonable and documented out-of-pocket costs and expenses), and pay the amount of any such recovery to such Indemnifying Party (after deducting therefrom the amount of any reasonable and documented out-of-pocket costs of recovery incurred by such Indemnified Party in pursuing or defending any claim arising out of such matter to the extent not previously reimbursed by the Indemnifying Party); provided that such payment to the Indemnifying Party shall not exceed of the sum of (i) any amount previously paid by the Indemnifying Party to or on behalf of the Indemnified Party in respect of any claim arising out of such matter(s) and (ii) any

out-of-pocket costs and expenses expended by the Indemnifying Party in pursuing or defending any claim arising out of such matter(s).

(h) Notwithstanding anything to the contrary in this Agreement, in no event shall the aggregate liability of Seller and its Affiliates under [Section 8.1\(a\)\(i\)](#), [Section 8.1\(a\)\(ii\)](#) and [Section 9.1\(a\)](#) of this Agreement, Section 2.12 of the Transitional Services Agreement and the Sweep Deposit and Servicing Agreement (to the extent provided therein), be greater than the Base Purchase Price.

(i) Any amount owed to the Indemnified Party by the Indemnifying Party after any final judgment or award shall have been rendered by a court, arbitration board or administrative agency of competent jurisdiction and the time in which to appeal therefrom has expired, or a settlement shall have been consummated in accordance with this [Section 8.3](#), or the Indemnified Party and the Indemnifying Party shall arrive at a written mutually binding agreement with respect to any matter alleged to be indemnified by the Indemnifying Party hereunder, shall be paid by the Indemnifying Party to the Indemnified Party within thirty (30) days of the date on which the Indemnified Party shall have delivered to the Indemnifying Party written notice of any sums due and owing to it with respect to each such matter.

Section 8.4 **Sole Remedy.** After the Closing, the provisions of [Article VIII](#) and [Article IX](#) shall constitute the sole and exclusive monetary remedy of the parties hereto against each other with respect to (a) any breach or non-fulfillment of any representation, warranty, agreement, covenant, condition or any other obligation contained in this Agreement or the Ancillary Agreements (other than the Transitional Services Agreement and the Sweep Deposit and Servicing Agreement) and (b) any indemnification obligations set forth in [Section 5.9\(b\)](#), [Section 5.11\(a\)](#), [Section 5.11\(b\)](#), [Section 5.13](#) and [Section 5.15\(d\)](#), except for (i) Fraud, (ii) pursuant to [Section 10.14](#) and (iii) matters covered by [Section 2.10](#) (to which this [Article VIII](#) and [Article IX](#) shall not apply).

Section 8.5 **Mitigation.** Each Indemnified Party shall, at the Indemnifying Party's sole cost and expense, use commercially reasonable efforts to mitigate any Loss upon and after obtaining knowledge of any event that would reasonably be expected to give rise to any Loss. In the event that an Indemnified Party shall fail to use such commercially reasonable efforts to mitigate any such Loss, then, notwithstanding anything contained in this Agreement to the contrary, the Indemnifying Party shall not be required to indemnify any Indemnified Party for that portion of any Losses that could reasonably be expected to have been avoided if such Indemnified Party had made such efforts. Notwithstanding anything to the contrary in this [Section 8.5](#), no Indemnified Party shall have any obligation to assert any claim or exercise any other right of recovery against any customer, vendor or supplier of the Business or any of the Excluded Businesses in order to mitigate Losses hereunder.

Section 8.6 **Damages Limitation.** In no event shall Seller, Buyer or their respective Affiliates be liable under this [Article VIII](#) for any (a) punitive or exemplary damages, except to the extent paid to a Third Party, or (b) consequential damages or lost profits, except for consequential damages and lost profits to the extent they were the reasonably foreseeable result of the event, matter and/or breach that gave rise thereto.

ARTICLE IX

TAX MATTERS

Section 9.1 **Tax Indemnification.**

(a) Seller shall be responsible for and shall indemnify and hold the Buyer Indemnified Parties harmless from and against (without duplication) (i) any Taxes attributable to or imposed on the Purchased Assets or the Business with respect to any taxable period ending before the Effective Time, and the portion of any Straddle Period ending before the Effective Time (including, for the avoidance of doubt, any Taxes attributable to the Pre-Closing Reorganization) (a “**Pre-Closing Tax Period**”), (ii) Transfer Taxes borne by Seller pursuant to Section 9.3, (iii) any breach of any of the representations or warranties of Seller in Section 3.9; provided that Seller shall not indemnify or hold the Buyer Indemnified Parties harmless from, against, or in respect of, any Taxes attributable to or relating to any Post-Closing Tax Period (as defined herein) and (iv) any Retained Liability that is a Tax Liability. Notwithstanding the foregoing, Seller shall not be responsible for and shall not indemnify and hold the Buyer Indemnified Parties harmless from or against any Taxes related to any action outside the ordinary course with respect to the Purchased Assets or the recordkeeping, trust and custody and discretionary business of Buyer and its Affiliates after the Effective Time on the Closing Date by Buyer or any of its Affiliates (other than any such action expressly required or permitted by this Agreement or required by Law) (a “**Buyer Tax Act**”).

(b) Buyer shall be responsible for, and shall indemnify and hold the Seller Indemnified Parties harmless from and against (without duplication) (i) any Taxes attributable to or imposed on the Purchased Assets or the recordkeeping, trust and custody and discretionary business of Buyer and its Affiliates with respect to any taxable period beginning after the Closing Date and the portion of any Straddle Period beginning at or after the Effective Time (a “**Post-Closing Tax Period**”), (ii) Transfer Taxes borne by Buyer pursuant to Section 9.3 and (iii) any Taxes attributable to a Buyer Tax Act. Notwithstanding the foregoing, Buyer shall not be responsible for and shall not indemnify and hold the Seller Indemnified Parties harmless from or against any Taxes for which Seller is responsible under Section 9.1(a).

(c) For purposes of this Section 9.1, in the case of Taxes that are payable with respect to a Straddle Period, the portion of any such Tax that is allocable to the portion of the period ending on the Closing Date shall be: in the case of Taxes (i) that are either (A) based upon or related to income or receipts or (B) imposed in connection with any sale or other transfer or assignment of property (real or personal, tangible or intangible), deemed equal to the amount that would be payable if the taxable year ended on (and included) the Closing Date, and (ii) imposed on a periodic basis without regard to income, receipts, payroll or sales with respect to the recordkeeping, trust and custody and discretionary business or the Purchased Assets, deemed to be the entire amount of such Taxes for the entire period, multiplied by a fraction the numerator of which is the number of calendar days in the period ending on (and including) the Closing Date and the denominator of which is the number of calendar days in the entire period.

(d) Whenever in accordance with this Section 9.1 Seller shall be required to pay Buyer an amount pursuant to Section 9.1(a) or Buyer shall be required to pay Seller an

amount pursuant to Section 9.1(b), such payments shall be made by the later of thirty (30) days after such payments are requested or ten (10) days before the requesting party is required to pay the related Tax liability.

Section 9.2 **Tax Returns.**

(a) Except as otherwise required by Law, Seller shall prepare, or cause to be prepared, and shall file, or cause to be filed, all Tax Returns with respect to the Purchased Assets for any taxable period which ends on or prior to the Closing Date. Except as otherwise required by Law, Buyer shall prepare or cause to be prepared and shall file or cause to be filed all Tax Returns with respect to the Purchased Assets for taxable periods ending after the Closing Date; provided that, with respect to any such Tax Returns for a Straddle Period, such Tax Returns shall be prepared and all elections with respect to such Tax Returns shall be made, to the extent permitted by Law, in a manner consistent with past practice. Before filing any Tax Return with respect to any Straddle Period, Buyer shall provide Seller with a copy of such Tax Return at least thirty (30) days prior to the last date for timely filing such Tax Return (giving effect to any valid extensions thereof) (or, for any Tax Return that is due within sixty (60) days after the Closing Date, as soon as practicable prior to such last date for timely filing such Tax Return) accompanied by a statement calculating in reasonable detail Seller's indemnification obligation, if any, pursuant to Section 9.1(a). If for any reason Seller does not agree with Buyer's calculation of its indemnification obligation, Seller shall notify Buyer of its disagreement within fifteen (15) Business Days of receiving a copy of the Tax Return and Buyer's calculation. If the parties hereto are unable to resolve any dispute prior to the due date of such Tax Return (giving effect to valid extensions), Buyer shall file the Tax Return as originally prepared (but, reflecting any items on which the parties hereto have agreed) and shall later amend such Tax Return if necessary following the resolution of such dispute pursuant to the method set forth in Section 9.6. If Seller agrees with Buyer's calculation of its indemnification obligation, Seller shall pay to Buyer the amount of Seller's indemnification at the time specified in Section 9.1(d).

(b) Buyer shall not amend, refile or otherwise modify any Tax Return with respect to the Purchased Assets or the recordkeeping, trust and custody and discretionary business for any Pre-Closing Tax Period or any Straddle Period without the prior written consent of Seller, which shall not be unreasonably withheld, delayed or conditioned, unless otherwise required by Law.

Section 9.3 **Transfer Taxes.** All Tax Returns with respect to Transfer Taxes incurred in connection with or as a consequence of the transfer of the Purchased Assets shall be timely filed by the party hereto responsible for such filing under Law, and all such Transfer Taxes (and all reasonable out-of-pocket costs for preparation of such Tax Returns) shall be borne by Buyer. Buyer and Seller shall reasonably cooperate to reduce or eliminate any Transfer Taxes to the extent permitted by Law. If Seller pays a Transfer Tax at the Closing or pursuant to a post-Closing assessment by any Governmental Entity, Buyer will reimburse Seller for the amount of such Transfer Tax within ten (10) days of Seller's written demand therefor.

Section 9.4 **Tax Contests.** Buyer or Seller shall promptly notify the other party hereto in writing upon receipt of notice of any pending or threatened Tax audits, examinations or assessments which, if successful, could result in an indemnity payment pursuant to Sections

9.1(a) or 9.1(b) (a “**Tax Claim**”). Notwithstanding anything to the contrary in this Agreement, the Indemnifying Party shall have the right to control any Tax Claim. If the Indemnifying Party chooses not to control such Tax Claim, the Indemnified Party may defend the same in such manner as it may deem appropriate and the Indemnifying Party shall have the right to participate in such Tax Claim. The party hereto controlling a Tax Claim shall in any event keep the other party hereto informed of the progress of such Tax Claim and consult with such other party as to the resolution of any issue that would materially affect such other party, shall promptly provide such other party with copies of all material documents (including material notices, protests, briefs, written rulings and determinations and correspondence) pertaining to such Tax Claim, shall not settle such Tax Claim without such other party’s advance written consent, which consent shall not be unreasonably withheld, conditioned or delayed and shall otherwise permit such other party to participate in all aspects of such Tax Claim, at such other party’s own expense. For the avoidance of doubt, Seller shall be entitled to control in all respects, and neither Buyer nor any of its Affiliates shall be entitled to participate in or have consent rights with respect to, the defense of any Tax Claim that relates to any income Taxes of Seller or any of its Affiliates.

Section 9.5 Refunds.

(a) Seller shall be entitled to any Tax refunds (including any interest in respect thereof) that are received by Buyer and any amounts credited against Tax to which Buyer becomes entitled to, and utilizes (including by way of any amended Tax Returns), that (i) are attributable to the Purchased Assets for any Pre-Closing Tax Period or (ii) relate to the recordkeeping, trust and custody and discretionary business for any Pre-Closing Tax Period, and Buyer shall pay to Seller the amount of any such refund or credit within fifteen (15) days after receipt of such refund or utilization of such credit. Buyer shall use its reasonable best efforts to cooperate in obtaining any refund that Seller reasonably believes should be available, including through filing appropriate amended Tax Returns with the applicable Tax Authorities.

(b) Buyer shall be entitled to any Tax refunds (including any interest in respect thereof) that are received by Seller and any amounts credited against Tax to which Seller becomes entitled to, and utilizes (including by way of any amended Tax Returns), that (i) are attributable to the Purchased Assets for any Post-Closing Tax Period or (ii) relate to the recordkeeping, trust and custody and discretionary business for any Post-Closing Tax Period, and Seller shall pay to Buyer the amount of any such refund or credit within fifteen (15) days after receipt of such refund or utilization of such credit. Seller shall use its reasonable best efforts to cooperate in obtaining any refund that Buyer reasonably believes should be available, including through filing appropriate amended Tax Returns with the applicable Tax Authorities.

Section 9.6 Resolution of All Tax Related Disputes. Except as otherwise provided, with respect to any dispute or a disagreement relating to Taxes among the parties hereto, the parties hereto shall cooperate in good faith to resolve such dispute between them; but if the parties hereto are unable to resolve such dispute, the parties hereto shall submit the dispute to the Independent Accounting Firm for resolution, which resolution shall be final, conclusive and binding on the parties hereto. The costs, fees and expenses relating to any dispute as to the amount of Taxes owed by any of the parties hereto shall be paid by Buyer, on the one hand, and Seller, on the other hand, in proportion to each such party’s respective liability for the portion of

the Taxes in dispute, as determined by the Independent Accounting Firm. In all other cases, costs fees and expenses shall be shared equally by Seller and Buyer.

Section 9.7 Cooperation, Exchange of Information and Record Retention.

(a) Buyer and its Affiliates, on the one hand, and Seller and its Affiliates, on the other hand, shall cooperate and (at the expense of the requesting party with respect to out-of-pocket costs) provide to each other such information and assistance as may reasonably be requested in connection with the (i) preparation of any Tax Return relating to the Business, (ii) conduct of any audit or other examination by any Tax Authority relating to any liability for Taxes relating to the Business, and (iii) prosecution or defense of any action, claim, investigation, suit or arbitration relating to any Tax Return relating to the Business. Such cooperation shall include making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder.

(b) Seller and Buyer agree that, with respect to any income or payment subject to reporting or withholding occurring prior to (i) the Effective Time and (ii) in the case of any Customer Contract for which the required consent has not been obtained, and that becomes subject to Section 5.9(c), as of the Effective Time, the time that such Customer Contract becomes a Transferred Contract (if at all) (each such time, the “**Delayed Transfer Time**”), Seller shall be responsible for (x) the filing of any tax return (including Forms 941, 945 and 1042), information returns (including Forms 1099-B, 1099-DIV, 1099-INT, 1099-MISC, 1099-OID, 1099-R, 480.7C, W-2 and 1042-S) or withholding tax deposit coupons, and (y) the withholding and remittance of Tax to each appropriate Tax Authority, and the mailing of any related payee statement or notice. Buyer shall be responsible for such filings with respect to any income or payment with respect to the Purchased Assets subject to reporting or withholding occurring at or after the Effective Time or the Delayed Transfer Time, as applicable.

Section 9.8 Conflict and Survival. The covenants and agreements of the parties hereto set forth in this Article IX and the representations and warranties set forth in Section 3.9 shall survive until sixty (60) days after the expiration of the applicable statute of limitations for the relevant Pre-Closing Tax Period (giving effect to valid extensions). This Article IX, together with Sections 8.3(h) and 8.4 above, shall exclusively govern all indemnification claims with respect to Taxes.

Section 9.9 Adjustment to Purchase Price. For all Tax purposes, unless otherwise required by Law, any payment by Buyer or Seller made under Article VIII or this Article IX shall be treated as an adjustment to the Purchase Price.

ARTICLE X

MISCELLANEOUS

Section 10.1 Survival.

(a) The representations and warranties contained in Article III and Article IV, and the right to commence any claim with respect thereto, shall survive the Effective Time and terminate on the date that is fifteen (15) months after the Closing Date, except that the

Fundamental Representations shall survive the Effective Time and shall terminate on the fifth (5th) anniversary of the Closing Date.

(b) All covenants and agreements contained herein which by their terms are to be performed, in whole or in part, after the Closing or which prohibit actions subsequent to the Closing, shall survive the Effective Time in accordance with their terms. The covenants and agreements referred to in Section 9.8 shall survive until sixty (60) days after the expiration of the applicable statute of limitations for the relevant Pre-Closing Tax Period (giving effect to valid extensions). All other covenants and agreements contained herein shall survive the Effective Time and terminate on the date that is six (6) months after the Closing Date.

(c) Any claim for indemnity under this Agreement with respect to any breach of representations, warranties, covenants or agreements not made within the periods specified in Section 10.1(a) and Section 10.1(b) shall be deemed time-barred, and no such claim shall be made after the periods specified in Section 10.1(a) and Section 10.1(b), except that if written notice of a claim for indemnification under Section 8.1(a) or Section 8.2(a) shall have been provided to Seller or Buyer in accordance with Section 8.3(a) or Section 8.3(c), as the case may be, within the applicable survival period and in good faith, then any representations, warranties, covenants or agreements that are the subject of such indemnification claim that would otherwise terminate as set forth above shall survive as to such claim until such time as such claim is fully and finally resolved.

(d) Following the termination of a representation, warranty, covenant or other agreement in accordance with the preceding clauses (a) through (c) of this Section 10.1, no Action may be initiated by any Indemnified Party with respect thereto, regardless of any statute of limitations period that would otherwise apply.

Section 10.2 **Assignment; Binding Effect.** This Agreement and the rights and obligations hereunder are not assignable by either party hereto unless such assignment is consented to in writing by the other party hereto; provided that Seller or Buyer may, without the consent of Seller or Buyer, as applicable, assign any or all of its rights or obligations hereunder, to any of its Affiliates (although no such assignment shall relieve Seller or Buyer of its obligations hereunder); provided that, in either case, such assignment would not reasonably be expected to materially impair or delay or prevent receipt of any action, consent, approval, license or waiver required from any applicable Governmental Entity in connection with the transactions contemplated by this Agreement and the Ancillary Agreements on a timely basis, and subject to the preceding clause, this Agreement and all the provisions hereof shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

Section 10.3 **Choice of Law.** This Agreement shall be governed by and construed in accordance with the Laws of the State of New York applicable to agreements made and to be performed entirely within such State, without regard to the conflict of laws principles of such State (other than Section 5-1401 of the New York General Obligations Law).

Section 10.4 **Bulk Sales Law.** Each of the parties hereto irrevocably waives compliance by any other party hereto with the provisions of “bulk sales,” “bulk transfer” or

similar Laws of any state within the United States or any foreign jurisdiction that may otherwise be applicable with respect to any of the transactions contemplated by this Agreement or the Ancillary Agreements.

Section 10.5 **Jurisdiction and Service of Process.** With respect to any Action resulting from, relating to or arising out of this Agreement, each of the parties hereto irrevocably and unconditionally submits to the exclusive jurisdiction of the United States District Court for the Southern District of New York or, if such court will not accept jurisdiction, the Supreme Court of the State of New York or any court of competent civil jurisdiction sitting in New York County, New York. In any such Action, each of the parties hereto irrevocably and unconditionally waives and agrees not to assert by way of motion, as a defense or otherwise (a) any claim that it is not subject to the jurisdiction of the above named courts, (b) that its property is exempt or immune from attachment or execution in any such Action in the above-named courts, (c) that such Action is brought in an inconvenient forum, (d) that the venue of such Action is improper, and (e) that such Action should be transferred or removed to any court other than one of the above-named courts, or should be stayed by reason of the pendency of some other proceeding in any other court other than one of the above-named courts, or that this Agreement or the subject matter hereof may not be enforced in or by such courts. Each of the parties hereto hereby agrees not to commence any such Action other than before one of the above-named courts. Each of the parties hereto also hereby agrees that any final and non-appealable judgment against a party hereto in connection with any such Action shall be conclusive and binding on such party and that such judgment may be enforced in any court of competent jurisdiction, either within or outside of the United States. A certified or exemplified copy of such award or judgment shall be conclusive evidence of the fact and amount of such award or judgment. With respect to any Action for which it has submitted to jurisdiction pursuant to this Section 10.5, each party hereto irrevocably consents to service of process in the manner provided for the giving of notices pursuant to Section 10.6 of this Agreement. Nothing in this Section 10.5 shall affect the right of either party hereto to serve process in any other manner permitted by Law. The foregoing consent to jurisdiction shall not (i) constitute submission to jurisdiction or general consent to service of process in the State of New York for any purpose except with respect to any Action resulting from, relating to or arising out of this Agreement or (ii) be deemed to confer rights on any Person other than the respective parties to this Agreement.

Section 10.6 **Notices.** All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given when delivered personally, when sent by electronic mail (when confirmed by reply electronic mail that is not automated), one (1) Business Day after being sent by overnight courier service (providing written proof of delivery) or three (3) Business Days after being mailed by certified or registered mail, return receipt requested, with postage prepaid to the Persons at the following addresses (or at such other address as shall be specified by like notice):

If to Buyer, to:

Principal Financial Group, Inc.
711 High Street
Des Moines, Iowa 30392
Attn: Executive Vice President, General Counsel, and Secretary
Email: shaff.karen@principal.com

with copies, which shall not constitute notice, to:

Debevoise & Plimpton LLP
919 Third Avenue
New York, New York 10022
Attn: Thomas M. Kelly
Email: tmkelly@debevoise.com

If to Seller, to:

Wells Fargo Bank, N.A.
Legal Department
333 Market St., 27th Floor
MAC A0119-274
San Francisco, CA
Attention: Keith Jackson

with copies, which shall not constitute notice, to:

Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, NY 10036
Attn: Jeffrey A. Brill and Sven G. Mickisch
Email: jeffrey.brill@skadden.com and sven.mickisch@skadden.com

Section 10.7 **Headings.** The headings contained in this Agreement are inserted for convenience only and shall not be considered in interpreting or construing any of the provisions contained in this Agreement.

Section 10.8 **Fees and Expenses.** Except as otherwise specified in this Agreement (including [Section 5.9\(f\)\(i\)](#), [Section 8.3\(a\)](#) and [Section 9.6](#)) and the Ancillary Agreements, each of the parties hereto or its Affiliates shall bear its own costs and expenses (including investment banking and legal fees and expenses) incurred in connection with this Agreement, the Ancillary Agreements and the transactions contemplated hereby and thereby.

Section 10.9 **Entire Agreement.** This Agreement, the Seller Disclosure Letter, the Buyer Disclosure Letter and the Ancillary Agreements, all of which arise out of, and relate to, the same underlying transactions, constitute the entire agreement among the parties hereto with respect to the subject matter hereof and supersedes all prior agreements, understandings, discussions, negotiations and communications, written or oral, between the parties hereof with

respect to such subject matter, except that this Agreement shall not supersede the terms and provisions of the Confidentiality Agreement, which shall survive and remain in effect until expiration or termination thereof in accordance with its terms or pursuant to Section 5.4 of this Agreement.

Section 10.10 Interpretation.

(a) When a reference is made herein to an Article, Section or Exhibit, such reference shall be to an Article, Section of, or Exhibit to, this Agreement unless otherwise indicated. The Article, Section and Exhibit headings herein are intended for convenience of reference only and are not a part of and shall not affect the meaning or interpretation of this Agreement.

(b) Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation.”

(c) Unless the context requires otherwise, words using the singular or plural number in this Agreement also include the plural or singular number, respectively, the use of any gender herein shall be deemed to include the other genders, words denoting natural persons shall be deemed to include business entities and vice versa and references to a Person are also to its permitted successors and assigns.

(d) References to “dollars” or “\$” in this Agreement are to U.S. dollars.

(e) References to “U.S.” in this Agreement are to the United States of America.

(f) The terms “hereof,” “herein,” “herewith,” “hereby,” “hereto” and derivative or similar words refer to this entire Agreement.

(g) References herein to any statute shall be deemed to refer to such statute as amended from time to time and to any rules or regulations promulgated thereunder. Notwithstanding the foregoing, for purposes of any representations and warranties contained in this Agreement that are made as of a specific date or dates, references to any statute shall be deemed to refer to such statute, as amended, and to any rules or regulations promulgated thereunder, in each case, as of such date or dates.

(h) The phrases “the date of this Agreement,” “the date hereof” and terms of similar import, unless the context otherwise appears, shall be deemed to refer to the date set forth in the first paragraph of this Agreement.

(i) The word “extent” in the phrase “to the extent” shall mean the degree to which a subject or other thing extends, and such phrase shall not mean simply “if” unless the context in which such phrase is used shall dictate otherwise.

(j) All terms used herein with initial capital letters have the meanings ascribed to them in this Agreement, unless otherwise specified herein, and all terms defined in

this Agreement will have such defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined herein.

Section 10.11 Disclosure. Any matter disclosed in any Section or subsection of the Seller Disclosure Letter shall be considered disclosed with respect to each other Section or subsection of such Seller Disclosure Letter to the extent that the relevance of such disclosure to such other Section or subsection would be reasonably apparent on the face of such disclosure to a reader of such disclosure who is familiar with the contents of this Agreement and the Seller Disclosure Letter.

Section 10.12 Waiver and Amendment. This Agreement may be amended, modified or supplemented only by a written instrument executed and delivered by the parties hereto. Except as otherwise provided in this Agreement, any failure of either party hereto to comply with any obligation, covenant, agreement or condition herein may be waived by the parties hereto entitled to the benefits thereof only by a written instrument signed by the party or parties hereto granting such waiver, but such waiver or failure to insist upon strict compliance with such obligations, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

Section 10.13 Third-Party Beneficiaries. This Agreement is for the sole benefit of the parties hereto and their permitted successors and assigns, and nothing herein express or implied shall give or be construed to give to any Person, other than the parties hereto and such permitted successors and assigns, any legal or equitable rights hereunder.

Section 10.14 Specific Performance. The parties hereto hereby expressly recognize and acknowledge that immediate, extensive and irreparable damage would result, no adequate remedy at law would exist and damages would be difficult to determine in the event that any provision of this Agreement is not performed in accordance with its specific terms or otherwise breached. It is hereby agreed that the parties hereto shall be entitled to specific performance of the terms hereof and immediate injunctive relief and other equitable relief, without the necessity of proving the inadequacy of money damages as a remedy, and the parties hereto further hereby agree to waive any requirement for the securing or posting of a bond or other undertaking in connection with the obtaining of such injunctive or other equitable relief. Such remedies, and any and all other remedies provided for in this Agreement, shall, however, be cumulative in nature and not exclusive and shall be in addition to any other remedies whatsoever which either party hereto may otherwise have. Each of the parties hereto hereby acknowledges that the existence of any other remedy contemplated by this Agreement does not diminish the availability of specific performance of the obligations hereunder or any other injunctive relief. The parties hereto further agree not to (a) oppose the granting, or raise any objection to the availability or granting, of the equitable remedy of specific performance or other equitable relief for any reason or on any basis or (b) assert that a remedy of specific enforcement is (i) unenforceable, invalid, contrary to Law or inequitable on the basis that a remedy of monetary damages would provide an adequate remedy for any breach of this Agreement or (ii) not an appropriate remedy for any reason at law or equity. Each of the parties hereto further acknowledges and agrees that injunctive relief and/or specific performance will not cause an undue hardship to such party.

Section 10.15 Severability. If any provision of this Agreement or the application of any such provision to any Person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

Section 10.16 Negotiation of Agreement. Each of the parties hereto acknowledges that it has been represented by independent counsel of its choice throughout all negotiations that have preceded the execution of this Agreement and the Ancillary Agreements and that it has executed the same with consent and upon the advice of said independent counsel. Each such party and its counsel cooperated in the drafting and preparation of this Agreement, the Ancillary Agreements and other documents referred to herein, and any and all drafts relating thereto shall be deemed the work product of the parties hereto and may not be construed against either party hereto by reason of its preparation. Accordingly, any rule of law or any legal decision that would require interpretation of any ambiguities in this Agreement against the party hereto that drafted it is of no application and is hereby expressly waived. The provisions of this Agreement shall be interpreted in a reasonable manner to effect the intentions of the parties hereto and this Agreement.

Section 10.17 Counterparts. This Agreement may be executed in separate counterparts, each of which when executed, shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument binding upon each of the parties hereto notwithstanding the fact that all parties hereto are not signatory to the original or the same counterpart. For purposes of this Agreement, pdf signatures shall be deemed originals.

Section 10.18 Waiver of Jury Trial. TO THE EXTENT NOT PROHIBITED BY LAW, THE PARTIES HERETO HEREBY WAIVE, AND COVENANT THAT THEY WILL NOT ASSERT, ANY RIGHT TO TRIAL BY JURY IN ANY ACTION ARISING IN WHOLE OR IN PART UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE CONTEMPLATED TRANSACTIONS, WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE. THE PARTIES HERETO AGREE THAT ANY OF THEM MAY FILE A COPY OF THIS PARAGRAPH WITH ANY COURT AS WRITTEN EVIDENCE OF THE KNOWING, VOLUNTARY AND BARGAINED-FOR AGREEMENT AMONG THE PARTIES HERETO IRREVOCABLY TO WAIVE ITS RIGHT TO TRIAL BY JURY IN ANY PROCEEDING WHATSOEVER BETWEEN THEM RELATING TO THIS AGREEMENT OR ANY OF THE CONTEMPLATED TRANSACTIONS.

[The remainder of this page has been intentionally left blank. Signature pages follow.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed the day and year first above written.

WELLS FARGO BANK, N.A.

By: /s/ Andrew Devillers

Name: Andrew Devillers

Title: Senior Vice President

PRINCIPAL FINANCIAL SERVICES, INC.

By: /s/ Renee V. Schaaf

Name: Renee V. Schaaf

Title: President - Retirement and Income Solutions

WELLS FARGO & COMPANY

(solely for purposes of Sections 5.8(a), (b) & (d) and 5.20)

By: /s/ Andrew Devillers

Name: Andrew Devillers

Title: Senior Vice President

[signature page to Purchase Agreement]

CERTIFICATIONS

I, Daniel J. Houston, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Principal Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2019

/s/ Daniel J. Houston

Daniel J. Houston

Chairman, President and Chief Executive Officer

CERTIFICATIONS

I, Deanna D. Strable-Soethout, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Principal Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 2, 2019

/s/ Deanna D. Strable-Soethout

Deanna D. Strable-Soethout

Executive Vice President and Chief Financial Officer

**Certification Pursuant to Section 1350 of Chapter 63
of Title 18 of the United States Code**

I, Daniel J. Houston, Chairman, President and Chief Executive Officer of Principal Financial Group, Inc., certify that (i) the Form 10-Q for the period ended March 31, 2019, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-Q for the period ended March 31, 2019, fairly presents, in all material respects, the financial condition and results of operations of Principal Financial Group, Inc.

/s/ Daniel J. Houston

Daniel J. Houston

Chairman, President and Chief Executive Officer

Date: May 2, 2019

**Certification Pursuant to Section 1350 of Chapter 63
of Title 18 of the United States Code**

I, Deanna D. Strable-Soethout, Executive Vice President and Chief Financial Officer of Principal Financial Group, Inc., certify that (i) the Form 10-Q for the period ended March 31, 2019, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and (ii) the information contained in the Form 10-Q for the period ended March 31, 2019, fairly presents, in all material respects, the financial condition and results of operations of Principal Financial Group, Inc.

/s/ Deanna D. Strable-Soethout

Deanna D. Strable-Soethout

Executive Vice President and Chief Financial Officer

Date: May 2, 2019
