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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-16725

**PRINCIPAL FINANCIAL GROUP, INC.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**42-1520346**  
(I.R.S. Employer  
Identification Number)

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

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

Title of each class  
Common Stock, par value \$0.01

Name of each exchange on which registered  
New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of February 3, 2016, there were outstanding 291,625,605 shares of Common Stock, \$0.01 par value per share of the Registrant.

The aggregate market value of the shares of the Registrant's common equity held by non-affiliates of the Registrant was \$15,117,514,493 based on the closing price of \$51.29 per share of Common Stock on the New York Stock Exchange on June 30, 2015.

**Documents Incorporated by Reference**

The information required to be furnished pursuant to Part III of this Form 10-K is set forth in, and is hereby incorporated by reference herein from, the Registrant's definitive proxy statement for the annual meeting of stockholders to be held on May 17, 2016, to be filed by the Registrant with the United States



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**NOTE CONCERNING FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K, including the Management's Discussion and Analysis of Financial Condition and Results of Operations, contains statements which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements relating to trends in operations and financial results and the business and the products of the Registrant and its subsidiaries, as well as other statements including words such as "anticipate," "believe," "plan," "estimate," "expect," "intend" and other 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. Those risks and uncertainties include, but are not limited to, the risk factors listed in Item 1A. "Risk Factors."

## **PART I**

### **Item 1. Business**

Principal Financial Group, Inc. ("PFG") is a leader in global investment management offering businesses, individuals and institutional clients a wide range of financial products and services, including retirement, asset management and insurance through our diverse family of financial services companies. We had \$527.4 billion in assets under management ("AUM") and approximately 19.1 million customers worldwide as of December 31, 2015.

Our global investment management businesses serve a broad range of investors in more than 70 countries through offices in 18 countries, including in the major financial centers worldwide. We provide long-term investment strategies to institutional, retirement, high net worth and retail clients by offering a range of capabilities including equity, fixed income, real estate and other alternative investments, as well as fund offerings.

In the U.S., we primarily focus on small and medium-sized businesses, which we define as companies with fewer than 1,000 employees, by offering a broad array of retirement and employee benefit solutions and individual insurance solutions to meet the needs of the business owner and their employees. We are a leading provider of corporate defined contribution plans in the U.S. We are also a leading employee stock ownership plan consultant. In addition, we are a leading provider of nonqualified plans, defined benefit plans and plan termination annuities. We are also one of the largest providers of specialty benefits insurance product solutions in the U.S. We believe small and medium-sized businesses are an underserved market, offering attractive growth opportunities in the U.S. retirement and employee benefit markets.

Additionally, we believe we have a significant opportunity to leverage our U.S. retirement expertise in select international markets that have adopted or are moving toward private sector defined contribution pension systems. Our international asset management and accumulation businesses focus on the opportunities created as aging populations around the world drive increased demand for retirement accumulation, retirement asset management and retirement income management solutions.

### **Our Reportable Segments**

In the fourth quarter of 2015 we implemented changes to our organizational structure to better align businesses, distribution teams and product offerings for future growth. Principal Funds, which included our mutual fund business and Princor Financial Services Corporation ("Princor"), our retail broker-dealer and registered investment advisor, as well as Principal Financial Advisors ("PFA") were previously reported in our Retirement and Investor Services segment. Our mutual fund business and PFA are now reported as part of our Principal Global Investors segment, while Princor is now reported as part of our Corporate segment. The Retirement and Investor Services segment has been renamed to Retirement and Income Solutions. Additionally, information used by our chief operating decision maker in assessing segment performance has changed to pre-tax operating earnings. We retrospectively applied this change to the results of our Principal International segment to remove income taxes of equity method subsidiaries that had previously been included in operating revenue and pre-tax operating earnings. Our segment results have been modified to reflect these changes, which did not have an impact on our consolidated financial statements.

We organize our businesses into the following reportable segments:

- Retirement and Income Solutions;
- Principal Global Investors;
- Principal International and
- U.S. Insurance Solutions.

We also have a Corporate segment, which consists of the assets and activities that have not been allocated to any other segment.

See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 16, Segment Information" for financial results of our segments.

### **Retirement and Income Solutions Segment**

Our asset accumulation activities in the U.S. date back to the 1940s when we first began providing pension plan products and services. We now 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 and employee stock ownership plan ("ESOP") services. For more basic retirement services, we offer SIMPLE Individual Retirement Accounts ("IRA") 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.

We organize our Retirement and Income Solutions operations into two business groupings:

- Retirement and Income Solutions — Fee: includes full service accumulation, trust services and individual variable annuities; and
- Retirement and Income Solutions — Spread: includes individual fixed annuities, investment only, full service payout and banking services.

## **Retirement and Income Solutions — Fee**

### ***Full Service Accumulation***

We offer a wide variety of investment and administrative products and services for defined contribution plans, including 401(k) and 403(b) plans; defined benefit pension plans; nonqualified executive benefit plans and ESOPs. A 403(b) plan is a plan described in Section 403(b) of the Internal Revenue Code that provides retirement benefits for employees of tax-exempt organizations and public schools.

### ***Products***

Full service accumulation products respond to the needs of plan sponsors seeking both administrative and investment services for defined contribution plans or defined benefit plans. The investment component of both the defined contribution and defined benefit plans may be in the form of a guaranteed account, separate account, a mutual fund offering or a collective investment trust. In addition, defined contribution plan sponsors may also offer their own employer securities as an investment option under the plan.

We deliver both administrative and investment services to our defined contribution plan and defined benefit plan customers through annuity contracts, collective investment trusts and mutual funds. Group annuity contracts and collective investment trusts used to fund qualified plans are not required to be registered with the United States Securities and Exchange Commission ("SEC"). Our mutual fund service platform is called Principal Advantage. It is a qualified plan service package based on our series mutual fund, Principal Funds, Inc. ("PFI"). We offer investments covering the full range of stable value, equity, fixed income, real estate and international investment options managed by our Principal Global Investors segment as well as third party asset managers. In addition, full service accumulation offers plan sponsors trust services through an affiliated trust company.

As of December 31, 2015, we provided full service accumulation products to (a) over 34,900 defined contribution plans, of which approximately 29,900 were 401(k) plans, including \$121.5 billion in assets and covering 4.4 million eligible plan participants, and (b) to over 2,200 defined benefit plans, including \$16.9 billion in assets and covering over 306,200 eligible plan participants. As of December 31, 2015, approximately 57% of our full service accumulation account values were managed by our Principal Global Investors segment. Third party asset managers provide asset management services with respect to the remaining assets. 27% of our full service accumulation account values is managed entirely by the third party asset managers that are not under contract to sub-advise a PFG product, 10% is sub-advised and 6% represents employer securities.

### ***Markets and Distribution***

We offer our full service accumulation products and services to plans, including qualified and nonqualified defined contribution plans and defined benefit plans. Our primary target market is plans sponsored by small and medium-sized businesses, which we believe remains under-penetrated. According to Retirement Resources, Inc., in 2014, only 22% of businesses with between 10 and 49 employees, 48% of businesses with between 50 and 99 employees, 53% of businesses with between 100 and 249 employees and 61% of businesses with between 250 and 500 employees offered a 401(k) plan. The same study indicates that 73% of employers with between 500 and 1,000 employees, 82% of employers with between 1,000 and 5,000 employees and 86% of employers with 5,000 or more employees offered a 401(k) plan in 2014.

We distribute our full service accumulation products and services nationally, primarily through a captive retirement services sales force. As of December 31, 2015, 103 retirement services sales representatives in 42 offices, operating as a wholesale distribution network, maintained relationships with over 15,300 independent advisors, consultants and agents. Retirement services sales representatives are an integral part of the sales process alongside the referring consultant or independent advisor. We compensate retirement services sales representatives through a blend of salary and production-based incentives, while we pay independent advisors, consultants and agents a commission or fee.

As of December 31, 2015, we had a separate staff of over 280 service and education specialists located in the sales offices. These specialists play a key role in the ongoing servicing of plans by providing local services to our customers, such as reviewing plan performance, investment options and plan design; communicating the customers' needs and feedback to us and helping employees understand the benefits of their plans. The following summarizes our distribution channels:

- We distribute our annuity-based products through intermediaries who are primarily state licensed individuals.

- Principal Advantage platform is targeted at defined contribution plans through broker-dealer distribution channels. Principal Advantage gives us access to Financial Industry Regulatory Authority-registered distributors who are not traditional sellers of annuity-based products and broadens opportunities for us in the investment advisor and broker-dealer distribution channels.
- Through our Retire Secure strategy we provide financial education and other assistance to individual investors who are participants/members of employer-based accumulation solutions to help them achieve financial security.

We believe our approach to full service accumulation plan services distribution, which gives us a local sales and service presence, differentiates us from many of our competitors. We have also established a number of marketing and distribution relationships to increase the sales of our products and services.

### **Individual Variable Annuities**

We offer variable annuities to individuals and plans. Individual variable annuities are savings vehicles through which the customer makes one or more deposits of varying amounts and intervals.

#### **Products**

Our individual variable deferred annuities provide customers with the flexibility to allocate their deposits to mutual funds managed by the Principal Global Investors segment or unaffiliated third party asset managers. As of December 31, 2015, 92% of our \$9.0 billion in variable annuity account balances was allocated to mutual funds managed by the Principal Global Investors segment and our guaranteed option. The remaining 8% was allocated to mutual funds managed by unaffiliated third party asset managers. Generally speaking, the customers bear the investment risk for the variable options and have the right to allocate their assets among various separate mutual funds. The value of the annuity fluctuates in accordance with the experience of the mutual funds chosen by the customer. Customers have the option to allocate all or a portion of their account to our guaranteed option, in which case we credit interest at rates we determine, subject to contractual minimums.

Customers may elect a living benefit guarantee (commonly known in the industry as a guaranteed minimum withdrawal benefit, or "GMWB"). We bear the GMWB investment risk. Our goal is to hedge the GMWB investment risk through the use of sophisticated risk management techniques. As of December 31, 2015, \$5.9 billion of the \$9.0 billion of variable annuity account value had the GMWB rider. Our major source of revenue from variable annuities is mortality and expense fees we charge to the customer, generally determined as a percentage of the market value of the assets held in a separate investment sub-account. Account balances of variable annuity contracts with the GMWB rider were invested in separate account investment options as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	<i>(in millions)</i>	
Balanced funds	\$ 5,403.1	\$ 5,019.0
Equity funds	292.7	381.4
Bond funds	163.0	210.7
Money market funds	6.3	7.0
Specialty funds	1.4	1.8
Total	<u>\$ 5,866.5</u>	<u>\$ 5,619.9</u>
Percent of total variable annuity account values	<u>66%</u>	<u>63%</u>

#### **Markets and Distribution**

Our target markets for individual variable annuities include owners, executives and employees of small and medium-sized businesses and individuals seeking to accumulate and/or eventually receive distributions of assets for retirement. We market variable annuities to individuals for both qualified and nonqualified retirement savings.

We sell our individual variable annuity products through our affiliated financial representatives, who accounted for 95%, 93% and 92% of annuity sales for the years ended December 31, 2015, 2014 and 2013, respectively. The remaining sales were made through banks, brokerage general agencies, mutual fund companies, Principal Connection and unaffiliated broker-dealer firms. Principal Connection is our direct response distribution channel for retail financial services products to individuals. Principal Connection's services are available over the phone, on the internet or by mail. Affiliated financial representatives continued to be the primary distribution channel of our variable deferred annuities.

### **Retirement and Income Solutions — Spread**

#### **Individual Fixed Annuities**

Individual fixed annuities may be categorized in two ways: (1) deferred, in which case assets accumulate until the contract is surrendered, the customer dies or the customer begins receiving benefits under an annuity payout option, or (2) payout, in which case payments are made for a fixed period of time or for life.

## Products

**Fixed Deferred Annuities.** Our individual fixed deferred annuities consist of both single premium deferred annuity contracts and flexible premium deferred annuity contracts ("FPDAs"). Some FPDA contracts limit the period of time deposits are allowed (e.g., only one year). For certain contracts, the principal amount is guaranteed. We credit the customer's account with a fixed interest rate for a specified number of years. Thereafter, we reset the interest rate credited to the contract based upon our discretion, subject to contractual minimums, by taking into account market and other conditions. We also offer a fixed deferred annuity where the interest credited is linked to an external equity index, subject to maximum and minimum values. One source of income from fixed deferred annuities is the difference between the investment income earned on the underlying general account assets and the interest rate credited to the contracts. We bear the investment risk because, while we credit customers' accounts with a stated interest rate, we cannot be certain the investment income we earn on our general account assets will exceed that rate. The Principal Global Investors segment manages the assets supporting these contracts.

**Fixed Income Annuities.** Our individual fixed income annuities consist of single premium immediate annuity contracts ("SPIAs") and deferred income annuity contracts ("DIAs"). SPIAs and DIAs are products where the customer pays a premium in return for periodic benefit payments. SPIA payments begin immediately and DIA payments begin after a deferral period, during which a return-of-premium death benefit is included. Payments may be contingent upon the survival of one or two individuals or payments may be fixed, meaning payments are contractually guaranteed and do not depend on the continuing survival of any individual. Our major source of income from fixed immediate annuities is the difference between the investment income earned on the underlying general account assets and the interest rate implied in the calculation of annuity benefit payments. We bear the investment risk because we cannot be certain the investment income we earn on our general account assets will exceed the rate implied in the SPIA and DIA contracts. The Principal Global Investors segment manages the assets supporting these contracts.

## Markets and Distribution

Our target markets for individual fixed annuities include owners, executives and employees of small and medium-sized businesses and individuals seeking to accumulate and/or eventually receive distributions of assets for retirement. We market fixed annuities to individuals for both qualified and nonqualified retirement savings.

We sell our individual fixed annuity products through our affiliated financial representatives, who accounted for 6%, 11% and 9% of annuity sales for the years ended December 31, 2015, 2014 and 2013, respectively. The remaining sales were made through banks, brokerage general agencies, mutual fund companies, Principal Connection and unaffiliated broker-dealer firms. The majority of overall annuity sales, however, were from non-affiliated distribution channels, as a result of focused efforts to increase fixed annuity sales through these channels.

## Investment Only

### Products

The two primary products for which we provide investment only services are: GICs and funding agreements.

GICs and funding agreements pay a specified rate of return. The rate of return can be a floating rate based on an external market index or a fixed rate. Our investment only products contain provisions disallowing or limiting early surrenders, including penalties for early surrenders and minimum notice requirements.

Deposits to investment only products are predominantly in the form of single payments. As a result, the level of new deposits can fluctuate from one fiscal quarter to another. The amounts earned by us are derived in part from the difference between the investment income earned by us and the amount credited to the customer. The Principal Global Investors segment manages the assets supporting the contractual promises.

## Markets and Distribution

We market GICs and funding agreements primarily to plan sponsors and other institutions. We also offer GICs as part of our full service accumulation products. We sell our GICs primarily to tax-qualified retirement plans. We sell our funding agreements directly to institutions that may or may not be pension funds and unconsolidated special purpose vehicles domiciled either in the U.S. or offshore for funding agreement-backed note programs. The funding agreements sold as part of these funding agreement-backed note programs work by having investors purchase debt obligations from the special purpose vehicle which, in turn, purchases the funding agreement from us with terms similar to those of the debt obligations. The strength of this market is dependent on debt capital market conditions. As a result, our sales through this channel can vary widely from one quarter to another. In addition to the special purpose vehicle selling the funding agreement-backed notes to U.S. and foreign institutional investors, the special purpose vehicle may also sell notes to U.S. retail investors through a SEC-registered shelf debt issuance program.

## **Full Service Payout**

### *Products*

Full service payout products respond primarily to the needs of pension plan sponsors in the form of single premium group annuities, which are immediate or deferred annuities that provide a current or future specific income amount, fully guaranteed by us. The majority of our business originates from defined benefit plans that are being terminated. In these situations, the plan sponsor transfers all its obligations under the plan to an insurer by paying a single premium. Generally, plan sponsors restrict their purchases to insurance companies with superior or excellent financial quality ratings because the Department of Labor has mandated that annuities be purchased only from the "safest available" insurers.

Since premium received from full service payout products is generally in the form of single payments, the level of new premiums can fluctuate depending on the number of large-scale annuity sales in a particular fiscal quarter. The Principal Global Investors segment manages the assets supporting full service payout account values.

### *Markets and Distribution*

Our primary distribution channel for full service payout products is comprised of several specialized home office sales consultants working through consultants and brokers that specialize in this type of business. Our sales consultants also make sales directly to institutions. Our nationally dispersed retirement services sales representatives act as a secondary distribution channel for these products.

## **Banking Services**

IRAs are provided by Principal Bank, primarily funded by retirement savings rolled over from qualified retirement plans. Principal Bank is a federal savings bank that formed in February 1998. As of December 31, 2015, Principal Bank had over 315,000 customers and approximately \$2.2 billion in assets. Principal Bank operates under a limited purpose charter and may only accept deposits held in a fiduciary capacity, may not hold demand deposits or own commercial loans and cannot originate loans.

### *Products*

The IRAs offered by Principal Bank provide Federal Deposit Insurance Corporation ("FDIC")-insured retirement solutions for its customers. The IRAs are held in savings accounts, money market accounts and certificates of deposit. The deposit products provide a relatively stable source of funding and liquidity for Principal Bank and are backed by purchases of investment securities and residential mortgage loans.

### *Markets and Distribution*

Principal Bank offers bank products and services to participants rolling out of qualified retirement plans primarily serviced by affiliates of PFG. Principal Bank services customers through the telephone, mail and internet.

## **Principal Global Investors Segment**

Our Principal Global Investors segment 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. We maintain offices in Australia, Beijing, Brazil, Dubai, Germany, Hong Kong, Japan, the Netherlands, Singapore, the United Kingdom and the United States.

We deliver our products and services through our network of specialized investment groups and boutiques including Principal Global Equities; Principal Global Fixed Income; Aligned Investors; Principal Real Estate Investors, LLC; Principal Enterprise Capital, LLC; Spectrum Asset Management, Inc.; Post Advisory Group, LLC; Columbus Circle Investors; Edge Asset Management, Inc.; Morley Financial Services, Inc.; Macro Currency Group; Finisterre Capital LLP; Origin Asset Management LLP; and Principal Portfolio Strategies. As of December 31, 2015, Principal Global Investors and its boutiques managed \$360.8 billion in assets.

We have been providing mutual funds to customers since 1969. We offer mutual funds to individuals, businesses and institutional investors for use within variable life contracts, variable annuity contracts and employer-sponsored pension plans; as a rollover investment option and for general investment purposes. We plan to grow into a top advisor-sold mutual fund company with a sales force focused on multiple channels. As of December 31, 2015, as reported by the Strategic Insight, we are ranked 15<sup>th</sup> according to AUM (long-term funds) of the intermediary sold mutual fund companies.

We also maintain various other domestic and global fund platforms, separately managed accounts and segregated accounts for some larger institutional and retail investors.

Our products and services are provided for a fee as defined by client mandates. Our fees are generally driven by AUM.

## **Boutiques**

Our multi-boutique strategy is diversified across the following primary asset classes and service delivery options.

**Equity Investments.** As of December 31, 2015, Principal Global Equities, Aligned Investors and Principal Real Estate Investors, LLC along with Columbus Circle Investors, Edge Asset Management, Inc. and Origin Asset Management LLP managed \$136.9 billion in global equity assets. Our equity capabilities encompass large-cap stocks, mid-cap stocks, small-cap stocks and real estate investment trusts in developed and emerging markets worldwide.

**Fixed Income Investments.** As of December 31, 2015, Principal Global Fixed Income and Principal Real Estate Investors, LLC along with Spectrum Asset Management, Inc.; Post Advisory Group, LLC; Edge Asset Management, Inc. and Morley Financial Services, Inc. managed \$160.3 billion in global fixed income assets. Collectively, our experience in fixed income management spans multiple economic and credit market cycles and encompasses all major fixed income sectors, including commercial backed securities ("CMBS"), and security types. Our research and risk management capabilities in worldwide debt markets provide a strong foundation for broadly diversified "multi-sector" portfolios, tailored to specific client objectives.

**Alternative Investments.** We offer products and services through other alternative asset classes including managing private real estate equity, commercial mortgages and bridge/mezzanine loans through Principal Real Estate Investors, LLC; managing real estate operating companies through Principal Enterprise Capital, LLC; managing currency mandates through our Macro Currency Group boutique and managing hedge fund mandates through the Finisterre Capital LLP and Columbus Circle Investors boutiques. As of December 31, 2015, we managed \$59.9 billion in alternative asset classes.

**Principal Portfolio Strategies.** Principal Portfolio Strategies is a specialized asset allocation boutique offering multi-asset and/or multi-manager portfolio construction services that aim to deliver reliable, risk-adjusted investment outcomes to individual investors, institutional investors and participants in employer-sponsored plans.

## **Products and Services**

Products offered by the Principal Global Investors segment include individually managed accounts, separately managed accounts for high net worth individuals and several fund platforms for retail and institutional investors, as described below.

**Principal Funds, Inc.** PFI is a series mutual fund that, as of December 31, 2015, offered 84 investment options for defined contribution plans, individuals, institutional investors, adviser fee-based programs, and other retirement plan clients. We report the results for this fund in the Retirement and Income Solutions segment or Principal Global Investors segment based on the distribution channel associated with the AUM.

**Principal Variable Contracts Funds, Inc.** Principal Variable Contracts Funds, Inc. is a series mutual fund that provides investment options for variable annuity and variable life insurance contracts issued by the Principal Life Insurance Company ("Principal Life") and other insurance companies not affiliated with Principal Life. AUM backing our variable annuity contracts is reported in the Retirement and Income Solutions segment. AUM backing our variable life insurance contracts is reported in the U.S. Insurance Solutions segment.

**Other Principal Global Investors Funds.** Principal Global Investors maintains various fund platforms including Qualifying Investor Alternative Fund and Undertaking for Collective Investment in Transferable Securities funds domiciled in Dublin, Collective Investment Trusts, Business Trusts and other boutique sponsored funds. These funds are generally managed by our boutiques.

## **Markets and Distribution**

Our products and services are distributed through various channels to reach and meet the needs of a broad investor base. We distribute our services through institutional and retail sales representatives, relationship management, and client service professionals, who work with consultants and directly with investors to acquire and retain institutional clients, retail clients, and other investors. We also maintain relationships with independent broker-dealers to distribute our products and services, maintaining relationships with over 54,000 independent brokers, consultants, and agents. As of December 31, 2015, Principal Global Investors and its boutiques had approximately 848 third party institutional clients in 41 countries with \$122.0 billion of AUM.

## **Principal International Segment**

Our Principal International segment has operations in Brazil, Chile, China, Hong Kong Special Administrative Region ("SAR"), India, Mexico and Southeast Asia. We focus on countries and territories with growing middle classes, favorable demographics, and increasing long-term savings, ideally with defined contribution retirement markets. We entered these locations through acquisitions, start-up operations and joint ventures.

The activities of our Principal International segment reflect our efforts to accelerate the growth of our AUM by capitalizing on the international trend toward private sector defined contribution pension systems and individual long-term savings. We offer pension accumulation products and services, mutual funds, asset management, income annuities and life insurance accumulation products.

### **Markets, Products and Distribution**

**Brazil.** We offer pension accumulation and income annuity products through a co-managed joint venture, Brasilprev Seguros e Previdência S.A. ("Brasilprev"). We own 25% of the economic interest and 50.01% of the voting shares as of December 31, 2015. The partner is Banco do Brasil ("Banco"), the largest bank in Latin America, which had approximately 5,400 Brazilian branches as of September 30, 2015.

Brasilprev has the exclusive distribution rights of its pension accumulation and annuity products through the Banco network until October 2032. Our joint venture provides products for the retirement needs of individuals and employers. Banco's employees sell these products directly to individual clients through its bank branches. In addition, our joint venture reaches corporate clients through two wholesale distribution channels: (1) a network of independent brokers who sell to the public and (2) Banco's corporate account executives who sell to existing and prospective corporate clients.

We offer mutual fund and asset management services through Claritas Administração de Recursos Ltda. ("Claritas"), an independent Brazilian mutual fund and asset management company. We own 71.4% of the economic interest as of December 31, 2015, and the remainder is owned by employee-partners. The company manages equity funds, balanced funds, managed accounts and other strategies for affluent clients and institutions and sells through its multi-channel distribution network.

**Chile.** We offer a complete array of pension accumulation and income annuity products. We also offer mutual fund, asset management services and life insurance accumulation products.

We offer mandatory employee-funded pension and voluntary savings plans through Administradora de Fondos de Pensiones Cuprum S.A. ("Cuprum"). We own 97.97% of Cuprum as of December 31, 2015, and the rest is publicly floated. Cuprum's products are sold through a proprietary sales network of approximately 750 sales employees as of December 31, 2015.

We offer income annuity and life insurance accumulation products through Principal Compañía de Seguros de Vida Chile S.A., our wholly owned life insurance company. The annuity products are distributed through a network of brokers and independent agents. Life insurance accumulation products are also offered to individuals through brokers and financial advisors.

We offer voluntary savings plans and mutual funds through Principal Administradora General de Fondos S.A., our wholly-owned mutual fund company. Products are distributed to retail clients through our proprietary sales force, financial advisors, brokerage houses and alliances with financial institutions.

We offer asset management services through Principal Asset Management Chile S.A. This wholly owned company sells its products through a proprietary sales force.

**China.** We offer mutual funds and asset management services to individuals and institutions through a joint venture, CCB Principal Asset Management Co., Ltd. We own 25% and China Construction Bank ("CCB") is the majority partner with 65% ownership as of December 31, 2015. We sell mutual funds primarily through our partner bank, CCB. The bank provides extensive distribution capabilities for the joint venture in terms of brand awareness and the number of branch outlets, which number approximately 15,000 as of June 30, 2015.

**Hong Kong SAR.** We offer both pension accumulation and mutual fund products to corporate and retail clients through wholly owned companies.

We offer two types of schemes, Mandatory Provident Fund ("MPF") to serve the mandatory retirement market and Occupational Retirement Schemes Ordinance ("ORSO") to serve the voluntary retirement market. We distribute products through a proprietary sales force that maintains relationships with third party intermediaries such as insurance companies, independent financial advisors, brokers and employee benefit consultants. We also target individual account holders who have changed jobs or are looking to consolidate their retirement accounts. We serviced approximately 500,000 MPF accounts as of December 31, 2015. On September 1, 2015, we acquired AXA's MPF and ORSO business. In addition, we have an agreement for the exclusive distribution of pension products through AXA's extensive agency network in Hong Kong through 2030.

We sell mutual funds to retail customers seeking to accumulate assets for retirement and other long-term investment needs. Our mutual funds are distributed through a proprietary sales force that maintains relationships with third party intermediaries such as banks, insurance companies, independent financial advisors, securities brokers, direct-to-customer fund platforms and private wealth management firms. To further grow our mutual fund business we expect to leverage our operations in the Hong Kong SAR and our asset management joint venture in China to pursue potential opportunities created by the mutual recognition of fund products between Hong Kong and China.

**India.** We offer mutual funds and asset management services to both retail and corporate customers through our joint venture Principal Pnb Asset Management Company Private Limited. We own 78.6% as of December 31, 2015, and the partner is Punjab National Bank, a large Indian commercial bank with a network of approximately 6,600 branches as of September 30, 2015. Mutual funds are sold through bank branches, proprietary sales offices, independent distributors and direct sales.

We also have a proprietary distribution company, Principal Retirement Advisors Private Limited, that focuses on promoting and advising on retirement and long-term investment products in the India market.

**Mexico.** We offer pension accumulation, mutual funds, income annuities and asset management services through our wholly-owned companies.

We offer mandatory pension plans through Principal Afore, S.A. de C.V., Principal Grupo Financiero. We manage and administer individual retirement accounts under the mandatory privatized social security system for all employees in Mexico. As of November 30, 2015, we had approximately 3.6 million individual retirement accounts. We distribute products and services through a proprietary sales force of approximately 615 sales representatives as of December 31, 2015, as well as independent brokers who sell directly to individuals. In addition, we have an agreement for the exclusive distribution of Principal Afore's products through HSBC Bank's extensive network in Mexico through 2017.

We offer mutual funds and asset management services through Principal Fondos de Inversión, S.A. de C.V., Operadora de Fondos de Inversión, Principal Grupo Financiero. We distribute products and services through a sales force of approximately 100 employees as of December 31, 2015, and through distribution agreements with other financial entities. We offer both domestic and international products, typically sold directly to clients.

We also administer previously sold income annuities and life products.

**Southeast Asia.** We offer mutual funds, asset management services and pension accumulation products through our joint venture CIMB-Principal Asset Management Berhad ("CPAM"). We own 40% in CIMB-Principal and 50% in CIMB Principal Islamic as of December 31, 2015, and the partner is CIMB Group, the second largest bank by assets in Malaysia as of September 1, 2015 with a strong presence in many Asian countries. CPAM also manages a significant amount of institutional asset mandates.

CPAM has wholly owned subsidiaries in Singapore (CIMB-Principal Asset Management (S) Pte. Ltd.), Indonesia (PT CIMB-Principal Asset Management) and Thailand (CIMB-Principal Asset Management Company Limited).

CPAM distributes conventional and Islamic mutual funds through the branches of its partner bank (approximately 1,060 bank branches throughout Malaysia, Indonesia, Thailand and Singapore) and through an agency sales force of approximately 6,700 agents selling to retail customers as of December 31, 2015. CPAM also distributes its mutual funds through third party institutions including other banks and security houses.

## U.S. Insurance Solutions Segment

Our U.S. Insurance Solutions segment offers group and individual insurance solutions. We focus on providing comprehensive insurance solutions for small and medium-sized businesses and their owners and executives. We organize our operations into two divisions: Specialty Benefits Insurance and Individual Life Insurance. However, we share key resources in our core areas such as strategic leadership, distribution, and marketing.

### Specialty Benefits Insurance

Specialty benefits insurance, which includes group dental, vision, life and disability insurance and individual disability insurance, is an important component of the employee benefit offering at small and medium-sized businesses. We offer traditional employer sponsored and voluntary products for group dental, vision, life and disability. We also offer group dental, vision and disability on a fee-for-service basis. Our individual disability insurance is also sold on an individual or multi-life basis.

### Products and Services

**Group Dental and Vision Insurance.** We began selling group dental and vision insurance in the late 1960s. Our plans provide partial reimbursement for dental and vision expenses. As of December 31, 2015, we had over 42,000 group dental and vision insurance policies in force covering over 1.1 million employee lives. According to Life Insurance and Market Research Association ("LIMRA"), we were the 8th largest group dental insurer in terms of number of contracts/employer groups in force in 2014. In addition to indemnity and preferred provider organization dental offered on both an employer paid and voluntary basis, we offer a prepaid dental plan in Arizona through our Employers Dental Services, Inc. subsidiary. We offer a discount dental product nationally and a dental network of preferred providers primarily in California through our First Dental Health subsidiary. Our indemnity vision product and our managed care vision product are offered on both an employer paid and voluntary basis.

**Group Life Insurance.** Group life insurance was one of our first group products beginning in the early 1940s. Our group life insurance provides coverage to employees and their dependents for a specified period. As of December 31, 2015, we had nearly 53,000 group policies providing \$128 billion of group life insurance in force to approximately 2.1 million employee lives. According to LIMRA, in 2014 we were ranked 3rd in the U.S. in terms of the number of group life insurance contracts in force. We currently sell traditional group life insurance that does not provide for accumulation of cash values on both an employer paid and voluntary basis. Our group life insurance business remains focused on the traditional, annually renewable term product. Group term life and group universal life accounted for 98% and 2%, respectively, of our total group life insurance in force as of December 31, 2015. We no longer market group universal life insurance to new employer groups.

**Group Disability Insurance.** Group disability insurance has also been sold since the early 1940s. Our group disability insurance provides a benefit to insured employees who become disabled. In most instances, this benefit is in the form of a monthly income. Our group disability products include both short-term and long-term disability, offered on both an employer paid and voluntary basis. As of December 31, 2015, long-term disability represented 61% of total group disability premium, while short-term disability represented 39% of total group disability premium. In addition, we provide disability management services, also called rehabilitation services, to assist individuals in returning to work as quickly as possible following disability. We also work with disability claimants to improve the approval rate of Social Security benefits, thereby reducing payment of benefits by the amount of Social Security payments received. As of December 31, 2015, we served approximately 1.6 million employee lives through more than 40,000 contracts. According to LIMRA, our group short-term disability business was ranked 6th and our group long-term disability business was ranked 4th in the U.S. as of December 31, 2014, in terms of number of contracts/employer groups in force. We also offer voluntary critical illness insurance, which provides a lump-sum cash benefit to pay for additional expenses associated with the five most common critical illnesses.

**Individual Disability Insurance.** Individual disability insurance has been sold since the early 1950s. Our individual disability insurance products provide income protection to the insured member and/or business in the event of disability. In most instances, this benefit is in the form of a monthly income. In addition to income replacement, we offer products to pay business-related costs such as overhead expenses for a disabled business owner, buy-out costs for business owners purchasing a disabled owner's interest in the business, expenditures for replacement of a key person and business loan payments. We also offer a product to protect retirement savings in the event of disability. As of December 31, 2015, we served approximately 171,000 individual disability policyholders. According to LIMRA, our individual disability business was ranked 5th in the U.S. in terms of premium in force in the non-cancellable segment of the market and 6th overall, as of December 31, 2014.

**Fee-for-Service.** We offer administration of group dental, disability and vision benefits on a fee-for-service basis.

## **Individual Life Insurance**

We began as an individual life insurer in 1879 when we began selling traditional life insurance products to individuals. We now specialize in providing solutions for small to medium-sized companies to protect against risk and loss, assist with succession planning and wealth transfer and to build and protect wealth for retirement. We also provide solutions to meet the personal needs of business owners, executives and affluent individuals. Our U.S. operations administered approximately 568,000 individual life insurance policies with over \$260 billion of individual life insurance in force as of December 31, 2015.

## **Products and Services**

Our Business Owner and Executive Solutions platform as well as our nonqualified deferred compensation offering combines administration and consulting to service our clients' needs. We target the business and personal insurance needs of owners and executives of small and medium-sized businesses with an increasing focus on providing insurance solutions for nonqualified executive benefits. In addition, we market our products to meet traditional retail insurance needs. We offer a variety of individual life insurance products, including universal life insurance, variable universal life insurance and term life insurance.

**Universal and Variable Universal Life Insurance.** Universal and variable universal life insurance products offer the policyholder the option of adjusting both the premium and the death benefit amounts of the insurance contract. Universal life insurance typically includes a cash value account that accumulates at a credited interest rate based on the investment returns of the block of business. Variable universal life insurance is credited with the investment returns of the various investment options selected. For the year ended December 31, 2015, 66% of individual life insurance annualized first year premium sales were generated from universal and variable universal life insurance products. Universal and variable universal life insurance represented 32% of individual life insurance in force as of December 31, 2015.

After a deduction for policy level expenses, we credit net deposits to an account maintained for the policyholder. For universal life contracts, the entire account balance is invested in the general account. Interest is credited to the policyholder's account based on the earnings on general account investments, subject to contractual minimums. For variable universal life contracts, the policyholder may allocate the account balance among our general account and a variety of mutual funds underlying the contract. Interest is credited on amounts allocated to the general account in the same manner as for universal life. Net investment performance on mutual funds is allocated directly to the policyholder accounts; the policyholder bears the investment risk. Some of our universal life and variable universal life insurance contracts contain what are commonly referred to as "secondary" or "no-lapse" guarantee provisions. A no-lapse guarantee keeps the contract in force, even if the contractholder's account balance is insufficient to cover all of the contract charges, provided that the contractholder has continually paid a specified minimum premium.

**Traditional Life Insurance.** Traditional life insurance includes participating whole life, adjustable life products and non-participating term life insurance products. Participating products and non-participating term life insurance products represented 34% of our individual life insurance annualized first year premium sales for the year ended December 31, 2015, and 68% of individual life insurance in force as of December 31, 2015. Adjustable life insurance products provide a guaranteed benefit in return for the payment of a fixed premium and allow the policyholder to set the coverage period,

premium and face amount combination. Term insurance products provide a guaranteed death benefit for a specified period of time in return for the payment of a fixed premium. Policyholder dividends are not paid on term insurance.

### ***U.S. Insurance Solutions Markets and Distribution***

For each of our products, administration and distribution channels are customized to meet customer needs and expectations for that product.

We market our group life, disability, dental and vision insurance products to small and medium-sized businesses, primarily targeting our sales toward owners and human resources professionals. We sell our group life, disability, dental and vision products in all 50 states and the District of Columbia. We continually adapt our products and pricing to meet local market conditions. We market our fee-for-service capabilities to employers that self-insure their employees' dental, disability and vision benefits. We market our fee-for-service businesses in all 50 states and the District of Columbia.

The group insurance market continues to see a shift to voluntary/worksites products due to various pressures on employers. In keeping with this market change, which shifts the funding of such products from the employer to the employee, we continue to place an enhanced focus on our voluntary benefits platform. We believe the voluntary/worksites market presents growth opportunities, and we will continue to develop strategies to capitalize on this expanding market.

As of December 31, 2015, we had 119 sales representatives and 144 service representatives in 28 local markets. Our sales representatives accounted for 98% of our group insurance sales for the year ended December 31, 2015. The service representatives play a key role in servicing the case by providing local, responsive services to our customers and their brokers, such as renewing contracts, revising plans, solving administrative issues and communicating the customers' needs and feedback to us.

We sell our individual life and individual disability income products in all 50 states and the District of Columbia, primarily targeting owners and executives of small and medium-sized businesses. Small and medium-sized business sales represented 58% of individual life sales and 61% of individual disability sales for the year ended December 31, 2015. Much of our life insurance sales efforts focus on the Business Owner and Executive Solutions market. This strategy offers solutions to address business owner financial challenges such as exiting the business, business transition, retaining key employees and retirement planning. Key employees also have needs to supplement retirement income, survivor income, and business protection. We believe the Business Owner and Executive Solutions segment offers growth opportunities and we will continue to develop strategies to capitalize on this expanding market.

We distribute our individual life and individual disability insurance products through our affiliated financial representatives and independent brokers, as well as other marketing and distribution alliances. Affiliated financial representatives were responsible for 25% of individual life insurance sales based on first year annualized premium and 14% of individual disability sales for the year ended December 31, 2015. We had 1,261 affiliated financial representatives in 33 offices as of December 31, 2015. Although they are independent contractors, we have a close tie with affiliated financial representatives and we offer them benefits, training and access to tools and expertise. To meet the needs of the various marketing channels, particularly the independent brokers, we employ wholesale distributors — Regional Vice Presidents for individual life and Regional Vice Presidents for individual disability. A key differentiator in the nonqualified executive benefit sale is our Regional Vice Presidents-Nonqualified Plans, who are not only wholesalers but also consultants and subject-matter experts providing point-of-sale support in closing cases.

### **Corporate Segment**

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 interest expense and preferred stock dividends), 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 Princor, our retail broker-dealer and registered investment advisor, and our exited group medical insurance business are reported in this segment.

### **Competition**

Competition in our segments is based on a number of factors including: scale, service, product features, price, investment performance, commission structure, distribution capacity, financial strength ratings and name recognition. We compete with a large number of financial services companies such as banks, mutual funds, broker-dealers, insurers and asset managers. Some of these companies offer a broader array of products, more competitive pricing, greater diversity of distribution sources, better brand recognition or, with respect to insurers, higher financial strength ratings. Some may also have greater financial resources with which to compete or may have better investment performance at various times. We believe we distinguish ourselves from our competitors through our:

- full service platform;
- strong customer relationships;
- focus on investment performance and
- expansive product portfolio.

## Ratings

Insurance companies are assigned financial strength ratings by rating agencies based upon factors relevant to policyholders. Financial strength ratings are generally defined as opinions as to an insurer's financial strength and ability to meet ongoing obligations to policyholders. Information about ratings provides both industry participants and insurance consumers meaningful insights on specific insurance companies. Higher ratings generally indicate financial stability and a stronger ability to pay claims.

Principal Life and Principal National Life Insurance Company ("PNLIC") have been assigned the following insurer financial strength ratings:

<b>Rating Agency</b>	<b>Financial Strength Rating</b>	<b>Rating Structure</b>
A.M. Best Company, Inc.	A+ ("Superior") with a stable outlook	Second highest of 16 rating levels
Fitch Ratings Ltd.	AA- ("Very Strong") with a stable outlook	Fourth highest of 19 rating levels
Moody's Investors Service	A1 ("Good") with a stable outlook	Fifth highest of 21 rating levels
Standard & Poor's	A+ ("Strong") with a stable outlook	Fifth highest of 24 rating levels

A.M. Best's ratings for insurance companies range from "A++" to "S". A.M. Best indicates that "A++" and "A+" ratings are assigned to those companies that in A.M. Best's opinion have superior ability to meet ongoing insurance obligations. Fitch's ratings for insurance companies range from "AAA" to "C". Fitch "AA" ratings indicate very strong capacity to meet policyholder and contractholder obligations. Moody's Investors Service ratings for insurance companies range from "Aaa" to "C". Moody's Investors Service indicates that "A" ratings are assigned to those companies that offer good financial security. Standard & Poor's ratings for insurance companies range from "AAA" to "NR". Standard & Poor's indicates that "A" ratings are assigned to those companies that have strong financial security characteristics. In evaluating a company's financial and operating performance, these rating agencies review its profitability, leverage and liquidity, as well as its book of business, the adequacy and soundness of its reinsurance, the quality and estimated market value of its assets, the adequacy of its policy reserves, the soundness of its risk management programs, the experience and competency of its management and other factors. All of the four rating agencies maintain a 'stable' outlook on the U.S. life insurance sector. The rating agencies have indicated they expect gradually increasing interest rates will help stabilize earnings on spread businesses and rising equity markets will grow assets under management.

We believe our strong ratings are an important factor in marketing our products to our distributors and customers, as ratings information is broadly disseminated and generally used throughout the industry. Our ratings reflect each rating agency's opinion of our financial strength, operating performance and ability to meet our obligations to policyholders and are not evaluations directed toward the protection of investors. Such ratings are neither a rating of securities nor a recommendation to buy, hold or sell any security, including our common stock. For more information on ratings, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Financial Strength and Credit Ratings."

## Regulation

Our businesses are subject to regulation and supervision by U.S. federal and state regulatory authorities as well as non-U.S. regulatory authorities for our operations outside the U.S., which can have a significant effect on our business. Our businesses are also affected by U.S. federal, state and local tax laws as well as tax laws for jurisdictions outside the U.S.

PFG, our parent holding company, is not licensed as an insurer, investment advisor, broker-dealer, bank or other regulated entity. However, because it is the holding company for all of our operations, it is subject to regulation of our regulated entities, including as an insurance holding company. We are subject to legal and regulatory requirements applicable to public companies, including public reporting and disclosure, securities trading, accounting and financial reporting and corporate governance.

### U.S. Insurance Regulation

We are subject to the insurance holding company laws in the states where our insurance companies are domiciled. Principal Life and PNLIC are domiciled in Iowa and their principal insurance regulatory authority is the Insurance Division of the Department of Commerce of the State of Iowa. Our other U.S. insurance companies are principally regulated by the insurance departments of the states in which they are domiciled. These laws generally require each insurance company directly or indirectly owned by the holding company to register with the insurance department in the insurance company's state of domicile and to furnish financial and other information about the operations of the companies within the holding company system. Transactions affecting the insurers in the holding company system must be fair and at arm's length. Most states have insurance laws that require regulatory approval of a direct or indirect change in control of an insurer or an insurer's holding company and laws requiring prior notification of state insurance departments of a change in control of a non-domiciliary insurance company doing business in that state.

Annually, our U.S. insurance companies must submit an opinion from a board-appointed qualified actuary to state insurance regulators, where licensed, on whether the statutory assets held backing statutory reserves are sufficient to meet contractual obligations and related expenses of the insurer. If such an opinion cannot be rendered noting the

sufficiency of assets, then the insurance company must set up additional statutory reserves drawing from available statutory surplus until such an opinion can be given.

State insurance departments have broad administrative powers over the insurance business, including insurance company licensing and examination, agent licensing, establishment of reserve requirements and solvency standards, premium rate regulation, admittance of assets to statutory surplus, policy form approval, unfair trade and claims practices regulation and other matters. State insurance statutes also typically place restrictions and limitations on the amount of dividends or other distributions payable by insurance company subsidiaries to their parent companies. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" for further details.

In order to enhance the regulation of insurer solvency, the National Association of Insurance Commissioners ("NAIC") has established risk-based capital standards. The standards require life insurers to submit a report to state regulators on an annual basis regarding their risk-based capital based upon four categories of risk: asset risk, insurance risk, interest rate risk and business risk. As of December 31, 2015, the statutory surplus of each of our U.S. life insurance companies exceeded the minimum level of risk-based capital requirements required before state insurance departments would take action against an insurer.

State and federal insurance and securities regulatory authorities and other state law enforcement agencies and attorneys general regularly make inquiries and conduct examinations or investigations regarding our compliance with, among other things, insurance laws and securities laws.

Each state has insurance guaranty association laws under which insurers doing business in a state can be assessed, up to prescribed limits, in order to cover contractual benefit obligations of insolvent insurance companies. The guaranty associations levy assessments on each member insurer in a jurisdiction on the basis of the proportionate share of the premiums written by such insurer in the lines of business in which the insolvent insurer is engaged. Some jurisdictions permit the member insurers to recover the assessments paid through full or partial premium tax offsets.

### ***Securities Regulation***

Insurance and investment products such as variable annuities, variable life insurance and some funding agreements that constitute securities and mutual fund products are subject to securities laws and regulations, including state securities regulation as well as federal regulation under the SEC, the Financial Industry Regulatory Authority and other regulatory authorities. These regulations affect investment advice, sales and related activities for these products.

We also have entities which are registered as investment advisers with the SEC under the Investment Advisers Act of 1940.

### ***Employee Retirement Income Security Act***

As we provide products and services for U.S. employee benefit plans, we are subject to regulation under the Employee Retirement Income Security Act ("ERISA"). ERISA provisions include reporting and disclosure requirements and standards of conduct.

### ***Banking Regulation***

Principal Bank, a wholly owned subsidiary, is a federal savings bank regulated by the Office of the Comptroller of the Currency. Principal Bank's deposits are insured by the FDIC, making the Bank subject to certain of the FDIC's regulations.

### ***Environmental Regulation***

As we own and operate real property, we are subject to federal, state and local environmental laws and could be subject to environmental liabilities and costs associated with required remediation of our properties. We routinely have environmental assessments performed for real estate being acquired or used as collateral for commercial mortgages we use for investment.

### ***Regulation of International Businesses***

Our international businesses are supervised by regulatory authorities in the jurisdictions in which they operate.

## **Risk Management**

Like all financial services companies, we are exposed to a wide variety of financial, operational and other risks, as described in Item 1A. "Risk Factors." Effective enterprise risk management is, therefore, a key component of our business model. Enterprise risk management helps us to:

- identify and manage those risks that present profitable growth opportunities, and avoid those that do not and
- balance the sometimes competing demands of our various stakeholders, meet our customer obligations, satisfy regulatory requirements and optimize shareholder returns relative to the risks we take.

We utilize an integrated risk management framework to help us identify, assess, monitor, report, manage and aggregate our material risks within established risk appetites and risk tolerances. The framework delivers important perspective that is used in strategic and tactical decision making and is adaptable to changes in our businesses and in the external environments in which we operate. Our approach also requires a commitment to continuous improvement and periodic validation.

Our governance structure includes Board of Directors oversight, internal risk committees, a corporate risk management function and embedded risk professionals in our business units and functional areas. Our Board of Directors, Audit Committee, Finance Committee, Human Resource Committee and Nominating and Governance Committee provide oversight no less frequently than quarterly, addressing relevant aspects of our risk profile.

Our internal risk committees meet on a regular and frequent basis to discuss various issues and review profile status. Each business unit and key functional area has its own committee that is responsible for oversight of the material risks within the unit or area. These committees may include corporate leaders. We also have internal committees that provide oversight around a certain risk or group of related risks across the organization. This matrix approach helps us maintain comprehensive risk coverage and preserve an integrated view of risks. The Enterprise Risk Management Committee, comprised of members from the executive management team, exercises enterprise-wide oversight for our most significant risk profiles.

The business units and functional areas are responsible for identifying, assessing, monitoring, reporting and managing their own risks. Chief Risk Officers embedded within each business unit or risk professionals in functional areas help align risk management practice with the strategies of the unit as well as with enterprise-wide objectives. The Corporate Chief Risk Officer and supporting staff are separate from the business units and provide objective oversight, framework enablement and aggregated risk analysis. Internal Audit provides independent assurance around effective risk management design and control execution.

Risk appetites, tolerances and limits have been established from an enterprise-wide and business unit perspective for specific risk categories, where appropriate. We monitor a variety of risk metrics on an ongoing basis and take the appropriate steps to manage our established risk appetites and tolerances. Quarterly risk reporting provides a feedback loop between business units, functional areas, our internal risk committees and the corporate risk management function. This reporting also includes perspectives on emerging risk. To the extent potentially significant business activities or operational initiatives are considered, analysis of the possible impact on our risk profile takes place. This analysis includes, but is not limited to, the capital implications; the impact on near term and long-term earnings; the ability to meet our targets with respect to return on equity, liquidity, debt/capital, cash coverage, business risk and operational risk; and the impact to our reputation.

## **Employees**

As of December 31, 2015, we had 14,895 employees. None of our employees are subject to collective bargaining agreements governing employment with us. We believe that our employee relations are satisfactory.

## **Internet Website**

Our Internet website can be found at [www.principal.com](http://www.principal.com). We make available free of charge, on or through our Internet website, access to our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after such material is filed with or furnished to the SEC. Also available free of charge on our Internet website is our code of business conduct and ethics, corporate governance guidelines and charters for the Audit, Finance, Human Resources and Nominating and Governance committees of our Board of Directors. Also see Item 10. "Directors, Executive Officers and Corporate Governance."

## **Item 1A. Risk Factors**

This section provides an overview of the risks that may impact our performance in the future.

**Risks relating to economic conditions, market conditions and investments**

**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.**

Our results of operations, financial condition, cash flows and statutory capital position could be materially adversely affected by volatility, uncertainty and disruption in the capital and credit markets.

We maintain a level of cash and securities which, combined with expected cash inflows from investments and operations, is believed adequate to meet anticipated short-term and long-term benefit and expense payment obligations. However, withdrawal and surrender levels may differ from anticipated levels for a variety of reasons, such as changes in economic conditions or changes in our claims paying ability and financial strength ratings. For additional information regarding our exposure to interest rate risk and the impact of a downgrade in our financial strength ratings, see "— 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" and "— 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." In addition, mark-to-market adjustments on our derivative instruments may lead to fluctuations in our reported statutory capital. These fluctuations may result in the need for additional capital to maintain a targeted level of statutory capital relative to the NAIC's risk-based capital requirements. In the event our current internal sources of liquidity do not satisfy our needs, we may have to seek additional financing and, in such case, we may not be able to successfully obtain additional financing on favorable terms, or at all. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, as well as customers' or lenders' perception of our long- or short-term financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us.

Disruptions, uncertainty or volatility in the capital and credit markets may limit our access to capital required to operate our business, most significantly our insurance operations. Such market conditions may limit our ability to replace, in a timely manner, maturing liabilities; satisfy statutory capital requirements; fund redemption requests on insurance or other financial products; generate fee income and market-related revenue to meet liquidity needs and access the capital necessary to grow our business. As such, we may be forced to delay raising capital, issue shorter tenor securities than we prefer, utilize available internal resources or bear an unattractive cost of capital, which could decrease our profitability and significantly reduce our financial flexibility and liquidity.

In addition, we maintain credit facilities with various financial institutions as a potential source of excess liquidity. These facilities are in place to bridge timing in cash flows to minimize the cost of meeting our obligations, particularly during periods when alternative sources of liquidity are limited. Our ability to borrow funds under these facilities is conditioned on our satisfaction of covenants and other requirements contained in the facilities. Our failure to comply with these covenants, or the failure of lenders to fund their lending commitments, would restrict our ability to access these credit facilities and, consequently, could limit our flexibility in meeting our cash flow needs.

For further discussion on liquidity risk management, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources."

**Conditions in the global capital markets and the economy generally may materially and adversely affect our business and results of operations.**

Our results of operations are materially affected by conditions in the global capital markets and the economy generally, both in the U.S. and elsewhere around the world. Adverse economic conditions may result in a decline in our AUM and revenues and erosion of our profit margins. In addition, in the event of extreme prolonged market events and economic downturns, we could incur significant losses. Even in the absence of a market downturn, we are exposed to substantial risk of loss due to market volatility.

Factors such as consumer spending, business investment, government spending, the volatility and strength of the capital markets, investor and consumer confidence and inflation levels all affect the business and economic environment and, ultimately, the amount and profitability of our business. In an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment, negative investor sentiment and lower consumer spending, the demand for our financial and insurance products could be adversely affected. In addition, we may experience an elevated incidence of claims and lapses or surrenders of policies. Our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. In addition, reductions in employment levels of our existing employer customers may result in a reduction in membership levels and premium income for our specialty benefits products. Participants within the retirement plans for which we provide administrative services may elect to reduce or stop their payroll deferrals to these plans, which would reduce AUM and revenues. In addition, reductions in employment levels may result in a decline in employee deposits into retirement plans. Adverse changes in the economy could affect net income negatively and could have a material adverse effect on our business, results of operations and financial condition.

**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.**

Because the revenues of our asset management and accumulation businesses are, to a large extent, based on the value of AUM, a decline in domestic and global equity, bond or real estate markets will decrease our revenues. Turmoil in these markets could lead investors to withdraw from these markets, decrease their rates of investment or refrain from making new investments, which may reduce our net income, revenues and AUM. As we continue to shift toward a more fee-based business model, our revenues and net income may become more sensitive to fluctuations in the equity, bond, and real estate markets.

For further discussion on equity risk management, see Item 7A. "Quantitative and Qualitative Disclosures About Market Risk — Equity Risk."

**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.**

In recent years, interest rates have remained at or near historically low levels. During periods of declining interest rates or sustained low interest rates, the interest rates we earn on our assets may be lower than the rates assumed in pricing our products, thereby reducing our profitability. For some of our products, such as GICs and funding agreements, we are unable to lower the rate we credit to customers in response to the lower return we will earn on our investments. In addition, guaranteed minimum interest rates on our life insurance and annuity products may constrain our ability to lower the rate we credit to customers. If interest rates remain low over a sustained period of time, this may result in increases in our reserves and unlocking of our deferred acquisition cost ("DAC") asset and other actuarial balances. During periods of declining interest rates, borrowers may prepay or redeem mortgages and bonds that we own, which would force us to reinvest the proceeds at lower interest rates. Furthermore, declining interest rates may reduce the rate of policyholder surrenders and withdrawals on our life insurance and annuity products, thus increasing the duration of the liabilities and creating asset and liability duration mismatches. Low interest rates may also result in increased hedging costs. Declining interest rates or a sustained low interest rate environment may also result in changes to the discount rate assumption used for valuing our pension and other postretirement benefit ("OPEB") obligations, which could negatively impact our results of operations and financial condition. In addition, certain statutory capital and reserve requirements are based on formulas or models that consider interest rates and a prolonged period of low interest rates may increase the statutory capital we are required to hold as well as the amount of assets we must maintain to support statutory reserves.

Increases in market interest rates may also adversely affect our results of operations, financial condition, and liquidity. During periods of increasing market interest rates, we may offer higher crediting rates on our insurance and annuity products in order to keep these products competitive. Because returns on our portfolio of invested assets may not increase as quickly as current interest rates, we may have to accept lower spreads, thus reducing our profitability. Rapidly rising interest rates may also result in an increase in policy surrenders, withdrawals, and requests for policy loans as customers seek to achieve higher returns. In addition, rising interest rates would cause unrealized losses in our investment portfolio. Despite our efforts to reduce the impact of rising interest rates, we may be required to sell assets to raise the cash necessary to respond to an increase in surrenders, withdrawals and loans, thereby realizing capital losses on the assets sold. An increase in policy surrenders and withdrawals may also require us to accelerate amortization of our DAC asset relating to these products, which would further reduce our profitability. Rising interest rates may also cause a decline in the value of the fixed income assets that we manage, resulting in a reduction in our fee revenue. In addition, a significant increase in interest rates may cause a reduction in the fair value of intangible assets in our reporting units, potentially leading to an impairment of goodwill or other intangible assets.

For discussion on interest rate risk management, see Item 7A. "Quantitative and Qualitative Disclosures About Market Risk — Interest Rate Risk".

Our exposure to credit spreads primarily relates to market price variability and reinvestment risk associated with changes in credit spreads. A widening of credit spreads would cause unrealized losses in our investment portfolio, would increase losses associated with credit-based derivatives we have sold that do not qualify or have not been designated for hedge accounting where we assume credit exposure and, if issuer credit spreads increase as a result of fundamental credit deterioration, would likely result in higher other-than-temporary impairments. Credit spread tightening will reduce net investment income associated with new purchases of fixed maturities. Credit spread tightening may also cause an increase in the reported value of certain liabilities that are valued using a discount rate that reflects our own credit spread. In addition, market volatility may make it difficult to value certain of our securities if trading becomes less frequent. As such, valuations may include assumptions or estimates that may have significant period-to-period changes from market volatility, which could have a material adverse effect on our results of operations or financial condition.

**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.**

***An increase in defaults or write-downs on our fixed maturities portfolio may reduce our profitability.***

We are subject to the risk that the issuers of the fixed maturities we own will default on principal and interest payments, particularly if a major downturn in economic activity occurs. As of December 31, 2015, our U.S. investment operations held \$47.1 billion of fixed maturities, or 74% of total U.S. invested assets, of which approximately 8% were below investment grade, including \$243.8 million, or 0.52% of our total fixed maturities which we classified as either "problem," "potential problem" or "restructured." See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Investments — U.S. Investment Operations — Fixed Maturities."

Our U.S. fixed maturities portfolio includes securities collateralized by residential and commercial mortgage loans. As of December 31, 2015, our U.S. investment operations held \$4.2 billion of residential mortgage-backed securities ("RMBS"), of which \$2.6 billion are Government National Mortgage Association, Federal National Mortgage Association or Federal Home Loan Mortgage Corporation pass-through securities, and \$3.9 billion of commercial mortgage-backed securities, which represent in combination 17% of our total fixed maturities portfolio. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Investments — U.S. Investment Operations — Fixed Maturities." For residential mortgage-backed securities, prepayment speeds, changes in mortgage delinquency or recovery rates, credit rating changes by rating agencies, changes in property values underlying the loans and the quality of service provided by service providers on securities in our portfolios could lead to write-downs on these securities. For commercial mortgage-backed securities, changes in mortgage delinquency or default rates, interest rate movements, credit quality and vintage of the underlying loans, changes in property values underlying the loans and credit rating changes by rating agencies could result in write-downs of those securities.

Approximately \$1.1 billion of our U.S. commercial mortgage-backed securities are scheduled to mature in 2017. We may be exposed to losses if borrowers in the underlying mortgages are unable to repay their loans at the time of maturity. Several mitigating factors have resulted in strong refinancing rates in 2014 and 2015. These factors include low interest rates, improving real estate fundamentals, and the availability of capital from the new issues and high yield debt markets. However, refinancing risks could increase over the next two years if we experience high interest rates that are not supported by commensurate economic growth or a slowdown in the economy that results in lower income growth and a decline in property values.

As of December 31, 2015, the international investment operations of our fully consolidated subsidiaries held \$3.6 billion of fixed maturities, or 55%, of total international invested assets, of which 14% are government bonds. Some non-government bonds have been rated on the basis of the issuer's country credit rating. However, the ratings relationship between national ratings and global ratings is not linear with the U.S. The starting point for national ratings differs by country, which makes the assessment of credit quality more difficult. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Investments — International Investment Operations." An increase in defaults on our fixed maturities portfolio could harm our financial strength and reduce our profitability.

***An increased rate of delinquency and defaults on our commercial mortgage loans, including balloon maturities with and without amortizing payments, may adversely affect our profitability.***

Our commercial mortgage loan portfolio faces both delinquency and default risk. Commercial mortgage loans of \$11.2 billion represented 16% of our total invested assets as of December 31, 2015. As of December 31, 2015, loans that were in the process of foreclosure totaled \$0.0 million, or 0% of our commercial mortgage loan portfolio. The performance of our commercial mortgage loan investments, however, may fluctuate in the future. An increase in the delinquency rate of, and defaults under, our commercial mortgage loan portfolio could harm our financial strength and decrease our profitability.

As of December 31, 2015, approximately \$9.2 billion, or 82%, of our U.S. investment operations commercial mortgage loans before valuation allowance had balloon payment maturities. A balloon maturity is a loan with all or a meaningful portion of the loan amount due at the maturity of the loan. The default rate on commercial mortgage loans with balloon payment maturities has historically been higher than for commercial mortgage loans with a fully amortizing loan structure. Since a significant portion of the principal is repaid at maturity, the amount of loss on a default is generally greater than fully amortizing commercial mortgage loans. An increase in defaults on balloon maturity loans as a result of the foregoing factors could harm our financial strength and decrease our profitability.

***Mark-to-market adjustments on certain equity method investments and trading securities may reduce our profitability or cause volatility in our reported earnings.***

Our investment portfolio includes certain equity method investments and trading securities that are reported at fair value on the consolidated statements of financial position, with changes in fair value reported in net investment income on the consolidated statements of operations. Mark-to-market adjustments on these investments may reduce our profitability or cause our net income to vary from period to period. We anticipate that acquisition and investment activities may increase the number and magnitude of these investments in the future.

***We may have difficulty selling our privately placed fixed maturities, commercial mortgage loans and real estate investments because they are less liquid than our publicly traded fixed maturities.***

We hold certain investments that may be less liquid, such as privately placed fixed maturities, mortgage loans and real estate investments. These asset classes represented approximately 42% of the value of our invested assets as of December 31, 2015.

If we require significant amounts of cash on short notice, we may have difficulty selling these investments in a timely manner, be forced to sell them for less than we otherwise would have been able to realize or both. The reported value of our relatively illiquid types of investments, our investments in the asset classes described above and, at times, our high quality, generally liquid asset classes, do not necessarily reflect the lowest possible price for the asset. If we were forced to sell certain of our assets in the current market, there can be no assurance that we will be able to sell them for the prices at which we have recorded them and we may be forced to sell them at significantly lower prices.

***The impairment of other financial institutions could adversely affect us.***

We use derivative instruments to hedge various risks we face in our businesses. See Item 7A. "Quantitative and Qualitative Disclosures About Market Risk." We enter into a variety of derivative instruments with a number of counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, clearinghouses, exchanges and other institutions. For transactions where we are in-the-money, we are exposed to credit risk in the event of default of our counterparty. We establish collateral agreements with nominal thresholds for a large majority of our counterparties to limit our exposure. However, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure. With regard to our derivative exposure, we have over-collateralization requirements on the portion of collateral we hold, based on the risk profile of the assets posted as collateral. We also have exposure to these financial institutions in the form of unsecured debt instruments and equity investments. Such losses or impairments to the carrying value of these assets may materially and adversely affect our business and results of operations.

***Our requirements to post collateral or make payments related to declines in market value of specified assets may adversely affect our liquidity and expose us to counterparty credit risk.***

Many of our derivative transactions with financial and other institutions specify the circumstances under which the parties are required to post collateral. The amount of collateral we may be required to post under these agreements may increase under certain circumstances, which could adversely affect our liquidity. In addition, under the terms of some of our transactions we may be required to make payment to our counterparties related to any decline in the market value of the specified assets. Such payments could have an adverse effect on our liquidity. Furthermore, with respect to any such payments, we will have unsecured risk to the counterparty as these amounts are not required to be segregated from the counterparty's other funds, are not held in a third party custodial account, and are not required to be paid to us by the counterparty until the termination of the transaction.

***Environmental liability exposure may result from our commercial mortgage loan portfolio and real estate investments.***

Liability under environmental protection laws resulting from our commercial mortgage loan portfolio and real estate investments may harm our financial strength and reduce our profitability. Under the laws of several states, contamination of a property may give rise to a lien on the property to secure recovery of the costs of cleanup. In some states, this kind of lien has priority over the lien of an existing mortgage against the property, which would impair our ability to foreclose on that property should the related loan be in default. In addition, under the laws of some states and under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, we may be liable for costs of addressing releases or threatened releases of hazardous substances that require remedy at a property securing a mortgage loan held by us, if our agents or employees have become sufficiently involved in the hazardous waste aspects of the operations of the related obligor on that loan, regardless of whether or not the environmental damage or threat was caused by the obligor. We also may face this liability after foreclosing on a property securing a mortgage loan held by us. This may harm our financial strength and decrease our profitability.

***Regional concentration of our commercial mortgage loan portfolio in California may subject us to losses attributable to economic downturns or catastrophes in that state.***

Commercial mortgage lending in the state of California accounted for 18%, or \$2.0 billion, of our U.S. investment operations commercial mortgage loan portfolio before valuation allowance as of December 31, 2015. Due to this concentration of commercial mortgage loans in California, we are exposed to potential losses resulting from the risk of an economic downturn in California as well as to catastrophes, such as earthquakes, that may affect the region. While we generally do not require earthquake insurance for properties on which we make commercial mortgage loans, we do take into account property specific engineering reports, construction type and geographical concentration by fault lines in our investment underwriting guidelines. If economic conditions in California deteriorate or catastrophes occur, we may in the future experience delinquencies or defaults on the portion of our commercial mortgage loan portfolio located in California, which may harm our financial strength and reduce our profitability.

***Gross unrealized losses may be realized or result in future impairments, resulting in a reduction in our net income.***

Fixed maturities that are classified as available-for-sale ("AFS") are reported on the consolidated statements of financial position at fair value. Unrealized gains or losses on AFS securities are recognized as a component of accumulated other comprehensive income ("AOCI") and are, therefore, excluded from net income. Our U.S. investment operations had gross unrealized losses on fixed maturities of \$0.8 billion pre-tax as of December 31, 2015, and the component of gross unrealized losses for securities trading down 20% or more for over six months was approximately \$0.2 billion pre-tax. The accumulated change in fair value of the AFS securities is recognized in net income when the gain or loss is realized upon the sale of the asset or in the event that the decline in fair value is determined to be other than temporary (referred to as an other-than-temporary impairment). Realized losses or impairments may have a material adverse impact on our net income in a particular quarterly or annual period.

***Fluctuations in foreign currency exchange rates could adversely impact our profitability and financial condition.***

Principal International writes policies denominated in various local currencies and generally invests the associated assets in local currencies. For diversification purposes, assets backing the products may be partially invested in non-local currencies, and the associated foreign currency exchange risk is hedged or managed to specific risk tolerances. Although our investment and hedging strategies limit the effect of currency exchange rate fluctuation on local operating results, fluctuations in such rates affect the translation of these results into our consolidated financial statements. For further discussion on foreign currency exchange risk, see Item 7A. "Quantitative and Qualitative Disclosures About Market Risk — Foreign Currency Risk."

**Risks relating to estimates, assumptions and valuations**

**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.**

Fixed maturities, equity securities and derivatives represented the majority of total cash and invested assets reported at fair value on our consolidated statements of financial position, excluding separate accounts. 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). Fair value estimates are made based on available market information and judgments about the financial instrument at a specific point in time. Considerable judgment is often required to develop estimates of fair value, and the use of different assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

For additional information on our valuation methodology, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 14, Fair Value Measurements."

During periods of market disruption including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be difficult to value certain securities, for example collateralized mortgage obligations and collateralized debt obligations, if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that become illiquid due to the current financial environment. In such cases, the valuation process may require more subjectivity and management judgment. As such, valuations may include inputs and assumptions that are less observable or require greater estimation as well as valuation methods that require greater estimation, which could result in values that are different from the value at which the investments may be ultimately sold. Further, rapidly changing credit and equity market conditions could materially impact the valuation of securities as reported within our consolidated financial statements and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on our results of operations or financial condition.

The determination of the amount of allowances and impairments vary by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. There can be no assurance that our management has accurately assessed the level of impairments taken and allowances reflected in our financial statements. Furthermore, additional impairments may need to be taken or allowances provided for in the future. Historical trends may not be indicative of future impairments or allowances.

Additionally, our management considers a wide range of factors about the instrument issuer and uses their best judgment in evaluating the cause of the decline in the estimated fair value of the instrument and in assessing the prospects for recovery. Inherent in management's evaluation of the instrument are assumptions and estimates about the operations of the issuer and its future earnings potential. For further information regarding our impairment and allowance methodologies, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Investments — U.S. Investment Operations" under the captions "Fixed Maturities" and "Mortgage Loans" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation — Critical Accounting Policies and Estimates — Valuation and Impairment of Fixed Income Investments."

**Any impairments of or valuation allowances against our deferred tax assets could adversely affect our results of operations and financial condition.**

Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates expected to be in effect during the years in which the basis differences reverse. We are required to evaluate the recoverability of our deferred tax assets each quarter and establish a valuation allowance, if necessary, to reduce our deferred tax assets to an amount that is more-likely-than-not to be realizable. In determining the need for a valuation allowance, we consider many factors, including future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in prior carryback years and implementation of any feasible and prudent tax planning strategies management would employ to realize the tax benefit.

Inherent in the provision for income taxes are estimates regarding the deductibility of certain items, the timing of income and expense recognition and the current or future realization of operating losses, capital losses and certain tax credits. In the event these estimates differ from our prior estimates due to the receipt of new information, we may be required to significantly change the provision for income taxes recorded in the consolidated financial statements. Any such change could significantly affect the amounts reported in the consolidated financial statements in the year these estimates change. A further significant decline in value of assets incorporated into our tax planning strategies could lead to an increase of our valuation allowance on deferred tax assets having an adverse effect on current and future results.

For additional information, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation — Critical Accounting Policies and Estimates — Income Taxes."

**We may face losses if our actual experience differs significantly from our pricing and reserving assumptions.**

Our profitability depends significantly upon the extent to which our actual experience is consistent with the assumptions used in setting prices for our products and establishing liabilities for future insurance and annuity policy benefits and claims. The premiums that we charge and the liabilities that we hold for future policy benefits are based on assumptions reflecting a number of factors, including the amount of premiums that we will receive in the future, rate of return on assets we purchase with premiums received, expected claims, mortality, morbidity, lapse rates and expenses. However, due to the nature of the underlying risks and the high degree of uncertainty associated with the determination of the liabilities for unpaid policy benefits and claims, we cannot determine precisely the amounts we will ultimately pay to settle these liabilities. As a result, we may experience volatility in the level of our profitability and our reserves from period to period. To the extent that actual experience is less favorable than our underlying assumptions, we could be required to increase our liabilities, which may harm our financial strength and reduce our profitability.

For example, if mortality rates are higher than our pricing assumptions, we will be required to make greater claims payments on our life insurance policies than we had projected. However, this risk may be partially offset by our payout annuity business, where an increase in mortality rates will result in a decrease in benefit payments, and our use of third party reinsurance. Our results of operations may also be adversely impacted by an increase in morbidity rates.

Our results of operations may also be adversely impacted if our actual investment earnings differ from our pricing and reserve assumptions. Changes in economic conditions may lead to changes in market interest rates or changes in our investment strategies, either of which could cause our actual investment earnings to differ from our pricing and reserve assumptions.

For additional information on our insurance reserves, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Insurance Reserves."

**The pattern of amortizing our DAC 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 the DAC and other actuarial balances and the timing of our net income.**

Amortization of the DAC asset and other actuarial balances depends on the actual and expected profits generated by the lines of business that incurred the expenses. Expected profits are dependent on assumptions regarding a number of factors including investment returns, benefit payments, expenses, mortality and policy lapse. Due to the uncertainty associated with establishing these assumptions, we cannot, with precision, determine the exact pattern of profit emergence. As a result, amortization of these balances will vary from period to period. To the extent that actual experience emerges less favorably than expected, or our expectation for future profits decreases, the DAC asset and other actuarial balances may be adjusted, reducing our profitability in the current period.

For additional information, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation — Critical Accounting Policies and Estimates — Deferred Acquisition Costs and Other Actuarial Balances."

## **Legal, regulatory and tax risks**

### **We may not be able to protect our intellectual property and may be subject to infringement claims.**

We rely on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. Although we use a broad range of measures to protect our intellectual property rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, patents, trade secrets and know-how or to determine their scope, validity or enforceability, which represents a diversion of resources that may be significant in amount and may not prove successful. The loss of intellectual property protection or the inability to secure or enforce the protection of our intellectual property assets could have a material adverse effect on our business and our ability to compete.

We also may be subject to costly litigation in the event that another party alleges our operations or activities infringe upon such other party's intellectual property rights. Third parties may have, or may eventually be issued, patents or other protections that could be infringed by our products, methods, processes or services or could otherwise limit our ability to offer certain product features. Any party that holds such a patent could make a claim of infringement against us. We may also be subject to claims by third parties for breach of copyright, trademark, license usage rights, or misappropriation of trade secret rights. Any such claims and any resulting litigation could result in significant liability for damages. If we were found to have infringed or misappropriated a third party patent or other intellectual property rights, we could incur substantial liability, and in some circumstances could be enjoined from providing certain products or services to our customers or utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licenses, or alternatively could be required to enter into costly licensing arrangements with third parties, all of which could have a material adverse effect on our business, results of operations and financial condition.

### **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.**

We are an insurance holding company whose assets include all of the outstanding shares of the common stock of Principal Life and other subsidiaries. Our ability to pay dividends to our stockholders and meet our obligations, including paying operating expenses and any debt service, depends upon the receipt of dividends from Principal Life. Iowa insurance laws impose limitations on the ability of Principal Life to pay dividends to us. Any inability of Principal Life to pay dividends to us in the future may cause us to be unable to pay dividends to our stockholders and meet our other obligations. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" for a discussion of regulatory restrictions on Principal Life's ability to pay us dividends.

### **Changes in laws or regulations may reduce our profitability.**

Our insurance business is subject to comprehensive regulation and supervision throughout the U.S. and in the international markets in which we operate. We are also impacted by federal legislation and administrative policies in areas such as securities laws, employee benefit plan regulation, financial services regulations and federal and international taxation. Changes in laws or regulations or the interpretation thereof could significantly increase our compliance costs and reduce our profitability. Failure to comply with applicable regulations may expose us to significant penalties and reputational damage.

#### ***Changes in insurance regulations may reduce our profitability.***

The primary purpose of insurance regulation is to protect policyholders, not stockholders. In the U.S., the laws of the various states establish insurance departments with broad powers to regulate such matters as:

- licensing companies to transact business,
- licensing agents,
- prescribing allowable practices for illustrating policies,
- admitting statutory assets,
- mandating a number of insurance benefits,
- regulating premium rates,
- approving policy forms,
- regulating unfair trade and claims practices,
- establishing statutory reserve requirements and solvency standards,
- regulating insurer use of affiliated reinsurance companies,
- fixing maximum interest rates on life insurance policy loans and minimum rates for accumulation of surrender values,
- restricting various transactions between affiliates and
- regulating the types, amounts and valuation of investments.

State insurance regulators, federal regulators and the NAIC continually reexamine existing laws and regulations, and may impose changes in the future. New interpretations of existing laws and the passage of new legislation may harm our ability to sell new policies, increase our claims exposure on policies we issued previously and adversely affect our profitability and financial strength.

State insurance guaranty associations have the right to assess insurance companies doing business in their state for funds to help pay the obligations of insolvent insurance companies to policyholders and claimants. Because the amount and timing of an assessment is beyond our control, the liabilities we have established for these potential assessments may not be adequate. In addition, regulators may change their interpretation or application of existing laws and regulations.

The NAIC regularly reviews and updates its statutory reserve and risk-based capital requirements. Changes to these requirements may increase the amount of reserves and capital we are required to hold and may adversely impact Principal Life's ability to pay dividends to us. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" for a discussion of regulatory restrictions on Principal Life's ability to pay us dividends. In addition, changes in statutory reserve or risk-based capital requirements may adversely impact our financial strength ratings. See the risk factor entitled "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" for a discussion of risks relating to our financial strength ratings.

The NAIC is developing a principles-based reserving ("PBR") approach for life insurance and non-variable annuity products. The PBR framework for individual life insurance is expected to become effective for new business in 2017 with a three year transition period. The effective date for the group and individual annuity PBR framework is not yet known, but portions could be effective as soon as 2017. Under the PBR framework, statutory reserves would reflect a combination of company experience and prescribed assumptions and methodologies. The ultimate financial impact of the PBR framework on new business is uncertain, but it could result in higher reserves, more volatile reserves and uncertain tax treatment.

We have implemented reinsurance transactions utilizing affiliated reinsurers to finance a portion of the reserves for our term life insurance policies and universal life insurance policies with secondary guarantees. Our ability to enter into new reserve financing transactions will continue to be dependent on the cost and forms of financing available in the market and our ability to obtain required regulatory approvals. Once life insurance PBR becomes fully effective, there may no longer be any financial advantage to pursuing the use of these affiliate reinsurance transactions. For additional information regarding our use of affiliated reinsurance transactions, see Item 8, "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 15, Statutory Insurance Financial Information."

The NAIC is working on updates to its statutory framework for variable annuities, which includes statutory reserve, capital and derivative accounting requirements. While we expect only a modest financial impact from these reforms, the details of the changes are uncertain and could negatively impact our profitability, capital position, or create additional volatility. The NAIC could implement these reforms as early as January 1, 2017. In addition, the New York Department of Financial Services is considering a revision to the separate account regulations of its state. The status of these revisions is very uncertain, but if adopted, these revisions could negatively impact the ability of New York licensed insurers to issue competitive variable annuity products nationally.

The NAIC is pursuing a variety of reforms to its risk-based capital ("RBC") framework:

- One proposal includes a new component for operational risk which could be effective as early as 2016. We anticipate the operational risk component will increase our RBC requirements; however, the magnitude of the increase is not yet known.
- The NAIC is pursuing an update to the RBC credit risk factors for fixed income investments. This update is expected to increase the capital requirements for bonds. There is a chance that we may see a favorable reduction in factors for real estate investments, although the net impact will likely be an increase to our capital requirements. The credit risk factor revisions could be effective as early as 2016.
- The NAIC is in the early stages of considering an RBC stress testing requirement. The timeframe and potential impact of this proposal is uncertain.
- The NAIC has recently announced its desire to pursue the development of a group-wide capital calculation. This calculation is not intended to be a regulatory capital requirement, but it could be used by regulators in their supervisory process.

Our international insurance businesses are also subject to comprehensive regulation and supervision from central and/or local governmental authorities in each country in which we operate. New interpretations of existing laws and regulations or the adoption of new laws and regulations may harm our international businesses and reduce our profitability in those businesses. Changes to capital requirements are currently included in draft proposals in Chile, Brazil and Mexico. India recently revised its capital requirements for the mutual fund business.

The International Association of Insurance Supervisors (the "IAIS") has proposed a common framework for the supervision of Internationally Active Insurance Groups ("IAIGs"), which is scheduled to be effective in 2019. Under the proposed framework, IAIGs would be supervised on a group-wide basis across national boundaries and each IAIG would

be required to conduct its own risk and solvency assessment to monitor and manage its overall solvency. The IAIS is also developing a risk-based global Insurance Capital Standard ("ICS"), which would apply to IAIGs. In addition, the Financial Stability Board is pursuing enhanced group supervisory and capital requirements for Global Systemically Important Insurers ("G-SIIs"). The enhanced capital requirements include the Basic Capital Requirements ("BCR") developed by the IAIS, along with a Higher Loss Absorbency ("HLA") requirement. We currently are not designated as an IAIG or a G-SII. However, it is possible that we may be so designated in the future, in which case we may be subject to supervision and capital requirements beyond those applicable to any competitors who are not classified as an IAIG or G-SII. In addition, the ICS, BCR and HLA framework may influence applicable capital requirements in the jurisdictions in which we operate, potentially leading to an increase in our capital requirements.

***Changes in federal, state and foreign securities laws may reduce our profitability.***

Our asset management and accumulation and life insurance businesses are subject to various levels of regulation under federal, state and foreign securities laws. These laws and regulations are primarily intended to protect investors in the securities markets or investment advisory or brokerage clients and generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the conduct of business for failure to comply with such laws and regulations. Changes to these laws or regulations — or the interpretation thereof — that restrict the conduct of our business could significantly increase our compliance costs and reduce our profitability.

***Changes in employee benefit regulations may reduce our profitability.***

We provide products and services to certain employee benefit plans that are subject to ERISA or the Internal Revenue Code of 1986, as amended. The U.S. Congress has, from time to time, considered legislation relating to changes in ERISA to permit application of state law remedies, such as consequential and punitive damages, in lawsuits for wrongful denial of benefits, which, if adopted, could increase our liability for damages in future litigation. In addition, reductions in contribution levels to defined contribution plans may decrease our profitability.

In April 2015, the Department of Labor ("DOL") re-proposed its rule to expand the definition of "fiduciary". The proposal creates a new definition of "fiduciary," under which almost all advisors and service providers would be considered a fiduciary when making investment recommendations to small employers, participants and IRA accountholders. In addition, the proposed rule would redefine many interactions that today are considered investment education as fiduciary investment advice. In an effort to preserve current business models, the DOL has introduced a new exemption to the fiduciary rule called the Best Interest Contract ("BIC"). The exemption would be available when providing assistance and advice to participants and IRA accountholders. The BIC would require the advisor to act in the best interest of the customer, while allowing variable compensation (which is generally not allowed for fiduciaries). The BIC would require a contract to be signed by the individual, the advisor, and their firm prior to any advice being provided. The DOL anticipates finalizing the regulation in 2016, with an additional eight month timeframe to allow the industry to comply. The potential impacts of the final regulation are uncertain and difficult to predict, as the final version of the regulation will differ from the proposed regulation. The final regulation could have varying implications for our businesses, both directly through the products and services that we are able to provide to our clients and indirectly as our distribution partners alter their business models and practices to conform to the final regulation. Among other things, this could result in increases in compliance costs, transition costs and impacts to industry sales trends.

***Financial services regulatory reform may reduce our profitability, impact how we do business or limit our ability to engage in certain capital expenditures.***

On July 21, 2010, the Dodd-Frank Act became law. The Dodd-Frank Act makes extensive changes to the laws regulating financial services firms and requires various federal agencies to adopt a broad range of new implementation rules and regulations, including regulations surrounding the use of derivatives. The federal agencies were given significant discretion in drafting the implementation rules and regulations, and consequently, some of the impacts of the Dodd-Frank Act are not fully known yet. It is likely that new margining aspects of the law will increase hedging costs for the company and possibly cause fundamental shifts to the way risks are hedged.

***Changes in tax laws could increase our tax costs and reduce sales of our insurance, annuity and investment products.***

Current federal income tax laws generally permit the tax-deferred accumulation of earnings on the premiums paid by the holders of annuities and life insurance products. Taxes, if any, are payable on income attributable to a distribution under the contract for the year in which the distribution is made. The U.S. Congress has, from time to time, considered legislation that would reduce or eliminate the benefit of such deferral of taxation on the accretion of value within life insurance and nonqualified annuity contracts. Enactment of this legislation, including a simplified "flat tax" income structure with an exemption from taxation for investment income, could result in fewer sales of our insurance, annuity and investment products. In addition, changes in the federal estate tax laws could negatively affect the demand for the types of life insurance used in estate planning.

In addition, we benefit from certain tax items, including but not limited to, tax-exempt bond interest, dividends-received deductions, tax credits (such as foreign tax credits) and insurance reserve deductions. From time to time, the U.S. Congress, as well as foreign, state and local governments, considers legislation that could reduce or eliminate the

benefits associated with these tax items. Most recently, the Organisation for Economic Co-operation and Development has released proposed policy around Base Erosion and Profit Shifting. If such legislation is adopted, our profitability could be negatively impacted. We continue to evaluate the impact potential tax reform, which lacks sufficient detail and is relatively uncertain, may have on our future results of operations and financial condition.

**Changes in accounting standards may reduce the transparency of our reported profitability and financial condition.**

Accounting standards are subject to change and can reduce the transparency of our reported profitability. See Item 8, "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 1, Nature of Operations and Significant Accounting Policies". The Financial Accounting Standards Board is currently working on several key projects. These projects could result in significant changes to U.S. generally accepted accounting principles ("U.S. GAAP"), including the accounting standards for insurance contracts. There is still some uncertainty surrounding the effective dates and transition methods for the proposed changes. If adopted, the proposed changes in accounting standards could have the potential to negatively impact our reported profitability and financial ratios and may make it more difficult for investors and regulators to accurately assess our financial condition and profitability. In addition, the required adoption of new accounting standards may result in significant incremental costs associated with initial implementation and on-going compliance.

**Results of litigation and regulatory investigations may affect our financial strength or reduce our profitability.**

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; life and disability insurance; and our investment activities. We are, from time to time, also involved in various governmental, regulatory and administrative proceedings and inquiries.

These factors may affect our financial strength or reduce our profitability. For further discussion on litigation and regulatory investigation risk, see Item 3. "Legal Proceedings," Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 12, Contingencies, Guarantees and Indemnifications" under the caption, "Litigation and Regulatory Contingencies" and Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 10, Income Taxes" under the caption "Other Tax Information."

**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.**

We are subject to income taxes in the United States as well as many other jurisdictions. In determining our provisions for income taxes and our accounting for tax-related matters in general, we are required to exercise judgment. We regularly make estimates where the ultimate tax determination is uncertain. The final determination of any tax audit, appeal of the decision of a taxing authority, tax litigation or similar proceedings may be materially different from that reflected in our historical financial statements. The assessment of additional taxes, interest and penalties could be materially adverse to our current and future results of operations and financial condition.

**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.**

State laws and our certificate of incorporation and by-laws may delay, defer, prevent, or render more difficult a takeover attempt that some stockholders might consider in their best interests. For instance, they may prevent our stockholders from receiving the benefit from any premium to the market price of our common stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging takeover attempts in the future.

State laws and our certificate of incorporation and by-laws may also make it difficult for stockholders to replace or remove our management. These provisions may facilitate management entrenchment, which may delay, defer or prevent a change in our control, which may not be in the best interests of our stockholders.

The following provisions, included in our certificate of incorporation and by-laws, may also have anti-takeover effects and may delay, defer or prevent a takeover attempt that some stockholders might consider in their best interests. In particular, our certificate of incorporation and by-laws:

- permit our Board of Directors to issue one or more series of preferred stock;
- divide our Board of Directors into three classes;
- limit the ability of stockholders to remove directors;
- prohibit stockholders from filling vacancies on our Board of Directors;
- prohibit stockholders from calling special meetings of stockholders;
- impose advance notice requirements for stockholder proposals and nominations of directors to be considered at stockholder meetings and

- require the approval of at least 75% of the voting power of our outstanding common stock for the amendment of our by-laws and provisions of our certificate of incorporation governing:
  - the classified board,
  - the director's discretion in determining what he or she reasonably believes to be in the best interests of Principal Financial Group, Inc.,
  - the liability of directors,
  - the removal of directors by shareholders,
  - the prohibition on stockholder actions by written consent and
  - the supermajority voting requirements.

In addition, Section 203 of the General Corporation Law of the State of Delaware may limit the ability of an "interested stockholder" to engage in business combinations with us. An interested stockholder is defined to include persons owning 15% or more of our outstanding voting stock.

### **Risks relating to our business**

#### **Competition 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.**

We believe that our ability to compete is based on a number of factors including scale, service, product features, price, investment performance, commission structure, distribution capacity, financial strength ratings and name recognition. We compete with a large number of financial services companies such as banks, mutual funds, broker-dealers, insurers and asset managers, many of which have advantages over us in one or more of the above competitive factors.

Each of our segments faces strong competition. The primary competitors for our Retirement and Income Solutions and Principal Global Investors segments are asset managers, banks, broker-dealers and insurers. Our ability to increase and retain AUM is directly related to the performance of our investments as measured against market averages and the performance of our competitors. Even when securities prices are generally rising, performance can be affected by investment styles. Also, there is a risk that we may not be able to attract and retain the top talent needed to compete in our industry.

Competition for our Principal International segment comes primarily from local financial services firms and other international companies operating on a stand-alone basis or in partnership with local firms.

Our U.S. Insurance Solutions segment competes with other insurance companies.

#### **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.**

A.M. Best, Fitch, Moody's Investors Services and Standard & Poor's publish financial strength ratings on U.S. life insurance companies as well as some of our international insurance companies. These ratings are indicators of an insurance company's ability to meet contractholder and policyholder obligations. These rating agencies also assign credit ratings on non-life insurance entities, such as PFG and Principal Financial Services, Inc. ("PFS"). Credit ratings are indicators of a debt issuer's ability to meet the terms of debt obligations in a timely manner, and are important factors in overall funding profile and ability to access external capital.

Ratings are important factors in establishing the competitive position of insurance companies and maintaining public confidence in products being offered. A ratings downgrade, or the potential for such a downgrade, could, among other things:

- materially increase the number of surrenders for all or a portion of the net cash values by the owners of policies and contracts we have issued, and materially increase the number of withdrawals by policyholders of cash values from their policies;
- result in the termination of our relationships with broker-dealers, banks, agents, wholesalers and other distributors of our products and services;
- reduce new sales, particularly with respect to full service payout product and general account GICs and funding agreements purchased by pension plans and other institutions;
- cause some of our existing liabilities to be subject to acceleration, additional collateral support, changes in terms, or creation of additional financial obligations and
- increase our cost of capital and limit our access to the capital markets.

Any of these consequences could adversely affect our profitability and financial condition.

**Changes in investor preferences may lead to a reduction in revenues for our asset management and accumulation businesses.**

Revenues from our asset management and accumulation products are primarily fee based. Our asset-based fees are typically calculated as a percentage of the market value of assets under management, and fee levels can vary significantly among different types of investments. We generally earn higher fees on liquid alternatives and equity investments vs. fixed income investments, and on actively managed investments vs. indexed or passive investment strategies. Therefore, our fee revenue is impacted by both the value and the composition of our AUM. Investor preferences with respect to asset classes and investment strategies may shift over time due to market conditions, tax law changes, regulatory changes, and various other factors. Changes in the composition of our assets under management may adversely affect our revenues and profitability.

**Guarantees within certain of our products that protect policyholders may decrease our earnings 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.**

Certain of our variable annuity products include guaranteed minimum death benefits and/or guaranteed minimum withdrawal benefits. Periods of significant and sustained downturns in equity markets, increased equity volatility or reduced interest rates could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction to net income. We use derivative instruments to attempt to mitigate changes in the liability exposure related to interest rate, equity market and volatility movements, and the volatility of net income associated with these liabilities. However, we remain liable for the guaranteed benefits in the event that derivative counterparties are unable or unwilling to pay. The liability exposure and volatility of net income may also be influenced by changes in market credit spreads reflecting our own creditworthiness, for which we do not attempt to hedge. In addition, we are subject to the risk that hedging and other management procedures prove ineffective or that unanticipated policyholder behavior or mortality, combined with adverse market events, produces economic losses beyond the scope of the risk management techniques employed. These, individually or collectively, may have a material adverse effect on net income, financial condition or liquidity. We are also subject to the risk that the cost of hedging these guaranteed minimum benefits increases as implied volatilities increase and/or interest rates decrease, resulting in a reduction to net income.

**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.**

Our continued success is largely dependent on our ability to attract and retain qualified employees. We face intense competition in attracting and retaining key employees, including investment, marketing, finance, legal, compliance and other professionals. If we are unable to attract and retain qualified employees, our results of operations and financial condition may be adversely impacted.

We distribute our asset accumulation, asset management and life and specialty benefit insurance products and services through a variety of distribution channels, including our own internal sales representatives, independent brokers, banks, broker-dealers and other third party marketing organizations. We must attract and retain sales representatives to sell our products. Strong competition exists among financial services companies for efficient sales representatives. We compete with other financial services companies for sales representatives primarily on the basis of our financial position, support services and compensation and product features. If we are unable to attract and retain sufficient sales representatives to sell our products, our ability to compete and revenues from new sales would suffer.

Our ability to increase and retain AUM is directly related to the performance of our investments as measured against market averages and the performance of our competitors. If we are unable to attract and retain qualified portfolio managers, we may face reduced sales and increased cash outflows in our asset accumulation and asset management businesses.

**Our international businesses face political, legal, operational and other risks that could reduce our profitability in those businesses.**

Our international businesses face political, legal, operational and other risks that we do not face in our operations in the U.S. We face the risk of discriminatory regulation, nationalization or expropriation of assets, price controls and exchange controls or other restrictions that prevent us from transferring funds from these operations out of the countries in which they operate or converting local currencies we hold into U.S. dollars or other currencies. Some of our international businesses are, and are likely to continue to be, in emerging or potentially volatile markets. In addition, we rely on local staff, including local sales forces, in these countries where there is a risk that we may encounter labor problems with local staff, especially in countries where workers' associations and trade unions are strong. Some of our international businesses are joint ventures in which we hold a minority interest. In these joint ventures, we lack complete management and operational control over the operations, which may limit our ability to take action to protect or increase the value of our investment in the joint venture.

**We may need to fund deficiencies in our Closed Block assets.**

In connection with its conversion in 1998 into a stock life insurance company, Principal Life established an accounting mechanism, known as a "Closed Block" for the benefit of participating ordinary life insurance policies that had a dividend scale in force on July 1, 1998. Dividend scales are the actuarial formulas used by life insurance companies to determine amounts payable as dividends on participating policies based on experience factors relating to, among other things, investment results, mortality, lapse rates, expenses, premium taxes and policy loan interest and utilization rates. The Closed Block was designed to provide reasonable assurance to policyholders included in the Closed Block that, after the conversion, assets would be available to maintain the aggregate dividend scales in effect for 1997 if the experience underlying such scales were to continue.

We allocated assets to the Closed Block as of July 1, 1998, in an amount such that we expected their cash flows, together with anticipated revenues from the policies in the Closed Block, to be sufficient to support the Closed Block business, including payment of claims, certain direct expenses, charges and taxes and to provide for the continuation of aggregate dividend scales in accordance with the 1997 policy dividend scales if the experience underlying such scales continued, and to allow for appropriate adjustments in such scales if the experience changed. We bear the costs of administrative expenses associated with Closed Block policies and, accordingly, these costs were not funded as part of the assets allocated to the Closed Block. Any increase in such costs in the future will be borne by us. As of December 31, 2015, Closed Block assets and liabilities were \$3,994.6 million and \$4,581.7 million, respectively.

We will continue to pay guaranteed benefits under the policies included in the Closed Block, in accordance with their terms. The Closed Block assets, cash flows generated by the Closed Block assets and anticipated revenues from policies included in the Closed Block may not be sufficient to provide for the benefits guaranteed under these policies. If they are not sufficient, we must fund the shortfall. Even if they are sufficient, we may choose for business reasons to support dividend payments on policies in the Closed Block with our general account funds.

The Closed Block assets, cash flows generated by the Closed Block assets and anticipated revenues from policies in the Closed Block will benefit only the holders of those policies. In addition, to the extent that these amounts are greater than the amounts estimated at the time we funded the Closed Block, dividends payable in respect of the policies included in the Closed Block may be greater than they would have been in the absence of a Closed Block. Any excess net income will be available for distribution over time to Closed Block policyholders but will not be available to our stockholders. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 6, Closed Block" for further details.

**A pandemic, terrorist attack, military action or other catastrophic event could adversely affect our net income.**

Our mortality and morbidity experience could be adversely impacted by a catastrophic event. In addition, a severe catastrophic event may cause significant volatility in global financial markets, disruptions to commerce and reduced economic activity. The resulting macroeconomic conditions could adversely affect our cash flows, as well as the value and liquidity of our invested assets. We may also experience operational disruptions if our employees are unable or unwilling to come to work due to a pandemic or other catastrophe.

**Our reinsurers could default on their obligations or increase their rates, which could adversely impact our net income and financial condition.**

We cede life, disability, health and long-term care insurance to other insurance companies through reinsurance. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 1, Nature of Operations and Significant Accounting Policies." However, we remain liable to the policyholder, even if the reinsurer defaults on its obligations with respect to the ceded business. In addition, a reinsurer's insolvency may cause us to lose our reserve credits on the ceded business, in which case we would be required to establish additional reserves.

The premium rates that we charge are based, in part, on the assumption that reinsurance will be available at a certain cost. Most of our reinsurance contracts contain provisions which limit the reinsurer's ability to increase rates on in-force business; however, some do not. If a reinsurer raises the rates that it charges on a block of in-force business, our profitability may be negatively impacted if we are not able to pass the increased costs on to the customer. If reinsurers raise the rates that they charge on new business, we may be forced to raise the premiums that we charge, which could have a negative impact on our competitive position.

**We face risks arising from acquisitions of businesses.**

We have acquired businesses in the past, and expect to continue to do so in the future. We face a number of risks arising from acquisition transactions, including difficulties in integrating the acquired business into our operations, difficulties in assimilating and retaining employees and intermediaries, difficulties in retaining the existing customers of the acquired entity, unforeseen liabilities that arise in connection with the acquired business, unfavorable market conditions that could negatively impact our growth expectations for the acquired business and sustained declines in the equity market that could reduce the AUM and fee revenues for certain acquired businesses. These risks may prevent us from realizing the expected benefits from acquisitions and could result in the impairment of goodwill and/or intangible assets recognized at the time of acquisition.

For additional information on our goodwill and other intangible assets, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Goodwill and Other Intangible Assets."

**A computer system failure or security breach could disrupt our business, damage our reputation and adversely impact our profitability.**

We rely on computer systems to conduct business, including customer service, marketing and sales activities, customer relationship management and producing financial statements. While we have policies, procedures, automation and backup plans designed to prevent or limit the effect of failure, our computer systems may be vulnerable to disruptions or breaches as the result of natural disasters, man-made disasters, criminal activity, pandemics, or other events beyond our control. The failure of our computer systems for any reason could disrupt our operations, result in the loss of customer business and adversely impact our profitability.

We retain confidential information on our computer systems, including customer information and proprietary business information. Any compromise of the security of our computer systems that results in the disclosure of personally identifiable customer information could damage our reputation, expose us to litigation, increase regulatory scrutiny and require us to incur significant technical, legal and other expenses.

**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.**

We rely on services and products provided by many vendors in the United States and abroad. These include, for example, vendors of computer hardware and software and vendors of services. In the event that one or more of our vendors suffers a bankruptcy or otherwise becomes unable to continue to provide products or services, or fails to protect personal information of our customers or employees, we may suffer operational impairments, reputational damage and financial losses.

**Our financial results may be adversely impacted by global climate changes.**

Atmospheric concentrations of carbon dioxide and other greenhouse gases have increased dramatically since the industrial revolution, resulting in a gradual increase in global average temperatures and an increase in the frequency and severity of natural disasters. These trends are expected to continue in the future and have the potential to impact nearly all sectors of the economy to varying degrees. Our initial research indicates that climate change does not pose an imminent or significant threat to our operations or business, but we will continue to monitor new developments in the future.

Potential impacts may include the following:

- Changes in temperatures and air quality may adversely impact our mortality and morbidity rates. For example, increases in the level of pollution and airborne allergens may cause an increase in upper respiratory and cardiovascular diseases, leading to increased claims in our insurance businesses. However, the risk of increased mortality on our life insurance business may be partly offset by our payout annuity business, where an increase in mortality results in a decrease in benefit payments.
- Climate change may impact asset prices, as well as general economic conditions. For example, rising sea levels may lead to decreases in real estate values in coastal areas. Additionally, government policies to slow climate change (e.g., setting limits on carbon emissions) may have an adverse impact on sectors such as utilities, transportation and manufacturing. Changes in asset prices may impact the value of our fixed income, real estate and commercial mortgage investments. We manage our investment risks by maintaining a well-diversified portfolio, both geographically and by sector. We also monitor our investments on an ongoing basis, allowing us to adjust our exposure to sectors and/or geographical areas that face severe risks due to climate change.
- A natural disaster that affects one of our office locations could disrupt our operations and pose a threat to the safety of our employees. However, we have extensive Business Continuity and Disaster Recovery planning programs in place to help mitigate this risk.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

As of December 31, 2015, we owned 34 properties in our home office complex in Des Moines, Iowa, and in various other locations. Of these 34 properties, 17 are office buildings, 1 is a warehouse facility, 13 are parking lots and ramps, 1 is a park/green space, 1 is a childcare center and 1 is a power generation plant. Of the office and warehouse space, we occupy approximately 92.2% of the 2.6 million square feet of space in these buildings. The balance of the space in these buildings is rented to commercial tenants or is occupied by the property management company servicing these properties.

We lease office space for various offices located throughout the U.S. and internationally. We believe that our owned and leased properties are suitable and adequate for our current business operations.

### Item 3. Legal Proceedings

Disclosure concerning material legal proceedings can be found in Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 12, Contingencies, Guarantees and Indemnifications" under the caption, "Litigation and Regulatory Contingencies" and Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 10, Income Taxes" under the caption, "Other Tax Information," which are incorporated here by this reference.

### Executive Officers of the Registrant

The following information is furnished with respect to our executive officers, each of whom is elected by and serves at the pleasure of the Board of Directors.

**Timothy M. Dunbar, 58**, has been Executive Vice President of the Company and Principal Life and Chief Investment Officer of the Company since January 2014. Prior to that date, he served as Senior Vice President of the Company and Principal Life since 2011, and Chief Investment Officer of the Company and Principal Life since January 2013. Prior to that date, Mr. Dunbar was in charge of Strategy and Finance for the Company and Principal Life in 2011 and 2012, overseeing the business management and strategic direction of the capital markets, corporate strategy and corporate treasury areas. He retains his responsibility for capital markets. Mr. Dunbar previously served as the executive director and head of equities for Principal Global Investors from 2004 until 2011.

**Gregory B. Elming, 55**, has been Senior Vice President and Chief Risk Officer of the Company and Principal Life since 2011. Prior to that time, he was Senior Vice President and Controller of the Company and Principal Life since 2007.

**Nora M. Everett, 56**, has been President, Retirement and Income Solutions of the Company and Principal Life since March 2015. Prior to her current position, she served as President and Chief Executive Officer of Principal Funds since 2008 and Senior Vice President and Deputy General Counsel of the Company and Principal Life since 2004.

**Daniel J. Houston, 54**, has been a director of the Company and Principal Life and President and Chief Executive Officer of the Company and Principal Life since August 2015. Prior to that date, he held the same positions except was Chief Operating Officer (and not Chief Executive Officer) since November 2014. Previously, he served as President, Retirement, Insurance and Financial Services of the Company and Principal Life since 2010. He was President, Retirement and Income Solutions of the Company and Principal Life from 2008 until 2010, and was Executive Vice President, Retirement and Income Solutions of the Company and Principal Life from 2006 to 2008.

**Terrance J. Lillis, 63**, has been Executive Vice President and Chief Financial Officer of the Company and Principal Life since February 2014. Prior to that date, he was Senior Vice President and Chief Financial Officer of the Company and Principal Life since 2008.

**James P. McCaughan, 62**, who heads the Principal Global Investors segment of our operations, has been President, Principal Global Investors of the Company and Principal Life since 2003.

**Gary P. Scholten, 58**, has been Executive Vice President and Chief Information Officer of the Company and Principal Life since February 2014. Prior to that date, he was Senior Vice President and Chief Information Officer of the Company and Principal Life since 2002. From 1998 to 2002, he was Vice President of retail information services of Principal Life.

**Karen E. Shaff, 61**, has been Executive Vice President and General Counsel of the Company and Principal Life since 2004 and, in addition, Secretary of the Company and Principal Life since January 2014. Prior thereto, she was Senior Vice President and General Counsel of the Company since 2001, and Senior Vice President and General Counsel of Principal Life since 2000.

**Deanna D. Strable-Soethout, 47**, has been President, U.S. Insurance Solutions of the Company and Principal Life since March 2015. Prior to that, she served as Senior Vice President of the Company and Principal Life since 2005.

**Luis Valdes, 58**, has been the head of the Principal International segment of our operations since 2012, has been President, Principal International of the Company and Principal Life since 2011. Prior to his current position, he was Senior Vice President and President — PFG Latin America of the Company and Principal Life since 2010, and was Vice President — Principal International of Principal Life from 2000 until 2010.

**PART II**

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock began trading on the New York Stock Exchange ("NYSE") under the symbol "PFG" on October 23, 2001. Prior to such date, there was no established public trading market for our common stock. On February 3, 2016, there were 310,291 stockholders of record of our common stock.

The following table presents the high and low prices per share for our common stock on the NYSE for the periods indicated and the dividends declared per share during such periods.

	High	Low	Dividends declared
<b>2015</b>			
First quarter	\$ 52.56	\$ 46.01	\$ 0.36
Second quarter	\$ 53.42	\$ 49.81	\$ 0.38
Third quarter	\$ 58.02	\$ 41.67	\$ 0.38
Fourth quarter	\$ 52.21	\$ 43.64	\$ 0.38
<b>2014</b>			
First quarter	\$ 49.83	\$ 41.20	\$ 0.28
Second quarter	\$ 50.74	\$ 42.90	\$ 0.32
Third quarter	\$ 55.07	\$ 48.82	\$ 0.34
Fourth quarter	\$ 54.31	\$ 46.49	\$ 0.34

Future dividend decisions will be based on and affected by a number of factors, including our results and financial requirements and the impact of regulatory restrictions. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" for a discussion of regulatory restrictions on Principal Life's ability to pay dividends.

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

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced programs	Maximum dollar value of shares that may yet be purchased under the programs (in millions) (2)
January 1, 2015 - January 31, 2015	315	\$ 51.81	—	\$ 50.0
February 1, 2015 - February 28, 2015	842	\$ 46.93	—	\$ 200.0
March 1, 2015 - March 31, 2015	1,478,105	\$ 50.96	983,863	\$ 150.0
April 1, 2015 - April 30, 2015	573	\$ 51.20	—	\$ 150.0
May 1, 2015 - May 31, 2015	1,653	\$ 51.67	—	\$ 150.0
June 1, 2015 - June 30, 2015	534	\$ 52.88	—	\$ 150.0
July 1, 2015 - July 31, 2015	528,054	\$ 52.26	528,054	\$ 122.4
August 1, 2015 - August 31, 2015	575,110	\$ 55.16	575,110	\$ 90.7
September 1, 2015 - September 30, 2015	1,098,465	\$ 48.50	1,098,465	\$ 37.4
October 1, 2015 - October 31, 2015	788,234	\$ 47.45	788,233	\$ 150.0
November 1, 2015 - November 30, 2015	1,000,330	\$ 50.25	1,000,330	\$ 99.7
December 1, 2015 - December 31, 2015	497,909	\$ 49.68	497,865	\$ 75.0
<b>Total</b>	<b>5,970,124</b>		<b>5,471,920</b>	

- (1) Includes the number of shares of common stock utilized to execute certain stock incentive awards and shares purchased as part of a publicly announced program.
- (2) In February 2014, our Board of Directors authorized a repurchase program of up to \$200.0 million of our outstanding common stock, which was completed in March 2015. In February 2015, our Board of Directors authorized a repurchase program of up to \$150.0 million of our outstanding common stock, which was completed in October 2015. In October 2015, our Board of Directors authorized an additional repurchase program of up to \$150.0 million of our outstanding common stock.

## Item 6. Selected Financial Data

The following table sets forth certain selected historical consolidated financial information. We derived the consolidated financial information (except for amounts referred to as "Other Supplemental Data") for each of the years ended December 31, 2015, 2014 and 2013 and as of December 31, 2015 and 2014 from our audited consolidated financial statements and notes to the financial statements included in this Form 10-K. We derived the consolidated financial information (except for amounts referred to as "Other Supplemental Data") for the years ended December 31, 2012 and 2011 and as of December 31, 2013, 2012 and 2011 from our audited consolidated financial statements not included in this Form 10-K. The following summary of consolidated financial information (except for amounts referred to as "Other Supplemental Data") has been prepared in accordance with U.S. GAAP.

In order to fully understand our consolidated financial information, please also see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and the notes to the financial statements included in this Form 10-K. The results for past accounting periods are not necessarily indicative of the results to be expected for any future accounting period.

	As of or for the year ended December 31,				
	2015 (1)	2014 (1)	2013 (1)	2012	2011
<i>(\$ in millions, except per share data and as noted)</i>					
<b>Income Statement Data:</b>					
Revenue:					
Premiums and other considerations	\$ 5,310.3	\$ 3,722.9	\$ 3,154.1	\$ 3,219.4	\$ 2,891.0
Fees and other revenues	3,653.1	3,482.1	3,222.2	2,626.7	2,526.7
Net investment income	3,052.1	3,257.9	3,138.4	3,254.9	3,375.3
Net realized capital gains (losses)	(51.1)	14.7	(225.2)	114.1	(122.3)
Total revenues	\$ 11,964.4	\$ 10,477.6	\$ 9,289.5	\$ 9,215.1	\$ 8,670.7
Income from continuing operations, net of related income taxes	\$ 1,253.2	\$ 1,176.4	\$ 936.1	\$ 825.4	\$ 674.5
Net income	\$ 1,253.2	\$ 1,176.4	\$ 936.1	\$ 825.4	\$ 674.5
<b>Earnings per Share Data:</b>					
Income from continuing operations, net of related income taxes, per share:					
Basic	\$ 4.11	\$ 3.70	\$ 2.99	\$ 2.60	\$ 1.92
Diluted	\$ 4.06	\$ 3.65	\$ 2.95	\$ 2.58	\$ 1.91
Net income per share:					
Basic	\$ 4.11	\$ 3.70	\$ 2.99	\$ 2.60	\$ 1.92
Diluted	\$ 4.06	\$ 3.65	\$ 2.95	\$ 2.58	\$ 1.91
Dividends declared per common share	\$ 1.50	\$ 1.28	\$ 0.98	\$ 0.78	\$ 0.70
<b>Balance Sheet Data:</b>					
Total assets	\$ 218,685.9	\$ 219,087.0	\$ 208,191.4	\$ 161,830.2	\$ 147,271.5
Long-term debt	\$ 3,290.8	\$ 2,531.2	\$ 2,601.4	\$ 2,671.3	\$ 1,564.8
Series A preferred stock	\$ —	\$ —	\$ —	\$ —	\$ —
Series B preferred stock	\$ —	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1
Total stockholders' equity	\$ 9,377.4	\$ 10,232.0	\$ 9,777.0	\$ 9,703.4	\$ 9,306.2
<b>Other Supplemental Data:</b>					
AUM (\$ in billions)	\$ 527.4	\$ 519.3	\$ 483.2	\$ 403.0	\$ 335.0

- (1) For a discussion of items materially affecting the comparability of 2015, 2014 and 2013, please see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Transactions Affecting Comparability of Results of Operations."

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following analysis discusses our financial condition as of December 31, 2015, compared with December 31, 2014, and our consolidated results of operations for the years ended December 31, 2015, 2014 and 2013, and, where appropriate, factors that may affect our future financial performance. The discussion should be read in conjunction with our audited consolidated financial statements and the related notes to the financial statements and the other financial information included elsewhere in this Form 10-K.

### 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. Those risks and uncertainties include, but are not limited to, the risk factors listed in Item 1A. "Risk Factors."

## Overview

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

- Retirement and Income Solutions;
- Principal Global Investors;
- Principal International and
- U.S. Insurance Solutions

We also have a Corporate segment, which consists of the assets and activities that have not been allocated to any other segment. See Item 1. "Business" for a description of our reportable segments.

In the fourth quarter of 2015 we implemented changes to our organizational structure to better align businesses, distribution teams and product offerings for future growth. Principal Funds, which included our mutual fund business and Princor, our retail broker-dealer and registered investment advisor, as well as PFA were previously reported in our Retirement and Investor Services segment. Our mutual fund business and PFA are now reported as part of our Principal Global Investors segment, while Princor is now reported as part of our Corporate segment. The Retirement and Investor Services segment has been renamed to Retirement and Income Solutions. Additionally, information used by our chief operating decision maker in assessing segment performance has changed to pre-tax operating earnings. We retrospectively applied this change to the results of our Principal International segment to remove income taxes of equity method subsidiaries that had previously been included in operating revenue and pre-tax operating earnings. Our segment results have been modified to reflect these changes, which did not have an impact on our consolidated financial statements.

## Economic Factors and Trends

Positive market performance and net customer cash flows led to account value increases in our Retirement and Income Solutions segment and AUM increases in our Principal Global Investors segment. Since account values and AUM are the base by which these businesses generate revenues, the increase in account values and AUM has contributed to the overall improvement of our operating revenues.

In our Principal International segment, we continued to grow our business organically through our existing subsidiaries and joint ventures and through strategic acquisitions. Local currency AUM, a key indicator of earnings growth for the segment, increased significantly as a result of positive net customer cash flows and market performance. The financial results for the Principal International segment are also impacted by fluctuations of the foreign currency to U.S. dollar exchange rates for the countries in which we have business.

The U.S. Insurance Solutions segment has been impacted by lower interest rates for the past few years as well as decreases in our long-term interest rate assumptions. The current low interest rate environment has caused spread compression, whereas the decrease in long-term interest rate assumptions has led to higher reserves and unlocking of our DAC and other actuarial balances in the segment.

## Profitability

Our profitability depends in large part upon our:

- amount of AUM;
- ability to manage the difference between the investment income we earn and the interest we credit to policyholders;
- ability to generate fee revenues by providing administrative and investment management services;
- ability to price our insurance products at a level that enables us to earn a margin over the cost of providing benefits and the related expenses;
- ability to manage our investment portfolio to maximize investment returns and minimize risks such as interest rate changes or defaults or impairments of invested assets;
- ability to effectively hedge fluctuations in foreign currency to U.S. dollar exchange rates on certain transactions and
- ability to manage our operating expenses.

## Critical Accounting Policies and Estimates

The increasing complexity of the business environment and applicable authoritative accounting guidance requires us to closely monitor our accounting policies. Our significant accounting policies are described in Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 1, Nature of Operations and Significant Accounting Policies." We have identified critical accounting policies that are complex and require significant judgment and estimates about matters that are inherently uncertain. A summary of our critical accounting policies is intended to enhance the reader's ability to assess our financial condition and results of operations and the potential volatility due to changes in estimates and changes in guidance. The identification, selection and disclosure of critical accounting estimates and policies have been discussed with the Audit Committee of the Board of Directors.

## Valuation and Impairment of Fixed Income Investments

**Fixed Maturities.** Fixed maturities include bonds, asset-backed securities ("ABS"), redeemable preferred stock and certain non-redeemable preferred securities. We classify our fixed maturities as either AFS or trading and, accordingly, carry them at fair value in the consolidated statements of financial position. The fair values of our public fixed maturities are primarily based on market prices from third party pricing vendors. We have regular interactions with these vendors to ensure we understand their pricing methodologies and to confirm they are utilizing observable market information. In addition, 22% of our invested asset portfolio as of December 31, 2015, was invested in fixed maturities that are private placement assets, where there are no readily available market quotes to determine the fair market value. The majority of these assets are valued using a spread pricing matrix that utilizes observable market inputs. 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. Certain market events that could impact the valuation of securities include issuer credit ratings, business climate, management changes, litigation and government actions among others. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 14, Fair Value Measurements" for further discussion.

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. As of December 31, 2015, less than 1% of our fixed maturities were valued using internal pricing models.

A rate increase of 100 basis points would produce a total value of approximately \$47.5 billion, as compared to the recorded amount of \$50.0 billion related to our fixed maturity, AFS financial assets with interest rate risk held by us as of December 31, 2015. For additional information see Item 7A. "Quantitative and Qualitative Disclosures About Market Risk — Interest Rate Risk".

The \$1,517.7 million decrease in net unrealized gains from U.S. investment operations for the year ended December 31, 2015, can primarily be attributed to an approximate 19 basis points increase in interest rates and widening of credit spreads.

Fixed maturities classified as AFS are subject to impairment reviews. When evaluating fixed maturities for impairment, 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 a 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 that a security is deemed to be other than temporarily impaired, an impairment loss is recognized. See item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 4, Investments — Other-Than-Temporary Impairments" for further discussion.

There are a number of significant risks and uncertainties 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. At December 31, 2015, we had \$16,874.5 million in AFS fixed maturities with gross unrealized losses totaling \$823.2 million. Included in the gross unrealized losses are losses attributable to both movements in market interest rates as well as movement in credit spreads. Net income would be reduced by approximately \$823.2 million, on a pre-tax basis, if all the securities in an unrealized loss position were deemed to be other than temporarily impaired and our intent was to sell all such securities.

**Mortgage Loans.** Mortgage loans consist primarily of commercial mortgage loans on real estate. As of December 31, 2015, the carrying value of our commercial mortgage loans was \$11,237.8 million. Commercial mortgage loans on real estate are generally reported at cost adjusted for amortization of premiums and accrual of discounts, computed using the interest method and net of valuation allowances.

Commercial mortgage loans on real estate are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to contractual terms of the loan agreement. When we determine that a loan is impaired, a valuation allowance is established equal to the difference between the carrying amount of the mortgage loan and the estimated value 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. For more detailed information concerning mortgage loan valuation allowances and impairments, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 4, Investments — Mortgage Loan Valuation Allowance."

We have a large experienced commercial real estate staff centrally located in Des Moines, which includes commercial mortgage underwriters, loan closers, loan servicers, engineers, appraisers, credit analysts, research staff, legal staff, information technology personnel and portfolio managers. Experienced commercial real estate senior management adheres to a disciplined process in reviewing all transactions for approval on a consistent basis. During 2015, the typical new commercial mortgage loan at origination averaged 50% loan-to-value with a 3.1 times debt service coverage ratio and was internally rated A on a bond equivalent basis. Our entire commercial mortgage loan portfolio, excluding mortgage loans held in our Principal Global Investors segment, averaged 46% loan-to-value ratio with a 2.7 times debt service coverage ratio as of December 31, 2015. The large equity cushion and strong debt service coverage in our commercial mortgage loan investments will help insulate us from stress during times of weak commercial real estate fundamentals.

## **Derivatives**

We primarily use derivatives to hedge or reduce exposure to market risks. The fair values of exchange-traded derivatives are determined through quoted market prices. The fair value of derivative instruments cleared through centralized clearinghouses is determined through market prices published by the clearinghouses. The fair values of non-cleared over-the-counter derivative instruments are determined using either pricing valuation models that utilize market observable inputs or broker quotes. On an absolute fair value basis as of December 31, 2015, 69% of our over-the-counter derivative assets and liabilities were valued using pricing valuation models, 24% using clearinghouse prices and the remaining 7% using broker quotes. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 14, Fair Value Measurements" for further discussion. The fair values of our derivative instruments can be impacted by changes in interest rates, foreign exchange rates, credit spreads, equity indices and volatility, as well as other contributing factors.

We also issue certain annuity contracts and other insurance contracts that include embedded derivatives that have been bifurcated from the host contract. They are valued using a combination of historical data and actuarial judgment. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 14, Fair Value Measurements" for further discussion. We include our assumption for own non-performance risk in the valuation of these embedded derivatives. As our credit spreads widen or tighten, the fair value of the embedded derivative liabilities decrease or increase, leading to an increase or decrease in net income. If the current market credit spreads reflecting our own creditworthiness move to zero (tighten), the reduction to net income would be approximately \$102.5 million, net of DAC and income taxes, based on December 31, 2015, reported amounts. In addition, the policyholder behavior assumptions used in the valuation of embedded derivatives include risk margins, which increase the fair value of the embedded derivative liabilities.

The accounting for derivatives is complex and interpretations of the applicable accounting standards continue to evolve. Judgment is applied in determining the availability and application of hedge accounting designations and the appropriate accounting treatment. Judgment and estimates are used to determine the fair value of some of our derivatives. Volatility in net income can result from changes in fair value of derivatives that do not qualify or are not designated for hedge accounting and changes in fair value of embedded derivatives.

## **Deferred Acquisition Costs and Other Actuarial Balances**

Incremental direct costs of contract acquisition as well as certain costs directly related to acquisition activities (underwriting, policy issuance and processing, medical and inspection and sales force contract selling) for the successful acquisition of new and renewal insurance policies and investment contract business are capitalized to the extent recoverable. Commissions and other incremental direct costs of contract acquisition for the acquisition of long-term service contracts are also capitalized to the extent recoverable. Maintenance costs and acquisition costs that are not deferrable are charged to net income as incurred.

**Amortization Based on Estimated Gross Profits.** DAC for universal life-type insurance contracts and certain investment contracts are amortized over the expected lifetime of the policies in relation to estimated gross profits ("EGPs"). As of December 31, 2015, these policies accounted for 64% of our total DAC balance. In addition to DAC, the following actuarial balances are also amortized in relation to EGPs.

- Sales inducement asset — Sales inducements are amounts that are credited to the contractholder's account balance as an inducement to purchase the contract. Like DAC, the cost of the sales inducement is capitalized and amortized over the expected life of the contract, in proportion to EGPs.
- Unearned revenue liability — An unearned revenue liability is established when we collect fees or other policyholder assessments that represent compensation for services to be provided in future periods. These revenues are deferred and then amortized over the expected life of the contract, in proportion to EGPs.
- Reinsurance asset or liability — For universal-life type products that are reinsured, a reinsurance asset or liability is established to spread the expected net reinsurance costs or profits in proportion to the EGPs on the underlying business.

We also have additional benefit reserves that are established for annuity or universal life-type contracts that provide benefit guarantees, or for contracts that are expected to produce profits followed by losses. The liabilities are accrued in relation to estimated contract assessments.

Key assumptions used in the calculation of EGPs include mortality, morbidity, lapses, investment yield and expenses as well as the change in our liability for certain guarantees and the difference between actual and expected reinsurance premiums and recoveries, depending on the nature of the contract. We develop an estimate of EGPs at issue and each valuation date. As actual experience emerges, the gross profits may vary from those expected either in magnitude or timing, in which case a true-up to actual occurs as a charge or credit to current net income. In addition, we are required to revise our assumptions regarding future experience if actual experience or other evidence suggests that earlier estimates should be revised; we refer to this as unlocking. Both actions, reflecting actual experience and changing future estimates, can change both the current amount and the future amortization pattern of the DAC asset and related actuarial balances.

For individual variable life insurance, individual variable annuities and group annuities that have separate account U.S. equity investment options, we utilize a mean reversion methodology (reversion to the mean assumption), a common industry practice, to determine the future domestic equity market growth rate assumption used for the calculation of EGPs. If actual annualized U.S. equity market performance varies from our 8% long-term assumption, we assume different performance levels in the short-term such that the weighted average return is equal to the long-term assumption over the mean reversion period. However, our mean reversion process generally limits assumed returns to a range of 4 - 12% during the mean reversion period.

**Amortization Based on Estimated Gross Revenues.** DAC and certain of the actuarial balances on a portion of our universal life products are amortized in proportion to estimated gross revenues rather than EGPs. Estimated gross revenues include similar assumptions as the revenue component of EGPs and the changes of future estimates and reflection of actual experience is done in the same manner as EGPs discussed above. As of December 31, 2015, these policies accounted for 6% of our total DAC balance.

**Amortization Based on Estimated Gross Margins.** DAC for participating life insurance products are amortized in proportion to estimated gross margins ("EGMs") rather than EGPs. EGMs include similar assumption items as EGPs, and amortization schedules were developed using models last updated when we stopped selling participating business in the early 2000s. Some products allow for underwritten death benefit increases and cost of living adjustments, resulting in a material amount of new DAC each year, and the amortization schedules are modified as appropriate. As of December 31, 2015, these policies accounted for 4% of our total DAC balance.

**Amortization Based on Premium-Paying Period.** DAC of non-participating term life insurance and individual disability policies are amortized over the premium-paying period of the related policies using assumptions consistent with those used in computing policyholder liabilities. Once these assumptions are made for a given policy or group of policies, they will not be changed over the life of the policy unless a loss recognition event occurs. As of December 31, 2015, these policies accounted for 20% of our total DAC balance.

**Amortization Based on Service Period.** DAC of long-term service contracts are amortized in proportion to the revenue recognized or straight-line if no pattern of revenue recognition can be reasonably predicted. We amortize capitalized costs of long-term service contracts on a straight-line basis over the expected contract life. As of December 31, 2015, these contracts accounted for 6% of our total DAC balance.

**Internal Replacements.** We review policies for modifications that result in the exchange of an existing contract for a new contract. If the new contract is determined to be an internal replacement that is substantially changed from the replaced contract, any unamortized DAC and related actuarial balances are written off and acquisition costs related to the new contract are capitalized as appropriate. If the new contract is substantially unchanged from the replaced contract, we continue to amortize the existing DAC and related actuarial balances.

**Recoverability.** DAC and sales inducement assets are subject to recoverability testing at the time of policy issue and loss recognition testing on an annual basis, or when an event occurs that may warrant loss recognition. If loss recognition or impairment is necessary, the asset balances are written off to the extent that it is determined that future policy premiums and investment income or gross profits are not adequate to cover related losses and expenses.

**Sensitivities.** As of December 31, 2015, the net balance of DAC and related actuarial balances, excluding balances affected by changes in other comprehensive income ("OCI"), was a \$1,758.7 million asset. We perform sensitivity analyses to assess the impact that certain assumptions have on these balances. The following table shows the estimated immediate impact of various assumption changes on our DAC and related actuarial balances.

	<b>Estimated impact to net income (1)</b>
	<i>(in millions)</i>
Reducing the future equity return assumption by 1%	\$ (8)
Reducing the long-term general account net investment returns assumption by 0.5% (2)	(23)
A one-time, 10% drop in equity market values	(8)

- (1) Reflects the net impact of changes to the DAC asset, sales inducement asset, unearned revenue liability, reinsurance asset or liability, additional benefit reserves and related taxes. Includes the impact on net income of changes in DAC and related balances for our equity method subsidiaries. The DAC and related balances of the equity method subsidiaries are not included in the total DAC balance listed above as they are not fully consolidated.
- (2) Net investment return represents net investment income plus net realized capital gains (losses).

### **Goodwill and Other Intangible Assets**

Goodwill and other intangible assets include the cost of acquired subsidiaries in excess of the fair value of the net tangible assets recorded in connection with acquisitions. Goodwill and intangible assets with indefinite lives are not amortized; rather, we test the carrying value for impairment at least annually. Goodwill is tested at the reporting unit level, which is a business one level below the operating segment. We formally conduct our annual goodwill and other intangible asset impairment testing during the third quarter. Under certain circumstances, interim impairment tests may be required if events occur or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying value.

In connection with our fourth quarter 2015 operating segment changes, goodwill was tested for impairment using adjusted carrying values of the new reporting units. We concluded the fair value of each reporting unit was in excess of its carrying value and goodwill was not impaired.

The operating segments and associated reporting units at which we perform our testing are as follows:

- Retirement and Income Solutions: Retirement and Income Solutions — Fee and Retirement and Income Solutions — Spread
- Principal Global Investors: Equity Investments, Fixed Income Investments, Real Estate and Other Alternative Investments, Mutual Funds Complex
- Principal International: countries in which Principal International does business
- U.S. Insurance Solutions: Specialty Benefits Insurance and Individual Life Insurance
- Corporate: Corporate subsidiaries

U.S. GAAP permits entities to first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative impairment test of the two-step goodwill impairment test. Similarly, U.S. GAAP permits entities to first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of an intangible asset with an indefinite life is less than its carrying amount to determine whether it is necessary to perform a quantitative assessment. For 2014 testing, we began to utilize the qualitative approach on a limited basis for intangible assets with indefinite lives. We continue to perform a two-step test in our evaluation of the carrying value of goodwill.

In Step 1 of the evaluation, the fair value of each reporting unit is determined and compared to the carrying value of the reporting unit. If the fair value is greater than the carrying value, then the carrying value of the reporting unit is deemed to be recoverable, and Step 2 is not required. After completion of our Step 1 analysis, it was determined that fair values exceeded the carrying amounts for all businesses one level below the operating segment and we do not currently have any business at risk of failing the Step 1 goodwill impairment test. If the fair value estimate had been less than the

carrying value, it is an indicator that impairment may exist, and Step 2 would be required. In Step 2, the reporting unit's goodwill implied fair value is determined. The reporting unit's fair value as determined in Step 1 is assigned to all of its net assets (recognized and unrecognized) as if the reporting unit were acquired in a business combination as of the date of the impairment test. If the implied fair value of the reporting unit's goodwill is lower than its carrying amount, goodwill is impaired and written down to its implied fair value.

The determination of fair value for our reporting units is primarily based on an income approach whereby we use discounted cash flows for each reporting unit. When available, and as appropriate, we use market approaches or other valuation techniques to corroborate discounted cash flow results. The discounted cash flow model used for each reporting unit is based on either income or distributable cash flow, depending on the reporting unit being valued. We use different discount rates based upon the weighted average cost of capital adjusted for risks associated with the operations.

For the income model, we determine fair value based on the present value of the most recent income projections for each reporting unit and calculate a terminal value utilizing a terminal growth rate. The significant assumptions in the operating income model include: income projections, including the underlying assumptions; discount rate and terminal growth rate.

For the distributable cash flow model, we determine fair value based on the present value of projected statutory net income and changes in required capital to determine distributable income for the respective reporting unit. The significant assumptions in the distributable cash flow model include: required capital levels; income projections, including the underlying assumptions; discount rate; new business projection period and new business production growth.

We continually monitor market conditions, events, and other external or internal factors that could trigger the need to test any of our intangibles for impairment outside of the annual testing process. In the third quarter of 2015, identified intangibles that originated from the acquisition of our mutual fund company in Brazil were deemed to be impaired, resulting in a pre-tax loss of \$23.0 million recorded in operating expenses. These impairments were driven by the current macroeconomic and market conditions in Brazil, including higher discount rates and change in the mix of business.

Intangible assets with useful lives are amortized as related benefits emerge and are reviewed periodically for indicators of impairment in value. If facts and circumstances suggest possible impairment, the sum of the estimated undiscounted future cash flows expected to result from the use of the asset is compared to the current carrying value of the asset. If the undiscounted future cash flows are less than the carrying value, an impairment loss is recognized for the excess of the carrying amount of assets over their fair value. For those assets amortized as related benefits emerge, the most significant assumptions involved in the estimation of future benefits include surrender/lapse rates and interest margins.

Other than intangible asset impairments related to our mutual fund business in Brazil, we did not recognize a material impairment in our 2015 consolidated statement of operations. In connection with our annual impairment testing process, we performed a sensitivity analysis for goodwill impairment with respect to each of our reporting units and determined that a hypothetical 10% decline in the fair value would not result in an impairment of goodwill for any reporting unit. The most significant goodwill and other intangible assets within our 2015 consolidated statement of financial position resulted from our 2013 acquisition of Cuprum, whereby we recorded \$631.8 million of goodwill, and from our 2006 purchase of WM Advisors, Inc., whereby we acquired \$608.0 million of investment management contracts which are considered an indefinite-lived intangible. We cannot predict certain future events that might adversely affect the reported value of goodwill and other intangible assets that totaled \$1,009.0 million and \$1,359.2 million, respectively, as of December 31, 2015. Such events include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on our customer base, interest rate movements, declines in the equity markets, the legal environment in which the businesses operate or a material negative change in our relationships with significant customers. For further information see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 14, Nature of Operations and Significant Accounting Policies," and "Note 2, Goodwill and Other Intangible Assets."

### **Insurance Reserves**

Reserves are liabilities representing estimates of the amounts that will come due, at some point in the future, to or on behalf of our policyholders. U.S. GAAP, allowing for some degree of managerial judgment, provides guidance for establishing reserves.

Future policy benefits and claims include reserves for individual traditional and group life insurance, disability and health insurance and individual and group annuities that provide periodic income payments. These reserves are computed using assumptions of mortality, morbidity, lapse, investment performance and expense. These assumptions are based on our experience, industry results, emerging trends and future expectations. For long duration insurance contracts, once these assumptions are made for a given policy or group of policies, they will not be changed over the life of the policy. However, significant changes in experience or assumptions may require us to provide for expected future losses on a product by establishing premium deficiency reserves. Premium deficiency reserves may also be established for short duration contracts to provide for expected future losses. Our reserve levels are reviewed throughout the year using internal analysis including, among other things, experience studies, claim development analysis and annual loss recognition analysis. To the extent experience indicates potential loss recognition, we recognize losses on certain lines of business. The ultimate accuracy of the assumptions on these long-tailed insurance products cannot be determined until

the obligation of the entire block of business on which the assumptions were made is extinguished. Short-term variances of actual results from the assumptions used in the computation of the reserves are reflected in current period net income and can impact quarter-to-quarter net income.

Future policy benefits and claims also include reserves for incurred but unreported health, disability and life insurance claims. We recognize claims costs in the period the service was provided to our policyholders. However, claims costs incurred in a particular period are not known with certainty until after we receive, process and pay the claims. We determine the amount of this liability using actuarial methods based on historical claim payment patterns as well as emerging cost trends, where applicable, to determine our estimate of claim liabilities. We also look back to assess how our prior periods' estimates developed. To the extent appropriate, changes in such development are recorded as a change to current period claim expense. Historically, the amount of the claim reserve adjustment made in subsequent reporting periods for prior period estimates have been within a reasonable range given our normal claim fluctuations.

### **Benefit Plans**

The reported expense and liability associated with pension and OPEB plans requires the use of assumptions. Numerous assumptions are made regarding the discount rate, expected long-term rate of return on plan assets, turnover, expected compensation increases, health care claim costs, health care cost trends, retirement rates and mortality. The discount rate and the expected return on plan assets have the most significant impact on the level of expense.

The assumed discount rate is determined by projecting future benefit payments inherent in the Projected Benefit Obligation and discounting those cash flows using a spot yield curve for high quality corporate bonds. Our assumed discount rate for the 2015 year-end was 4.50% for Pension and 4.15% for the Welfare Plans. Typically a 0.25% decrease in the discount rate would increase the pension benefits Projected Benefit Obligation and the Net Periodic Pension Cost ("NPPC") by approximately \$115.0 million and \$4.6 million, respectively. Typically a 0.25% decrease in the discount rate would increase the other postretirement benefits Accumulated Postretirement Benefit Obligation by approximately \$4.3 million and would have a nominal impact on the Net Periodic Benefit Cost ("NPBC"). Typically a 0.25% increase in the discount rate would result in decreases in benefit obligations and expenses at a level generally commensurate with those noted above.

The assumed long-term rate of return on plan assets is set at the long-term rate expected to be earned based on the long-term investment policy of the plans and the various classes of the invested funds. Historical and future expected returns of multiple asset classes were analyzed to develop a risk-free real rate of return and risk premiums for each asset class. The overall long-term rate for each asset class was developed by combining a long-term inflation component, the real risk free rate of return and the associated risk premium. A weighted average rate was developed based on long-term returns for each asset class, the plan's target asset allocation policy and the tax structure of the trusts. For the 2015 NPPC and 2015 NPBC, a 7.20% and 5.36% weighted average long-term rate of return was used, respectively. For the 2016 NPPC and 2016 NPBC, a 7.20% and 5.24% weighted average long-term rate of return assumption, respectively, will be used. Typically a 0.25% decrease in the assumed long-term rate of return would increase the NPPC by approximately \$5.4 million and the NPBC by approximately \$1.6 million. Typically a 0.25% increase in this rate would result in a decrease to expense at the same levels. The assumed return on plan assets is based on the fair market value of plan assets as of December 31, 2015.

The compensation increase assumption is generally set at a rate consistent with current and expected long-term compensation and salary policy, including inflation.

Actuarial gains and losses are amortized using a straight-line amortization method over the average remaining service period of employees, which is approximately 12 years for pension costs and approximately 10 years for other postretirement benefit costs. The qualified pension plan does not utilize the allowable corridor, while the nonqualified pension, as well as the welfare plans, utilize the 10% corridor. Prior service costs are amortized on a weighted average basis over approximately 2 years for pension and 2 years for other postretirement benefit costs. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 11, Employee and Agent Benefits" for further discussion.

### **Income Taxes**

We provide for income taxes based on our estimate of the liability for taxes due. Our tax accounting represents management's best estimate of various events and transactions, such as completion of tax audits or establishment of, or changes to, a valuation allowance associated with certain deferred tax assets, which could affect our estimates and effective income tax rate in a particular quarter or annual period. Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates expected to be in effect during the years in which the basis differences reverse. We are required to evaluate the recoverability of our deferred tax assets each quarter and establish a valuation allowance, if necessary, to reduce our deferred tax assets to an amount that is more-likely-than-not to be realizable. In determining the need for a valuation allowance, we consider many factors, including future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in prior carryback years and implementation of any feasible and prudent tax planning strategies management would employ to realize the tax benefit.

U.S. federal and state deferred income taxes have not been provided on approximately \$1,004.6 million and \$824.8 million of accumulated but undistributed earnings from operations of foreign subsidiaries at December 31, 2015 and 2014, respectively. We do not record U.S. federal and state deferred income taxes on foreign earnings not expected to be distributed to the U.S. We apply an exception to the general rule, which under U.S. GAAP otherwise requires the recording of U.S. deferred income taxes on the anticipated repatriation of foreign earnings as recognized for financial reporting purposes. The exception permits us to not record a U.S. deferred income tax liability on foreign earnings we expect to be indefinitely reinvested in our foreign operations. The related deferred income taxes will be recorded in the period it becomes apparent we can no longer positively assert some or all the undistributed earnings will remain invested into the foreseeable future.

Inherent in the provision for income taxes are estimates and our expectations regarding the deductibility of certain items, the timing of income and expense recognition, future performance and the current or future realization of operating losses, capital losses and certain tax credits. We regularly evaluate the capital needs of our domestic and foreign operations considering all available information, including operating and capital plans, regulatory capital requirements, parent company financing and cash flow needs, as well as tax laws applicable to our domestic and foreign subsidiaries. In the event these estimates differ from our prior estimates due to the receipt of new information, we may be required to significantly change the provision for income taxes recorded in the consolidated financial statements. Any such change could significantly affect the amounts reported in the consolidated financial statements in the year these estimates change. A further significant decline in value of assets incorporated into our tax planning strategies could lead to an increase of our valuation allowance on deferred tax assets having an adverse effect on current and future results. In management's judgment, total deferred income tax assets are more-likely-than-not to be realized.

In addition, the amount of income taxes paid is subject to audits in the U.S. as well as various state and foreign jurisdictions. Tax benefits are recognized for book purposes when the more-likely-than-not threshold is met with regard to the validity of an uncertain tax position. Once this threshold is met, for each uncertain tax position we recognize in earnings the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement with the Internal Revenue Service or other income taxing authorities for audits ongoing or not yet commenced.

We had \$229.9 million and \$298.3 million of current income tax receivables associated with outstanding audit issues reported as other assets in our consolidated statements of financial position as of December 31, 2015 and 2014, respectively. We believe that we have adequate defenses against, or sufficient provisions for, the contested issues, but final resolution of contested issues could take several years while legal remedies are pursued. Consequently, we do not anticipate the ultimate resolution of audits ongoing or not yet commenced to have a material impact on our net income.

## Transactions Affecting Comparability of Results of Operations

### Acquisitions

We entered into acquisition agreements for the following businesses.

**AXA Hong Kong Pension Business.** On September 1, 2015, we finalized the purchase of AXA's MPF and ORSO pension business in Hong Kong for \$335.5 million. As part of the transaction, we entered into an exclusive 15-year distribution agreement with AXA to provide co-branded pension products through AXA's extensive agency network in Hong Kong. We more than doubled the AUM in our Hong Kong pension business to \$5.9 billion. AXA's MPF and ORSO pension business is consolidated within our Principal International segment.

**Columbus Circle Investors.** On September 30, 2014, we acquired an additional 24.65% interest in Columbus Circle Investors from the minority shareholder partners and contracted to purchase the remaining interest from the minority shareholder partners in two installments. On April 28, 2015, we purchased an additional 2.5% interest. We now own 97.5% of Columbus Circle Investors and are expected to purchase the remaining 2.5% from the minority shareholder partners in April 2016. Columbus Circle Investors is consolidated within our Principal Global Investors segment.

**Cuprum.** On February 4, 2013, we finalized the purchase of Cuprum, a premier pension manager in Chile. As a result of the public tender offer, we initially acquired a 91.55% ownership stake in Cuprum for a purchase price of \$1.3 billion. Cuprum had \$34.3 billion in AUM at the time of acquisition and is consolidated within our Principal International segment.

### Other

**Actuarial Assumption Updates.** We periodically review and update actuarial assumptions that are inputs to the models for DAC and other actuarial balances and make model refinements as necessary. During the third quarter of 2015, assumption updates and model refinements were made resulting in an unlocking of DAC and other actuarial balances that increased total company net income by \$26.2 million for the year ended December 31, 2015. The net positive segment pre-tax operating earnings impact was \$48.1 million, which was comprised of \$76.8 million for our U.S. Insurance Solutions segment and \$(28.7) million for our Retirement and Income Solutions segment for the year ended December 31, 2015.

During the third quarter of 2014, assumption updates and model refinements were made resulting in an unlocking of DAC and other actuarial balances that increased total company net income by \$45.3 million for the year ended December 31, 2014. The net positive segment pre-tax operating earnings impact was \$62.6 million, which was comprised

of \$60.0 million for our U.S. Insurance Solutions segment and \$2.6 million for our Retirement and Income Solutions segment for the year ended December 31, 2014.

Our review and update of actuarial assumptions in 2013 did not result in a material impact to net income.

The individual life insurance business actuarial assumption updates and model refinements had the most significant impact and affected several line items within our income statement. The following table presents the increase (decrease) on the individual life insurance income statement line items for the years ended December 31, 2015 and 2014. The impact for the year ended December 31, 2013, was not material.

	For the year ended December 31,	
	2015	2014
	(in millions)	
Pre-tax operating earnings	\$ 64.6	\$ 60.0
Fee revenues	(3.0)	3.1
Benefits, claims and settlement expenses	(43.5)	(131.6)
Operating expenses	(24.1)	74.7

**Chilean Legal Entity Merger.** In January 2015, we received regulatory approval and executed upon the merger of two of our Chilean legal entities. As a result of the merger, we recognized a \$105.2 million benefit in net income available to common stockholders in first quarter 2015 to reflect a change in deferred tax balances related to the merged entity.

**Liongate Capital Management LLP and Liongate Limited.** On May 1, 2013, we finalized the purchase of a 55% interest in Liongate Capital Management LLP and Liongate Limited ("Liongate"), a global alternative investment boutique based in London and New York. Liongate is focused on managing portfolios of hedge funds. The purchase price was \$44.0 million. Liongate had \$1.4 billion in AUM at the time of acquisition and was accounted for on the equity method within our Principal Global Investors segment. In the fourth quarter of 2014, we impaired our investment in Liongate.

### 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 \$69.3 million for the year ended December 31, 2015, as a result of fluctuations in foreign currency to U.S. dollar exchange rates. For a discussion of our approaches to managing foreign currency exchange rate risk, see Item 7A. "Quantitative and Qualitative Disclosures About Market Risk — Foreign Currency Risk."

### Stock-Based Compensation Plans

For information related to our Stock-Based Compensation Plans, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 17, Stock-Based Compensation Plans."

### Effects of Inflation

The impact of inflation has not had a material effect on our annual consolidated results of operations over the past three years. However, we may be materially affected by inflation in the future.

### Employee and Agent Benefits Expense

The 2015 annual defined benefit pension expense for substantially all of our employees and certain agents was \$123.4 million pre-tax, which is a \$38.4 million increase from the 2014 pre-tax pension expense of \$85.0 million. This increase is due to a decrease in the discount rate from 4.90% for 2014 to 4.00% for 2015 and a change in the mortality assumptions. Offsetting these increases were a better than expected asset return in 2014 and an increase in the expected long-term return on plan assets to 7.20% for 2015 from 6.75% used in 2014.

The 2016 annual defined benefit pension expense for substantially all of our employees and certain agents is expected to be \$119.7 million pre-tax, which is a \$3.7 million decrease from the 2015 pre-tax pension expense of \$123.4 million. This decrease is due to an increase in the discount rate from 4.00% for 2015 to 4.50% for 2016, offset by less than expected investment returns in 2015. The expected long-term return on plan assets is 7.20% for 2016 and 2015.

The 2015 annual OPEB plan income for employees and certain agents was \$38.8 million pre-tax, which is a \$9.5 million decrease from the 2014 pre-tax OPEB income of \$48.3 million. The 2015 income includes an expense of \$5.8 million due to certain adjustments related to dental plan benefits during the fourth quarter. The weighted average expected long-term return on plan assets used to develop the income in 2015 was 5.36%, which was based on weighted average expected long-term asset returns for the medical, life and long-term care plan. The discount rate used to develop

the 2015 income decreased to 4.00%, down from 4.90% used in 2014. The mortality table was changed for the calculation of the OPEB liabilities as well, but it had less impact than on pension expense.

The 2016 annual OPEB plan income for employees and certain agents is expected to be \$43.5 million pre-tax, which is a \$4.7 million increase from the 2015 pre-tax OPEB income of \$38.8 million. The 2016 OPEB plan income reflects a \$15.5 million reduction in the accumulated postretirement benefit obligation due to a plan change in post-65 medical coverage for employees who retired from January 1, 1992 to December 31, 2010. The weighted average expected long-term return on plan assets used to develop the income in 2016 is 5.24%, which was based on weighted average expected long-term asset returns for the medical, life and long-term care plan. The discount rate used to develop the 2016 income increased to 4.15%, up from 4.00% used in 2015.

The mortality assumption model is the same for both 2015 and 2016 expense for all plans; however, 2016 reflects an update for 2 additional years of experience released by the Social Security Administration in 2015, which caused virtually no change in any of the plans' expenses.

### **Impact of Low Interest Rate Environment**

The exposure from the low interest rates is reflected in a reduction in the difference between the investment income we earn and the interest we credit to our customers. Some of our products, primarily our fixed deferred annuity, general account group annuity and universal life insurance products, include guaranteed minimum interest rates. During periods of low or declining interest rates, borrowers may prepay or redeem mortgages and fixed maturities that are invested to support our product obligations, which would force us to reinvest the proceeds at lower interest rates. The resulting lower net investment income may make it more difficult for us to maintain our desired difference between the investment income we earn and the interest we credit to our customers and thereby reduce our profitability. See Item 7A. "Quantitative and Qualitative Disclosures About Market Risk — Interest Rate Risk" for a presentation of the differences between the interest rates being credited to contractholders and the respective guaranteed minimum interest rates within the Retirement and Income Solutions and U.S. Insurance Solutions segments.

Some of our universal life insurance contracts contain secondary guarantees, which keep the contract in force, even if the contractholder's account balance is insufficient to cover all of the contract charges, provided that the contractholder has continually paid a specified minimum premium. It is possible that more of these secondary guarantees could be triggered, possibly increasing our policyholder obligation and thereby reducing our profitability.

Declining or low interest rates could impact the discount rate assumption used for the purposes of valuing reserves and our pension and OPEB obligations. A decrease in the discount rate could result in higher reserves as well as unlocking of DAC and other actuarial balances and an increase in the annual pension and OPEB expense.

Our expectation of EGPs is an important consideration in determining the amortization of DAC and other actuarial balances. To the extent a low interest rate environment impacts our assumptions regarding future EGPs, an unlocking of DAC and other actuarial balances could occur, decreasing net income.

Lastly, lower net investment income could result in the establishment of a premium deficiency reserve for certain of our insurance products.

We anticipate that a sustained low interest rate environment would reduce the growth in net income.

### **Recent Accounting Changes**

For recent accounting changes, see Item 8. "Financial Statements and Supplementary Data, Notes to 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 years indicated:

	For the year ended December 31,			Increase (decrease)	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
	(in millions)				
<b>Revenues:</b>					
Premiums and other considerations	\$ 5,310.3	\$ 3,722.9	\$ 3,154.1	\$ 1,587.4	\$ 568.8
Fees and other revenues	3,653.1	3,482.1	3,222.2	171.0	259.9
Net investment income	3,052.1	3,257.9	3,138.4	(205.8)	119.5
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	(20.9)	92.7	(109.2)	(113.6)	201.9
Net other-than-temporary impairment (losses) recoveries on available-for-sale securities	(0.8)	23.8	(91.5)	(24.6)	115.3
Other-than-temporary impairment losses on fixed maturities available-for-sale reclassified from other comprehensive income	(29.4)	(101.8)	(24.5)	72.4	(77.3)
Net impairment losses on available-for-sale securities	(30.2)	(78.0)	(116.0)	47.8	38.0
Net realized capital gains (losses)	(51.1)	14.7	(225.2)	(65.8)	239.9
Total revenues	11,964.4	10,477.6	9,289.5	1,486.8	1,188.1
<b>Expenses:</b>					
Benefits, claims and settlement expenses	6,697.7	5,231.0	4,683.6	1,466.7	547.4
Dividends to policyholders	163.5	177.4	189.0	(13.9)	(11.6)
Operating expenses	3,672.4	3,574.3	3,292.9	98.1	281.4
Total expenses	10,533.6	8,982.7	8,165.5	1,550.9	817.2
Income before income taxes	1,430.8	1,494.9	1,124.0	(64.1)	370.9
Income taxes	177.6	318.5	187.9	(140.9)	130.6
Net income	1,253.2	1,176.4	936.1	76.8	240.3
Net income attributable to noncontrolling interest	19.2	32.3	23.4	(13.1)	8.9
Net income attributable to Principal Financial Group, Inc.	1,234.0	1,144.1	912.7	89.9	231.4
<b>Less:</b>					
Preferred stock dividends	16.5	33.0	33.0	(16.5)	—
Excess of redemption value over carrying value of preferred shares redeemed	8.2	—	—	8.2	—
Net income available to common stockholders	\$ 1,209.3	\$ 1,111.1	\$ 879.7	\$ 98.2	\$ 231.4

### Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

#### Net Income Available to Common Stockholders

Net income available to common stockholders increased primarily due to a change in deferred tax balances related to the merger of two of our Chilean legal entities, partially offset by net realized capital losses in 2015 as compared to net realized capital gains in 2014 primarily due to decreased gains on sales of real estate investments and joint venture real estate and a write-off of unamortized book value on corporate owned real estate in 2015. This was partially offset by an impairment of Liongate, an equity method investment, in 2014.

#### Total Revenues

Premiums increased \$1,426.9 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 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.

Fee revenues increased \$88.5 million for the Principal Global Investors segment primarily due to higher management fee revenue as a result of increased AUM. Fee revenues increased \$52.9 million for the Corporate segment primarily due to income on a tax indemnification.

Net investment income decreased primarily due to lower investment yields and prepayments on invested assets and cash in our U.S. Operations. In addition, net investment income decreased due to the weakening of the Latin American currencies against the U.S. dollar, lower inflation-based investment returns on average invested assets and cash as a result of lower inflation in Chile and unfavorable market changes on our required regulatory investment in the pension funds of our Chilean pension company. For additional information, see "Investments — Investment Results."

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

losses in 2015 as compared to net realized capital gains in 2014 primarily due to decreased gains on sales of real estate investments and joint venture real estate, write-off of unamortized book value on corporate owned real estate in 2015 and increased losses on derivatives not designated as hedging instruments. This was partially offset by an impairment of Liongate, an equity method investment, in 2014. For additional information, see "Investments — Investment Results."

### **Total Expenses**

Benefits, claims and settlement expenses increased \$1,391.5 million for the Retirement and Income Solutions segment primarily due to an increase in reserves resulting from higher sales of single premium group and individual annuities with life contingencies.

Operating expenses increased \$64.5 million for the Retirement and Income Solutions segment primarily due to an unfavorable DAC unlocking associated with the review and update of our actuarial assumptions in 2015 and an increase in staff related costs including pension and OPEB. Operating expenses increased \$48.1 million for the Principal Global Investors segment primarily due to expenses supporting growth in the business.

### **Income Taxes**

The effective income tax rates were 12% and 21% for the years ended December 31, 2015 and 2014, respectively. The effective income tax rate for the year ended December 31, 2015, was lower than the U.S. statutory rate of 35% ("U.S. statutory rate") primarily due to income tax deductions allowed for corporate dividends received, a change in deferred tax balances related to the merger of two of our Chilean legal entities and the presentation of taxes on our share of earnings generated from equity method investments reflected in net investment income, partially offset by the negative impact of a court ruling on some uncertain tax positions. The effective income tax rate for the year ended December 31, 2014, was lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received, the presentation of taxes on our share of earnings generated from equity method investments reflected in net investment income and tax credits, partially offset by an increase in net deferred tax liabilities resulting from the third quarter 2014 enactment of tax legislation in Chile. The effective income tax rate decreased to 12% from 21% for the years ended December 31, 2015 and 2014, respectively, primarily due to a change in deferred tax balances related to the merger of two of our Chilean legal entities, a change in net deferred tax liabilities resulting from the third quarter 2014 enactment of tax legislation in Chile not replicated in 2015, partially offset by the negative impact of a court ruling on some uncertain tax positions.

### ***Year Ended December 31, 2014 Compared to Year Ended December 31, 2013***

#### **Net Income Available to Common Stockholders**

Net income available to common stockholders increased primarily due to double digit earnings growth in all of the segments, lower net realized capital losses associated with derivatives not designated as hedging instruments and gains on fixed maturities. These increases were partially offset by an increase in net deferred tax liabilities resulting from the third quarter 2014 enactment of tax legislation in Chile and the impact of a court ruling on some uncertain tax positions in the second quarter of 2014.

#### **Total Revenues**

Premiums increased \$539.0 million for the Retirement and Income Solutions segment primarily due to higher sales of single premium group and individual annuities with life contingencies.

Fee revenues increased \$138.6 million for the Retirement and Income Solutions segment primarily due to higher fees stemming from an increase in average account values, which resulted from positive equity market performance and growth in the business. Fee revenue increased \$74.4 million for the Principal Global Investors segment primarily due to higher management fee revenue due to increased AUM. The increase in management fee revenue was partially offset by a decrease in performance fees primarily seen in alternative strategies.

Net investment income increased due to higher inflation-based investment returns on average invested assets and cash as a result of higher inflation in Chile and favorable market changes on our required regulatory investment in the pension funds of our Chilean pension company. These increases were partially offset by the weakening of the Chilean peso against the U.S. dollar and lower yields on average invested assets and cash in our U.S. operations. For additional information, see "Investments — Investment Results."

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. Net realized capital gains (losses) improved due to lower losses on derivatives not designated as hedging instruments and gains on fixed maturities. For additional information, see "Investments — Investment Results."

## Total Expenses

Benefits, claims and settlement expenses increased \$463.5 million for the Retirement and Income Solutions segment primarily due to an increase in reserves resulting from higher sales of single premium group and individual annuities with life contingencies.

Operating expenses increased \$115.0 million for the U.S. Insurance Solutions segment primarily due to DAC unlocking associated with actuarial model and assumption updates in 2014. Operating expenses increased \$113.2 million for the Retirement and Income Solutions segment primarily due to higher sub-advisory fee costs stemming from an increase in average account values, which resulted from positive equity market performance, an increase in non-deferrable distribution costs and an increase in DAC amortization related to individual annuities.

## Income Taxes

The effective income tax rates were 21% and 17% for the years ended December 31, 2014 and 2013, respectively. The effective income tax rate for the year ended December 31, 2014 was lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received, the presentation of taxes on our share of earnings generated from equity method investments reflected in net investment income and tax credits, partially offset by an increase in net deferred tax liabilities resulting from the third quarter 2014 enactment of tax legislation in Chile. The effective income tax rate for the year ended December 31, 2013, was lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received, the presentation of taxes on our share of earnings generated from equity method investments in net investment income and lower tax rates of foreign jurisdictions. The effective income tax rate increased to 21% from 17% for the years ended December 31, 2014 and 2013, respectively, primarily due to an increase in net deferred tax liabilities resulting from the third quarter 2014 enactment of tax legislation in Chile.

## Results of Operations by Segment

For results of operations by segment see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 16, Segment Information."

## Retirement and Income Solutions Segment

### Retirement and Income Solutions Trends

Several key factors impact revenue and earnings growth in the Retirement and Income Solutions segment. These factors include: the ability of our distribution channels to generate new sales and retain existing business; pricing decisions that take account of competitive conditions, persistency, investment returns, mortality trends, and operating expense levels; investment management performance; equity market returns and interest rate changes. Profitability ultimately depends on our ability to price products and invest assets at a level that enables us to earn a margin over the cost of providing benefits and the expense of acquiring and administering those products.

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. Retirement and Income Solutions — Fee net revenue has grown due to improvement in the equity markets as well as growth in the block of business. Retirement and Income Solutions — Spread net revenue has decreased due to a decline in variable investment income.

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

	For the year ended December 31,			Increase (decrease)	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
	<i>(in millions)</i>				
Net revenue:					
Retirement and Income Solutions — Fee	\$ 1,573.5	\$ 1,563.7	\$ 1,388.8	\$ 9.8	\$ 174.9
Retirement and Income Solutions — Spread	437.6	470.2	496.4	(32.6)	(26.2)
Total Retirement and Income Solutions	<u>\$ 2,011.1</u>	<u>\$ 2,033.9</u>	<u>\$ 1,885.2</u>	<u>\$ (22.8)</u>	<u>\$ 148.7</u>

**Retirement and Income Solutions Segment Summary Financial Data**

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

	For the year ended			Increase (decrease)	
	December 31,			2015 vs. 2014	2014 vs. 2013
	2015	2014	2013		
	(in millions)				
Operating revenues:					
Premiums and other considerations	\$ 3,011.4	\$ 1,584.5	\$ 1,045.5	\$ 1,426.9	\$ 539.0
Fees and other revenues	1,338.8	1,309.7	1,171.1	29.1	138.6
Net investment income	1,816.7	1,905.5	1,995.9	(88.8)	(90.4)
Total operating revenues	6,166.9	4,799.7	4,212.5	1,367.2	587.2
Expenses:					
Benefits, claims and settlement expenses, including dividends to policyholders	4,155.8	2,765.8	2,327.3	1,390.0	438.5
Operating expenses	1,271.0	1,182.7	1,132.7	88.3	50.0
Total expenses	5,426.8	3,948.5	3,460.0	1,478.3	488.5
Pre-tax operating earnings	\$ 740.1	\$ 851.2	\$ 752.5	\$ (111.1)	\$ 98.7

**Year Ended December 31, 2015 Compared to Year Ended December 31, 2014****Pre-Tax Operating Earnings**

Pre-tax operating earnings decreased \$85.0 million in our Fee business primarily due to an unfavorable DAC unlocking associated with the review and update of our actuarial assumptions in 2015 and an increase in staff related costs including pension and OPEB. Pre-tax operating earnings decreased \$26.1 million in our Spread business primarily due to a decrease in variable investment income resulting from a decline in loan prepayment activity and associated fees.

**Net Revenue**

Net revenue decreased \$32.6 million in our Spread business primarily due to a decrease in variable investment income resulting from a decline in loan prepayment activity and associated fees. Net revenue increased \$9.8 million in our Fee business primarily due to higher fees stemming from growth in the business and an increase in average account values.

**Operating Expenses**

Operating expenses increased \$94.8 million in our Fee business primarily due to an unfavorable DAC unlocking associated with the review and update of our actuarial assumptions in 2015 and an increase in staff related costs including pension and OPEB.

**Year Ended December 31, 2014 Compared to Year Ended December 31, 2013****Pre-Tax Operating Earnings**

Pre-tax operating earnings increased \$127.5 million in our Fee business primarily due to higher fees stemming from an increase in average account values, which resulted from positive equity market performance and growth in the business. Pre-tax operating earnings decreased \$28.8 million in our Spread business primarily due to a decrease in net interest margin.

**Net Revenue**

Net revenue increased \$174.9 million in our Fee business primarily due to higher fees stemming from an increase in average account values, which resulted from positive equity market performance and growth in the business.

**Operating Expenses**

Operating expenses increased \$47.4 million in our Fee business primarily due to higher sub-advisory fee costs stemming from an increase in average account values, which resulted from positive equity market performance, an increase in non-deferrable distribution costs and an increase in DAC amortization related to individual variable annuities.

## Principal Global Investors Segment

### Principal Global Investors Trends

Our overall AUM increased \$18.1 billion in 2015 due to continued strong portfolio management as well as positive net cash flows resulting from strong distribution results. We also continue to expand our global presence and experience success in winning institutional asset management mandates and other deposits.

The following table provides a summary of Principal Global Investors' affiliated, institutional and retail AUM as of the years indicated:

As of	Affiliated AUM	Institutional AUM (in billions)	Retail AUM	Total AUM
December 31, 2015	\$ 164.0	122.0	\$ 74.8	\$ 360.8
December 31, 2014	157.5	114.0	71.2	342.7
December 31, 2013	147.6	109.4	61.8	318.8

### Principal Global Investors Segment Summary Financial Data

AUM is a key indicator of earnings growth for the Principal Global Investors segment, as AUM is the base by which we generate revenues. Net cash flow and market performance are the two main drivers of AUM growth. Net cash flow reflects our ability to attract and retain client deposits. Market performance reflects equity, fixed income, real estate and other alternative investment market performance. The percentage growth in revenues of the segment will generally track with the percentage growth in AUM. This trend may vary due to changes in 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 year ended December 31,		
	2015	2014	2013
	(in billions)		
AUM, beginning of period	\$ 342.7	\$ 318.8	\$ 283.7
Net cash flow (1)	15.5	6.4	7.6
Investment performance (2)	0.6	19.9	29.2
Other (3)	0.1	(2.4)	(3.1)
Operations acquired (4)	1.9	—	1.4
AUM, end of period	<u>\$ 360.8</u>	<u>\$ 342.7</u>	<u>\$ 318.8</u>

- (1) Positive net cash flows are primarily due to continued strong distribution results.
- (2) Variations in investment performance are primarily the result of fluctuations in market performance over time.
- (3) Primarily reflects the transfer of assets between managers and the effect of exchange rates in 2014 and the transfer of cash needed for the Cuprum acquisition in 2013.
- (4) Reflects assets managed by Principal Global Investors resulting from the acquisition of AXA's MPF and ORSO pension business in September 2015 and the acquisition of Liongate in May 2013.

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

	For the year ended December 31,			Increase (decrease)	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
	(in millions)				
Operating revenues:					
Fees and other revenues	\$ 1,335.4	\$ 1,246.9	\$ 1,172.5	\$ 88.5	\$ 74.4
Net investment income	8.1	10.5	17.2	(2.4)	(6.7)
Total operating revenues	1,343.5	1,257.4	1,189.7	86.1	67.7
Expenses:					
Total expenses	950.6	894.9	883.5	55.7	11.4
Pre-tax operating earnings attributable to noncontrolling interest	4.4	12.4	16.6	(8.0)	(4.2)
Pre-tax operating earnings	<u>\$ 388.5</u>	<u>\$ 350.1</u>	<u>\$ 289.6</u>	<u>\$ 38.4</u>	<u>\$ 60.5</u>

## Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

### Pre-Tax Operating Earnings

Pre-tax operating earnings increased due to higher management fee revenue as a result of increased AUM, performance fees realized in our real estate business and our increased ownership in Columbus Circle Investors. These increases were partially offset by increased expenses to support our business.

## Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

### Pre-Tax Operating Earnings

Pre-tax operating earnings increased due to higher management fee revenue as a result of increased AUM as well as our increased ownership in Columbus Circle Investors. These increases were partially offset by a decrease in performance fees primarily in our alternative strategies as well as expense increases to support our business.

## Principal International Segment

### Principal International Trends

Our Principal International businesses focus on countries with growing middle classes, favorable demographics and increasing long-term savings, ideally with defined contribution retirement markets. With variations depending upon the specific country, we have targeted these markets for sales of retirement and related products and services, including mutual funds, asset management, income annuities and life insurance accumulation products to businesses and individuals.

We have pursued our international strategy through a combination of acquisitions, start-up operations and joint ventures, which require infusions of capital consistent with our strategy of long-term growth and profitability.

### 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 years indicated:

	For the year ended December 31,		
	2015	2014	2013
AUM, beginning of period	\$ 114.6	\$ 104.5	\$ 69.3
Net cash flow (1)	9.3	13.1	8.5
Investment performance (2)	7.7	11.0	3.6
Operations acquired (3)	4.0	—	34.3
Effect of exchange rates	(27.3)	(13.5)	(11.1)
Other (4)	1.6	(0.5)	(0.1)
AUM, end of period	<u>\$ 109.9</u>	<u>\$ 114.6</u>	<u>\$ 104.5</u>

- (1) Positive net cash flows are primarily due to continued strong distribution results.
- (2) Variations in investment performance are primarily the result of fluctuations in market performance over time.
- (3) Reflects the acquisition of AXA's MPF and ORSO pension business in September 2015, Finansa Asset Management Limited in January 2015 and Cuprum in February 2013.
- (4) Includes \$1.9 billion transfer of CIMB-Principal Islamic Asset Management Sdn. Bhd from Principal Global Investors in April 2015.

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 years indicated.

	For the year ended December 31,			Increase (decrease)	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Net revenue	\$ 655.6	\$ 717.0	\$ 633.8	\$ (61.4)	\$ 83.2

Net revenue decreased in 2015 as compared to 2014 primarily due to the weakening of the Latin American currencies against the U.S. dollar partially offset by higher earnings in our equity method investment in Brazil. Net revenue increased in 2014 as compared to 2013 primarily due to the acquisition and growth of our Chilean pension company and favorable market changes on our required regulatory investment in the pension funds in Chile. These increases were partially offset by the weakening of the Chilean peso against the U.S. dollar.

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

	For the year ended			Increase (decrease)	
	December 31,			2015 vs. 2014	2014 vs. 2013
	2015	2014	2013		
	<i>(in millions)</i>				
Operating revenues:					
Premiums and other considerations	\$ 252.9	\$ 225.7	\$ 291.6	\$ 27.2	\$ (65.9)
Fees and other revenues	401.8	438.9	404.4	(37.1)	34.5
Net investment income	565.9	665.2	505.2	(99.3)	160.0
Total operating revenues	1,220.6	1,329.8	1,201.2	(109.2)	128.6
Expenses:					
Benefits, claims and settlement expenses	565.0	612.8	567.4	(47.8)	45.4
Operating expenses	387.6	361.8	333.9	25.8	27.9
Total expenses	952.6	974.6	901.3	(22.0)	73.3
Pre-tax operating earnings (losses) attributable to noncontrolling interest	(3.3)	2.5	5.5	(5.8)	(3.0)
Pre-tax operating earnings	\$ 271.3	\$ 352.7	\$ 294.4	\$ (81.4)	\$ 58.3

#### Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

##### Pre-Tax Operating Earnings

Pre-tax operating earnings decreased primarily due to the weakening of the Latin American currencies against the U.S. dollar, unfavorable market changes on our required regulatory investment in the pension funds of our Chilean pension company and the intangible asset impairments in our mutual fund company in Brazil in third quarter 2015. These were partially offset by higher earnings in our equity method investments in Brazil and China.

##### Operating Revenues

Premiums increased primarily due to higher sales of single premium annuities with life contingencies in Chile partially offset by the weakening of the Chilean peso against the U.S. dollar.

Fees and other revenues decreased primarily due to the weakening of the Latin American currencies against the U.S. dollar. This decrease was partially offset by higher fees from higher average AUM in Hong Kong following the AXA acquisition in September 2015 and in Chile.

Net investment income decreased primarily due to the weakening of the Latin American currencies against the U.S. dollar, lower inflation-based investment returns on average invested assets and cash as a result of lower inflation in Chile and unfavorable market changes on our required regulatory investment in the pension funds of our Chilean pension company. These were partially offset by higher earnings in our equity method investments in Brazil and China and higher investment income in Hong Kong following the AXA acquisition in September 2015.

##### Total Expenses

Benefits, claims and settlement expenses decreased in Chile primarily due to the weakening of the Chilean peso against the U.S. dollar and a decrease in the change in reserves due to lower inflation-based interest crediting rates to customers. These decreases were partially offset by higher sales of single premium annuities with life contingencies.

Operating expenses increased primarily due to the intangible asset impairments in our mutual fund company in Brazil in third quarter 2015.

#### Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

##### Pre-Tax Operating Earnings

Pre-tax operating earnings increased primarily due to the acquisition and growth of our Chilean pension company and favorable market changes on our required regulatory investment in the pension funds of our Chilean pension company. These increases were partially offset by the weakening of the Chilean peso against the U.S. dollar.

## Operating Revenues

Premiums decreased in Chile primarily due to the weakening of the Chilean peso against the U.S. dollar and lower sales of single premium annuities with life contingencies.

Fees and other revenues increased primarily due to the acquisition and growth of our pension company in Chile partially offset by the weakening of the Chilean peso against the U.S. dollar.

Net investment income increased primarily due to the higher inflation-based investment returns on average invested assets and cash as a result of higher inflation in Chile and favorable market changes on our required regulatory investment in the pension funds of our Chilean pension company partially offset by the weakening of the Chilean peso against the U.S. dollar.

## Total Expenses

Benefits, claims and settlement expenses increased in Chile primarily due to higher inflation-based interest crediting rates to customers partially offset by lower sales of single premium annuities with life contingencies and the weakening of the Chilean peso against the U.S. dollar.

Operating expenses increased primarily due to the acquisition and growth of our Chilean pension company and higher Principal International infrastructure costs partially offset by the weakening of the Chilean peso against the U.S. dollar.

## U.S. Insurance Solutions Segment

Several key drivers impact earnings growth in the U.S. Insurance Solutions segment. The ability of our distribution channels to generate new sales and retain existing business drives growth in our premium and fees. Our earnings growth also depends on our ability to price our products at a level that enables us to earn a margin over the cost of providing benefits and the expense of acquiring and administering those products. Factors impacting pricing decisions include competitive conditions, economic trends, persistency, our ability to assess and manage trends in mortality and morbidity and our ability to manage operating expenses.

### U.S. Insurance Solutions Insurance Trends

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 and variable universal life insurance products.

Premium and fees are influenced by economic, industry and regulatory trends. In our specialty benefits insurance business, premium and fees growth is a result of strong sales and retention, as well as continued in-group growth. In our individual life insurance business, we have intentionally decreased sales of certain interest sensitive products in favor of more traditional products due to the low interest rate environment.

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

	For the year ended December 31,			Increase (decrease)	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
	<i>(in millions)</i>				
Premium and fees:					
Specialty benefits insurance	\$ 1,732.6	\$ 1,591.4	\$ 1,492.7	\$ 141.2	\$ 98.7
Individual life insurance	966.1	935.7	907.1	30.4	28.6

**U.S. Insurance Solutions Segment Summary Financial Data**

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

	For the year ended December 31,			Increase (decrease)	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
	(in millions)				
Operating revenues:					
Premiums and other considerations	\$ 2,045.9	\$ 1,913.8	\$ 1,816.5	\$ 132.1	\$ 97.3
Fees and other revenues (1)	652.6	613.1	583.1	39.5	30.0
Net investment income	742.1	735.7	706.8	6.4	28.9
Total operating revenues	3,440.6	3,262.6	3,106.4	178.0	156.2
Expenses:					
Benefits, claims and settlement expenses (1)	1,964.1	1,842.9	1,836.2	121.2	6.7
Dividends to policyholders	163.2	176.2	187.5	(13.0)	(11.3)
Operating expenses (1)	883.8	899.4	792.1	(15.6)	107.3
Total expenses	3,011.1	2,918.5	2,815.8	92.6	102.7
Pre-tax operating earnings (1)	\$ 429.5	\$ 344.1	\$ 290.6	\$ 85.4	\$ 53.5

(1) For further details related to the impact associated with actuarial assumption updates and model refinements on results for 2015 and 2014, see "Transactions Affecting Comparability of Results of Operations — Actuarial Assumption Updates."

**Year Ended December 31, 2015 Compared to Year Ended December 31, 2014**
**Pre-Tax Operating Earnings**

Pre-tax operating earnings increased \$44.2 million in our individual life insurance business primarily due to improved mortality and a more favorable impact from unlocking associated with assumption updates and model refinements in 2015 than in 2014. Pre-tax operating earnings increased \$41.2 million in our specialty benefits insurance business primarily due to more favorable claim experience, growth, a favorable impact from assumption updates and model refinements and the recovery of reinsurance premiums. These increases were partially offset by higher sales related expenses and staff related costs, including pension and OPEB.

**Operating Revenues**

Premium and fees increased \$141.2 million in our specialty benefits insurance business primarily due to growth in the business and the recovery of reinsurance premiums, partially offset by an unfavorable impact from assumption updates and model refinements.

**Total Expenses**

Benefits, claims and settlement expenses increased \$81.7 million in our individual life insurance business primarily due to a less favorable impact from unlocking associated with assumption updates and model refinements in 2015 than in 2014, which was partially offset by improved mortality. Benefits, claims and settlement expenses increased \$39.5 million in our specialty benefits insurance business primarily due to growth in the business, which was partially offset by more favorable claim experience and a favorable impact from assumption updates and model refinements.

Operating expenses decreased \$75.9 million in our individual life insurance business primarily due to a more favorable impact from unlocking associated with assumption updates and model refinements in 2015 than in 2014, which was partially offset by higher expenses related to growth in the business. Operating expenses increased \$60.3 million in our specialty benefits insurance business primarily due to growth in the business, higher staff related costs, including pension and OPEB and reimbursement of a reinsurance expense allowance.

**Year Ended December 31, 2014 Compared to Year Ended December 31, 2013**
**Pre-Tax Operating Earnings**

Pre-tax operating earnings increased \$36.1 million in our individual life insurance business primarily due to favorable unlocking associated with actuarial model and assumption updates in 2014 and higher prepayment fees, partially offset by higher mortality. Pre-tax operating earnings increased \$17.4 million in our specialty benefits insurance business primarily due to growth in the business and lower frequency and severity of dental claims.

**Operating Revenues**

Premiums and fees increased \$98.7 million in our specialty benefits insurance business primarily due to growth as a result of strong sales and retention, as well as improving employment and salary trends. Premiums and fees increased \$28.6 million in our individual life insurance business primarily due to strong sales and retention.

Net investment income increased due to an increase in average invested assets and higher prepayment fees.

**Total Expenses**

Benefits, claims and settlement expenses increased \$61.4 million in our specialty benefits insurance business primarily due to growth in the business partially offset by lower frequency and severity of dental claims. Benefits, claims and settlement expenses decreased \$54.7 million in our individual life insurance business primarily due to favorable unlocking associated with actuarial model and assumption updates in 2014, partially offset by higher mortality and growth in the business.

Operating expenses increased \$82.6 million in our individual life insurance business primarily due to DAC unlocking associated with actuarial model and assumption updates in 2014. Operating expenses increased \$24.7 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 years indicated:

	For the year ended December 31,			Increase (decrease)	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
	<i>(in millions)</i>				
Operating revenues:					
Total operating revenues	\$ (50.5)	\$ (40.3)	\$ (51.2)	\$ (10.2)	\$ 10.9
Expenses:					
Total expenses	134.7	117.2	140.8	17.5	(23.6)
Pre-tax operating earnings attributable to noncontrolling interest	7.1	17.5	1.1	(10.4)	16.4
Pre-tax operating losses	\$ (192.3)	\$ (175.0)	\$ (193.1)	\$ (17.3)	\$ 18.1

**Year Ended December 31, 2015 Compared to Year Ended December 31, 2014**

**Pre-Tax Operating Losses**

Pre-tax operating losses increased primarily due to higher interest expense associated with the debt issuances that occurred in the second quarter of 2015.

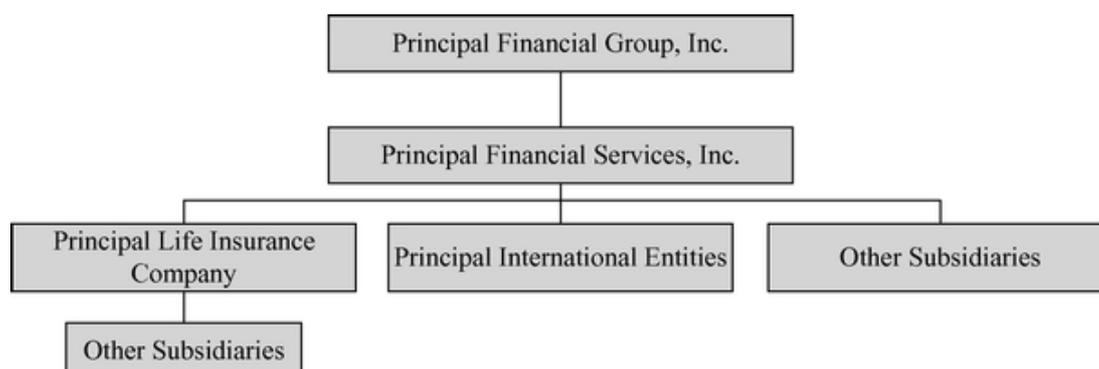
**Year Ended December 31, 2014 Compared to Year Ended December 31, 2013**

**Pre-Tax Operating Losses**

Pre-tax operating losses decreased primarily due to lower interest expense on corporate debt and litigation settlement expenses in 2013.

**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 that 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, is believed 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 against the company at inopportune times. For example, as of December 31, 2015, approximately \$8.4 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 December 31, 2015.

	<u>Contractholder funds</u>	<u>Percentage</u>
	<i>(in millions)</i>	
Not subject to discretionary withdrawal	\$ 9,360.7	33.2%
Subject to discretionary withdrawal with adjustments:		
Specified surrender charges	6,303.5	22.3
Market value adjustments	5,530.7	19.6
Subject to discretionary withdrawal without adjustments	7,035.3	24.9
Total domestic investment contracts	<u>\$ 28,230.2</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.

As of both December 31, 2015 and 2014, we had short-term credit facilities with various financial institutions in an aggregate amount of \$1,005.0 million. As of December 31, 2015 and December 31, 2014, we had \$181.1 million and \$28.0 million, respectively, of outstanding borrowings, with no assets pledged as support as of December 31, 2015. During the first quarter of 2015, we extended or renewed \$900.0 million of our revolving credit facilities. The facilities and their new maturity dates include a \$400.0 million 5-year facility with PFG, PFS and Principal Life as co-borrowers that matures March 2020; a \$300.0 million 364-day facility with Principal Life as borrower that matures March 2016; and a \$200.0 million 3-year credit facility with PFG, PFS, Principal Life and Principal Financial Services V (UK) LTD as co-borrowers, maturing March 2020. The revolving credit facilities are committed and provide 100% back-stop support for our commercial paper program. The \$300.0 million and the \$400.0 million facilities are supported by sixteen banks and the \$200.0 million facility is supported by fifteen banks, most of which have other relationships with us. In addition to the revolving credit facilities, Principal International Chile has the capacity to access up to \$60.0 million in unsecured lines of credit offered by Chilean financial institutions and Principal Life has a \$45.0 million unsecured line of credit. Due to the financial strength and the strong relationships we have with these providers, we are comfortable there is a 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, to meet its obligations, including the payments of dividends on common stock, debt service and the repurchase of stock, are dividends from subsidiaries as well as its ability to borrow funds at competitive rates and raise capital to meet operating and growth needs. The declaration and payment of common stock dividends by us 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 Insurance Commissioner of the State of Iowa ("the Commissioner") to pay stockholder dividends or make any other distribution if such distributions would exceed certain statutory limitations. Iowa law gives the Commissioner discretion to disapprove requests for distributions in excess of these limits. Extraordinary dividends

include those made within the preceding twelve months that exceed the greater of (i) 10% of Principal Life's statutory policyholder surplus as of the previous year-end or (ii) the statutory net gain from operations from the previous calendar year. Based on December 31, 2015 statutory results, the dividend limitation for Principal Life is approximately \$937.0 million in 2016.

In 2015, total stockholder dividends paid by Principal Life to its parent were \$504.4 million, all of which were extraordinary and approved by the Commissioner. As of December 31, 2015, we had \$930.0 million of cash and liquid assets held in our holding companies and other subsidiaries, which is available for corporate purposes. Corporate balances held in foreign holding companies meet the indefinite reinvestment exception (see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 10, Income Taxes") such that deferred income taxes are not provided as the accumulated earnings would be used offshore and not otherwise repatriated to the U.S.

In 2014, total stockholder dividends paid by Principal Life to its parent were \$850.0 million, of which \$400.0 million was extraordinary and was approved by the Commissioner.

In 2013, Principal Life distributed paid-in and contributed surplus in the amount of \$150.0 million to its parent, which was extraordinary and was approved by the Commissioner. In addition, total stockholder dividends paid by Principal Life to its parent were \$80.0 million, which were extraordinary and were approved by the Commissioner.

**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, strategies and a discussion of duration matching, see "Investments" as well as Item 7A. "Quantitative and Qualitative Disclosures About Market Risk — Interest Rate Risk."

**Cash Flows.** 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 \$4,377.1 million, \$3,102.9 million and \$2,221.2 for the years ended December 31, 2015, 2014 and 2013, 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 2015 compared to 2014 was primarily due to growth in the business including higher sales of single premium group annuities and individual annuities with life contingencies. The increase in cash provided by operating activities in 2014 compared to 2013 was primarily due to growth in the business, fluctuations in receivables and payables associated with the timing of settlements as well as sales of certain real estate.

Net cash used in investing activities was \$3,167.6 million, \$1,172.7 million and \$1,226.3 million for the years ended December 31, 2015, 2014 and 2013, respectively. Cash used in investing activities in 2015 compared to 2014 increased due to higher net purchases of fixed maturity securities and the acquisition of AXA's MPF and ORSO pension business in Hong Kong in 2015. Cash used in investing activities in 2014 compared to 2013 was relatively flat as increased net purchases of investments in 2014 primarily offset the first quarter 2013 acquisition of Cuprum.

Net cash used in financing activities was \$508.6 million, \$2,438.1 million and \$2,800.3 million for the years ended December 31, 2015, 2014 and 2013, respectively. The decrease in cash used in financing activities in 2015 compared to 2014 was the result of the issuance of long-term debt in 2015 and decreased net withdrawals of investment contracts. The proceeds of the debt issuance were primarily used for the redemption of preferred stock in 2015. The decrease in cash used in financing activities in 2014 compared to 2013 was primarily due to fewer net withdrawals of investment contracts. Cash used in financing activities increased in 2014 compared to 2013 for cash used to acquire noncontrolling interests in Columbus Circle Investors and Cuprum, treasury stock acquired and dividends to common stockholders.

**Shelf Registration.** On May 7, 2014, our shelf registration statement was filed with the SEC and became effective. The shelf registration replaces the shelf registration that had been in effect since May 2011. 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, depository shares, stock purchase contracts and stock purchase units of PFG, trust preferred securities of three subsidiary trusts and guarantees by PFG of these trust preferred securities. 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. For information on senior notes issued from our shelf registration, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 9, Debt."

**Short-Term Debt.** For short-term debt information, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 9, Debt."

**Long-Term Debt.** On May 7, 2015, we issued \$400.0 million of senior notes and \$400.0 million of junior subordinated notes, which are subordinated to all our senior debt. For additional long-term debt information regarding these debt issuances and all outstanding long-term debt, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 9, Debt."

**Stockholders' Equity.** On June 30, 2015, we redeemed our 3.0 million shares of series A preferred stock for \$300.0 million and our 10.0 million shares of series B preferred stock for \$250.0 million. Proceeds from the issuance of our common stock were \$76.1 million, \$77.5 million and \$125.8 million in 2015, 2014 and 2013, respectively.

The following table summarizes our return of capital to common stockholders.

	For the year ended		
	December 31,		
	2015	2014	2013
	<i>(in millions)</i>		
Dividends to stockholders	\$ 441.0	\$ 376.6	\$ 288.4
Repurchase of common stock	300.6	222.7	153.6
Total cash returned to stockholders	\$ 741.6	\$ 599.3	\$ 442.0
Number of shares repurchased	6.0	4.7	4.4

For additional stockholders' equity information, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 13, Stockholders' Equity."

### Capitalization

The following table summarizes our capital structure:

	December 31, 2015	December 31, 2014
	<i>(\$ in millions)</i>	
Debt:		
Short-term debt	\$ 181.1	\$ 28.0
Long-term debt	3,290.8	2,531.2
Total debt	3,471.9	2,559.2
Equity excluding AOCI	10,194.1	10,133.6
Total capitalization excluding AOCI	\$ 13,666.0	\$ 12,692.8
Debt to equity excluding AOCI	34%	25%
Debt to capitalization excluding AOCI	25%	20%

### Contractual Obligations

The following table presents payments due by period for long-term contractual obligations as of December 31, 2015.

Contractual obligations (1)	Total payments	Payments due in year ending			
		2016	2017 - 2018	2019 - 2020	2021 and thereafter
		<i>(in millions)</i>			
Contractholder funds (2)	\$ 79,204.0	\$ 5,675.5	\$ 11,099.8	\$ 8,466.7	\$ 53,962.0
Future policy benefits and claims (3)	41,736.9	2,471.8	4,566.5	4,279.8	30,418.8
Long-term debt (4)	3,290.8	42.8	299.9	350.0	2,598.1
Certificates of deposit (5)	613.9	291.8	222.1	100.0	—
Other long-term liabilities (6)	2,035.0	1,553.2	167.5	159.7	154.6
Capital leases (7)	9.9	5.8	3.7	—	0.4
Long-term debt interest (4)	2,682.4	160.8	318.2	246.2	1,957.2
Operating leases (8)	164.0	40.3	58.1	27.8	37.8
Purchase obligations (9)	681.6	667.0	14.6	—	—
Total contractual obligations	\$ 130,418.5	\$ 10,909.0	\$ 16,750.4	\$ 13,630.2	\$ 89,128.9

- (1) Contractual obligations exclude short-term liabilities, other policyholder funds, taxes and short-term debt as these are not long-term and/or not contractual in nature. Contractual obligations also exclude obligations under our pension and OPEB plans as we do not anticipate contributions will be needed to satisfy the minimum funding requirements of ERISA for our qualified pension plan. In addition, separate account liabilities are excluded. Separate account liabilities represent the fair market value of funds that are separately administered by us. Generally, the separate account contract owner, rather than us, bears the investment risk of these funds. The separate account liabilities are legally segregated and are not subject to claims that arise out of any other business of ours. Net deposits, net

investment income and realized and unrealized capital gains and losses on the separate accounts are not reflected in the consolidated statements of operations. The separate account obligations will be fully funded by cash flows from the separate account assets.

- (2) Contractholder funds include GICs, funding agreements, individual fixed annuities, universal life insurance and other investment contracts. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 8, Insurance Liabilities" for additional information.  
  
Amounts included in the contractholder funds line item reflect estimated cash payments to be made to policyholders. The sum of the cash outflows shown for all years in the table exceeds the corresponding liability amount included in our consolidated statements of financial position as of December 31, 2015. The liability amount in our consolidated statements of financial position reflects either the account value (in the case of individual fixed annuities, universal life insurance and GICs) or the par value plus accrued interest and other adjustments (in the case of funding agreements and other investment contracts).
- (3) Amounts included in the future policy benefits and claims line item reflect estimated cash payments to be made to policyholders. The sum of the cash outflows shown for all years in the table exceeds the corresponding liability amount included in our consolidated statements of financial position as of December 31, 2015. The liability amount in our consolidated statements of financial position reflects estimated cash payments to policyholders, reductions for expected future premiums, assumptions with regard to the timing of cash payments and discounting for interest.
- (4) For long-term debt information, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 9, Debt."
- (5) Amounts included in the certificates of deposit line item reflect estimated cash payments to be made, including expected interest payments. Certificates of deposit are reported with other liabilities on our consolidated statements of financial position.
- (6) Amounts included in the other long-term liabilities line item are contractual, non-cancelable and long-term in nature. The total payments primarily relate to savings deposits as well as premium associated with purchased option contracts where payments are made over the life of the contract. This line item excludes accruals, short-term items and items not contractual in nature.
- (7) Amounts included in the capital leases line item represent future minimum lease payments due under capital leases for buildings and hardware storage equipment. For capital lease information, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 12, Contingencies, Guarantees and Indemnifications" under the caption, "Capital Leases."
- (8) Amounts included in the operating leases line item represent payments due under various operating leases for office space, data processing equipment and office furniture and equipment. For operating lease information, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 12, Contingencies, Guarantees and Indemnifications" under the caption, "Operating Leases."
- (9) Purchase obligations include material contracts where we have a non-cancelable commitment to purchase goods and services in addition to commitments to originate loans and purchase investments.

### ***Pension and OPEB Plan Funding***

We have defined benefit pension plans covering substantially all of our U.S. employees and certain agents. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 11, Employee and Agent Benefits" for a complete discussion of these plans and their effect on the consolidated financial statements.

We report the net funded status of our pension and OPEB plans in the consolidated statements of financial position. The net funded status represents the difference between the fair value of plan assets and the projected benefit obligation for pension and OPEB plans. The measurement of the net funded status can vary based upon the fluctuations in the fair value of the plan assets and the actuarial assumptions used for the plans as discussed below. The net underfunded status of the pension and OPEB obligation was \$424.6 million pre-tax and \$371.7 million pre-tax as of December 31, 2015 and 2014, respectively. Nonqualified pension plan assets are not included as part of the funding status mentioned above. The nonqualified pension plan assets are held in Rabbi trusts for the benefit of all nonqualified plan participants. The assets held in a Rabbi trust are available to satisfy the claims of general creditors only in the event of bankruptcy. Therefore, these assets are fully consolidated in our consolidated statements of financial position and are not reflected in our funded status as they do not qualify as plan assets under U.S. GAAP. The market value of assets held in these trusts was \$330.8 million and \$329.6 million as of December 31, 2015 and 2014, respectively.

Our funding policy for the qualified pension plan is to fund the plan annually in an amount at least equal to the minimum annual contributions required under ERISA and, generally, not greater than the maximum amount that can be deducted for federal income tax purposes. We do not anticipate contributions will be needed to satisfy the minimum funding requirements of ERISA for our qualified pension plan. At this time, it is too early to estimate the amount that may be contributed, but it is possible that we may fund the plans in 2016 up to \$125 million. This includes funding for both our qualified and nonqualified pension plans. We may contribute to our OPEB plans in 2016 pending further analysis.

### ***Contractual Commitments***

In connection with our banking business, we have made commitments to extend credit under home equity lines of credit, which are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. A majority of these lines of credit are expected to expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash funding requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The total commitments to fund home equity loans were \$5.1 million as of December 31, 2015.

We have made commitments to provide liquidity for certain benefit plans transitioning to us from another provider. As funds from the plans become available, they will be used to pay down outstanding balances. As of December 31, 2015, the amount of unfunded commitments was \$16.4 million.

We have made commitments to fund certain limited partnerships in which we are a limited partner. As of December 31, 2015, the amount of unfunded commitments was \$461.6 million. We are only required to fund additional equity under these commitments when called upon to do so by the general partner; therefore, these commitments are not liabilities on our consolidated statements of financial position.

### ***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 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 3, Variable Interest Entities." We have made commitments to fund certain limited partnerships, as previously discussed in "Contractual Commitments", some of which are classified as unconsolidated variable interest entities.

***Guarantees and Indemnifications.*** As of December 31, 2015, there have been no significant changes to guarantees and indemnifications since December 31, 2014. For guarantee and indemnification information, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 12, Contingencies, Guarantees and Indemnifications" 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, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), risk exposures, operating leverage, ratings and other factors.

In January 2016, A.M. Best affirmed the credit ratings and financial strength ratings of Principal Life and Principal National Life Insurance Company at 'A+'. The outlook remains 'stable' for all ratings. The affirmation reflects our strong business profile, consistently good sales and operating results and good financial flexibility.

In November 2015, Fitch affirmed PFG's credit ratings and the financial strength ratings of Principal Life and Principal National Life Insurance Company at 'AA-'. The outlook remains 'stable' for all ratings. The affirmation reflects PFG's strong capitalization and stable, balanced operating profitability, partially offset by above average exposure to direct mortgages and structured mortgage securities.

In April 2015, Standard & Poor's ("S&P") affirmed PFG's credit ratings and the financial strength ratings of Principal Life and Principal National Life Insurance Company at 'A+'. 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 are a leading competitor in the U.S. small to midsize 401K market, with strong asset management and insurance solution capabilities that are supported by a respected brand, a diversified and sophisticated product portfolio, strong distribution relationships and increasing global reach. Further, S&P cites our favorable earnings, well diversified investment portfolio and strong financial flexibility, with proven access to capital markets and credit facilities.

All four of the rating agencies maintain a 'stable' outlook on the U.S. life insurance sector. The rating agencies acknowledge that interest rates have remained at historically low levels for a longer than expected time. However, the agencies have also cited that the U.S. life insurance industry has maintained strong risk-adjusted capital, generated steady U.S. GAAP and statutory earnings, improved balance sheet fundamentals and enhanced risk focused decision making. Continued low rates will pressure interest margins and reserve adequacy, but the agencies believe that will not have a material impact and is manageable over the near term.

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.

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

### Impacts of Income Taxes

For income tax information, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 10, Income Taxes."

### 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 quoted prices in active markets for identical assets or liabilities and gives the lowest priority (Level 3) to unobservable inputs. An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 14, Fair Value Measurements" for further details, including a reconciliation of changes in Level 3 fair value measurements.

As of December 31, 2015, 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, 2015, 4% of our net assets (liabilities) were Level 1, 95% were Level 2 and 1% were Level 3.

As of December 31, 2014, 39% of our net assets (liabilities) were Level 1, 58% were Level 2 and 3% were Level 3. Excluding separate account assets as of December 31, 2014, 2% of our net assets (liabilities) were Level 1, 97% were Level 2 and 1% 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 December 31, 2015, were \$7,318.6 million as compared to \$6,350.1 million as of December 31, 2014. The increase was primarily related to gains on other invested assets and real estate included in our separate account assets.

Net assets (liabilities) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2014, were \$6,350.1 million as compared to \$5,885.5 million as of December 31, 2013. The increase was primarily related to gains on other invested assets and real estate included in our separate account assets. The increase was partially offset by losses on bifurcated embedded derivatives in investment contracts.

### Investments

We had total consolidated assets as of December 31, 2015, of \$218,685.9 million, of which \$69,820.5 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. Because we generally do not bear any investment risk on assets held in separate accounts, the discussion and financial information below does not include such assets.

### Overall Composition of Invested Assets

Invested assets as of December 31, 2015, 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, residential mortgage loans, real estate and equity securities. In addition, policy loans are included in our invested assets.

	December 31, 2015		December 31, 2014	
	Carrying amount	% of total	Carrying amount	% of total
	(\$ in millions)			
Fixed maturities:				
Public	\$ 35,308.9	50%	\$ 34,863.2	51%
Private	15,344.4	22	15,412.2	23
Equity securities	1,307.2	2	963.2	1
Mortgage loans:				
Commercial	11,237.8	16	10,696.9	15
Residential	1,101.6	2	1,114.7	2
Real estate held for sale	169.7	—	174.0	—
Real estate held for investment	1,282.1	2	1,170.6	2
Policy loans	817.1	1	829.2	1
Other investments	3,251.7	5	3,209.8	5
Total invested assets	69,820.5	100%	68,433.8	100%
Cash and cash equivalents	2,564.8		1,863.9	
Total invested assets and cash	\$ 72,385.3		\$ 70,297.7	

## 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 years 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 and available-for-sale equity securities are calculated using amortized cost and cost, respectively. All other yields are calculated using carrying amounts.

	For the year ended December 31,						Increase (decrease)			
	2015		2014		2013		2015 vs. 2014		2014 vs. 2013	
	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
	(\$ in millions)									
Fixed maturities	4.5%	\$ 2,153.2	4.9%	\$ 2,311.7	4.9%	\$ 2,343.8	(0.4)%	\$ (158.5)	—%	\$ (32.1)
Equity securities	4.4	50.2	7.6	68.4	4.5	27.4	(3.2)	(18.2)	3.1	41.0
Mortgage loans — commercial	4.6	505.8	5.2	541.4	5.3	541.2	(0.6)	(35.6)	(0.1)	0.2
Mortgage loans — residential	6.3	69.3	7.6	89.5	5.5	70.3	(1.3)	(20.2)	2.1	19.2
Real estate	6.9	97.1	7.9	103.8	5.0	61.2	(1.0)	(6.7)	2.9	42.6
Policy loans	5.6	46.3	5.8	49.4	5.8	49.9	(0.2)	(3.1)	—	(0.5)
Cash and cash equivalents	0.4	8.5	0.3	6.5	0.4	14.0	0.1	2.0	(0.1)	(7.5)
Other investments	6.1	198.7	5.3	164.1	3.4	106.8	0.8	34.6	1.9	57.3
Total before investment expenses	4.5	3,129.1	4.9	3,334.8	4.7	3,214.6	(0.4)	(205.7)	0.2	120.2
Investment expenses	(0.1)	(77.0)	(0.1)	(76.9)	(0.1)	(76.2)	—	(0.1)	—	(0.7)
Net investment income	4.4%	\$ 3,052.1	4.8%	\$ 3,257.9	4.6%	\$ 3,138.4	(0.4)%	\$ (205.8)	0.2%	\$ 119.5

### Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Net investment income decreased primarily due to lower investment yields and prepayments on invested assets and cash in our U.S. Operations. In addition, net investment income decreased due to the weakening of the Latin American currencies against the U.S. dollar, lower inflation-based investment returns on average invested assets and cash as a result of lower inflation in Chile and unfavorable market changes on our required regulatory investment in the pension funds of our Chilean pension company.

### Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Net investment income increased due to higher inflation-based investment returns on average invested assets and cash as a result of higher inflation in Chile and favorable market changes on our required regulatory investment in the pension funds of our Chilean pension company. These increases were partially offset by the weakening of the Chilean peso against the U.S. dollar and lower yields on average invested assets and cash in our U.S. operations.

## Net Realized Capital Gains (Losses)

The following table presents the contributors to net realized capital gains and losses for our invested assets for the years indicated.

	For the year ended			Increase (decrease)	
	December 31,			2015 vs. 2014	2014 vs. 2013
	2015	2014	2013		
	(in millions)				
Fixed maturities, available-for-sale — credit impairments (1)	\$ (30.2)	\$ (87.1)	\$ (113.8)	\$ 56.9	\$ 26.7
Commercial mortgages — credit impairments	(3.4)	1.3	(3.7)	(4.7)	5.0
Other — credit impairments	3.6	(0.6)	(12.4)	4.2	11.8
Fixed maturities, available-for-sale and trading — noncredit	1.6	67.5	5.6	(65.9)	61.9
Derivatives and related hedge activities (2)	(22.6)	(11.2)	(124.4)	(11.4)	113.2
Other gains (losses)	(0.1)	44.8	23.5	(44.9)	21.3
Net realized capital gains (losses)	\$ (51.1)	\$ 14.7	\$ (225.2)	\$ (65.8)	\$ 239.9

(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. Credit gains on sales, excluding associated foreign currency fluctuations that are included in derivatives and related hedging activities, were a net gain of \$0.3 million, \$0.9 million and \$1.9 million for the years ended December 31, 2015, 2014 and 2013, respectively.

(2) Includes fixed maturities, available-for-sale impairment-related net gains of \$0.0 million, \$0.0 million and \$0.2 million for the years ended December 31, 2015, 2014 and 2013, respectively, which were hedged by derivatives reflected in this line.

### Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Net realized capital losses on fixed maturities, available-for-sale — credit impairments decreased primarily due to decreased losses on structured fixed maturities as a result of improved market conditions. This was partially offset by losses versus gains on corporate fixed maturities.

Net realized capital gains on fixed maturities, available-for-sale and trading — noncredit decreased primarily due to losses versus gains on trading securities related to changes in interest rates and credit spreads and a gain from the sale of a long dated structured security in 2014.

Net realized capital losses on derivatives and related hedge activities increased primarily due to losses versus gains on the GMWB embedded derivatives, including changes in the spread reflecting our own creditworthiness, and related hedging instruments. This was partially offset by decreased losses on credit related derivatives.

Other gains (losses) reflected losses in 2015 as compared to gains in 2014 primarily due to decreased gains on sales of real estate investments and joint venture real estate and a write-off of unamortized book value on corporate owned real estate in 2015. This was partially offset by an impairment of Liongate, an equity method investment, in 2014.

### Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Net realized capital losses on fixed maturities, available-for-sale — credit impairments decreased primarily due to net gains versus losses on corporate fixed maturities as a result of recoveries.

Net realized capital gains on fixed maturities, available-for-sale and trading — noncredit increased primarily due to sales of long dated structured securities and gains on trading securities related to changes in interest rates, credit spreads and exchange rates.

Net realized capital losses on derivatives and related hedge activities decreased due to gains versus losses on the GMWB embedded derivatives, including changes in the spread reflecting our own creditworthiness, and related hedging instruments and on interest rate swap derivatives not designated as hedging instruments due to changes in interest rates. This was partially offset by increased losses on currency forwards and currency swaps due to changes in exchange rates.

Other net realized capital gains increased due to higher gains on sales of real estate investments and joint venture real estate and foreign currency translation losses on cash held for the Cuprum acquisition that was completed in first quarter 2013. This was partially offset by an impairment of Liongate, an equity method investment, in fourth quarter 2014.

## U.S. Investment Operations

Of our invested assets, \$63,316.9 million were held by our U.S. operations as of December 31, 2015. Our U.S. invested assets are managed primarily by our Principal Global Investors segment. Our primary investment objective is to maximize after-tax returns consistent with acceptable risk parameters. We seek to protect policyholders' benefits by optimizing the risk/return relationship on an ongoing basis, through asset/liability matching, reducing the 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. Our Investment Committee, appointed by our Board of Directors, is responsible for establishing all investment policies and approving or authorizing all investments, except the Executive Committee of the Board must approve any investment transaction exceeding \$500.0 million. As of December 31, 2015, eleven members served on the Investment Committee, one of whom is a member of our Board of Directors. The remaining members were senior management members representing various areas of our company.

We purchase credit default swaps to hedge certain credit exposures in our investment portfolio and total return swaps and futures to hedge a portion of our investment portfolio from credit losses. We economically hedged credit exposure in our portfolio by purchasing credit default swaps with a notional amount of \$213.2 million and \$288.7 million, total return swaps of \$90.0 million and \$90.0 million, and futures of \$13.1 million and \$10.5 million as of December 31, 2015 and December 31, 2014, respectively. 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 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 5, Derivative Financial Instruments" under the caption, "Credit Derivatives Sold."

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 \$1,554.9 million and 3.9%, respectively, as of December 31, 2015 and \$1,119.1 million and 4.3%, respectively, as of December 31, 2014. In addition, the amortized cost and weighted average yield of residential mortgage-backed pass-through securities, residential collateralized mortgage obligations, and asset-backed securities — home equity with material prepayment risk were \$4,391.9 million and 3.3%, respectively, as of December 31, 2015 and \$4,319.0 million and 3.3%, respectively, as of December 31, 2014.

Our Fixed Income Securities Committee, consisting of fixed income securities senior management members, approves the credit rating for the fixed maturities we purchase. Teams of security analysts, organized by industry, analyze and monitor these investments. In addition, we have teams who specialize in RMBS, CMBS, ABS, municipals and below investment grade securities. Our analysts monitor issuers held in the portfolio 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.

Our Fixed Income Securities Committee also reviews private transactions on a continuous basis to assess the quality ratings of our privately placed investments. We regularly review our investments to determine whether we should re-rate them, employing the following criteria:

- material changes in the issuer's revenues or margins;
- 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.

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 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 4, 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 security, 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 mortgages, excluding Principal Global Investors segment mortgages:

	Weighted average loan-to-value ratio		Debt service coverage ratio	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
New mortgages	50%	51%	3.1X	2.6X
Entire mortgage portfolio	46%	48%	2.7X	2.6X

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 7A. "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.

	December 31, 2015		December 31, 2014	
	Carrying amount	% of total	Carrying amount	% of total
	(\$ in millions)			
Fixed maturities:				
Public	\$ 31,756.0	50%	\$ 31,618.0	51%
Private	15,342.8	24	15,410.1	25
Equity securities	306.2	1	300.5	—
Mortgage loans:				
Commercial	11,194.9	18	10,657.2	17
Residential	596.1	1	507.2	1
Real estate held for sale	166.8	—	171.8	—
Real estate held for investment	1,280.4	2	1,168.6	2
Policy loans	796.3	1	806.5	1
Other investments	1,877.4	3	1,688.0	3
Total invested assets	63,316.9	100%	62,327.9	100%
Cash and cash equivalents	2,292.9		1,762.5	
Total invested assets and cash	\$ 65,609.8		\$ 64,090.4	

**Fixed Maturities**

Fixed maturities include bonds, ABS, redeemable preferred stock and certain nonredeemable preferred securities. Included in the privately placed category as of December 31, 2015 and December 31, 2014, were \$10.4 billion and \$10.3 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 years indicated.

	December 31, 2015		December 31, 2014	
	Carrying amount	Percent of total	Carrying amount	Percent of total
	(\$ in millions)			
U.S. government and agencies	\$ 1,649.0	3%	\$ 1,121.8	2%
States and political subdivisions	4,784.1	10	4,329.4	9
Non-U.S. governments	423.9	1	446.6	1
Corporate — public	16,407.7	35	16,834.6	37
Corporate — private	12,049.1	26	12,262.9	26
Residential mortgage-backed pass-through securities	2,640.2	6	2,839.6	6
Commercial mortgage-backed securities	3,860.4	8	3,977.0	8
Residential collateralized mortgage obligations	1,556.4	3	1,306.2	3
Asset-backed securities	3,728.0	8	3,910.0	8
Total fixed maturities	\$ 47,098.8	100%	\$ 47,028.1	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.

CMBS provide varying levels of credit protection, diversification and reduced event risk depending on the securities owned and composition of the loan pool. 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 through 2015 vintages represent a return to debt service coverage ratios and loan-to-value ratios that more closely resemble loans originated prior to 2005.

We purchase ABS to diversify the overall credit risks of the fixed maturities portfolio and to provide attractive returns. The principal risks in holding ABS 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. Our ABS portfolio is diversified both by type of asset and by issuer. 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 that 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 22% of total fixed maturities as of December 31, 2015 and 25% as of December 31, 2014. 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 years indicated.

	December 31, 2015	December 31, 2014
	<i>(in millions)</i>	
European Union, excluding UK	\$ 3,247.1	\$ 3,717.9
United Kingdom	2,293.2	2,467.5
Asia-Pacific	1,469.1	1,564.8
Australia/New Zealand	1,162.0	1,285.6
Latin America	885.9	989.9
Europe, non-European Union	824.3	855.6
Middle East and Africa	304.3	365.3
Other (1)	266.5	276.7
<b>Total</b>	<b>\$ 10,452.4</b>	<b>\$ 11,523.3</b>

(1) Includes exposure from 2 countries and various supranational organizations as of December 31, 2015, and 1 country and various supranational organizations as of December 31, 2014.

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 December 31, 2015 and December 31, 2014, our investments in Canada totaled \$1,310.5 million and \$1,478.3 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 December 31, 2015.

	Amortized cost
	<i>(in millions)</i>
Berkshire Hathaway Inc.	\$ 187.9
AT&T Inc.	187.6
General Electric Company	175.6
People's Republic of China	173.6
Province of Quebec	172.2
Wells Fargo & Company	160.6
Verizon Communications Inc.	155.2
United Mexican States	138.7
Duke Energy Corporation	136.6
Mars, Incorporated	136.3
<b>Total top ten exposures</b>	<b>\$ 1,624.3</b>

**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 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 14, 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 or analysts that focus on troubled securities ("Workout Group"). This group then meets with the Chief Investment Officer and the Portfolio Managers to determine reasonableness of prices. The valuation of impaired bonds for which there is no quoted price is typically based on 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 NAIC monitors the bond investments of insurers for regulatory capital and reporting purposes and, when required, assigns securities to one of six investment categories. For certain bonds, the NAIC designations closely mirror the Nationally Recognized Statistical Rating Organizations' ("NRSRO") credit ratings. For most corporate bonds, NAIC designations 1 and 2 include bonds 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 are 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 rating is not always equivalent to an NRSRO rating as described below. For CMBS and non-agency RMBS, Blackrock Solutions undertakes the modeling of those NAIC ratings. Other loan-backed and structured securities may be 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 and the equivalent ratings of the NRSROs as of the years indicated as well as the percentage, based on fair value, that each designation comprises.

NAIC rating	Rating agency equivalent	December 31, 2015			December 31, 2014		
		Amortized cost	Carrying amount	Percent of carrying amount	Amortized cost	Carrying amount	Percent of carrying amount
(\$ in millions)							
1	AAA/AA/A	\$ 29,661.4	\$ 30,712.8	65%	\$ 28,364.4	\$ 30,140.6	64%
2	BBB	12,562.1	12,827.2	27	12,291.8	13,184.7	28
3	BB	2,932.2	2,829.1	7	2,902.0	2,879.3	6
4	B	606.4	547.3	1	659.1	637.3	2
5	CCC and lower	219.6	139.7	—	147.8	120.0	—
6	In or near default	46.5	42.7	—	74.7	66.2	—
Total fixed maturities		\$ 46,028.2	\$ 47,098.8	100%	\$ 44,439.8	\$ 47,028.1	100%

Fixed maturities include 19 securities with an amortized cost of \$208.9 million, gross gains of \$1.7 million, gross losses of \$2.8 million and a carrying amount of \$207.8 million as of December 31, 2015, that are still pending a review and assignment of a rating 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, there will always be securities in our portfolio that are unrated over a reporting period. In these instances, an equivalent rating is assigned based on our fixed income analyst's assessment.

**Commercial Mortgage-Backed Securities.** As of December 31, 2015, based on amortized cost, 92% of our CMBS portfolio had an NAIC rating of 1 and 52% 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 ratings, and year of issuance ("vintage") for our CMBS portfolio as of the years indicated.

NAIC rating	December 31, 2015							
	2004 & Prior		2005 to 2008		2009 & After		Total	
	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount
(in millions)								
1	\$ 170.8	\$ 181.6	\$ 1,561.8	\$ 1,581.3	\$ 1,848.9	\$ 1,828.3	\$ 3,581.5	\$ 3,591.2
2	0.9	0.9	66.1	66.7	1.2	1.2	68.2	68.8
3	—	—	90.6	88.7	—	—	90.6	88.7
4	4.4	4.2	45.8	38.7	—	—	50.2	42.9
5	3.9	2.2	63.6	53.8	—	—	67.5	56.0
6	3.0	3.3	11.6	9.5	—	—	14.6	12.8
Total (1)	\$ 183.0	\$ 192.2	\$ 1,839.5	\$ 1,838.7	\$ 1,850.1	\$ 1,829.5	\$ 3,872.6	\$ 3,860.4

(1) The CMBS portfolio included agency CMBS with a \$392.9 million amortized cost and a \$392.4 million carrying amount.

NAIC rating	December 31, 2014							
	2004 & Prior		2005 to 2008		2009 & After		Total	
	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount
(in millions)								
1	\$ 208.4	\$ 224.1	\$ 2,040.6	\$ 2,112.8	\$ 1,333.3	\$ 1,353.3	\$ 3,582.3	\$ 3,690.2
2	—	—	45.4	45.2	—	—	45.4	45.2
3	0.8	0.7	86.4	84.8	—	—	87.2	85.5
4	9.5	9.5	78.1	68.3	—	—	87.6	77.8
5	4.4	4.0	61.6	50.0	—	—	66.0	54.0
6	3.6	3.7	26.3	20.6	—	—	29.9	24.3
Total (1)	\$ 226.7	\$ 242.0	\$ 2,338.4	\$ 2,381.7	\$ 1,333.3	\$ 1,353.3	\$ 3,898.4	\$ 3,977.0

(1) The CMBS portfolio included agency CMBS with a \$415.5 million amortized cost and a \$420.4 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 years indicated.

	December 31, 2015	December 31, 2014
	(\$ in millions)	
Total fixed maturities (public and private)	\$ 47,098.8	\$ 47,028.1
Problem fixed maturities (1)	\$ 71.8	\$ 297.0
Potential problem fixed maturities	172.0	161.3
Total problem, potential problem and restructured fixed maturities	\$ 243.8	\$ 458.3
Total problem, potential problem and restructured fixed maturities as a percent of total fixed maturities	0.52%	0.97%

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

Each reporting period, a group of individuals including the Chief Investment Officer, our Portfolio Managers, members of our Workout Group 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 that a security is deemed to be other than temporarily impaired, an impairment loss is recognized. For additional details, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 4, 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 credit 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 \$30.3 million, \$83.7 million, and \$111.8 million for the years ended December 31, 2015, 2014, and 2013, 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 years indicated.

	December 31, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
	(in millions)			
Finance — Banking	\$ 3,726.1	\$ 103.9	\$ 121.1	\$ 3,708.9
Finance — Brokerage	275.0	13.9	1.7	287.2
Finance — Finance Companies	191.2	3.5	1.0	193.7
Finance — Financial Other	476.8	47.3	1.3	522.8
Finance — Insurance	2,211.9	191.2	16.2	2,386.9
Finance — REITS	826.0	26.6	6.7	845.9
Industrial — Basic Industry	1,305.7	31.3	87.2	1,249.8
Industrial — Capital Goods	1,782.1	101.8	13.8	1,870.1
Industrial — Communications	2,271.1	168.8	20.2	2,419.7
Industrial — Consumer Cyclical	1,454.7	52.8	8.5	1,499.0
Industrial — Consumer Non-Cyclical	3,210.3	137.6	15.4	3,332.5
Industrial — Energy	2,801.8	81.6	228.3	2,655.1
Industrial — Other	313.1	11.5	1.7	322.9
Industrial — Technology	1,239.8	28.4	5.7	1,262.5
Industrial — Transportation	1,111.3	39.0	21.1	1,129.2
Utility — Electric	2,806.6	162.6	23.8	2,945.4
Utility — Natural Gas	240.5	9.6	2.2	247.9
Utility — Other	235.9	14.6	0.3	250.2
Government guaranteed	1,121.7	92.8	20.1	1,194.4
Total corporate securities	27,601.6	1,318.8	596.3	28,324.1
Residential mortgage-backed pass-through securities	2,537.2	89.0	11.9	2,614.3
Commercial mortgage-backed securities	3,870.3	65.3	77.5	3,858.1
Residential collateralized mortgage obligations	1,496.9	18.3	11.0	1,504.2
Asset-backed securities — Home equity (1)	279.7	14.5	10.5	283.7
Asset-backed securities — All other	2,753.1	6.4	13.9	2,745.6
Collateralized debt obligations — Credit	52.2	—	19.4	32.8
Collateralized debt obligations — CMBS	3.3	0.1	—	3.4
Collateralized debt obligations — Loans	633.3	1.3	7.2	627.4
Total mortgage-backed and other asset-backed securities	11,626.0	194.9	151.4	11,669.5
U.S. government and agencies	1,434.7	23.3	8.2	1,449.8
States and political subdivisions	4,477.5	234.5	19.3	4,692.7
Non-U.S. governments	349.6	77.1	2.8	423.9
Total fixed maturities, available-for-sale	\$ 45,489.4	\$ 1,848.6	\$ 778.0	\$ 46,560.0

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

	December 31, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
	(in millions)			
Finance — Banking	\$ 3,734.8	\$ 148.0	\$ 92.4	\$ 3,790.4
Finance — Brokerage	282.3	22.0	—	304.3
Finance — Finance Companies	210.0	7.7	0.5	217.2
Finance — Financial Other	403.8	55.8	0.2	459.4
Finance — Insurance	2,218.5	277.1	2.0	2,493.6
Finance — REITS	816.8	47.1	2.3	861.6
Industrial — Basic Industry	1,527.2	82.7	12.4	1,597.5
Industrial — Capital Goods	1,543.1	144.4	2.5	1,685.0
Industrial — Communications	2,302.0	268.8	9.9	2,560.9
Industrial — Consumer Cyclical	1,332.2	78.4	3.1	1,407.5
Industrial — Consumer Non-Cyclical	3,045.4	213.9	3.6	3,255.7
Industrial — Energy	2,853.1	238.7	39.4	3,052.4
Industrial — Other	386.0	23.1	0.2	408.9
Industrial — Technology	1,061.9	40.8	2.0	1,100.7
Industrial — Transportation	924.8	66.8	2.2	989.4
Utility — Electric	2,627.2	266.1	5.3	2,888.0
Utility — Natural Gas	243.2	19.9	0.1	263.0
Utility — Other	253.0	19.6	—	272.6
Government guaranteed	1,226.0	130.3	10.3	1,346.0
Total corporate securities	26,991.3	2,151.2	188.4	28,954.1
Residential mortgage-backed pass-through securities	2,687.0	124.5	6.3	2,805.2
Commercial mortgage-backed securities	3,896.9	141.5	62.9	3,975.5
Residential collateralized mortgage obligations	1,229.5	25.6	5.0	1,250.1
Asset-backed securities — Home equity (1)	312.0	14.6	15.1	311.5
Asset-backed securities — All other	3,041.9	17.3	4.4	3,054.8
Collateralized debt obligations — Credit	52.4	—	18.0	34.4
Collateralized debt obligations — CMBS	3.2	0.1	—	3.3
Collateralized debt obligations — Loans	465.6	3.4	2.6	466.4
Total mortgage-backed and other asset-backed securities	11,688.5	327.0	114.3	11,901.2
U.S. government and agencies	1,085.6	39.1	2.9	1,121.8
States and political subdivisions	3,916.8	291.3	4.1	4,204.0
Non-U.S. governments	357.2	90.8	1.4	446.6
Total fixed maturities, available-for-sale	<u>\$ 44,039.4</u>	<u>\$ 2,899.4</u>	<u>\$ 311.1</u>	<u>\$ 46,627.7</u>

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

Of the \$778.0 million in gross unrealized losses as of December 31, 2015, \$2.1 million in losses were attributed to securities scheduled to mature in one year or less, \$122.0 million attributed to securities scheduled to mature between one to five years, \$193.6 million attributed to securities scheduled to mature between five to ten years, \$308.9 million attributed to securities scheduled to mature after ten years and \$151.4 million related to mortgage-backed and other ABS that are not classified by maturity year. As of December 31, 2015, we were in a \$1,070.6 million net unrealized gain position as compared to a \$2,588.3 million net unrealized gain position as of December 31, 2014. The \$1,517.7 million decrease in net unrealized gains for the year ended December 31, 2015, can primarily be attributed to an approximate 19 basis points increase in interest rates and widening of credit spreads.

**Fixed Maturities Available-for-Sale Unrealized Losses.** We believe that 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 cash flow invested in below investment grade assets to 10% of cash flow.

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 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 OCI, as of the years indicated.

	December 31, 2015				December 31, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
	<i>(in millions)</i>							
Investment grade:								
Public	\$ 28,703.7	\$ 1,285.3	\$ 327.9	\$ 29,661.1	\$ 27,534.4	\$ 2,049.3	\$ 103.6	\$ 29,480.1
Private	13,025.3	505.3	146.2	13,384.4	12,785.6	763.6	40.2	13,509.0
Below investment grade:								
Public	1,844.1	20.2	170.4	1,693.9	1,931.3	37.4	90.0	1,878.7
Private	1,916.3	37.8	133.5	1,820.6	1,788.1	49.1	77.3	1,759.9
Total fixed maturities, available-for-sale	<u>\$ 45,489.4</u>	<u>\$ 1,848.6</u>	<u>\$ 778.0</u>	<u>\$ 46,560.0</u>	<u>\$ 44,039.4</u>	<u>\$ 2,899.4</u>	<u>\$ 311.1</u>	<u>\$ 46,627.7</u>

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

	December 31, 2015					
	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	\$ 4,768.8	\$ 56.7	\$ 2,748.9	\$ 27.4	\$ 7,517.7	\$ 84.1
Greater than three to six months	817.4	37.3	699.0	25.9	1,516.4	63.2
Greater than six to nine months	1,851.3	86.2	931.9	44.0	2,783.2	130.2
Greater than nine to twelve months	476.1	19.7	171.0	7.0	647.1	26.7
Greater than twelve to twenty-four months	278.1	38.5	219.9	9.4	498.0	47.9
Greater than twenty-four to thirty-six months	313.6	12.7	191.6	10.5	505.2	23.2
Greater than thirty-six months	400.3	76.8	135.2	22.0	535.5	98.8
Total fixed maturities, available-for-sale	<u>\$ 8,905.6</u>	<u>\$ 327.9</u>	<u>\$ 5,097.5</u>	<u>\$ 146.2</u>	<u>\$ 14,003.1</u>	<u>\$ 474.1</u>

	December 31, 2014					
	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	\$ 1,753.2	\$ 18.6	\$ 969.0	\$ 6.8	\$ 2,722.2	\$ 25.4
Greater than three to six months	200.9	4.1	375.7	4.4	576.6	8.5
Greater than six to nine months	111.4	1.1	142.3	3.0	253.7	4.1
Greater than nine to twelve months	7.5	0.2	60.0	0.3	67.5	0.5
Greater than twelve to twenty-four months	1,046.0	20.2	408.6	11.9	1,454.6	32.1
Greater than twenty-four to thirty-six months	96.8	2.6	21.6	0.3	118.4	2.9
Greater than thirty-six months	436.4	56.8	186.3	13.5	622.7	70.3
Total fixed maturities, available-for-sale	<u>\$ 3,652.2</u>	<u>\$ 103.6</u>	<u>\$ 2,163.5</u>	<u>\$ 40.2</u>	<u>\$ 5,815.7</u>	<u>\$ 143.8</u>

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

	December 31, 2015					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	\$ 316.2	\$ 8.5	\$ 380.3	\$ 4.9	\$ 696.5	\$ 13.4
Greater than three to six months	122.4	15.7	154.0	6.4	276.4	22.1
Greater than six to nine months	109.9	17.6	203.6	19.1	313.5	36.7
Greater than nine to twelve months	20.3	5.0	44.9	2.0	65.2	7.0
Greater than twelve to twenty-four months	156.6	67.8	200.9	67.0	357.5	134.8
Greater than twenty-four to thirty-six months	15.5	3.0	36.5	1.4	52.0	4.4
Greater than thirty-six months	181.0	52.8	78.0	32.7	259.0	85.5
Total fixed maturities, available-for-sale	<u>\$ 921.9</u>	<u>\$ 170.4</u>	<u>\$ 1,098.2</u>	<u>\$ 133.5</u>	<u>\$ 2,020.1</u>	<u>\$ 303.9</u>

	December 31, 2014					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	\$ 478.0	\$ 14.8	\$ 298.1	\$ 8.3	\$ 776.1	\$ 23.1
Greater than three to six months	111.8	4.1	274.1	15.9	385.9	20.0
Greater than six to nine months	8.2	0.8	52.4	0.7	60.6	1.5
Greater than nine to twelve months	—	—	94.8	2.8	94.8	2.8
Greater than twelve to twenty-four months	21.2	0.8	66.7	8.1	87.9	8.9
Greater than twenty-four to thirty-six months	0.5	—	0.4	0.4	0.9	0.4
Greater than thirty-six months	280.6	69.5	151.7	41.1	432.3	110.6
Total fixed maturities, available-for-sale	<u>\$ 900.3</u>	<u>\$ 90.0</u>	<u>\$ 938.2</u>	<u>\$ 77.3</u>	<u>\$ 1,838.5</u>	<u>\$ 167.3</u>

The following tables present the carrying amount and the gross unrealized losses, including other-than-temporary impairment losses reported in OCI, 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 years indicated.

	December 31, 2015					
	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
	(in millions)					
Three months or less	\$ 13.6	\$ 13.9	\$ 321.0	\$ 110.4	\$ 334.6	\$ 124.3
Greater than three to six months	35.3	49.3	30.7	18.1	66.0	67.4
Greater than six to nine months	9.6	27.8	25.2	19.5	34.8	47.3
Greater than nine to twelve months	3.4	1.1	49.2	19.1	52.6	20.2
Greater than twelve months	23.7	25.9	237.5	106.4	261.2	132.3
Total fixed maturities, available-for-sale	<u>\$ 85.6</u>	<u>\$ 118.0</u>	<u>\$ 663.6</u>	<u>\$ 273.5</u>	<u>\$ 749.2</u>	<u>\$ 391.5</u>

	December 31, 2014					
	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
	(in millions)					
Three months or less	\$ —	\$ —	\$ 107.4	\$ 32.4	\$ 107.4	\$ 32.4
Greater than three to six months	—	—	1.5	1.0	1.5	1.0
Greater than six to nine months	7.6	5.2	0.5	0.2	8.1	5.4
Greater than nine to twelve months	—	—	—	0.2	—	0.2
Greater than twelve months	46.3	31.4	189.1	68.8	235.4	100.2
Total fixed maturities, available-for-sale	<u>\$ 53.9</u>	<u>\$ 36.6</u>	<u>\$ 298.5</u>	<u>\$ 102.6</u>	<u>\$ 352.4</u>	<u>\$ 139.2</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 \$11,194.9 million and \$10,657.2 million as of December 31, 2015 and December 31, 2014, respectively. The carrying amount of our residential mortgage loan portfolio was \$596.1 million and \$507.2 million as of December 31, 2015 and December 31, 2014, 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 well anchored retail properties, office properties, general-purpose industrial properties and apartments.

Our commercial mortgage loan portfolio is diversified by geography and specific collateral property type. Commercial mortgage lending in the state of California accounted for 18% and 19% of our commercial mortgage loan portfolio before valuation allowance as of December 31, 2015 and December 31, 2014, respectively. 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 December 31, 2015 and December 31, 2014, the total number of commercial mortgage loans outstanding was 878 and 911, of which 60% and 63% were for loans with principal balances less than \$10.0 million, respectively. The average loan size of our commercial mortgage portfolio was \$12.8 million and \$11.7 million as of December 31, 2015 and December 31, 2014, respectively.

**Commercial Mortgage Loan Credit Monitoring.** For further details on monitoring and management of our commercial mortgage loan portfolio, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 4, Investments — 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 years indicated.

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	<i>(\$ in millions)</i>	
Total commercial mortgages	<u>\$ 11,194.9</u>	<u>\$ 10,657.2</u>
Problem commercial mortgages (1)	\$ —	\$ 4.5
Potential problem commercial mortgages	16.2	28.3
Restructured problem commercial mortgages	—	2.7
Total problem, potential problem and restructured commercial mortgages	<u>\$ 16.2</u>	<u>\$ 35.5</u>
Total problem, potential problem and restructured commercial mortgages as a percent of total commercial mortgages	0.14%	0.33%

(1) Includes \$0.0 million of commercial mortgage loans in foreclosure as of both December 31, 2015 and December 31, 2014.

**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 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 4, Investments — Mortgage Loan Valuation Allowance."

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

	For the year ended December 31, 2015	For the year ended December 31, 2014
	(\$ in millions)	
Balance, beginning of period	\$ 26.9	\$ 28.7
Provision	4.0	(0.9)
Charge-offs	(3.5)	(0.9)
Recoveries	0.1	—
Balance, end of period	<u>\$ 27.5</u>	<u>\$ 26.9</u>
Valuation allowance as % of carrying value before reserves	0.25%	0.25%

**Residential Mortgage Loans.** The residential mortgage loan portfolio is composed of home equity mortgages with an amortized cost of \$218.8 million and \$283.4 million and first lien mortgages with an amortized cost of \$401.2 million and \$252.9 million as of December 31, 2015 and December 31, 2014, 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 \$16.0 million and \$20.4 million as of December 31, 2015 and December 31, 2014, 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.

Our residential mortgage loan portfolio, and in particular our home equity loan portfolio, experienced an increase in loss severity from sustained elevated levels of unemployment along with continued depressed collateral values beginning in 2010. While these factors continue to drive charge-offs, loss rates overall have stabilized and the portfolio balance continues to decline. The following table represents our residential mortgage loan valuation allowance for the years indicated.

	For the year ended December 31, 2015	For the year ended December 31, 2014
	(\$ in millions)	
Balance, beginning of period	\$ 29.1	\$ 40.3
Provision	0.1	7.9
Charge-offs	(8.9)	(22.7)
Recoveries	3.6	3.6
Balance, end of period	<u>\$ 23.9</u>	<u>\$ 29.1</u>
Valuation allowance as % of carrying value before reserves	3.9%	5.4%

### Real Estate

Real estate consists primarily of commercial equity real estate. As of December 31, 2015 and December 31, 2014, the carrying amount of our equity real estate investment was \$1,447.2 million, or 2%, and \$1,340.4 million, or 2%, of U.S. invested assets, 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 \$1,280.4 million and \$1,168.6 million as of December 31, 2015 and December 31, 2014, 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. Impairment recorded for the years ended December 31, 2015 and December 31, 2014 were \$2.9 million and \$6.2 million, respectively.

The carrying amount of real estate held for sale was \$166.8 million and \$171.8 million as of December 31, 2015 and December 31, 2014, respectively. Once we identify a real estate property to be sold and commence a plan for marketing the property, 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. No valuation allowance was established during the year ended December 31, 2015, or the year ended December 31, 2014.

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 December 31, 2015, our equity real estate portfolio was concentrated in the Pacific (36%), South Atlantic (20%), and West South Central (19%) regions of the United States. By property type, there is a concentration in office that represented approximately 46% of the equity real estate portfolio as of December 31, 2015.

### Other Investments

Our other investments totaled \$1,877.4 million as of December 31, 2015, compared to \$1,688.0 million as of December 31, 2014. Derivative assets accounted for \$659.6 million and \$651.5 million in other investments as of December 31, 2015 and December 31, 2014, respectively. The remaining invested assets are primarily related to equity method investments, which include real estate properties owned jointly with venture partners and operated by the partners, and seed money.

### International Investment Operations

Of our invested assets, \$6,503.6 million were held by our Principal International segment as of December 31, 2015. The assets are primarily managed by the local Principal International affiliate. Due to the regulatory constraints in each country, 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.

	December 31, 2015		December 31, 2014	
	Carrying amount	Percent of total	Carrying amount	Percent of total
	(\$ in millions)			
Fixed maturities:				
Public	\$ 3,552.9	55%	\$ 3,245.2	53%
Private	1.6	—	2.1	—
Equity securities	1,001.0	15	662.7	11
Mortgage loans:				
Commercial	42.9	1	39.7	1
Residential	505.5	8	607.5	10
Real estate held for sale	2.9	—	2.2	—
Real estate held for investment	1.7	—	2.0	—
Policy loans	20.8	—	22.7	—
Other investments:				
Direct financing leases	819.3	13	790.8	13
Investment in equity method subsidiaries	485.7	7	614.7	10
Derivative assets and other investments	69.3	1	116.3	2
Total invested assets	<u>6,503.6</u>	<u>100%</u>	<u>6,105.9</u>	<u>100%</u>
Cash and cash equivalents	271.9		101.4	
Total invested assets and cash	<u>\$ 6,775.5</u>		<u>\$ 6,207.3</u>	

Regulations in certain locations require investment in the funds we manage. These required regulatory investments are classified as equity securities, trading 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 7A. 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 by using the following approaches:

- rebalance our existing asset or liability portfolios;
- control the risk structure of newly acquired assets and liabilities or
- use 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 we will incur economic losses due to adverse changes in interest rates. We are exposed to interest rate risk from several sources:

- Due to the inherent difficulty in obtaining assets that mature or have their rate reset at the exact same time as the liabilities they support, assets may have to be reinvested or sold in the future to meet the liability cash flows in unknown interest rate environments.
- There may be timing differences between when new liabilities are priced and when assets are purchased or procured that can cause fluctuations in profitability if interest rates move materially in the interim.
- Prepayment options embedded within asset and liability contracts can alter the cash flow profiles from what was originally expected.
- The difference between the investment income we earn and the interest we credit to customers who own products with guaranteed minimum interest rates may decrease (or potentially become negative) during periods of sustained low interest rates.
- During periods of sustained low interest rates, the interest rates that we earn on our assets may be lower than the rates assumed in pricing our insurance products, thereby reducing our profitability. If interest rates remain low over a sustained period of time, this 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."
- During periods of rising interest rates, 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. In addition, the value of fixed income assets we manage may decline in periods of rising interest rates, resulting in lower fee revenue that we may collect. A significant increase in interest rates may also cause a reduction in the fair value of intangible assets in our reporting units, potentially leading to an impairment of goodwill or other intangible assets.
- For our long-term borrowings, we are exposed to interest rate risk at the time of maturity or early redemption, when we may be required to refinance our obligations.
- We are exposed to interest rate risk based upon the discount rate assumption used for purposes of valuing our pension and OPEB obligations. For additional information, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Benefit Plans."

An increase in market interest rates may cause the fair value of our financial assets to decline. The reduction in the fair value of our financial assets would be partly offset by a corresponding reduction in the fair value of our financial liabilities. The following tables show the net estimated potential loss in fair value at a total company level from a hypothetical 100 basis point immediate, parallel increase in interest rates as of December 31, 2015, and December 31, 2014. 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 these fair value measurements provide a representation of interest rate sensitivity, they are 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.

December 31, 2015				
Notional	Asset (liability) fair value	Hypothetical fair value after +100 basis point parallel yield curve shift	Hypothetical changes in fair value	
<i>(in millions)</i>				
Financial assets with interest rate risk:				
Fixed maturities, available-for-sale	\$ 49,966.5	\$ 47,451.1	\$ (2,515.4)	
Fixed maturities, trading	686.8	663.1	(23.7)	
Mortgage loans	12,653.5	12,093.4	(560.1)	
Policy loans	1,023.1	931.7	(91.4)	
Equity securities, trading	721.3	693.5	(27.8)	
Other investments	200.1	195.4	(4.7)	
Financial liabilities with interest rate risk:				
Investment contracts	(28,880.6)	(28,053.4)	827.2	
Long-term debt	(3,411.9)	(3,152.6)	259.3	
Bank deposits	(2,074.4)	(2,065.4)	9.0	
Derivatives with interest rate risk:				
Interest rate swaps	\$ 21,704.2	81.1	(210.1)	(291.2)
Currency swaps	1,751.0	(113.5)	(121.1)	(7.6)
Equity options	3,604.8	(72.4)	(131.4)	(59.0)
Interest rate options	4,900.0	33.3	25.8	(7.5)
Swaptions	259.0	—	1.1	1.1
Interest rate futures	162.0	0.5	9.7	9.2
Net estimated potential loss in fair value				<u>\$ (2,482.6)</u>

December 31, 2014				
Notional	Asset (liability) fair value	Hypothetical fair value after +100 basis point parallel yield curve shift	Hypothetical changes in fair value	
<i>(in millions)</i>				
Financial assets with interest rate risk:				
Fixed maturities, available-for-sale	\$ 49,670.8	\$ 47,225.5	\$ (2,445.3)	
Fixed maturities, trading	604.6	583.8	(20.8)	
Mortgage loans	12,350.2	11,811.9	(538.3)	
Policy loans	1,083.2	981.6	(101.6)	
Equity securities, trading	648.5	626.6	(21.9)	
Other investments	121.2	127.3	6.1	
Financial liabilities with interest rate risk:				
Investment contracts	(28,499.1)	(27,699.2)	799.9	
Long-term debt	(2,786.1)	(2,539.6)	246.5	
Bank deposits	(1,985.5)	(1,976.5)	9.0	
Derivatives with interest rate risk:				
Interest rate swaps	\$ 19,182.6	(38.1)	(208.3)	(170.2)
Currency swaps	1,975.5	(0.9)	(6.4)	(5.5)
Equity options	3,293.4	(101.4)	(153.9)	(52.5)
Interest rate options	4,900.0	40.3	43.8	3.5
Swaptions	260.0	—	0.6	0.6
Interest rate futures	147.5	0.3	8.3	8.0
Net estimated potential loss in fair value				<u>\$ (2,282.5)</u>

The tables include only the portion of assets and liabilities that are interest rate sensitive. Separate account assets and liabilities, which are interest rate sensitive, are not included in the tables, as any interest rate risk is borne by the holder of the separate account. The fair value sensitivities of our U.S. operations' foreign financial assets and liabilities have been netted within the currency swaps line item due to fully hedging the foreign exposure.

The tables above do not include approximately \$33,137.0 million of liabilities relating to insurance contracts involving significant mortality or morbidity risk as of December 31, 2015 and \$31,143.2 million as of December 31, 2014, which are not considered financial liabilities. We believe the interest rate sensitivities of these insurance liabilities would economically serve as a partial offset to the net interest rate risk of the financial assets and liabilities that are set forth in these tables.

Our net estimated potential loss in fair value as of December 31, 2015, increased \$200.1 million from December 31, 2014, primarily due to an increase in the duration of our assets and an increase in our exposure to derivatives with interest rate risk.

The following table provides detail on the differences between the interest rates being credited to contractholders as of December 31, 2015, and the respective guaranteed minimum interest rates ("GMIRs"), 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)					
<b>Guaranteed minimum interest rate</b>						
<b>Retirement and Income Solutions</b>						
Up to 1.00%	\$ 535.5	\$ 1,573.5	\$ 3,965.3	\$ 772.4	\$ 113.5	\$ 6,960.2
1.01% - 2.00%	424.7	0.7	8.8	26.3	—	460.5
2.01% - 3.00%	7,108.7	834.7	3.6	18.9	—	7,965.9
3.01% - 4.00%	229.0	—	—	—	—	229.0
Subtotal	8,297.9	2,408.9	3,977.7	817.6	113.5	15,615.6
<b>U.S. Insurance Solutions</b>						
Up to 1.00%	—	—	31.4	—	—	31.4
1.01% - 2.00%	295.3	—	166.3	146.2	38.3	646.1
2.01% - 3.00%	1,887.3	1,016.5	242.7	82.5	0.1	3,229.1
3.01% - 4.00%	1,443.3	58.6	11.4	33.3	4.3	1,550.9
4.01% - 5.00%	203.3	55.6	57.2	12.1	—	328.2
Subtotal	3,829.2	1,130.7	509.0	274.1	42.7	5,785.7
Total	\$ 12,127.1	\$ 3,539.6	\$ 4,486.7	\$ 1,091.7	\$ 156.2	\$ 21,401.3
Percentage of total	56.7%	16.5%	21.0%	5.1%	0.7%	100.0%

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

During periods of low or declining interest rates, our margin of investment income above our interest credited to our liabilities ("investment margins") may be negatively impacted. Assuming a hypothetical scenario where market interest rates immediately fall by 25 basis points from their December 31, 2015, levels and then remain unchanged thereafter, we estimate the impact of such an environment could reduce our investment margins for our domestic business by an immaterial amount during the years ending December 31, 2016 and 2017, compared to a scenario where market interest rates remain unchanged from their December 31, 2015, levels. This hypothetical scenario reflects only the impact related to the approximately \$21.4 billion of in-force contracts with guaranteed minimum interest rates shown above, and does not reflect potential impacts on our DAC asset and other actuarial balances. In determining the potential impact, we have reflected the impact of potential changes in crediting rates to policyholders, limited by any restrictions on our ability to adjust crediting rates due to guaranteed minimum interest rates. Our estimates of future margins include the impact of expected premium payments, lapses, and withdrawals on existing policies, but they do not include the impact of new sales. Our selection of a 25 basis point immediate, parallel decrease in interest rates is a hypothetical rate scenario we use to demonstrate potential risk. While a 25 basis point immediate, parallel decrease 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.

In addition to the domestic account values shown in the table above, Principal International had \$1,063.6 million and \$440.3 million of account values with GMIRs in Hong Kong and Brazil, respectively, as of December 31, 2015. The Brazil amount includes account values from an equity method subsidiary, adjusted to reflect the proportion of the subsidiary's results that are reflected in our net income. Our liabilities in Principal International are generally denominated in the functional currency of the country 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.

We manage interest rate risk through the use of an integrated risk management framework that 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 full service payout, full service accumulation and investment only, we use hedges and investment strategy to tightly align the cash flow run off of these asset and liability cash flows. Market value 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 fixed 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 contain long-term guarantees with stable and predictable liability cash flows, and recurring premiums. Our U.S. insurance businesses manage their interest rate risk through duration analysis and product crediting rates.
- *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. Risk and return metrics from deterministic and stochastic interest rate scenarios are used to manage interest rate risk. In countries with a limited availability of long-dated assets and derivative markets, the duration gap is managed to risk tolerances specific to each country.

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 against the company 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.

See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Valuation and Impairment of Fixed Income Investments" for additional discussion of the impact interest rate increases would have on fixed maturities, available-for-sale.

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."

**Use of Derivatives to Manage Interest Rate Risk.** We use or have previously used various derivative financial instruments to manage our exposure to fluctuations in interest rates, including interest rate swaps, interest rate collars, 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 collars to manage interest rate risk related to GMIR liabilities in our individual annuities contracts and lapse risk associated with higher interest rates. We purchase swaptions to offset or modify existing exposures.

## **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 maturities and our international operations, including potential acquisition and divestiture activity.

We estimate that as of December 31, 2015, 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, 2014. However, fluctuations in foreign currency exchange rates do affect the translation of pre-tax operating earnings and equity of our international operations into our consolidated financial statements.

For our Principal International segment, we estimate that a 10% immediate unfavorable change in each of the foreign currency exchange rates to which we were exposed would have resulted in a \$302.8 million, or 10%, reduction in the total equity excluding noncontrolling interests of our international operations as of December 31, 2015, as compared to an estimated \$305.8 million, or 10%, reduction as of December 31, 2014. We estimate that 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 \$34.2 million, or 13%, reduction in pre-tax operating earnings of our international operations for the year ended December 31, 2015, as compared to an estimated \$41.2 million, or 12%, reduction for the year ended December 31, 2014.

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 \$1,190.5 million and \$1,190.5 million as of December 31, 2015 and December 31, 2014, respectively. The notional amount of our currency swap agreements associated with foreign-denominated fixed maturities was \$398.6 million and \$644.5 million as of December 31, 2015 and December 31, 2014, respectively. The notional amount of our currency forwards hedging foreign-denominated equity securities was \$14.9 million and \$17.9 million as of December 31, 2015 and December 31, 2014, 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 \$161.9 million and \$140.5 million as of December 31, 2015 and December 31, 2014, respectively. Principal International also utilized currency forwards with a notional amount of \$1,001.7 million and \$252.8 million as of December 31, 2015 and December 31, 2014, respectively.

There are times when we use derivatives to manage the foreign currency risk associated with a business combination. There were no hedges of business combinations outstanding at December 31, 2015 or December 31, 2014. Additionally, from time to time we take measures to hedge certain net equity investments in our foreign subsidiaries from currency risks. We used currency forwards during 2015 to hedge certain net investments in foreign operations. Currency forwards were not used for hedging any net investments in foreign operations during 2014. As of December 31, 2015, we also held currency forwards with a notional amount of \$24.0 million to hedge expected future cash flows from foreign subsidiaries. Forwards were not used to hedge expected future cash flows from foreign subsidiaries in 2014.

## Equity Risk

Equity risk is the risk we will incur economic losses due to adverse fluctuations in common stock prices. As of December 31, 2015 and December 31, 2014, the fair value of our equity securities was \$1,307.2 million and \$963.2 million, respectively. As of December 31, 2015, we estimate that a 10% decline in the value of the equity securities would result in a decline in fair value of the equity securities of \$130.7 million, as compared to a decline in fair value of the equity securities of \$96.3 million as of December 31, 2014.

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 deferred acquisition costs 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."

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."

We estimate that an immediate 10% decline in the S&P index, followed by a 2% per quarter increase would reduce our annual pre-tax operating earnings by approximately 4% to 6%. The selection of a 10% unfavorable change in the equity markets 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 \$676.2 million, \$3,284.2 million, and \$3,547.2 million, respectively, as of December 31, 2015, and notional amounts of \$645.6 million, \$2,969.2 million, and \$3,790.4 million, respectively, as of December 31, 2014. 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 8. Financial Statements and Supplementary Data**

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**Report of Independent Registered Public Accounting Firm  
on Internal Control Over Financial Reporting**

The Board of Directors and Stockholders  
Principal Financial Group, Inc.

We have audited Principal Financial Group, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Principal Financial Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of Principal Financial Group, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015, and our report dated February 10, 2016, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Des Moines, Iowa  
February 10, 2016

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
Principal Financial Group, Inc.

We have audited the accompanying consolidated statements of financial position of Principal Financial Group, Inc. (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Principal Financial Group, Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Principal Financial Group, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 10, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Des Moines, Iowa  
February 10, 2016

**Principal Financial Group, Inc.**
**Consolidated Statements of Financial Position**

	December 31, 2015	December 31, 2014
	<i>(in millions)</i>	
<b>Assets</b>		
Fixed maturities, available-for-sale (2015 and 2014 include \$257.4 million and \$278.2 million related to consolidated variable interest entities)	\$ 49,966.5	\$ 49,670.8
Fixed maturities, trading (2015 and 2014 both include \$100.4 million related to consolidated variable interest entities)	686.8	604.6
Equity securities, available-for-sale	104.5	123.0
Equity securities, trading (2015 and 2014 include \$640.9 million and \$345.3 million related to consolidated variable interest entities)	1,202.7	840.2
Mortgage loans	12,339.4	11,811.6
Real estate (2015 and 2014 include \$354.5 million and \$284.9 million related to consolidated variable interest entities)	1,451.8	1,344.6
Policy loans	817.1	829.2
Other investments (2015 and 2014 include \$29.5 million and \$40.6 million related to consolidated variable interest entities and \$53.4 million and \$127.2 million measured at fair value under the fair value option)	3,251.7	3,209.8
Total investments	69,820.5	68,433.8
Cash and cash equivalents	2,564.8	1,863.9
Accrued investment income	545.6	505.9
Premiums due and other receivables	1,429.3	1,213.0
Deferred acquisition costs	3,276.1	2,993.0
Property and equipment	633.8	590.2
Goodwill	1,009.0	1,007.4
Other intangibles	1,359.2	1,323.5
Separate account assets (2015 and 2014 include \$33,300.4 million and \$34,655.4 million related to consolidated variable interest entities)	136,978.9	140,072.8
Other assets	1,068.7	1,083.5
Total assets	<u>\$ 218,685.9</u>	<u>\$ 219,087.0</u>
<b>Liabilities</b>		
Contractholder funds (2015 includes \$338.9 million related to consolidated variable interest entities)	\$ 35,716.1	\$ 34,726.7
Future policy benefits and claims	25,856.5	24,036.6
Other policyholder funds	805.4	812.7
Short-term debt	181.1	28.0
Long-term debt (2015 and 2014 include \$42.8 million and \$82.3 million related to consolidated variable interest entities)	3,290.8	2,531.2
Income taxes currently payable	18.4	11.5
Deferred income taxes	697.2	1,035.3
Separate account liabilities (2015 and 2014 include \$33,300.4 million and \$34,655.4 million related to consolidated variable interest entities)	136,978.9	140,072.8
Other liabilities (2015 and 2014 include \$345.9 million and \$344.0 million related to consolidated variable interest entities, of which \$68.1 million and \$71.0 million are measured at fair value under the fair value option)	5,678.4	5,542.2
Total liabilities	<u>209,222.8</u>	<u>208,797.0</u>
Redeemable noncontrolling interest	85.7	58.0
<b>Stockholders' equity</b>		
Series A preferred stock, par value \$.01 per share with liquidation preference of \$100 per share — 0.0 million and 3.0 million shares authorized, issued and outstanding in 2015 and 2014	—	—
Series B preferred stock, par value \$.01 per share with liquidation preference of \$25 per share — 0.0 million and 10.0 million shares authorized, issued and outstanding in 2015 and 2014	—	0.1
Common stock, par value \$.01 per share — 2,500.0 million shares authorized, 466.2 million and 462.7 million shares issued, and 291.4 million and 293.9 million shares outstanding in 2015 and 2014	4.7	4.6
Additional paid-in capital	9,544.8	9,945.5
Retained earnings	6,875.9	6,114.1
Accumulated other comprehensive income (loss)	(882.5)	50.4
Treasury stock, at cost (174.8 million and 168.8 million shares in 2015 and 2014)	(6,231.3)	(5,930.7)
Total stockholders' equity attributable to Principal Financial Group, Inc.	9,311.6	10,184.0
Noncontrolling interest	65.8	48.0
Total stockholders' equity	<u>9,377.4</u>	<u>10,232.0</u>
Total liabilities and stockholders' equity	<u>\$ 218,685.9</u>	<u>\$ 219,087.0</u>

See accompanying notes.

**Principal Financial Group, Inc.**  
**Consolidated Statements of Operations**

	For the year ended December 31,		
	2015	2014	2013
	<i>(in millions, except per share data)</i>		
<b>Revenues</b>			
Premiums and other considerations	\$ 5,310.3	\$ 3,722.9	\$ 3,154.1
Fees and other revenues	3,653.1	3,482.1	3,222.2
Net investment income	3,052.1	3,257.9	3,138.4
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	(20.9)	92.7	(109.2)
Net other-than-temporary impairment (losses) recoveries on available-for-sale securities	(0.8)	23.8	(91.5)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified from other comprehensive income	(29.4)	(101.8)	(24.5)
Net impairment losses on available-for-sale securities	(30.2)	(78.0)	(116.0)
Net realized capital gains (losses)	(51.1)	14.7	(225.2)
Total revenues	<u>11,964.4</u>	<u>10,477.6</u>	<u>9,289.5</u>
<b>Expenses</b>			
Benefits, claims and settlement expenses	6,697.7	5,231.0	4,683.6
Dividends to policyholders	163.5	177.4	189.0
Operating expenses	3,672.4	3,574.3	3,292.9
Total expenses	<u>10,533.6</u>	<u>8,982.7</u>	<u>8,165.5</u>
Income before income taxes	1,430.8	1,494.9	1,124.0
Income taxes	177.6	318.5	187.9
Net income	<u>1,253.2</u>	<u>1,176.4</u>	<u>936.1</u>
Net income attributable to noncontrolling interest	19.2	32.3	23.4
Net income attributable to Principal Financial Group, Inc.	<u>1,234.0</u>	<u>1,144.1</u>	<u>912.7</u>
Less:			
Preferred stock dividends	16.5	33.0	33.0
Excess of redemption value over carrying value of preferred shares redeemed	8.2	—	—
Net income available to common stockholders	<u>\$ 1,209.3</u>	<u>\$ 1,111.1</u>	<u>\$ 879.7</u>
<b>Earnings per common share</b>			
Basic earnings per common share	<u>\$ 4.11</u>	<u>\$ 3.70</u>	<u>\$ 2.99</u>
Diluted earnings per common share	<u>\$ 4.06</u>	<u>\$ 3.65</u>	<u>\$ 2.95</u>
<b>Dividends declared per common share</b>	<u>\$ 1.50</u>	<u>\$ 1.28</u>	<u>\$ 0.98</u>

See accompanying notes.

**Principal Financial Group, Inc.****Consolidated Statements of Comprehensive Income**

	For the year ended		
	December 31,		
	2015	2014	2013
Net income	\$ 1,253.2	\$ 1,176.4	\$ 936.1
Other comprehensive loss, net:			
Net unrealized gains (losses) on available-for-sale securities	(470.7)	324.7	(540.2)
Noncredit component of impairment losses on fixed maturities, available-for-sale	19.1	61.9	6.9
Net unrealized gains (losses) on derivative instruments	19.2	61.1	(1.8)
Foreign currency translation adjustment	(471.6)	(336.6)	(269.4)
Net unrecognized postretirement benefit obligation	(39.1)	(255.2)	332.6
Other comprehensive loss	(943.1)	(144.1)	(471.9)
Comprehensive income	310.1	1,032.3	464.2
Comprehensive income (loss) attributable to noncontrolling interest	(1.3)	21.0	8.6
Comprehensive income attributable to Principal Financial Group, Inc.	\$ 311.4	\$ 1,011.3	\$ 455.6

See accompanying notes.

**Principal Financial Group, Inc.**
**Consolidated Statements of Stockholders' Equity**

	Series A preferred stock	Series B preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Noncontrolling interest	Total stockholders' equity
	(in millions)								
<b>Balances at January 1, 2013</b>	\$ —	\$ 0.1	\$ 4.5	\$ 9,730.9	\$ 4,862.0	\$ 640.3	\$ (5,554.4)	\$ 20.0	\$ 9,703.4
Common stock issued	—	—	0.1	125.7	—	—	—	—	125.8
Stock-based compensation and additional related tax benefits	—	—	—	72.7	(4.6)	—	—	—	68.1
Treasury stock acquired, common	—	—	—	—	—	—	(153.6)	—	(153.6)
Dividends to common stockholders	—	—	—	—	(288.4)	—	—	—	(288.4)
Dividends to preferred stockholders	—	—	—	—	(33.0)	—	—	—	(33.0)
Distributions to noncontrolling interest	—	—	—	—	—	—	—	(2.0)	(2.0)
Contributions from noncontrolling interest	—	—	—	—	—	—	—	115.3	115.3
Purchase of subsidiary shares from noncontrolling interest	—	—	—	1.4	—	—	—	(54.1)	(52.7)
Sale of subsidiary shares to noncontrolling interest	—	—	—	11.5	—	—	—	20.3	31.8
Adjustments to redemption amount of redeemable noncontrolling interest	—	—	—	(143.3)	(43.3)	—	—	(6.5)	(193.1)
Net income (excludes \$13.6 million attributable to redeemable noncontrolling interest)	—	—	—	—	912.7	—	—	9.8	922.5
Other comprehensive loss (excludes \$(4.8) million attributable to redeemable noncontrolling interest)	—	—	—	—	—	(457.1)	—	(10.0)	(467.1)
<b>Balances at December 31, 2013</b>	—	0.1	4.6	9,798.9	5,405.4	183.2	(5,708.0)	92.8	9,777.0
Common stock issued	—	—	—	77.5	—	—	—	—	77.5
Stock-based compensation and additional related tax benefits	—	—	—	80.3	(6.1)	—	—	—	74.2
Treasury stock acquired, common	—	—	—	—	—	—	(222.7)	—	(222.7)
Dividends to common stockholders	—	—	—	—	(376.6)	—	—	—	(376.6)
Dividends to preferred stockholders	—	—	—	—	(33.0)	—	—	—	(33.0)
Distributions to noncontrolling interest	—	—	—	—	—	—	—	(23.9)	(23.9)
Contributions from noncontrolling interest	—	—	—	—	—	—	—	7.4	7.4
Purchase of subsidiary shares from noncontrolling interest	—	—	—	(2.0)	—	—	—	(45.6)	(47.6)
Adjustments to redemption amount of redeemable noncontrolling interest	—	—	—	(9.2)	(19.7)	—	—	—	(28.9)
Net income (excludes \$9.0 million	—	—	—	—	1,144.1	—	—	23.3	1,167.4

attributable to redeemable noncontrolling interest)										
Other comprehensive loss (excludes \$(5.3) million attributable to redeemable noncontrolling interest)	—	—	—	—	—	(132.8)	—	(6.0)	(138.8)	
<b>Balances at December 31, 2014</b>	—	0.1	4.6	9,945.5	6,114.1	50.4	(5,930.7)	48.0	10,232.0	
Common stock issued	—	—	0.1	76.0	—	—	—	—	76.1	
Stock-based compensation and additional related tax benefits	—	—	—	90.6	(6.5)	—	—	0.1	84.2	
Treasury stock acquired, common	—	—	—	—	—	—	(300.6)	—	(300.6)	
Dividends to common stockholders	—	—	—	—	(441.0)	—	—	—	(441.0)	
Dividends to preferred stockholders	—	—	—	—	(16.5)	—	—	—	(16.5)	
Preferred stock redemption	—	(0.1)	—	(541.7)	(8.2)	—	—	—	(550.0)	
Distributions to noncontrolling interest	—	—	—	—	—	—	—	(15.4)	(15.4)	
Contributions from noncontrolling interest	—	—	—	—	—	—	—	7.7	7.7	
Purchase of subsidiary shares from noncontrolling interest	—	—	—	(19.0)	—	(10.3)	—	12.8	(16.5)	
Adjustments to redemption amount of redeemable noncontrolling interest	—	—	—	(6.6)	—	—	—	—	(6.6)	
Net income (excludes \$4.9 million attributable to redeemable noncontrolling interest)	—	—	—	—	1,234.0	—	—	14.3	1,248.3	
Other comprehensive loss (excludes \$(18.8) million attributable to redeemable noncontrolling interest)	—	—	—	—	—	(922.6)	—	(1.7)	(924.3)	
<b>Balances at December 31, 2015</b>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4.7</u>	<u>\$ 9,544.8</u>	<u>\$ 6,875.9</u>	<u>\$ (882.5)</u>	<u>\$ (6,231.3)</u>	<u>\$ 65.8</u>	<u>\$ 9,377.4</u>	

See accompanying notes.

**Principal Financial Group, Inc.**

**Consolidated Statements of Cash Flows**

	For the year ended December 31,		
	2015	2014	2013
	(in millions)		
<b>Operating activities</b>			
Net income	\$ 1,253.2	\$ 1,176.4	\$ 936.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred acquisition costs	270.8	367.2	187.1
Additions to deferred acquisition costs	(390.3)	(404.1)	(447.0)
Accrued investment income	(39.7)	26.2	52.3
Net cash flows for trading securities	(201.9)	(93.4)	(76.0)
Premiums due and other receivables	(211.5)	26.9	(131.9)
Contractholder and policyholder liabilities and dividends	3,283.6	1,634.0	1,614.7
Current and deferred income taxes (benefits)	(66.5)	175.9	211.7
Net realized capital (gains) losses	51.1	(14.7)	225.2
Depreciation and amortization expense	193.0	169.5	153.9
Mortgage loans held for sale, sold or repaid, net of gain	—	43.3	0.2
Real estate acquired through operating activities	(44.1)	(49.4)	(107.2)
Real estate sold through operating activities	53.7	158.9	24.2
Stock-based compensation	84.5	75.3	68.5
Other	141.2	(189.1)	(490.6)
Net adjustments	3,123.9	1,926.5	1,285.1
Net cash provided by operating activities	4,377.1	3,102.9	2,221.2
<b>Investing activities</b>			
Available-for-sale securities:			
Purchases	(9,920.3)	(9,054.0)	(9,025.2)
Sales	1,563.0	2,512.0	1,919.1
Maturities	6,625.9	6,244.7	7,359.2
Mortgage loans acquired or originated	(2,275.1)	(2,169.6)	(2,192.9)
Mortgage loans sold or repaid	1,687.3	1,793.6	2,095.1
Real estate acquired	(322.0)	(281.7)	(85.6)
Net purchases of property and equipment	(136.4)	(136.0)	(59.4)
Purchase of interests in subsidiaries, net of cash acquired	(291.2)	—	(1,268.3)
Net change in other investments	(98.8)	(81.7)	31.7
Net cash used in investing activities	(3,167.6)	(1,172.7)	(1,226.3)
<b>Financing activities</b>			
Issuance of common stock	76.1	77.5	125.8
Acquisition of treasury stock	(300.6)	(222.7)	(153.6)
Proceeds from financing element derivatives	0.3	15.1	47.0
Payments for financing element derivatives	(82.0)	(58.0)	(48.0)
Excess tax benefits from share-based payment arrangements	15.7	9.7	10.1
Purchase of subsidiary shares from noncontrolling interest	(22.5)	(227.0)	(52.9)
Sale of subsidiary shares to noncontrolling interest	—	—	31.8
Dividends to common stockholders	(441.0)	(376.6)	(288.4)
Dividends to preferred stockholders	(16.5)	(33.0)	(33.0)
Preferred stock redemption	(550.0)	—	—
Issuance of long-term debt	804.9	38.5	38.2
Principal repayments of long-term debt	(52.6)	(100.3)	(218.2)
Net proceeds from (repayments of) short-term borrowings	157.0	(118.3)	108.0
Investment contract deposits	6,492.3	5,638.4	6,716.3
Investment contract withdrawals	(6,666.8)	(7,099.2)	(8,852.7)
Net increase (decrease) in banking operation deposits	91.1	30.7	(225.7)
Other	(14.0)	(12.9)	(5.0)
Net cash used in financing activities	(508.6)	(2,438.1)	(2,800.3)
Net increase (decrease) in cash and cash equivalents	700.9	(507.9)	(1,805.4)
Cash and cash equivalents at beginning of period	1,863.9	2,371.8	4,177.2
Cash and cash equivalents at end of period	\$ 2,564.8	\$ 1,863.9	\$ 2,371.8
<b>Supplemental Information:</b>			
Cash paid for interest	\$ 149.6	\$ 137.6	\$ 144.1
Cash paid for income taxes	\$ 129.6	\$ 73.8	\$ 61.2

See accompanying notes.

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements****December 31, 2015****1. Nature of Operations and Significant Accounting Policies****Description of Business**

Principal Financial Group, Inc. ("PFG") is a leader in global investment management offering businesses, individuals and institutional clients a wide range of financial products and services, including retirement, asset management and insurance through our diverse family of financial services companies.

**Basis of Presentation**

The accompanying consolidated financial statements include the accounts of PFG and all other entities in which we directly or indirectly have a controlling financial interest as well as those variable interest entities ("VIEs") in which we are the primary beneficiary. Entities in which we have significant 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. The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP"). All significant intercompany accounts and transactions have been eliminated.

In the fourth quarter of 2015 we implemented changes to our organizational structure to better align businesses, distribution teams and product offerings for future growth. Principal Funds, which included our mutual fund business and Princor Financial Services Corporation ("Princor"), our retail broker-dealer and registered investment advisor, as well as Principal Financial Advisors ("PFA") were previously reported in our Retirement and Investor Services segment. Our mutual fund business and PFA are now reported as part of our Principal Global Investors segment, while Princor is now reported as part of our Corporate segment. The Retirement and Investor Services segment has been renamed to Retirement and Income Solutions. Additionally, information used by our chief operating decision maker in assessing segment performance has changed to pre-tax operating earnings. We retrospectively applied this change to the results of our Principal International segment to remove income taxes of equity method subsidiaries that had previously been included in operating revenue and pre-tax operating earnings. Our segment results have been modified to reflect these changes, which did not have an impact on our consolidated financial statements. See Note 16, Segment Information, for financial results of our segments.

**Recent Accounting Pronouncements**

<b>Description</b>	<b>Date of adoption</b>	<b>Effect on our consolidated financial statements or other significant matters</b>
<i>Standards not yet adopted:</i>		
<p><b>Financial instruments — recognition and measurements</b> This authoritative guidance addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The primary focus of this guidance is to supersede the guidance to classify equity securities with readily determinable fair values into different categories (trading or available-for-sale) and requires equity securities to be measured at fair value with changes in the fair value recognized through net income. 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 are currently evaluating the impact this guidance will have on our consolidated financial statements.
<p><b>Revenue recognition</b> 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. 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 are currently evaluating the impact this guidance will have on our consolidated financial statements.

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**1. Nature of Operations and Significant Accounting Policies — (continued)**

<b>Description</b>	<b>Date of adoption</b>	<b>Effect on our consolidated financial statements or other significant matters</b>
<p><b>Short-duration insurance contracts</b> This authoritative guidance requires additional disclosures related to short-duration insurance contracts. Retrospective application through comparative disclosures is required.</p>	December 31, 2016	We are currently evaluating the impact this guidance will have on our consolidated financial statements.
<p><b>Net asset value per share as a practical expedient for fair value</b> This authoritative guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient.</p>	January 1, 2016	The guidance will be adopted retrospectively and will not have a material impact on our consolidated financial statements.
<p><b>Simplifying the presentation of debt issuance costs</b> This authoritative guidance requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.</p>	January 1, 2016	The guidance will be adopted retrospectively and will not have a material impact on our consolidated financial statements.
<p><b>Consolidations</b> This authoritative guidance makes changes to both the variable interest and voting interest consolidation models and eliminates the investment company deferral for portions of the variable interest model. The amendments in the standard impact the consolidation analysis for interests in investment companies and limited partnerships and similar entities.</p>	January 1, 2016	The guidance will be adopted using the modified retrospective approach on January 1, 2016. The adoption will result in the deconsolidation of approximately \$8.6 billion of both assets and liabilities of certain mandatory privatized social security funds in which we provide asset management services, with no material impact to stockholders' equity or our consolidated statements of operations. We anticipate the guidance will result in additional consolidation of variable interest entities in which we provide asset management services, but will not have a significant impact to our consolidated financial statements.
<i>Standards adopted:</i>		
<p><b>Discontinued operations</b> This authoritative guidance amends the definition of discontinued operations and requires entities to provide additional disclosures associated with discontinued operations, as well as disposal transactions that do not meet the discontinued operations criteria. The guidance requires discontinued operations treatment for disposals of a component or group of components of an entity that represents a strategic shift that has or will have a major impact on an entity's operations or financial results. The guidance also expands the scope to disposals of equity method investments and businesses that, upon initial acquisition, qualify as held for sale.</p>	January 1, 2015	This guidance was adopted prospectively and did not have a material impact on our consolidated financial statements.
<p><b>Fair value of financial assets and liabilities of a consolidated collateralized financing entity</b> This authoritative guidance provides a measurement alternative for a reporting entity to measure both the financial assets and financial liabilities of consolidated collateralized financing entities ("CCFEs") using the more observable of the fair value of the financial assets or of the financial liabilities for both the financial assets and financial liabilities.</p>	January 1, 2015	<p>This guidance was adopted using a modified retrospective approach and did not have a material impact on our consolidated financial statements.</p> <p>See Note 14, Fair Value Measurements, for further details.</p>
<p><b>Foreign currency cumulative translation adjustment</b> This authoritative guidance clarifies how the cumulative translation adjustment related to a parent's investment in a foreign entity should be released when certain transactions related to the foreign entity occur.</p>	January 1, 2014	The guidance was adopted prospectively and did not have a material impact on our consolidated financial statements.

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****1. Nature of Operations and Significant Accounting Policies — (continued)**

<u>Description</u>	<u>Date of adoption</u>	<u>Effect on our consolidated financial statements or other significant matters</u>
<b>Accumulated other comprehensive income</b> This authoritative guidance requires entities to disclose additional information about items reclassified out of accumulated other comprehensive income ("AOCI"). Entities are required to disclose information regarding changes in AOCI balances by component and significant items reclassified out of AOCI by component either on the face of the income statement or as a separate footnote to the financial statements.	January 1, 2013	See Note 13, Stockholders' Equity, for further details.  The guidance was adopted retrospectively and did not have a material impact on our consolidated financial statements.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of our consolidated financial statements and accompanying notes requires management to make estimates and assumptions that affect the amounts reported and disclosed. These estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed in the consolidated financial statements and accompanying notes. The most critical estimates include those used in determining:

- the fair value of investments in the absence of quoted market values;
- investment impairments and valuation allowances;
- the fair value of and accounting for derivatives;
- the deferred acquisition costs ("DAC") and other actuarial balances where the amortization is based on estimated gross profits;
- the measurement of goodwill, indefinite lived intangible assets, finite lived intangible assets and related impairments or amortization, if any;
- the liability for future policy benefits and claims;
- the value of our pension and other postretirement benefit obligations and
- accounting for income taxes and the valuation of deferred tax assets.

A description of such critical estimates is incorporated within the discussion of the related accounting policies that follow. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to our businesses and operations. Actual results could differ from these estimates.

**Closed Block**

Principal Life Insurance Company ("Principal Life") operates a closed block ("Closed Block") for the benefit of individual participating dividend-paying policies in force at the time of the 1998 mutual insurance holding company ("MIHC") formation. See Note 6, Closed Block, for further details.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, money market instruments and other debt issues with a maturity date of three months or less when purchased.

**Investments**

Fixed maturities include bonds, asset-backed securities ("ABS"), redeemable preferred stock and certain nonredeemable preferred securities. Equity securities include mutual funds, common stock, nonredeemable preferred stock and required regulatory investments. We classify fixed maturities and equity securities as either available-for-sale or trading at the time of the purchase and, accordingly, carry them at fair value. See Note 14, Fair Value Measurements, for methodologies related to the determination of fair value. Unrealized gains and losses related to available-for-sale securities, excluding those in fair value hedging relationships, are reflected in stockholders' equity, net of adjustments

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****1. Nature of Operations and Significant Accounting Policies — (continued)**

associated with DAC and related actuarial balances, derivatives in cash flow hedge relationships and applicable income taxes. Unrealized gains and losses related to hedged portions of available-for-sale securities in fair value hedging relationships and mark-to-market adjustments on certain trading securities are reflected in net realized capital gains (losses). Mark-to-market adjustments related to certain securities carried at fair value with an investment objective to realize economic value through mark-to-market changes are reflected in net investment income.

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

Real estate investments are reported at cost less accumulated depreciation. The initial cost basis of properties acquired through loan foreclosures are the lower of the fair market values of the properties at the time of foreclosure or the outstanding loan balance. Buildings and land improvements are generally depreciated on the straight-line method over the estimated useful life of improvements and tenant improvement costs are depreciated on the straight-line method over the term of the related lease. We recognize impairment losses for properties when indicators of impairment are present and a property's expected undiscounted cash flows are not sufficient to recover the property's carrying value. In such cases, the cost basis of the properties are reduced to fair value. Real estate expected to be disposed is carried at the lower of cost or fair value, less cost to sell, with valuation allowances established accordingly and depreciation no longer recognized. The carrying amount of real estate held for sale was \$169.7 million and \$174.0 million as of December 31, 2015 and 2014, respectively. Any impairment losses and any changes in valuation allowances are reported in net income.

Commercial and residential mortgage loans are generally reported at cost adjusted for amortization of premiums and accrual of discounts, computed using the interest method, net of valuation allowances. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. Interest income, as well as prepayment of fees and the amortization of the related premium or discount, is reported in net investment income. Any changes in the valuation allowances are reported in net income as net realized capital gains (losses). We measure impairment based upon the difference between carrying value and estimated value less cost to sell. Estimated value is based on either the present value of expected cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral. If foreclosure is probable, the measurement of any valuation allowance is based upon the fair value of the collateral.

Net realized capital gains and losses on sales of investments are determined on the basis of specific identification. In general, in addition to realized capital gains and losses on investment sales and periodic settlements on derivatives not designated as hedges, we report gains and losses related to the following in net realized capital gains (losses): other-than-temporary impairments of securities and subsequent realized recoveries, mark-to-market adjustments on certain trading securities, mark-to-market adjustments on certain seed money investments, fair value hedge and cash flow hedge ineffectiveness, mark-to-market adjustments on derivatives not designated as hedges, changes in the mortgage loan valuation allowance provision, 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).

Policy loans and other investments are primarily reported at cost, excluding seed money investments, other investment funds, derivative assets, commercial mortgage loans of consolidated VIEs for which the fair value option was elected and equity method real estate investments for which the fair value option was elected.

**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 interest rate swaps, interest rate options, swaptions, currency swaps, currency forwards, equity options, futures, credit default swaps and total return swaps. Derivatives may be exchange traded, cleared through centralized clearinghouses, or contracted in the over-the-counter market without being cleared. 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

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****1. Nature of Operations and Significant Accounting Policies — (continued)**

the use of pricing models. See Note 14, 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 net realized capital gains (losses). Any difference between the net change in fair value of the derivative and the hedged item represents hedge ineffectiveness.

**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. Any hedge ineffectiveness is recorded immediately in net income. At the time the variability of cash flows being hedged impacts 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. Any hedge ineffectiveness is recorded immediately in net income. 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 statement 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 derivative is highly effective and qualifies for hedge accounting treatment, the hedge might have some ineffectiveness.

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

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****1. Nature of Operations and Significant Accounting Policies — (continued)**

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.

**Contractholder and Policyholder Liabilities**

Contractholder and policyholder liabilities (contractholder funds, future policy benefits and claims and other policyholder funds) include reserves for investment contracts and reserves for universal life, term life insurance, participating traditional individual life insurance, group life insurance, health insurance and disability income policies, as well as a provision for dividends on participating policies.

Investment contracts are contractholders' funds on deposit with us and generally include reserves for pension and annuity contracts. Reserves on investment contracts are equal to the cumulative deposits less any applicable charges and withdrawals plus credited interest. Reserves for universal life insurance contracts are equal to cumulative deposits less charges plus credited interest, which represents the account balances that accrue to the benefit of the policyholders.

We hold additional reserves on certain long duration contracts where benefit features result in gains in early years followed by losses in later years, universal life/variable universal life contracts that contain no lapse guarantee features, or annuities with guaranteed minimum death benefits.

Reserves for nonparticipating term life insurance and disability income contracts are computed on a basis of assumed investment yield, mortality, morbidity and expenses, including a provision for adverse deviation, which generally varies by plan, year of issue and policy duration. Investment yield is based on our experience. Mortality, morbidity and withdrawal rate assumptions are based on our experience and are periodically reviewed against both industry standards and experience.

Reserves for participating life insurance contracts are based on the net level premium reserve for death and endowment policy benefits. This net level premium reserve is calculated based on dividend fund interest rates and mortality rates guaranteed in calculating the cash surrender values described in the contract.

Participating business represented approximately 9%, 11% and 12% of our life insurance in force and 36%, 40% and 43% of the number of life insurance policies in force at December 31, 2015, 2014 and 2013, respectively. Participating business represented approximately 36%, 40% and 40% of life insurance premiums for the years ended December 31, 2015, 2014 and 2013, respectively. The amount of dividends to policyholders is declared annually by Principal Life's Board of Directors. The amount of dividends to be paid to policyholders is determined after consideration of several factors including interest, mortality, morbidity and other expense experience for the year and judgment as to the appropriate level of statutory surplus to be retained by Principal Life. At the end of the reporting period, Principal Life establishes a dividend liability for the pro rata portion of the dividends expected to be paid on or before the next policy anniversary date.

Some of our policies and contracts require payment of fees or other policyholder assessments in advance for services that will be rendered over the estimated lives of the policies and contracts. These payments are established as unearned revenue liabilities upon receipt and included in other policyholder funds in the consolidated statements of financial position. These unearned revenue reserves are amortized to operations over the estimated lives of these policies and contracts in relation to the emergence of estimated gross profits ("EGPs").

The liability for unpaid disability and health claims is an estimate of the ultimate net cost of reported and unreported losses not yet settled. This liability is estimated using actuarial analyses and case basis evaluations. Although considerable variability is inherent in such estimates, we believe that the liability for unpaid claims is adequate. These estimates are continually reviewed and, as adjustments to this liability become necessary, such adjustments are reflected in net income.

**Recognition of Premiums and Other Considerations, Fees and Other Revenues and Benefits**

Traditional individual life insurance products include those products with fixed and guaranteed premiums and benefits and consist principally of whole life and term life insurance policies. Premiums from these products are recognized as premium revenue when due. Related policy benefits and expenses for individual life products are

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****1. Nature of Operations and Significant Accounting Policies — (continued)**

associated with earned premiums and result in the recognition of profits over the expected term of the policies and contracts.

Immediate annuities with life contingencies include products with fixed and guaranteed annuity considerations and benefits and consist principally of group and individual single premium annuities with life contingencies. Annuity considerations from these products are recognized as premium revenue. However, the collection of these annuity considerations does not represent the completion of the earnings process, as we establish annuity reserves, using estimates for mortality and investment assumptions, which include provision for adverse deviation as required by U.S. GAAP. We anticipate profits to emerge over the life of the annuity products as we earn investment income, pay benefits and release reserves.

Group life and health insurance premiums are generally recorded as premium revenue over the term of the coverage. Certain group contracts contain experience premium refund provisions based on a pre-defined formula that reflects their claim experience. Experience premium refunds reduce revenue over the term of the coverage and are adjusted to reflect current experience. Related policy benefits and expenses for group life and health insurance products are associated with earned premiums and result in the recognition of profits over the term of the policies and contracts. Fees for contracts providing claim processing or other administrative services are recorded as revenue over the period the service is provided.

Universal life-type policies are insurance contracts with terms that are not fixed. Amounts received as payments for such contracts are not reported as premium revenues. Revenues for universal life-type insurance contracts consist of policy charges for the cost of insurance, policy initiation and administration, surrender charges and other fees that have been assessed against policy account values and investment income. Policy benefits and claims that are charged to expense include interest credited to contracts and benefit claims incurred in the period in excess of related policy account balances.

Investment contracts do not subject us to significant risks arising from policyholder mortality or morbidity and consist primarily of guaranteed investment contracts ("GICs"), funding agreements and certain deferred annuities. Amounts received as payments for investment contracts are established as investment contract liability balances and are not reported as premium revenues. Revenues for investment contracts consist of investment income and policy administration charges. Investment contract benefits that are charged to expense include benefit claims incurred in the period in excess of related investment contract liability balances and interest credited to investment contract liability balances.

Fees and other revenues are earned for asset management services provided to retail and institutional clients based largely upon contractual rates applied to the market value of the client's portfolio. Additionally, fees and other revenues are earned for administrative services performed including recordkeeping and reporting services for retirement savings plans. Fees and other revenues received for performance of asset management and administrative services are recognized as revenue when earned, typically when the service is performed.

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 long-term service contracts as services are performed over the life of the contract.

**Deferred Acquisition Costs**

Incremental direct costs of contract acquisition as well as certain costs directly related to acquisition activities (underwriting, policy issuance and processing, medical and inspection and sales force contract selling) for the successful acquisition of new and renewal insurance policies and investment contract business are capitalized to the extent recoverable. Commissions and other incremental direct costs for the acquisition of long-term service contracts are also capitalized to the extent recoverable. Maintenance costs and acquisition costs that are not deferrable are charged to operations as incurred.

DAC for universal life-type insurance contracts and certain investment contracts are being amortized over the lives of the policies and contracts in relation to the emergence of EGPs or, in certain circumstances, estimated gross revenues. This amortization is adjusted in the current period when EGPs or estimated gross revenues are revised. For individual variable universal life insurance, individual variable annuities and group annuities that have separate account U.S. equity investment options, we utilize a mean reversion method (reversion to the mean assumption), a common industry practice, to determine the future domestic equity market growth assumption used for the amortization of DAC. The DAC on participating life insurance policies are being amortized in proportion to estimated gross margins. The DAC on

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****1. Nature of Operations and Significant Accounting Policies — (continued)**

nonparticipating term life insurance and individual disability policies are being amortized over the premium-paying period of the related policies using assumptions consistent with those used in computing policyholder liabilities.

DAC on insurance policies and investment contracts are subject to recoverability testing at the time of policy issue and loss recognition testing on an annual basis, or when an event occurs that may warrant loss recognition. If loss recognition is necessary, DAC would be written off to the extent that it is determined that future policy premiums and investment income or gross profits are not adequate to cover related losses and expenses.

DAC on long-term service contracts are amortized in proportion to the revenue recognized or straight-line if no pattern of revenue recognition can be reasonably predicted. We amortize capitalized costs of long-term service contracts on a straight-line basis over the expected contract life.

**Deferred Acquisition Costs on Internal Replacements**

All insurance and investment contract modifications and replacements are reviewed to determine if the internal replacement results in a substantially changed contract. If so, the acquisition costs, sales inducements and unearned revenue associated with the new contract are deferred and amortized over the lifetime of the new contract. In addition, the existing DAC, sales inducement costs and unearned revenue balances associated with the replaced contract are written off. If an internal replacement results in a substantially unchanged contract, the acquisition costs, sales inducements and unearned revenue associated with the new contract are immediately recognized in the period incurred. In addition, the existing DAC, sales inducement costs or unearned revenue balance associated with the replaced contract is not written off, but instead is carried over to the new contract.

**Long-Term Debt**

Long-term debt includes notes payable, nonrecourse mortgages and other debt with a maturity date greater than one year at the date of issuance. Current maturities of long-term debt are classified as long-term debt in our statement of financial position.

**Reinsurance**

We enter into reinsurance agreements with other companies in the normal course of business in order to limit losses and minimize exposure to significant risks. We may assume reinsurance from or cede reinsurance to other companies. Assets and liabilities related to reinsurance ceded are reported on a gross basis. Premiums and expenses are reported net of reinsurance ceded. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies. We are contingently liable with respect to reinsurance ceded to other companies in the event the reinsurer is unable to meet the obligations it has assumed. At December 31, 2015 and 2014, we had \$397.5 million and \$338.0 million of net ceded reinsurance recoverables related to claims that have been received, respectively. At December 31, 2015 and 2014, our largest exposures to a single third party reinsurer was in our life insurance business, which totaled \$40.6 billion and \$38.9 billion of life insurance in force, representing 15% and 16% of total net life insurance in force, respectively. The reinsurance recoverable relating to claims received that are associated to this single third party reinsurer recorded in our consolidated statements of financial position was \$58.9 million and \$48.1 million at December 31, 2015 and 2014, respectively.

The effects of reinsurance on premiums and other considerations and policy and contract benefits were as follows:

	For the year ended		
	December 31,		
	2015	2014	2013
	(in millions)		
Premiums and other considerations:			
Direct	\$ 5,710.8	\$ 4,123.7	\$ 3,524.8
Assumed	1.9	2.1	2.5
Ceded	(402.4)	(402.9)	(373.2)
Net premiums and other considerations	<u>\$ 5,310.3</u>	<u>\$ 3,722.9</u>	<u>\$ 3,154.1</u>
Benefits, claims and settlement expenses:			
Direct	\$ 7,196.7	\$ 5,532.5	\$ 4,933.3
Assumed	28.7	30.7	32.2
Ceded	(527.7)	(332.2)	(281.9)
Net benefits, claims and settlement expenses	<u>\$ 6,697.7</u>	<u>\$ 5,231.0</u>	<u>\$ 4,683.6</u>

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****1. Nature of Operations and Significant Accounting Policies — (continued)****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 statement of operations. Net deposits, net investment income and realized and unrealized capital gains and losses of the separate accounts are not reflected in the consolidated statements of operations.

Separate account assets and separate account liabilities include certain 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.

At December 31, 2015 and December 31, 2014, the separate accounts include a separate account valued at \$158.2 million and \$205.4 million, respectively, which primarily includes shares of our stock that were allocated and issued to eligible participants of qualified employee benefit plans administered by us as part of the policy credits issued under our 2001 demutualization. These shares are included in both basic and diluted earnings per share calculations. In the consolidated statements of financial position, the separate account shares are recorded at fair value and are reported as separate account assets with a corresponding separate account liability to eligible participants of the qualified plan. Changes in fair value of the separate account shares are reflected in both the separate account assets and separate account liabilities and do not impact our results of operations.

**Income Taxes**

We file a U.S. consolidated income tax return that includes all of our qualifying subsidiaries. In addition, we file income tax returns in all states and foreign jurisdictions in which we conduct business. Our policy of allocating income tax expenses and benefits to companies in the group is generally based upon pro rata contribution of taxable income or operating losses. We are taxed at corporate rates on taxable income based on existing tax laws. Current income taxes are charged or credited to net income based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. Deferred income taxes are provided for the tax effect of temporary differences in the financial reporting and income tax bases of assets and liabilities and net operating losses using enacted income tax rates and laws. The effect on deferred income tax assets and deferred income tax liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted.

**Foreign Exchange**

Assets and liabilities of our foreign subsidiaries and affiliates denominated in non-U.S. dollars, where the U.S. dollar is not the functional currency, are translated into U.S. dollar equivalents at the year-end spot foreign exchange rates. Resulting translation adjustments are reported as a component of stockholders' equity, along with any related hedge and tax effects. Revenues and expenses for these entities are translated at the average exchange rates. Revenue, expense and other foreign currency transaction and translation adjustments that affect cash flows are reported in net income, along with related hedge and tax effects.

**Goodwill and Other Intangibles**

Goodwill and other intangible assets include the cost of acquired subsidiaries in excess of the fair value of the net tangible assets recorded in connection with acquisitions. Goodwill and indefinite-lived intangible assets are not amortized. Rather, they are tested for impairment during the third quarter each year, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill is tested at the reporting unit level, which is a business one level below the operating segment, if financial information is prepared and regularly reviewed by management at that level. Once goodwill has been assigned to a reporting unit, it is no longer associated with a particular acquisition; therefore, all of the activities within a reporting unit, whether acquired or organically grown, are available to support the goodwill value. Impairment testing for indefinite-lived intangible assets consists of a comparison of the fair value of the intangible asset with its carrying value.

Intangible assets with a finite useful life are amortized as related benefits emerge and are reviewed periodically for indicators of impairment in value. If facts and circumstances suggest possible impairment, the sum of the estimated

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**1. Nature of Operations and Significant Accounting Policies — (continued)**

undiscounted future cash flows expected to result from the use of the asset is compared to the current carrying value of the asset. If the undiscounted future cash flows are less than the carrying value, an impairment loss is recognized for the excess of the carrying amount of assets over their fair value.

**Earnings Per Common Share**

Basic earnings per common share is calculated by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period and excludes the dilutive effect of equity awards. Diluted earnings per common share reflects the potential dilution that could occur if dilutive securities, such as options and non-vested stock grants, were exercised or resulted in the issuance of common stock.

**2. Goodwill and Other Intangible Assets**

**Goodwill**

The changes in the carrying amount of goodwill reported in our segments were as follows:

	<u>Retirement and Income Solutions</u>	<u>Principal Global Investors</u>	<u>Principal International</u>	<u>U.S. Insurance Solutions</u>	<u>Corporate</u>	<u>Consolidated</u>
	<i>(in millions)</i>					
<b>Balance at January 1, 2014</b>	\$ 57.4	\$ 256.3	\$ 730.0	\$ 56.6	\$ —	\$ 1,100.3
Foreign currency	—	(3.9)	(89.0)	—	—	(92.9)
<b>Balance at December 31, 2014</b>	<u>57.4</u>	<u>252.4</u>	<u>641.0</u>	<u>56.6</u>	<u>—</u>	<u>1,007.4</u>
Goodwill from acquisitions	—	3.1	101.7	—	—	104.8
Foreign currency	—	(3.4)	(99.8)	—	—	(103.2)
<b>Balance at December 31, 2015</b>	<u>\$ 57.4</u>	<u>\$ 252.1</u>	<u>\$ 642.9</u>	<u>\$ 56.6</u>	<u>\$ —</u>	<u>\$ 1,009.0</u>

On September 1, 2015, we completed our purchase of AXA's Mandatory Provident Fund ("MPF") and Occupational Retirement Schemes Ordinance ("ORSO") pension business in Hong Kong for \$335.5 million. As part of the transaction, we entered into an exclusive 15-year distribution agreement with AXA to provide co-branded pension products through AXA's extensive agency network in Hong Kong. AXA's MPF and ORSO pension business is consolidated within our Principal International segment with a portion of the goodwill and identifiable intangible assets allocated to our Principal Global Investors segment.

Of the acquired intangible assets, \$104.8 million was assigned to goodwill and is not subject to amortization. The goodwill is largely related to future sales anticipated from our internal workforce and entity-specific revenue synergies that will be generated by combining AXA's MPF and ORSO pension business with our existing businesses. This goodwill will be tested annually as part of the Principal International Hong Kong reporting unit and the Principal Global Investors Equity Investments and Fixed Income Investments reporting units.

Of the remaining acquired intangible assets, \$138.0 million was assigned to customer relationships, which are subject to amortization over a 30-year useful life, and \$53.0 million was assigned to the distribution agreement, which is subject to amortization over a 15-year useful life based on its contractual term.

In connection with our fourth quarter 2015 operating segment changes, as described in Note 16, Segment Information, goodwill was tested for impairment using adjusted carrying values of the new reporting units. We concluded the fair value of each reporting unit was in excess of its carrying value and goodwill was not impaired.

**Finite Lived Intangible Assets**

Amortized intangible assets that continue to be subject to amortization over a weighted average remaining expected life of 16 years were as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	<i>(in millions)</i>	
Gross carrying value	\$ 766.7	\$ 674.1
Accumulated amortization	<u>198.1</u>	<u>183.6</u>
Net carrying value	<u>\$ 568.6</u>	<u>\$ 490.5</u>

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****2. Goodwill and Other Intangible Assets — (continued)**

During 2015, we recorded an \$8.3 million pre-tax impairment loss in operating expenses related to finite lived intangible assets that originated from the acquisition of our mutual fund company in Brazil with a gross carrying amount of \$11.5 million and \$3.2 million of accumulated amortization at the time of impairment. During 2015, 2014 and 2013, we fully amortized other finite lived intangible assets of \$0.5 million, \$118.6 million and \$5.2 million, respectively.

The amortization expense for intangible assets with finite useful lives was \$42.5 million, \$49.9 million and \$48.0 million for 2015, 2014 and 2013, respectively. At December 31, 2015, the estimated amortization expense for the next five years is as follows (in millions):

Year ending December 31:	
2016	\$ 47.3
2017	46.9
2018	46.6
2019	45.5
2020	45.0

**Indefinite Lived Intangible Assets**

The 2015 net impact of impairments of indefinite lived intangibles of our mutual fund company in Brazil resulted in a pre-tax loss of \$14.7 million that was recorded in operating expenses.

The net carrying amount of unamortized indefinite lived intangible assets was \$790.6 million and \$833.0 million as of December 31, 2015 and 2014, respectively. As of both December 31, 2015 and 2014, \$608.0 million relates to investment management contracts associated with our acquisition of WM Advisors, Inc. in 2006. The remaining balance primarily relates to the trade name intangible associated with our acquisition of Administradora de Fondos de Pensiones Cuprum S.A. in 2013.

**3. Variable Interest Entities**

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

**Consolidated Variable Interest Entities****Grantor Trusts**

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

**Collateralized Private Investment Vehicles**

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

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****3. Variable Interest Entities — (continued)*****Commercial Mortgage-Backed Securities***

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

***Mandatory Retirement Savings***

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

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 MPF and ORSO pension schemes. Each pension scheme has various guaranteed and non-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 have 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 that we are the primary beneficiary because we have 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.

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**3. Variable Interest Entities — (continued)**

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

	Grantor trusts	Collateralized private investment vehicles	CMBS <i>(in millions)</i>	Mandatory retirement savings	Real estate	Total
<b>December 31, 2015</b>						
Fixed maturities, available-for-sale	\$ 257.4	\$ —	\$ —	\$ —	\$ —	\$ 257.4
Fixed maturities, trading	—	100.4	—	—	—	100.4
Equity securities, trading	—	—	—	640.9	—	640.9
Real estate	—	—	—	—	354.5	354.5
Other investments	—	—	18.3	—	11.2	29.5
Cash	—	—	—	—	15.3	15.3
Accrued investment income	0.5	—	0.1	—	2.5	3.1
Premiums due and other receivables	—	—	—	—	1.6	1.6
Separate account assets	—	—	—	33,300.4	—	33,300.4
Other assets	—	—	—	—	(0.9)	(0.9)
Total assets	\$ 257.9	\$ 100.4	\$ 18.4	\$ 33,941.3	\$ 384.2	\$ 34,702.2
Contractholder funds	\$ —	\$ —	\$ —	\$ 338.9	\$ —	\$ 338.9
Long-term debt	—	—	—	—	42.8	42.8
Income taxes currently payable	—	—	—	—	0.5	0.5
Deferred income taxes	1.5	—	—	—	(1.7)	(0.2)
Separate account liabilities	—	—	—	33,300.4	—	33,300.4
Other liabilities (1)	230.3	85.9	—	—	29.7	345.9
Total liabilities	\$ 231.8	\$ 85.9	\$ —	\$ 33,639.3	\$ 71.3	\$ 34,028.3
<b>December 31, 2014</b>						
Fixed maturities, available-for-sale	\$ 278.2	\$ —	\$ —	\$ —	\$ —	\$ 278.2
Fixed maturities, trading	—	100.4	—	—	—	100.4
Equity securities, trading	—	—	—	345.3	—	345.3
Real estate	—	—	—	—	284.9	284.9
Other investments	—	—	35.0	—	5.6	40.6
Cash	—	—	—	—	4.7	4.7
Accrued investment income	0.4	—	0.2	—	1.4	2.0
Separate account assets	—	—	—	34,655.4	—	34,655.4
Other assets	—	—	—	—	0.3	0.3
Total assets	\$ 278.6	\$ 100.4	\$ 35.2	\$ 35,000.7	\$ 296.9	\$ 35,711.8
Long-term debt	\$ —	\$ —	\$ —	\$ —	\$ 82.3	\$ 82.3
Income taxes currently payable	—	—	—	—	10.6	10.6
Deferred income taxes	1.5	—	—	—	(0.4)	1.1
Separate account liabilities	—	—	—	34,655.4	—	34,655.4
Other liabilities (1)	239.1	85.6	4.8	—	14.5	344.0
Total liabilities	\$ 240.6	\$ 85.6	\$ 4.8	\$ 34,655.4	\$ 107.0	\$ 35,093.4

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

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

**Unconsolidated Variable Interest Entities**

**Invested Securities**

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

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****3. Variable Interest Entities — (continued)**

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

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

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

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

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

	<u>Asset carrying value</u>	<u>Maximum exposure to</u>
	<i>(in millions)</i>	<u>loss (1)</u>
<b>December 31, 2015</b>		
Fixed maturities, available-for-sale:		
Corporate	\$ 453.4	\$ 359.8
Residential mortgage-backed pass-through securities	2,627.5	2,549.4
Commercial mortgage-backed securities	3,919.8	3,932.5
Collateralized debt obligations	667.5	692.7
Other debt obligations	4,530.8	4,527.3
Fixed maturities, trading:		
Residential mortgage-backed pass-through securities	25.9	25.9
Commercial mortgage-backed securities	2.3	2.3
Collateralized debt obligations	35.1	35.1
Other investments:		
Other limited partnership and fund interests	255.6	255.6
<b>December 31, 2014</b>		
Fixed maturities, available-for-sale:		
Corporate	\$ 456.7	\$ 353.3
Residential mortgage-backed pass-through securities	2,822.9	2,702.9
Commercial mortgage-backed securities	3,975.5	3,896.9
Collateralized debt obligations	504.1	521.2
Other debt obligations	4,616.4	4,583.4
Fixed maturities, trading:		
Residential mortgage-backed pass-through securities	34.4	34.4
Commercial mortgage-backed securities	1.5	1.5
Collateralized debt obligations	39.4	39.4
Other debt obligations	0.2	0.2
Other investments:		
Other limited partnership and fund interests	188.2	188.2

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

**Sponsored Investment Funds**

We are the investment manager for certain money market mutual funds that are deemed to be VIEs. We are not the primary beneficiary of these VIEs since our involvement is limited primarily to being a service provider, and our variable

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**3. Variable Interest Entities — (continued)**

interest does not absorb the majority of the variability of the entities' net assets. As of December 31, 2015 and December 31, 2014, these VIEs held \$1.3 billion and \$1.4 billion in total assets, respectively. We have no contractual obligation to contribute to the funds.

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

**4. Investments**

**Fixed Maturities and Equity Securities**

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

	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>	<u>Other-than- temporary impairments in AOCI (1)</u>
	<i>(in millions)</i>				
<b>December 31, 2015</b>					
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ 1,488.4	\$ 23.4	\$ 8.3	\$ 1,503.5	\$ —
Non-U.S. governments	669.8	128.5	5.0	793.3	—
States and political subdivisions	4,501.8	234.7	19.4	4,717.1	—
Corporate	30,245.5	1,532.9	638.2	31,140.2	5.9
Residential mortgage-backed pass-through securities	2,549.4	90.0	11.9	2,627.5	—
Commercial mortgage-backed securities	3,932.5	65.3	78.0	3,919.8	80.7
Collateralized debt obligations	692.7	1.4	26.6	667.5	1.3
Other debt obligations	4,594.2	39.2	35.8	4,597.6	58.2
<b>Total fixed maturities, available-for-sale</b>	<b>\$ 48,674.3</b>	<b>\$ 2,115.4</b>	<b>\$ 823.2</b>	<b>\$ 49,966.5</b>	<b>\$ 146.1</b>
Total equity securities, available-for-sale	\$ 111.2	\$ 7.5	\$ 14.2	\$ 104.5	
<b>December 31, 2014</b>					
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ 1,085.6	\$ 39.1	\$ 2.9	\$ 1,121.8	\$ —
Non-U.S. governments	704.4	188.3	1.6	891.1	—
States and political subdivisions	3,916.8	291.3	4.1	4,204.0	—
Corporate	29,308.3	2,442.6	215.9	31,535.0	18.4
Residential mortgage-backed pass-through securities	2,702.9	126.3	6.3	2,822.9	—
Commercial mortgage-backed securities	3,896.9	141.5	62.9	3,975.5	88.9
Collateralized debt obligations	521.2	3.5	20.6	504.1	1.3
Other debt obligations	4,583.4	57.5	24.5	4,616.4	66.9
<b>Total fixed maturities, available-for-sale</b>	<b>\$ 46,719.5</b>	<b>\$ 3,290.1</b>	<b>\$ 338.8</b>	<b>\$ 49,670.8</b>	<b>\$ 175.5</b>
Total equity securities, available-for-sale	\$ 125.1	\$ 7.7	\$ 9.8	\$ 123.0	

(1) Excludes \$131.5 million and \$167.5 million as of December 31, 2015 and December 31, 2014, respectively, of net unrealized gains on impaired fixed maturities, available-for-sale related to changes in fair value subsequent to the impairment date, which are included in gross unrealized gains and gross unrealized losses.

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**4. Investments — (continued)**

The amortized cost and fair value of fixed maturities available-for-sale at December 31, 2015, by expected maturity, were as follows:

	Amortized cost	Fair value
	<i>(in millions)</i>	
Due in one year or less	\$ 2,674.0	\$ 2,695.0
Due after one year through five years	13,074.3	13,379.1
Due after five years through ten years	8,333.4	8,460.7
Due after ten years	12,823.8	13,619.3
Subtotal	36,905.5	38,154.1
Mortgage-backed and other asset-backed securities	11,768.8	11,812.4
Total	<u>\$ 48,674.3</u>	<u>\$ 49,966.5</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.

**Net Investment Income**

Major components of net investment income are summarized as follows:

	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>(in millions)</i>		
Fixed maturities, available-for-sale	\$ 2,131.8	\$ 2,283.8	\$ 2,321.3
Fixed maturities, trading	21.4	27.9	22.5
Equity securities, available-for-sale	15.0	7.0	7.6
Equity securities, trading	35.2	61.4	19.8
Mortgage loans	575.1	630.9	611.5
Real estate	97.1	103.8	61.2
Policy loans	46.3	49.4	49.9
Cash and cash equivalents	8.5	6.5	14.0
Derivatives	(66.6)	(88.0)	(115.2)
Other	265.3	252.1	222.0
Total	<u>3,129.1</u>	<u>3,334.8</u>	<u>3,214.6</u>
Investment expenses	(77.0)	(76.9)	(76.2)
Net investment income	<u>\$ 3,052.1</u>	<u>\$ 3,257.9</u>	<u>\$ 3,138.4</u>

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****4. Investments — (continued)****Net Realized Capital Gains and Losses**

Major components of net realized capital gains (losses) on investments are summarized as follows:

	For the year ended December 31,		
	2015	2014	2013
	(in millions)		
Fixed maturities, available-for-sale:			
Gross gains	\$ 20.9	\$ 61.3	\$ 30.5
Gross losses	(6.7)	(24.1)	(15.9)
Net impairment losses	(30.5)	(88.0)	(115.7)
Hedging, net	(58.3)	(21.5)	(115.5)
Fixed maturities, trading	(12.3)	31.2	(7.1)
Equity securities, available-for-sale:			
Gross gains	1.2	0.2	0.8
Gross losses	(1.8)	(0.2)	—
Net impairment recoveries (losses)	0.3	10.0	(0.3)
Equity securities, trading	(3.4)	21.7	26.9
Mortgage loans	(0.1)	(9.4)	(15.8)
Derivatives	38.1	13.1	(23.0)
Other	1.5	20.4	9.9
Net realized capital gains (losses)	<u>\$ (51.1)</u>	<u>\$ 14.7</u>	<u>\$ (225.2)</u>

Proceeds from sales of investments (excluding call and maturity proceeds) in fixed maturities, available-for-sale were \$1,537.5 million, \$2,251.2 million and \$1,773.0 million in 2015, 2014 and 2013, respectively.

**Other-Than-Temporary Impairments**

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

Each reporting period, all securities are reviewed to determine whether an other-than-temporary decline in value exists and whether losses should be recognized. We consider relevant facts and circumstances in evaluating whether a credit or interest 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; (5) for fixed maturities, our intent to sell a security or whether it is more likely than not we will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity and (6) for equity securities, our ability and intent to hold the security for a period of time that allows for the recovery in value. To the extent we determine that a security is deemed to be other than temporarily impaired, an impairment loss is recognized.

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

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**4. Investments — (continued)**

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

	For the year ended December 31,		
	2015	2014	2013
	<i>(in millions)</i>		
Fixed maturities, available-for-sale	\$ (1.1)	\$ 13.8	\$ (91.2)
Equity securities, available-for-sale	0.3	10.0	(0.3)
<b>Total other-than-temporary impairment losses, net of recoveries from the sale of previously impaired securities</b>	<b>(0.8)</b>	<b>23.8</b>	<b>(91.5)</b>
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified from OCI (1)	(29.4)	(101.8)	(24.5)
<b>Net impairment losses on available-for-sale securities</b>	<b>\$ (30.2)</b>	<b>\$ (78.0)</b>	<b>\$ (116.0)</b>

(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.

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 year ended December 31,		
	2015	2014	2013
	<i>(in millions)</i>		
Beginning balance	\$ (144.4)	\$ (235.4)	\$ (335.2)
Credit losses for which an other-than-temporary impairment was not previously recognized	(6.1)	(11.3)	(15.1)
Credit losses for which an other-than-temporary impairment was previously recognized	(13.8)	(67.4)	(75.9)
Reduction for credit losses previously recognized on fixed maturities now sold, paid down or intended to be sold	24.7	163.1	177.6
Net reduction for positive changes in cash flows expected to be collected and amortization (1)	7.5	6.6	12.6
Foreign currency translation adjustment	0.6	—	0.6
<b>Ending balance</b>	<b>\$ (131.5)</b>	<b>\$ (144.4)</b>	<b>\$ (235.4)</b>

(1) Amounts are recognized in net investment income.

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**4. Investments — (continued)**

**Gross Unrealized Losses for Fixed Maturities and Equity Securities**

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

	December 31, 2015					
	Less than twelve months		Greater than or equal to twelve months		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
	<i>(in millions)</i>					
Fixed maturities, available-for-sale:						
U.S. government and agencies	\$ 590.4	\$ 7.6	\$ 40.5	\$ 0.7	\$ 630.9	\$ 8.3
Non-U.S. governments	86.3	3.1	16.1	1.9	102.4	5.0
States and political subdivisions	692.0	19.0	6.5	0.4	698.5	19.4
Corporate	7,975.7	309.3	1,375.0	328.9	9,350.7	638.2
Residential mortgage-backed pass-through securities	656.7	6.7	147.9	5.2	804.6	11.9
Commercial mortgage-backed securities	1,480.8	27.3	299.5	50.7	1,780.3	78.0
Collateralized debt obligations	426.9	3.8	164.0	22.8	590.9	26.6
Other debt obligations	2,512.7	19.1	403.5	16.7	2,916.2	35.8
Total fixed maturities, available-for-sale	\$ 14,421.5	\$ 395.9	\$ 2,453.0	\$ 427.3	\$ 16,874.5	\$ 823.2
Total equity securities, available-for-sale	\$ 0.8	\$ 1.0	\$ 32.7	\$ 13.2	\$ 33.5	\$ 14.2

Of the total amounts, Principal Life's consolidated portfolio represented \$15,980.0 million in available-for-sale fixed maturities with gross unrealized losses of \$777.0 million. Of those fixed maturity securities in Principal Life's consolidated portfolio with a gross unrealized loss position, 87% were investment grade (rated AAA through BBB-) with an average price of 95 (carrying value/amortized cost) at December 31, 2015. Gross unrealized losses in our fixed maturities portfolio increased during the year ended December 31, 2015, due primarily to an increase in interest rates and widening of credit spreads.

For those securities that had been in a continuous unrealized loss position for less than twelve months, Principal Life's consolidated portfolio held 1,725 securities with a carrying value of \$13,673.9 million and unrealized losses of \$376.3 million reflecting an average price of 97 at December 31, 2015. Of this portfolio, 90% was investment grade (rated AAA through BBB-) at December 31, 2015, with associated unrealized losses of \$298.1 million. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

For those securities that had been in a continuous unrealized loss position greater than or equal to twelve months, Principal Life's consolidated portfolio held 404 securities with a carrying value of \$2,306.1 million and unrealized losses of \$400.7 million. The average rating of this portfolio was BBB+ with an average price of 85 at December 31, 2015. Of the \$400.7 million in unrealized losses, the corporate sector accounts for \$304.2 million in unrealized losses with an average price of 80 and an average credit rating of BBB-. The remaining unrealized losses consist primarily of \$50.7 million within the commercial mortgage-backed securities sector with an average price of 86 and an average credit rating of BBB+. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

Because we expected to recover our amortized cost, it was not our intent to sell the fixed maturity available-for-sale securities with unrealized losses and it was not more likely than not that we would be required to sell these securities

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**4. Investments — (continued)**

before recovery of the amortized cost, which may be maturity, we did not consider these investments to be other-than-temporarily impaired at December 31, 2015.

	December 31, 2014					
	Less than twelve months		Greater than or equal to twelve months		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
	<i>(in millions)</i>					
Fixed maturities, available-for-sale:						
U.S. government and agencies	\$ 211.5	\$ 0.7	\$ 95.0	\$ 2.2	\$ 306.5	\$ 2.9
Non-U.S. governments	20.3	1.4	7.5	0.2	27.8	1.6
States and political subdivisions	208.1	0.7	210.5	3.4	418.6	4.1
Corporate	3,072.1	76.8	1,238.3	139.1	4,310.4	215.9
Residential mortgage-backed pass-through securities	18.0	—	395.3	6.3	413.3	6.3
Commercial mortgage-backed securities	375.3	3.0	395.0	59.9	770.3	62.9
Collateralized debt obligations	114.8	1.0	112.0	19.6	226.8	20.6
Other debt obligations	971.2	3.5	432.7	21.0	1,403.9	24.5
Total fixed maturities, available-for-sale	\$ 4,991.3	\$ 87.1	\$ 2,886.3	\$ 251.7	\$ 7,877.6	\$ 338.8
Total equity securities, available-for-sale	\$ 10.0	\$ —	\$ 36.0	\$ 9.8	\$ 46.0	\$ 9.8

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

For those securities that had been in a continuous unrealized loss position for less than twelve months, Principal Life's consolidated portfolio held 685 securities with a carrying value of \$4,907.1 million and unrealized losses of \$85.4 million reflecting an average price of 98 at December 31, 2014. Of this portfolio, 77% was investment grade (rated AAA through BBB-) at December 31, 2014, with associated unrealized losses of \$44.4 million. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

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

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

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

The net unrealized gains and losses on investments in fixed maturities available-for-sale, equity securities available-for-sale and derivative instruments in cash flow hedge relationships are reported as a separate component of stockholders' equity. The cumulative amount of net unrealized gains and losses on available-for-sale securities and

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****4. Investments — (continued)**

derivative instruments in cash flow hedge relationships net of adjustments related to DAC and related actuarial balances and applicable income taxes was as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	<i>(in millions)</i>	
Net unrealized gains on fixed maturities, available-for-sale (1)	\$ 1,376.0	\$ 3,079.1
Noncredit component of impairment losses on fixed maturities, available-for-sale	(146.1)	(175.5)
Net unrealized losses on equity securities, available-for-sale	(6.7)	(2.1)
Adjustments for assumed changes in amortization patterns	(127.0)	(346.8)
Adjustments for assumed changes in policyholder liabilities	(309.7)	(1,078.6)
Net unrealized gains on derivative instruments	181.6	160.1
Net unrealized gains on equity method subsidiaries and noncontrolling interest adjustments	98.0	88.9
Provision for deferred income taxes	(350.2)	(576.8)
Net unrealized gains on available-for-sale securities and derivative instruments	<u>\$ 715.9</u>	<u>\$ 1,148.3</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) home equity mortgages and (2) first lien mortgages. The carrying amount of our mortgage loan portfolio was as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	<i>(in millions)</i>	
Commercial mortgage loans	\$ 11,265.3	\$ 10,723.8
Residential mortgage loans	1,125.7	1,144.3
Total amortized cost	<u>12,391.0</u>	<u>11,868.1</u>
Valuation allowance	(51.6)	(56.5)
Total carrying value	<u>\$ 12,339.4</u>	<u>\$ 11,811.6</u>

We periodically purchase mortgage loans as well as sell mortgage loans we have originated. We purchased \$295.3 million, \$184.8 million and \$157.2 million of residential mortgage loans in 2015, 2014 and 2013, respectively. We sold \$79.3 million, \$95.9 million and \$0.0 million of residential mortgage loans in 2015, 2014 and 2013, respectively. We purchased \$223.4 million, \$59.5 million and \$166.1 million of commercial mortgage loans in 2015, 2014 and 2013, respectively. We sold \$21.6 million, \$2.3 million and \$13.0 million of commercial mortgage loans in 2015, 2014 and 2013, respectively.

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**4. Investments — (continued)**

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:

	<u>December 31, 2015</u>		<u>December 31, 2014</u>	
	<u>Amortized cost</u>	<u>Percent of total</u>	<u>Amortized cost</u>	<u>Percent of total</u>
	(\$ in millions)			
<b>Geographic distribution</b>				
New England	\$ 509.4	4.5%	\$ 528.0	4.9%
Middle Atlantic	3,075.6	27.3	2,951.0	27.5
East North Central	451.8	4.0	442.1	4.1
West North Central	264.3	2.3	233.3	2.2
South Atlantic	2,072.7	18.4	1,970.9	18.4
East South Central	215.1	1.9	197.4	1.8
West South Central	1,120.6	9.9	1,023.9	9.5
Mountain	898.8	8.0	772.0	7.2
Pacific	2,614.1	23.2	2,565.5	24.0
International	42.9	0.5	39.7	0.4
Total	<u>\$ 11,265.3</u>	<u>100.0%</u>	<u>\$ 10,723.8</u>	<u>100.0%</u>
<b>Property type distribution</b>				
Office	\$ 4,010.0	35.6%	\$ 3,646.1	34.0%
Retail	2,521.6	22.4	2,512.1	23.4
Industrial	1,840.9	16.3	1,918.7	17.9
Apartments	2,474.2	22.0	2,200.5	20.5
Hotel	320.5	2.7	331.5	3.1
Mixed use/other	98.1	1.0	114.9	1.1
Total	<u>\$ 11,265.3</u>	<u>100.0%</u>	<u>\$ 10,723.8</u>	<u>100.0%</u>

Our residential mortgage loan portfolio is composed of home equity mortgages with an amortized cost of \$218.8 million and \$283.4 million and first lien mortgages with an amortized cost of \$906.9 million and \$860.9 million as of December 31, 2015 and December 31, 2014, respectively. Our residential home equity mortgages are concentrated in the United States and are generally second lien mortgages comprised of closed-end loans and lines of credit. The majority of our first lien loans are concentrated in the Chilean market.

**Mortgage Loan Credit Monitoring**

**Commercial Credit Risk Profile Based on Internal Rating**

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

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

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**4. Investments — (continued)**

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:

	December 31, 2015		
	Brick and mortar	CTL	Total
	<i>(in millions)</i>		
A- and above	\$ 9,844.2	\$ 224.0	\$ 10,068.2
BBB+ thru BBB-	892.4	119.5	1,011.9
BB+ thru BB-	159.6	0.1	159.7
B+ and below	24.8	0.7	25.5
<b>Total</b>	<b>\$ 10,921.0</b>	<b>\$ 344.3</b>	<b>\$ 11,265.3</b>

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

**Residential Credit Risk Profile Based on Performance Status**

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

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

	December 31, 2015		
	Home equity	First liens	Total
	<i>(in millions)</i>		
Performing	\$ 208.0	\$ 895.6	\$ 1,103.6
Nonperforming	10.8	11.3	22.1
<b>Total</b>	<b>\$ 218.8</b>	<b>\$ 906.9</b>	<b>\$ 1,125.7</b>

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

**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 or according to the contractual terms of the loan. When a loan is placed on nonaccrual status, the accrued unpaid interest receivable is reversed against interest income. Accrual of interest resumes after factors resulting in doubts about collectability have improved. Residential first lien mortgages in the Chilean market are carried on accrual for a longer period of delinquency than domestic loans, as assessment of collectability is based on the nature of the loans and collection practices in that market.

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements — (continued)

December 31, 2015

4. Investments — (continued)

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

	December 31, 2015	December 31, 2014
	(in millions)	
Commercial:		
Brick and mortar	\$ —	\$ 9.6
Residential:		
Home equity	10.8	15.0
First liens	7.9	8.8
Total	<u>\$ 18.7</u>	<u>\$ 33.4</u>

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

	December 31, 2015						Recorded investment 90 days or more and accruing
	30 - 59 days past due	60 - 89 days past due	90 days or more past due	Total past due	Current	Total loans	
	(in millions)						
Commercial-brick and mortar	\$ —	\$ —	\$ —	\$ —	\$ 10,921.0	\$ 10,921.0	\$ —
Commercial-CTL	—	—	—	—	344.3	344.3	—
Residential-home equity	2.0	1.0	0.6	3.6	215.2	218.8	—
Residential-first liens	20.5	5.5	10.0	36.0	870.9	906.9	3.4
Total	<u>\$ 22.5</u>	<u>\$ 6.5</u>	<u>\$ 10.6</u>	<u>\$ 39.6</u>	<u>\$ 12,351.4</u>	<u>\$ 12,391.0</u>	<u>\$ 3.4</u>

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

Mortgage Loan Valuation Allowance

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

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**4. Investments — (continued)**

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.

## Principal Financial Group, Inc.

## Notes to Consolidated Financial Statements — (continued)

December 31, 2015

## 4. Investments — (continued)

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>	<u>Total</u>
	<i>(in millions)</i>		
<b>For the year ended December 31, 2015</b>			
Beginning balance	\$ 26.9	\$ 29.6	\$ 56.5
Provision	3.9	—	3.9
Charge-offs	(3.4)	(9.0)	(12.4)
Recoveries	0.1	3.6	3.7
Effect of exchange rates	—	(0.1)	(0.1)
Ending balance	<u>\$ 27.5</u>	<u>\$ 24.1</u>	<u>\$ 51.6</u>
Allowance ending balance by basis of impairment method:			
Individually evaluated for impairment	\$ —	\$ 7.5	\$ 7.5
Collectively evaluated for impairment	27.5	16.6	44.1
Allowance ending balance	<u>\$ 27.5</u>	<u>\$ 24.1</u>	<u>\$ 51.6</u>
Loan balance by basis of impairment method:			
Individually evaluated for impairment	\$ —	\$ 23.2	\$ 23.2
Collectively evaluated for impairment	11,265.3	1,102.5	12,367.8
Loan ending balance	<u>\$ 11,265.3</u>	<u>\$ 1,125.7</u>	<u>\$ 12,391.0</u>
<b>For the year ended December 31, 2014</b>			
Beginning balance	\$ 28.7	\$ 41.1	\$ 69.8
Provision	(0.9)	7.7	6.8
Charge-offs	(0.9)	(22.7)	(23.6)
Recoveries	—	3.6	3.6
Effect of exchange rates	—	(0.1)	(0.1)
Ending balance	<u>\$ 26.9</u>	<u>\$ 29.6</u>	<u>\$ 56.5</u>
Allowance ending balance by basis of impairment method:			
Individually evaluated for impairment	\$ 2.4	\$ 9.0	\$ 11.4
Collectively evaluated for impairment	24.5	20.6	45.1
Allowance ending balance	<u>\$ 26.9</u>	<u>\$ 29.6</u>	<u>\$ 56.5</u>
Loan balance by basis of impairment method:			
Individually evaluated for impairment	\$ 4.4	\$ 27.1	\$ 31.5
Collectively evaluated for impairment	10,719.4	1,117.2	11,836.6
Loan ending balance	<u>\$ 10,723.8</u>	<u>\$ 1,144.3</u>	<u>\$ 11,868.1</u>
<b>For the year ended December 31, 2013</b>			
Beginning balance	\$ 51.8	\$ 45.6	\$ 97.4
Provision	4.1	10.8	14.9
Charge-offs	(28.0)	(18.3)	(46.3)
Recoveries	0.8	3.1	3.9
Effect of exchange rates	—	(0.1)	(0.1)
Ending balance	<u>\$ 28.7</u>	<u>\$ 41.1</u>	<u>\$ 69.8</u>
Allowance ending balance by basis of impairment method:			
Individually evaluated for impairment	\$ 2.4	\$ 10.2	\$ 12.6
Collectively evaluated for impairment	26.3	30.9	57.2
Allowance ending balance	<u>\$ 28.7</u>	<u>\$ 41.1</u>	<u>\$ 69.8</u>
Loan balance by basis of impairment method:			
Individually evaluated for impairment	\$ 4.4	\$ 33.0	\$ 37.4
Collectively evaluated for impairment	10,323.3	1,242.7	11,566.0
Loan ending balance	<u>\$ 10,327.7</u>	<u>\$ 1,275.7</u>	<u>\$ 11,603.4</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

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****4. Investments — (continued)**

collectability of the principal, a determination is made to apply any payments received either against the principal or according to the contractual terms of the loan. Our recorded investment in and unpaid principal balance of impaired loans along with the related loan specific allowance for losses, if any, and the average recorded investment and interest income recognized during the time the loans were impaired were as follows:

	<b>December 31, 2015</b>		
	<b>Recorded investment</b>	<b>Unpaid principal balance</b>	<b>Related allowance</b>
	<i>(in millions)</i>		
With no related allowance recorded:			
Residential-first liens	\$ 3.6	\$ 3.6	\$ —
With an allowance recorded:			
Residential-home equity	13.7	14.8	7.0
Residential-first liens	5.9	5.8	0.5
Total:			
Residential	\$ 23.2	\$ 24.2	\$ 7.5

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

**Principal Financial Group, Inc.**
**Notes to Consolidated Financial Statements — (continued)**
**December 31, 2015**
**4. Investments — (continued)**

	Average recorded investment	Interest income recognized
	<i>(in millions)</i>	
<b>For the year ended December 31, 2015</b>		
With no related allowance recorded:		
Commercial-brick and mortar	\$ 2.6	\$ —
Residential-first liens	3.5	—
With an allowance recorded:		
Commercial-brick and mortar	2.2	0.2
Residential-home equity	15.1	0.4
Residential-first liens	6.6	0.2
<b>Total:</b>		
Commercial	\$ 4.8	\$ 0.2
Residential	\$ 25.2	\$ 0.6
<b>For the year ended December 31, 2014</b>		
With no related allowance recorded:		
Commercial-brick and mortar	\$ 13.4	\$ —
Residential-first liens	4.0	—
With an allowance recorded:		
Commercial-brick and mortar	4.4	0.2
Residential-home equity	18.0	0.6
Residential-first liens	8.1	0.2
<b>Total:</b>		
Commercial	\$ 17.8	\$ 0.2
Residential	\$ 30.1	\$ 0.8
<b>For the year ended December 31, 2013</b>		
With no related allowance recorded:		
Commercial-brick and mortar	\$ 22.2	\$ 0.2
Residential-first liens	7.2	—
With an allowance recorded:		
Commercial-brick and mortar	4.4	0.3
Residential-home equity	20.2	1.1
Residential-first liens	8.9	0.2
<b>Total:</b>		
Commercial	\$ 26.6	\$ 0.5
Residential	\$ 36.3	\$ 1.3

**Mortgage Loan Modifications**

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

## Principal Financial Group, Inc.

## Notes to Consolidated Financial Statements — (continued)

December 31, 2015

## 4. Investments — (continued)

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

	For the year ended December 31, 2015			
	TDRs		TDRs in payment default	
	Number of contracts	Recorded investment (in millions)	Number of contracts	Recorded investment (in millions)
Residential-home equity	14	\$ 0.6	2	\$ —
Total	14	\$ 0.6	2	\$ —

	For the year ended December 31, 2014			
	TDRs		TDRs in payment default	
	Number of contracts	Recorded investment (in millions)	Number of contracts	Recorded investment (in millions)
Commercial-brick and mortar	2	\$ 5.1	1	\$ 0.7
Residential-home equity	75	3.0	3	—
Residential-first liens	1	0.1	—	—
Total	78	\$ 8.2	4	\$ 0.7

	For the year ended December 31, 2013			
	TDRs		TDRs in payment default	
	Number of contracts	Recorded investment (in millions)	Number of contracts	Recorded investment (in millions)
Commercial-brick and mortar	2	\$ 0.9	—	\$ —
Residential-home equity	69	3.8	19	—
Residential-first liens	3	0.6	1	0.3
Total	74	\$ 5.3	20	\$ 0.3

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

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

## Real Estate

Depreciation expense on invested real estate was \$49.3 million, \$46.5 million and \$44.4 million in 2015, 2014 and 2013, respectively. Accumulated depreciation was \$409.3 million and \$388.0 million as of December 31, 2015 and 2014, respectively.

## Other Investments

Other investments include interests in unconsolidated entities, domestic and international joint ventures and partnerships and properties owned jointly with venture partners and operated by the partners. Such investments are generally accounted for using the equity method. In applying the equity method, we record our share of income or loss

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****4. Investments — (continued)**

reported by the equity investees in net investment income. Summarized financial information for these unconsolidated entities was as follows:

	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
	<i>(in millions)</i>	
Total assets	<b>\$ 101,099.0</b>	<b>\$ 60,190.2</b>
Total liabilities	<b>52,839.3</b>	<b>47,468.3</b>
Total equity	<b>\$ 48,259.7</b>	<b>\$ 12,721.9</b>
Net investment in unconsolidated entities (1)	<b>\$ 1,098.3</b>	<b>\$ 1,159.4</b>

	<b>For the year ended</b>		
	<b>December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>(in millions)</i>		
Total revenues	<b>\$ 13,171.0</b>	<b>\$ 6,297.0</b>	<b>\$ 3,002.9</b>
Net income	<b>4,866.0</b>	<b>1,152.7</b>	<b>738.6</b>
Our share of net income of unconsolidated entities (1)	<b>165.3</b>	<b>148.4</b>	<b>133.4</b>

(1) Primarily relates to Brasilprev Seguros e Previdencia, a co-managed joint venture in Brazil.

In addition, other investments include \$819.3 million and \$790.8 million of direct financing leases as of December 31, 2015 and 2014, respectively. Our Chilean operations enter into private placement contracts for commercial, industrial and office space properties whereby our Chilean operations purchase the real estate and/or building from the seller-lessee but then lease the property back to the seller-lessee. Ownership of the property is transferred to the lessee by the end of the lease term. The direct financing lease receivables are carried at amortized cost. We actively monitor and manage our direct financing leases. All leases within the portfolio are analyzed regularly and internally rated, based on financial condition, payment history and loan-to-value.

Derivative assets are carried at fair value and reported as a component of other investments. Certain seed money investments are also carried at fair value and reported as a component of other investments, with changes in fair value included in net realized capital gains (losses) on our consolidated statements of operations.

**Securities Posted as Collateral**

We posted \$935.7 million in fixed maturities, available-for-sale securities at December 31, 2015, to satisfy collateral requirements primarily associated with a reinsurance arrangement, our derivative credit support annex (collateral) agreements, Futures Commission Merchant ("FCM") agreements and a lending arrangement. In addition, we posted \$2,705.5 million in commercial mortgage loans and home equity mortgages as of December 31, 2015, to satisfy collateral requirements associated with our obligation under funding agreements with the Federal Home Loan Bank of Des Moines. Since we did not relinquish ownership rights on these instruments, they are reported as fixed maturities, available-for-sale and mortgage loans, respectively, on our consolidated statements of financial position. Of the securities posted as collateral, \$295.2 million can be sold or repledged by the secured party.

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**4. Investments — (continued)**

**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>				
<b>December 31, 2015</b>				
Derivative assets	\$ 665.4	\$ (409.7)	\$ (233.6)	\$ 22.1
Reverse repurchase agreements	79.7	—	(79.7)	—
Total	\$ 745.1	\$ (409.7)	\$ (313.3)	\$ 22.1
<b>December 31, 2014</b>				
Derivative assets	\$ 661.8	\$ (479.5)	\$ (169.0)	\$ 13.3
Reverse repurchase agreements	51.5	—	(51.5)	—
Total	\$ 713.3	\$ (479.5)	\$ (220.5)	\$ 13.3

- (1) The gross amount of recognized derivative and reverse repurchase agreement assets are reported with other investments and cash and cash equivalents on the consolidated statements of financial position. The above excludes \$1.2 million and \$0.0 million of derivative assets as of December 31, 2015 and December 31, 2014, that are not subject to master netting agreements or similar agreements. The gross amounts of derivative and reverse repurchase agreement assets are not netted against offsetting liabilities for presentation on the consolidated statements of financial position.
- (2) Represents amount of offsetting derivative liabilities that are subject to an enforceable master netting agreement or similar agreement that are not netted against the gross derivative assets for presentation on the consolidated statements of financial position.

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

	Gross amount of recognized liabilities (1)	Gross amounts not offset in the consolidated statements of financial position		Net amount
		Financial instruments (2)	Collateral pledged	
<i>(in millions)</i>				
<b>December 31, 2015</b>				
Derivative liabilities	\$ 758.6	\$ (409.7)	\$ (253.9)	\$ 95.0
<b>December 31, 2014</b>				
Derivative liabilities	\$ 786.0	\$ (479.5)	\$ (220.6)	\$ 85.9

- (1) The gross amount of recognized derivative liabilities are reported with other liabilities on the consolidated statements of financial position. The above excludes \$421.5 million and \$421.3 million of derivative liabilities as of December 31, 2015 and December 31, 2014, respectively, which are primarily embedded derivatives that are not subject to master netting agreements or similar agreements. The gross amounts of derivative liabilities are not netted against offsetting assets for presentation on the consolidated statements of financial position.
- (2) Represents amount of offsetting derivative assets that are subject to an enforceable master netting agreement or similar agreement that are not netted against the gross derivative liabilities for presentation on the consolidated statements of financial position.

The financial instruments that are subject to master netting agreements or similar agreements include right of setoff provisions. Derivative instruments include provisions to setoff positions covered under the agreements with the same counterparties and provisions to setoff positions outside of the agreements with the same counterparties in the event of default by one of the parties. Derivative instruments also include collateral provisions. Collateral received and pledged is generally settled daily with each counterparty. See Note 5, 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

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****4. Investments — (continued)**

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

**5. Derivative Financial Instruments**

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

**Types of Derivative Instruments*****Interest Rate Contracts***

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

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

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

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

In exchange-traded futures transactions, we agree to purchase or sell a specified number of contracts, the values of which are determined by the values of designated classes of securities, and to post variation margin on a daily basis in an amount equal to the difference in the daily market values of those contracts. We enter into exchange-traded futures with regulated futures commissions merchants who are members of a trading exchange. We have used exchange-traded futures to reduce market risks from changes in interest rates and to alter mismatches between the assets in a portfolio and the liabilities supported by those assets.

***Foreign Exchange Contracts***

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

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****5. Derivative Financial Instruments — (continued)**

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

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

**Equity Contracts**

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

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

**Credit Contracts**

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

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

**Other Contracts**

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

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

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****5. Derivative Financial Instruments — (continued)**

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

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

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

**Exposure**

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

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

We posted \$342.7 million and \$271.6 million in cash and securities under collateral arrangements as of December 31, 2015 and December 31, 2014, respectively, to satisfy collateral requirements associated with our derivative credit support agreements and FCM agreements. These amounts include initial margin requirements.

Certain of our derivative instruments contain provisions that require us to maintain an investment grade rating from each of the major credit rating agencies on our debt. If the ratings on our debt were to fall below investment grade, it would be in violation of these provisions and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value, inclusive of accrued interest, of all derivative instruments with credit-risk-related contingent features that were in a liability position without regard to netting under derivative credit support annex agreements as of December 31, 2015 and December 31, 2014, was \$606.5 million and \$656.2 million, respectively. Cleared derivatives have contingent features that require us to post excess margin as required by the FCM. The terms surrounding excess margin vary by FCM agreement. With respect to derivatives containing collateral triggers, we posted collateral and initial margin of \$342.7 million and \$271.6 million as of December 31, 2015 and December 31, 2014, 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 December 31, 2015, we would be required to post an additional \$75.8 million of collateral to our counterparties.

As of December 31, 2015 and December 31, 2014, we had received \$217.5 million and \$148.3 million, respectively, of cash collateral associated with our derivative credit support annex agreements and FCM agreements, for which we recorded a corresponding liability reflecting our obligation to return the collateral.

Notional amounts are used to express the extent of our involvement in derivative transactions and represent a standard measurement of the volume of our derivative activity. Notional amounts represent those amounts used to calculate contractual flows to be exchanged and are not paid or received, except for contracts such as currency swaps.

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**5. Derivative Financial Instruments — (continued)**

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>December 31, 2015</u>	<u>December 31, 2014</u>
	<i>(in millions)</i>	
<b>Notional amounts of derivative instruments</b>		
<b>Interest rate contracts:</b>		
Interest rate swaps	\$ 21,704.2	\$ 19,182.6
Interest rate options	4,900.0	4,900.0
Swaptions	259.0	260.0
Interest rate futures	162.0	147.5
<b>Foreign exchange contracts:</b>		
Currency swaps	1,751.0	1,975.5
Currency forwards	1,040.6	270.7
<b>Equity contracts:</b>		
Equity options	3,604.8	3,293.4
Equity futures	514.2	498.1
<b>Credit contracts:</b>		
Credit default swaps	1,084.5	1,234.5
Total return swaps	90.0	90.0
Futures	13.1	10.5
<b>Other contracts:</b>		
Embedded derivatives	9,905.0	9,235.7
Total notional amounts at end of period	<u>\$ 45,028.4</u>	<u>\$ 41,098.5</u>
<b>Credit exposure of derivative instruments</b>		
<b>Interest rate contracts:</b>		
Interest rate swaps	\$ 505.5	\$ 510.8
Interest rate options	34.1	41.0
<b>Foreign exchange contracts:</b>		
Currency swaps	105.6	97.1
Currency forwards	4.4	1.4
<b>Equity contracts:</b>		
Equity options	39.9	30.2
<b>Credit contracts:</b>		
Credit default swaps	13.4	13.3
Total return swaps	0.5	—
Total gross credit exposure	703.4	693.8
Less: collateral received	234.2	183.5
Net credit exposure	<u>\$ 469.2</u>	<u>\$ 510.3</u>

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

	<u>Derivative assets (1)</u>		<u>Derivative liabilities (2)</u>	
	<u>December 31, 2015</u>	<u>December 31, 2014</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	<i>(in millions)</i>			
<b>Derivatives designated as hedging instruments</b>				
Interest rate contracts	\$ 9.4	\$ 8.8	\$ 132.2	\$ 193.9
Foreign exchange contracts	94.1	80.0	164.2	69.1
Total derivatives designated as hedging instruments	<u>\$ 103.5</u>	<u>\$ 88.8</u>	<u>\$ 296.4</u>	<u>\$ 263.0</u>
<b>Derivatives not designated as hedging instruments</b>				
Interest rate contracts	\$ 493.0	\$ 508.7	\$ 255.8	\$ 321.4
Foreign exchange contracts	16.4	20.8	68.1	40.1
Equity contracts	39.8	30.2	112.3	131.7
Credit contracts	13.9	13.3	39.7	35.6
Other contracts	—	—	407.8	415.5
Total derivatives not designated as hedging instruments	<u>563.1</u>	<u>573.0</u>	<u>883.7</u>	<u>944.3</u>
Total derivative instruments	<u>\$ 666.6</u>	<u>\$ 661.8</u>	<u>\$ 1,180.1</u>	<u>\$ 1,207.3</u>

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

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****5. Derivative Financial Instruments — (continued)**

- (2) The fair value of derivative liabilities is reported with other liabilities on the consolidated statements of financial position, with the exception of certain embedded derivative liabilities. Embedded derivative liabilities with a fair value of \$177.4 million and \$176.4 million as of December 31, 2015 and December 31, 2014, respectively, are reported with contractholder funds on the consolidated statements of financial position.

**Credit Derivatives Sold**

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

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

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

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

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements — (continued)

December 31, 2015

5. Derivative Financial Instruments — (continued)

are undiscounted and have not been reduced by the effect of any offsetting transactions, collateral or recourse features described above.

	December 31, 2015			
	Notional amount	Fair value	Maximum future payments	Weighted average expected life (in years)
	<i>(in millions)</i>			
<b>Single name credit default swaps</b>				
Corporate debt				
AAA	\$ 30.0	\$ 0.8	\$ 30.0	3.2
AA	74.0	1.1	74.0	2.3
A	195.0	2.2	195.0	2.2
BBB	310.0	(0.9)	310.0	2.9
BB	30.0	(4.6)	30.0	3.1
CCC	10.0	(6.8)	10.0	4.0
Government/municipalities				
AA	30.0	0.6	30.0	3.3
Sovereign				
AA	10.0	—	10.0	3.7
BBB	40.0	(0.9)	40.0	3.7
Total single name credit default swaps	729.0	(8.5)	729.0	2.8
<b>Basket and index credit default swaps</b>				
Corporate debt				
Near default (1)	100.4	(17.7)	100.4	1.2
Government/municipalities				
AA	30.0	(1.1)	30.0	1.7
Structured finance				
AAA	11.9	—	11.9	0.6
Total basket and index credit default swaps	142.3	(18.8)	142.3	1.3
Total credit default swap protection sold	\$ 871.3	\$ (27.3)	\$ 871.3	2.5

**Principal Financial Group, Inc.**
**Notes to Consolidated Financial Statements — (continued)**
**December 31, 2015**
**5. Derivative Financial Instruments — (continued)**

	December 31, 2014			Weighted average expected life (in years)
	Notional amount	Fair value	Maximum future payments	
	<i>(in millions)</i>			
<b>Single name credit default swaps</b>				
Corporate debt				
AAA	\$ 30.0	\$ 1.0	\$ 30.0	4.2
AA	79.0	1.6	79.0	3.3
A	254.5	3.3	254.5	2.8
BBB	345.0	1.2	345.0	3.6
BB	10.0	0.9	10.0	5.0
Government/municipalities				
AA	30.0	0.6	30.0	4.3
Sovereign				
AA	10.0	0.1	10.0	4.7
BBB	40.0	(0.1)	40.0	4.7
Total single name credit default swaps	<u>798.5</u>	<u>8.6</u>	<u>798.5</u>	<u>3.5</u>
<b>Basket and index credit default swaps</b>				
Corporate debt				
Near default (1)	100.4	(19.1)	100.4	2.2
Government/municipalities				
AA	30.0	(1.8)	30.0	2.7
Structured finance				
BBB	16.9	0.1	16.9	3.5
Total basket and index credit default swaps	<u>147.3</u>	<u>(20.8)</u>	<u>147.3</u>	<u>2.5</u>
Total credit default swap protection sold	<u>\$ 945.8</u>	<u>\$ (12.2)</u>	<u>\$ 945.8</u>	<u>3.3</u>

- (1) Includes \$78.0 million as of both December 31, 2015 and December 31, 2014, notional of derivatives in consolidated collateralized private investment vehicle VIEs where the credit risk is borne by third party investors.

We also have invested in fixed maturities classified as trading that contain credit default swaps. These securities are subject to the credit risk of the issuer, normally a special purpose vehicle, which consists of the underlying credit default swaps and high quality fixed maturities that serve as collateral. A default event occurs if the cumulative losses exceed a specified attachment point, which is typically not the first loss of the portfolio. If a default event occurs that exceeds the specified attachment point, our investment may not be fully returned. We would have no future potential payments under these investments. The following tables show, by the types of referenced/underlying asset class and external rating, our fixed maturities with embedded credit derivatives.

	December 31, 2015		
	Amortized cost	Carrying value	Weighted average expected life (in years)
	<i>(in millions)</i>		
<b>Corporate debt</b>			
A	\$ 24.6	\$ 24.6	1.0
Total corporate debt	<u>24.6</u>	<u>24.6</u>	<u>1.0</u>
<b>Structured finance</b>			
A	52.2	52.2	1.1
BBB	3.4	3.4	1.6
BB	2.3	2.3	1.6
CCC	4.8	4.8	1.9
Total structured finance	<u>62.7</u>	<u>62.7</u>	<u>1.2</u>
Total fixed maturities with credit derivatives	<u>\$ 87.3</u>	<u>\$ 87.3</u>	<u>1.1</u>

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**5. Derivative Financial Instruments — (continued)**

	December 31, 2014		
	Amortized cost	Carrying value (in millions)	Weighted average expected life (in years)
<b>Corporate debt</b>			
A	\$ 24.1	\$ 24.1	2.0
Total corporate debt	24.1	24.1	2.0
<b>Structured finance</b>			
A	56.1	56.1	1.5
BB	5.8	5.8	2.7
CCC	9.5	9.5	4.7
Total structured finance	71.4	71.4	2.1
Total fixed maturities with credit derivatives	<u>\$ 95.5</u>	<u>\$ 95.5</u>	2.0

**Fair Value Hedges**

We use fixed-to-floating rate interest rate swaps to more closely align the interest rate characteristics of certain assets and 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.

We enter into currency exchange swap agreements to convert certain foreign denominated assets and liabilities into U.S. dollar floating-rate denominated 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 fair value hedges is recorded as an adjustment to income or expense of the underlying hedged item in our consolidated statements of operations.

Hedge effectiveness testing for fair value relationships is performed utilizing a regression analysis approach for both prospective and retrospective evaluations. This regression analysis will consider multiple data points for the assessment that the hedge continues to be highly effective in achieving offsetting changes in fair value. In certain periods, the comparison of the change in value of the derivative and the change in the value of the hedged item may not be offsetting at a specific period in time due to small movements in value. However, any amounts recorded as fair value hedges have shown to be highly effective in achieving offsetting changes in fair value both for present and future periods.

The following table shows the effect of derivatives in fair value hedging relationships and the related hedged items on the consolidated statements of operations. All gains or losses on derivatives were included in the assessment of hedge effectiveness.

Derivatives in fair value hedging relationships	Amount of gain (loss) recognized in net income on derivatives for the year ended December 31, (1)			Hedged items in fair value hedging relationships	Amount of gain (loss) recognized in net income on related hedged item for the year ended December 31, (1)		
	2015	2014	2013		2015	2014	2013
	(in millions)				(in millions)		
Interest rate contracts	\$ 26.4	\$ 25.4	\$ 139.5	Fixed maturities, available-for-sale	\$ (26.1)	\$ (27.7)	\$ (133.3)
Interest rate contracts	0.8	2.0	(0.7)	Investment contracts	(0.7)	(1.9)	0.2
Foreign exchange contracts	3.8	5.5	(0.2)	Fixed maturities, available-for-sale	(3.8)	(5.4)	0.4
Foreign exchange contracts	—	0.2	(36.7)	Investment contracts	—	(0.2)	36.5
<b>Total</b>	<u>\$ 31.0</u>	<u>\$ 33.1</u>	<u>\$ 101.9</u>	<b>Total</b>	<u>\$ (30.6)</u>	<u>\$ (35.2)</u>	<u>\$ (96.2)</u>

(1) The gain (loss) on both derivatives and hedged items in fair value relationships is reported in net realized capital gains (losses) on the consolidated statements of operations. The net amount represents the ineffective portion of our fair value hedges.

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**5. Derivative Financial Instruments — (continued)**

The following table shows the periodic settlements on interest rate contracts and foreign exchange contracts in fair value hedging relationships.

<u>Hedged Item</u>	<u>Amount of gain (loss) for the year ended December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
	<i>(in millions)</i>		
Fixed maturities, available-for-sale (1)	\$ (72.8)	\$ (93.0)	\$ (120.7)
Investment contracts (2)	3.7	4.3	33.2

- (1) Reported in net investment income on the consolidated statements of operations.
- (2) Reported in benefits, claims and settlement expenses on the consolidated statements of operations.

**Cash Flow Hedges**

We utilize 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 4.5 years. At December 31, 2015, we had \$44.1 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. We reclassified \$0.0 million and \$0.0 million from AOCI into net realized capital gains (losses) as a result of the determination that hedged cash flows were probable of not occurring during the years ended December 31, 2015 and 2014, respectively.

The following table shows the effect of derivatives in cash flow hedging relationships on the consolidated statements of operations and consolidated statements of financial position. All gains or losses on derivatives were included in the assessment of hedge effectiveness.

<u>Derivatives in cash flow hedging relationships</u>	<u>Related hedged item</u>	<u>Amount of gain (loss) recognized in AOCI on derivatives (effective portion) for the year ended December 31,</u>			<u>Location of gain (loss) reclassified from AOCI into net income (effective portion)</u>	<u>Amount of gain (loss) reclassified from AOCI on derivatives (effective portion) for the year ended December 31,</u>		
		<u>2015</u>	<u>2014</u>	<u>2013</u>		<u>2015</u>	<u>2014</u>	<u>2013</u>
		<i>(in millions)</i>				<i>(in millions)</i>		
Interest rate contracts	Fixed maturities, available-for-sale	\$ 33.1	\$ 29.0	\$ (80.5)	Net investment income	\$ 16.6	\$ 13.8	\$ 11.7
Interest rate contracts	Investment contracts	4.7	2.0	2.5	Benefits, claims and settlement expenses	—	—	—
Interest rate contracts	Debt	—	—	—	Operating expense	(8.2)	(7.4)	(6.6)
Foreign exchange contracts	Fixed maturities, available-for-sale	16.9	68.7	(0.9)	Net realized capital gains (losses)	28.5	(10.2)	(16.7)
Foreign exchange contracts	Investment contracts	2.4	7.2	5.0	Benefits, claims and settlement expenses	—	—	—
<b>Total</b>		<u>\$ 57.1</u>	<u>\$ 106.9</u>	<u>\$ (73.9)</u>	<b>Total</b>	<u>\$ 36.9</u>	<u>\$ (3.8)</u>	<u>\$ (11.6)</u>

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****5. Derivative Financial Instruments — (continued)**

The following table shows the periodic settlements on interest rate contracts and foreign exchange contracts in cash flow hedging relationships.

<b>Hedged item</b>	<b>Amount of gain (loss) for the year ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>(in millions)</i>		
Fixed maturities, available-for-sale (1)	\$ 6.1	\$ 5.1	\$ 7.7
Investment contracts (2)	(18.3)	(11.1)	(11.0)

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

(2) Reported in benefits, claims and settlement expenses on the consolidated statements of operations.

The ineffective portion of our cash flow hedges is reported in net realized capital gains (losses) on the consolidated statements of operations. The net gain resulting from the ineffective portion of foreign currency contracts in cash flow hedging relationships was \$0.0 million, \$0.0 million and \$0.8 million for the years ended December 31, 2015, 2014 and 2013, respectively.

We expect to reclassify net losses of \$2.7 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.

**Net Investment Hedges**

We may take measures to hedge our net equity investments in our foreign operations from currency risk. This is accomplished with the use of currency forwards.

Gains and losses associated with net investment hedges are recorded in AOCI and will be released into earnings if our investment in the foreign operation is sold or substantially liquidated.

The following table shows the effect of derivatives in net investment hedging relationships on the consolidated statements of financial position. All gains or losses on derivatives were included in the assessment of hedge effectiveness.

<b>Derivatives in net investment hedging relationships</b>	<b>Amount of gain recognized in AOCI on derivatives (effective portion) for the year ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>(in millions)</i>		
Foreign exchange contracts	\$ 1.7	\$ —	\$ —
Total	\$ 1.7	\$ —	\$ —

We did not have any ineffectiveness and did not reclassify any gains or losses from AOCI into net income related to our net investment hedges for the years ended December 31, 2015, 2014 and 2013.

**Derivatives Not Designated as Hedging Instruments**

Our use of futures, certain swaptions and swaps, 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.

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****5. Derivative Financial Instruments — (continued)**

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.

<b>Derivatives not designated as hedging instruments</b>	<b>Amount of gain (loss) recognized in net income on derivatives for the year ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>(in millions)</i>		
Interest rate contracts	\$ 73.8	\$ 246.0	\$ (137.6)
Foreign exchange contracts	(49.8)	(74.6)	(0.1)
Equity contracts	(50.5)	21.9	(159.4)
Credit contracts	3.5	(34.7)	40.6
Other contracts	(11.4)	(194.3)	154.4
Total	<u>\$ (34.4)</u>	<u>\$ (35.7)</u>	<u>\$ (102.1)</u>

**6. Closed Block**

In connection with the 1998 MIHC formation, Principal Life formed a Closed Block to provide reasonable assurance to policyholders included therein that, after the formation of the MIHC, assets would be available to maintain dividends in aggregate in accordance with the 1997 policy dividend scales, if the experience underlying such scales continued. Assets of Principal Life were allocated to the Closed Block in an amount that produces cash flows which, together with anticipated revenue from policies and contracts included in the Closed Block, were expected to be sufficient to support the Closed Block policies, including, but not limited to, provisions for payment of claims, certain expenses, charges and taxes, and to provide for continuation of policy and contract dividends in aggregate in accordance with the 1997 dividend scales, if the experience underlying such scales continues, and to allow for appropriate adjustments in such scales, if such experience changes. Due to adjustable life policies being included in the Closed Block, the Closed Block is charged with amounts necessary to properly fund for certain adjustments, such as face amount and premium increases, that are made to these policies after the Closed Block inception date. These amounts are referred to as Funding Adjustment Charges and are treated as capital transfers from the Closed Block.

Assets allocated to the Closed Block inure solely to the benefit of the holders of policies included in the Closed Block. Closed Block assets and liabilities are carried on the same basis as other similar assets and liabilities. Principal Life will continue to pay guaranteed benefits under all policies, including the policies within the Closed Block, in accordance with their terms. If the assets allocated to the Closed Block, the investment cash flows from those assets and the revenues from the policies included in the Closed Block, including investment income thereon, prove to be insufficient to pay the benefits guaranteed under the policies included in the Closed Block, Principal Life will be required to make such payments from its general funds. No additional policies were added to the Closed Block, nor was the Closed Block affected in any other way, as a result of the demutualization.

A policyholder dividend obligation ("PDO") is required to be established for earnings in the Closed Block that are not available to stockholders. A model of the Closed Block was established to produce the pattern of expected earnings in the Closed Block, adjusted to eliminate the impact of related amounts in AOCI.

If actual cumulative earnings of the Closed Block are greater than the expected cumulative earnings of the Closed Block, only the expected cumulative earnings will be recognized in income with the excess recorded as a PDO. This PDO represents undistributed accumulated earnings that will be paid to Closed Block policyholders as additional policyholder dividends unless offset by future performance of the Closed Block that is less favorable than originally expected. If actual cumulative performance is less favorable than expected, only actual earnings will be recognized in income. At December 31, 2015 and 2014, cumulative actual earnings have been less than cumulative expected earnings. However, cumulative net unrealized gains were greater than expected, resulting in the recognition of a PDO of \$88.7 million and \$165.2 million as of December 31, 2015 and 2014, respectively.

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**6. Closed Block — (continued)**

Closed Block liabilities and assets designated to the Closed Block were as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	<i>(in millions)</i>	
<b>Closed Block liabilities</b>		
Future policy benefits and claims	\$ 4,229.2	\$ 4,366.5
Other policyholder funds	9.2	9.6
Policyholder dividends payable	246.4	259.2
Policyholder dividends obligation	88.7	165.2
Other liabilities	8.2	17.6
Total Closed Block liabilities	<u>4,581.7</u>	<u>4,818.1</u>
<b>Assets designated to the Closed Block</b>		
Fixed maturities, available-for-sale	2,211.5	2,399.5
Fixed maturities, trading	10.3	11.9
Equity securities, available-for-sale	3.8	3.8
Mortgage loans	899.1	912.1
Policy loans	587.2	610.0
Other investments	81.9	101.1
Total investments	<u>3,793.8</u>	<u>4,038.4</u>
Cash and cash equivalents	88.8	29.2
Accrued investment income	45.3	48.8
Premiums due and other receivables	11.3	13.6
Deferred tax asset	55.2	58.1
Other assets	0.2	—
Total assets designated to the Closed Block	<u>3,994.6</u>	<u>4,188.1</u>
Excess of Closed Block liabilities over assets designated to the Closed Block	587.1	630.0
Amounts included in accumulated other comprehensive income	9.3	18.9
Maximum future earnings to be recognized from Closed Block assets and liabilities	<u>\$ 596.4</u>	<u>\$ 648.9</u>

Closed Block revenues and expenses were as follows:

	<b>For the year ended</b>		
	<b>December 31,</b>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
	<i>(in millions)</i>		
<b>Revenues</b>			
Premiums and other considerations	\$ 325.6	\$ 351.9	\$ 379.9
Net investment income	187.0	201.9	207.7
Net realized capital losses	(0.2)	(2.3)	(12.3)
Total revenues	<u>512.4</u>	<u>551.5</u>	<u>575.3</u>
<b>Expenses</b>			
Benefits, claims and settlement expenses	283.2	313.3	320.1
Dividends to policyholders	160.4	173.2	184.4
Operating expenses	3.9	4.3	4.7
Total expenses	<u>447.5</u>	<u>490.8</u>	<u>509.2</u>
Closed Block revenues, net of Closed Block expenses, before income taxes	64.9	60.7	66.1
Income taxes	20.7	19.5	21.1
Closed Block revenues, net of Closed Block expenses and income taxes	44.2	41.2	45.0
Funding adjustment charges	8.3	(4.8)	(6.5)
Closed Block revenues, net of Closed Block expenses, income taxes and funding adjustment charges	<u>\$ 52.5</u>	<u>\$ 36.4</u>	<u>\$ 38.5</u>

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**6. Closed Block — (continued)**

The change in maximum future earnings of the Closed Block was as follows:

	For the year ended December 31,		
	2015	2014	2013
	<i>(in millions)</i>		
Beginning of year	\$ 648.9	\$ 685.3	\$ 723.8
End of year	596.4	648.9	685.3
Change in maximum future earnings	\$ (52.5)	\$ (36.4)	\$ (38.5)

Principal Life charges the Closed Block with federal income taxes, payroll taxes, state and local premium taxes and other state or local taxes, licenses and fees as provided in the plan of reorganization.

**7. Deferred Acquisition Costs**

Acquisition costs deferred and amortized were as follows:

	For the year ended December 31,		
	2015	2014	2013
	<i>(in millions)</i>		
Balance at beginning of year	\$ 2,993.0	\$ 3,077.0	\$ 2,590.0
Cost deferred during the year	390.3	404.1	447.0
Amortized to expense during the year (1)	(270.8)	(367.2)	(187.1)
Adjustment related to unrealized (gains) losses on available-for-sale securities and derivative instruments	164.5	(120.9)	227.1
Other	(0.9)	—	—
Balance at end of year	\$ 3,276.1	\$ 2,993.0	\$ 3,077.0

(1) Includes adjustments for revisions to estimated gross profits.

**8. Insurance Liabilities**

**Contractholder Funds**

Major components of contractholder funds in the consolidated statements of financial position are summarized as follows:

	December 31,	
	2015	2014
	<i>(in millions)</i>	
Liabilities for investment contracts:		
Liabilities for individual annuities	\$ 10,147.4	\$ 10,077.7
GICs	10,222.8	10,115.3
Funding agreements	6,863.4	7,338.1
Other investment contracts	2,007.4	901.6
Total liabilities for investment contracts	29,241.0	28,432.7
Universal life and other reserves	6,475.1	6,294.0
Total contractholder funds	\$ 35,716.1	\$ 34,726.7

Our GICs and funding agreements contain provisions limiting or prohibiting early surrenders, which typically include penalties for early surrenders, minimum notice requirements or, in the case of funding agreements with survivor options, minimum pre-death holding periods and specific maximum amounts.

Funding agreements include those issued directly to nonqualified institutional investors, as well as under five separate programs where the funding agreements have been issued directly or indirectly to unconsolidated special purpose entities. Claims for principal and interest under funding agreements are afforded equal priority to claims of life insurance and annuity policyholders under insolvency provisions of Iowa Insurance Laws.

Principal Life was authorized to issue up to \$4.0 billion of funding agreements under a program established in 1998 to support the prospective issuance of medium term notes by an unaffiliated entity in non-U.S. markets. As of

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****8. Insurance Liabilities — (continued)**

December 31, 2015 and 2014, \$107.5 million and \$111.2 million, respectively, of liabilities are outstanding with respect to the issuance outstanding under this program. Principal Life was also authorized to issue up to Euro 4.0 billion (approximately USD\$5.3 billion) of funding agreements under a program established in 2006 to support the prospective issuance of medium term notes by an unaffiliated entity in non-U.S. markets. The unaffiliated entity is an unconsolidated special purpose vehicle. As of December 31, 2015 and 2014, \$1,021.0 million and \$1,137.1 million, respectively, of liabilities are outstanding with respect to issuances outstanding under this program. Principal Life does not anticipate any new issuance activity under either of these programs due to the existence of the program established in 2011 described below.

In addition, Principal Life was authorized to issue up to \$7.0 billion of funding agreements under a program established in 2001 to support the prospective issuance of medium term notes by an unaffiliated entity in both domestic and international markets. The unaffiliated entity is an unconsolidated special purpose entity. As of December 31, 2015 and 2014, \$201.4 million and \$505.8 million, respectively, of liabilities are being held with respect to issuances outstanding under this program. Principal Life does not anticipate any new issuance activity under this program, given our December 2005 termination of the dealership agreement for this program and the availability of the program established in 2011 described below.

Additionally, Principal Life was authorized to issue up to \$9.0 billion of funding agreements under a program that was originally established in March 2004 to support the prospective issuance of medium term notes by unaffiliated entities in both domestic and international markets. Under this program, both the notes and the supporting funding agreements were registered with the United States Securities and Exchange Commission ("SEC"). As of December 31, 2015 and 2014, \$246.0 million and \$549.2 million, respectively, of liabilities are being held with respect to issuances outstanding under this program. In contrast with direct funding agreements, GIC issuances and the other three funding agreement-backed medium term note programs described above, Principal Life's payment obligations on each funding agreement issued under this SEC-registered program are guaranteed by PFG. Principal Life does not anticipate any new issuance activity under this program due to the existence of the program established in 2011 described below.

Principal Life was authorized to issue up to \$5.0 billion of funding agreements under a program that was originally established in 2011 to support the prospective issuance of medium term notes by an unaffiliated entity in both domestic and international markets. The unaffiliated entity is an unconsolidated special purpose entity. In June 2015, this program was amended to authorize issuance of up to an additional \$4.0 billion in recognition of the use of nearly all \$5.0 billion of existing issuance authorization. As of December 31, 2015 and 2014, \$3,537.0 million and \$3,284.7 million, respectively, of liabilities are being held with respect to issuances outstanding under this program. Similar to the SEC-registered program, Principal Life's payment obligations on each funding agreement issued under this program are guaranteed by PFG. The program established in 2011 is not registered with the SEC.

**Future Policy Benefits and Claims**

Activity associated with unpaid disability and health claims is summarized as follows:

	December 31,		
	2015	2014	2013
	<i>(in millions)</i>		
Balance at beginning of year	\$ 1,240.1	\$ 1,144.7	\$ 1,066.0
Incurred:			
Current year	810.2	760.5	712.0
Prior years	—	1.2	1.0
Total incurred	810.2	761.7	713.0
Payments:			
Current year	484.3	445.5	432.1
Prior years	243.3	220.8	202.2
Total payments	727.6	666.3	634.3
Balance at end of year:			
Current year	325.9	315.0	279.9
Prior years	996.8	925.1	864.8
Total balance at end of year	<u>\$ 1,322.7</u>	<u>\$ 1,240.1</u>	<u>\$ 1,144.7</u>
Amounts not included in the rollforward above:			
Claim adjustment expense liabilities	\$ 51.5	\$ 47.5	\$ 43.4
Reinsurance recoverables for unpaid claims	\$ 325.2	\$ 304.6	\$ 265.8

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****8. Insurance Liabilities — (continued)**

Incurred liability adjustments relating to prior years, which affected current operations during 2015, 2014 and 2013, resulted in part from developed claims for prior years being different than were anticipated when the liabilities for unpaid disability and health claims were originally estimated. These trends have been considered in establishing the current year liability for unpaid disability and health claims.

**9. Debt****Short-Term Debt**

The components of short-term debt were as follows:

	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
	<i>(in millions)</i>	
Line of credit	\$ 157.2	\$ —
Other recourse short-term debt	23.9	28.0
<b>Total short-term debt</b>	<b>\$ 181.1</b>	<b>\$ 28.0</b>

As of both December 31, 2015 and 2014, we had short-term credit facilities with various financial institutions in an aggregate amount of \$1,005.0 million. As of December 31, 2015 and 2014, we had \$181.1 million and \$28.0 million, respectively, of outstanding borrowings, with no assets pledged as support. Our credit facilities include a \$400.0 million 5-year facility that matures in March 2019, with Principal Financial Services, Inc., Principal Life and us as co-borrowers, a \$300.0 million 364-day facility with Principal Life as borrower that matures in March 2015, and a \$200.0 million 3-year facility with Principal Financial Services, Inc., Principal Life, Principal Financial Services V (UK) LTD and us as the co-borrowers that matures in March 2017. These facilities may be used for general corporate purposes, including commercial paper back-stop. Our commercial paper programs require 100% back-stop support, of which there were no outstanding balances as of December 31, 2015 and 2014.

The weighted-average interest rate on short-term borrowings as of December 31, 2015 and 2014, was 4.2% and 5.8%, respectively.

**Long-Term Debt**

The components of long-term debt were as follows:

	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
	<i>(in millions)</i>	
1.85% notes payable, due 2017	\$ 299.9	\$ 299.8
8.875% notes payable, due 2019	350.0	350.0
3.3% notes payable, due 2022	299.2	299.1
3.125% notes payable, due 2023	299.7	299.6
3.4% notes payable, due in 2025	398.8	—
6.05% notes payable, due 2036	601.5	601.6
4.625% notes payable, due 2042	299.5	299.5
4.35% notes payable, due 2043	299.3	299.3
4.7% notes payable due 2055	400.0	—
Non-recourse mortgages and notes payable	42.9	82.3
<b>Total long-term debt</b>	<b>\$ 3,290.8</b>	<b>\$ 2,531.2</b>

The amounts included above are net of the discount and premium associated with issuing these notes, which are being amortized to expense over their respective terms using the interest method.

On May 7, 2015, we issued \$400.0 million of senior notes. The notes bear interest at 3.4% and will mature in 2025. Interest on the notes is payable semi-annually on May 15 and November 15 each year, beginning on November 15, 2015. In addition, on May 7, 2015, we issued \$400.0 million of junior subordinated notes, which are subordinated to all our senior debt. The notes are callable in 2020 and have a maturity date in 2055. The notes initially bear a fixed rate of interest at 4.7% and convert to a floating rate at the date the notes become callable. Interest on the notes is payable semi-annually on May 15 and November 15 each year. After the call date the notes will bear interest at 3-month LIBOR plus 3.044%, reset quarterly and payable in arrears in February, May, August, and November each year. We have the

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****9. Debt — (continued)**

right to defer interest payments on the junior subordinated notes for up to 5 years without resulting in a default, during which time interest will be compounded. The proceeds from these notes were used to redeem our series A and series B preferred stock with the remainder available for general corporate purposes.

On November 16, 2012, we issued \$900.0 million of senior notes. We issued a \$300.0 million series of notes that bear interest at 1.85% and will mature in 2017, a \$300.0 million series of notes that bear interest at 3.125% and will mature in 2023 and a \$300.0 million series of notes that bear interest at 4.35% and will mature in 2043. Interest on the notes is payable semi-annually on May 15 and November 15 each year, beginning on May 15, 2013. The proceeds were used to fund our acquisition of Cuprum.

On September 5, 2012, we issued \$600.0 million of senior notes. We issued a \$300.0 million series of notes that bear interest at 3.3% and will mature in 2022 and a \$300.0 million series of notes that bear interest at 4.625% and will mature in 2042. Interest on the notes is payable semi-annually on March 15 and September 15 each year, beginning on March 15, 2013. The proceeds were used for the repayment of the \$400.0 million aggregate principal amount of notes due in 2014 and to partially fund our acquisition of Cuprum.

On May 18, 2009, we issued \$750.0 million of senior notes. We issued a \$400.0 million series of notes that bore interest at 7.875% and were to mature on May 15, 2014. These notes were repaid following our November 2012 debt issuance. We issued a \$350.0 million series of notes that bear interest at 8.875% and will mature on May 15, 2019. Interest on the notes is payable semi-annually on May 15 and November 15 each year, beginning on November 15, 2009. The proceeds were primarily used to refinance \$440.9 million of notes that matured on August 15, 2009, with the remaining proceeds being used for general corporate purposes.

On October 16 and December 5, 2006, we issued \$500.0 million and \$100.0 million, respectively, of senior notes. The notes bear interest at a rate of 6.05% per year. Interest on the notes is payable semi-annually on April 15 and October 15 each year and began on April 15, 2007. The notes will mature on October 15, 2036. A portion of the proceeds were used to fund the 2006 acquisition of WM Advisors, Inc., with the remaining proceeds being used for general corporate purposes.

On March 10, 1994, Principal Life issued \$100.0 million of surplus notes due March 1, 2044, at an 8% annual interest rate. None of our affiliates held any portion of the notes. Each payment of interest and principal on the notes, however, could be made only with the prior approval of the Commissioner of Insurance of the State of Iowa (the "Commissioner") and only to the extent that Principal Life had sufficient surplus earnings to make such payments. On March 1, 2014, Principal Life redeemed the surplus notes in whole at a redemption price equal to 102.3% of par, which was approved by the Commissioner.

The non-recourse mortgages, other mortgages and notes payable are primarily financings for real estate developments. Outstanding principal balances as of December 31, 2015, ranged from \$1.8 million to \$41.1 million per development with interest rates being variable. Outstanding principal balances as of December 31, 2014, ranged from \$1.7 million to \$32.6 million per development with interest rates being variable. Outstanding debt is secured by the underlying real estate properties, which were reported as real estate on our consolidated statements of financial position with a carrying value of \$79.5 million and \$155.6 million as of December 31, 2015 and 2014, respectively.

At December 31, 2015, future annual maturities of the long-term debt were as follows (in millions):

Year ending December 31:	
2016	\$ 42.8
2017	299.9
2018	—
2019	350.0
2020	—
Thereafter	2,598.1
Total future maturities of the long-term debt	<u>\$ 3,290.8</u>

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements — (continued)

December 31, 2015

10. Income Taxes

Income Tax Expense

Our income tax expense was as follows:

	For the year ended December 31,		
	2015	2014	2013
	<i>(in millions)</i>		
Current income taxes:			
U.S. federal	\$ 225.9	\$ 242.1	\$ 109.5
State	12.3	4.7	7.7
Foreign	32.6	67.6	69.7
Tax benefit of operating loss carryforward	(52.0)	(163.0)	(134.1)
Total current income taxes	218.8	151.4	52.8
Deferred income taxes (benefits):			
U.S. federal	79.1	148.0	155.1
State	(1.0)	(32.8)	(3.1)
Foreign	(119.3)	51.9	(16.9)
Total deferred income taxes (benefits)	(41.2)	167.1	135.1
Total income taxes	\$ 177.6	\$ 318.5	\$ 187.9

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 year ended December 31,		
	2015	2014	2013
U.S. corporate income tax rate	35%	35%	35%
Dividends received deduction	(11)	(10)	(10)
Merger of Chilean legal entities	(7)	—	—
Impact of equity method presentation	(3)	(2)	(3)
Tax credits	(2)	(2)	—
Interest exclusion from taxable income	(1)	(1)	(2)
Foreign tax rate differential	—	(2)	(2)
Impact of court ruling on some uncertain tax positions	3	—	—
Impact of enactment of tax legislation	—	4	1
Other	(2)	(1)	(2)
Effective income tax rate	12%	21%	17%

Unrecognized Tax Benefits

A summary of the changes in unrecognized tax benefits follows.

	For the year ended December 31,	
	2015	2014
	<i>(in millions)</i>	
Balance at beginning of period	\$ 172.4	\$ 108.9
Additions based on tax positions related to the current year	12.9	12.9
Additions for tax positions of prior years	45.9	62.5
Reductions for tax positions related to the current year	(8.7)	(8.4)
Reductions for tax positions of prior years	(3.5)	(0.2)
Settlements	—	(3.3)
Balance at end of period (1)	\$ 219.0	\$ 172.4

- (1) Of this amount, \$79.5 million, if recognized, would reduce the 2015 effective income tax rate. We recognize interest and penalties related to uncertain tax positions in operating expenses.

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**10. Income Taxes — (continued)**

As of December 31, 2015 and 2014, we had recognized \$137.9 million and \$100.4 million of accumulated pre-tax interest and penalties related to unrecognized tax benefits, respectively.

**Net Deferred Income Taxes**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our net deferred income taxes were as follows:

	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
	<i>(in millions)</i>	
<b>Deferred income tax assets:</b>		
Insurance liabilities	\$ 85.8	\$ 390.8
Investments, including derivatives	368.8	395.1
Net operating loss carryforwards	80.9	128.4
Tax credit carryforwards	227.4	163.2
Employee benefits	534.8	506.6
Foreign currency translation	123.4	61.8
Other deferred income tax assets	64.3	94.5
Gross deferred income tax assets	1,485.4	1,740.4
Valuation allowance	(11.9)	(4.1)
Total deferred income tax assets	1,473.5	1,736.3
<b>Deferred income tax liabilities:</b>		
Deferred acquisition costs	(866.1)	(774.2)
Investments, including derivatives	(379.6)	(411.1)
Net unrealized gains on available-for-sale securities	(431.2)	(1,004.6)
Real estate	(123.1)	(133.9)
Intangible assets	(235.4)	(314.2)
Other deferred income tax liabilities	(39.3)	(42.8)
Total deferred income tax liabilities	(2,074.7)	(2,680.8)
Total net deferred income tax liabilities	\$ (601.2)	\$ (944.5)

Net deferred income taxes by jurisdiction were as follows:

	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
	<i>(in millions)</i>	
<b>Deferred income tax assets:</b>		
State	\$ 53.3	\$ 35.3
Foreign	42.7	55.5
Net deferred income tax assets	96.0	90.8
<b>Deferred income tax liabilities:</b>		
U.S. federal	(459.5)	(663.7)
Foreign	(237.7)	(371.6)
Net deferred income tax liabilities	(697.2)	(1,035.3)
Total net deferred income tax liabilities	\$ (601.2)	\$ (944.5)

In management's judgment, total deferred income tax assets are more likely than not to be realized. Included in the deferred income tax asset are tax carryforwards available to offset future taxable income or income taxes. As of December 31, 2015 and 2014, we have tax credit carryforwards for U.S. federal income tax purposes of \$227.4 million and \$163.2 million, respectively. Alternative minimum, foreign and general business tax credit carryovers were generated during the period we utilized net operating losses, primarily attributable to our captive reinsurance companies that joined our consolidated U.S. federal income tax return beginning in 2012 and 2013. Some of these tax credit carryforwards will expire in 2023 while others never expire. As of December 31, 2015, all accumulated U.S. federal tax credit carryforwards are anticipated to be utilized before expiration; therefore, no valuation allowance has been provided for the related deferred income tax assets.

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****10. Income Taxes — (continued)**

As of December 31, 2015 and 2014, domestic state net operating loss carryforwards were \$387.7 million and \$408.7 million, respectively, and expired or will expire between 2015 and 2034. As of December 31, 2015 and 2014, foreign net operating loss carryforwards generated primarily in Chile were \$197.1 million and \$231.9 million, respectively, with some expiring in 2016 while others never expire. We maintain valuation allowances by jurisdiction against the deferred income tax assets related to certain of these carryforwards and other items, as utilization of these income tax benefits fail the more likely than not criteria in certain jurisdictions. As of December 31, 2015 and 2014, valuation allowances of \$11.9 million and \$4.1 million, respectively, have been recorded against the income tax benefits associated primarily with foreign net operating loss carryforwards. Adjustments to the valuation allowance will be made if there is a change in management's assessment of the amount of the deferred income tax assets that are more likely than not to be realized.

Tax legislation increasing the Brazilian tax rate was enacted in September 2015. The three-year rate increase did not have a material impact on our consolidated results. Tax legislation transitioning an increase in the Chilean tax rate over five years was enacted in September, 2014. Our net deferred tax liabilities increased \$58.1 million in the third quarter of 2014 as a result of the legislation in Chile.

We are a U.S. shareholder in various foreign entities classified as controlled foreign corporations ("CFCs") for U.S. tax purposes. U.S. shareholders of CFCs are generally required to take into account as gross income in the U.S. certain passive income earned by the CFCs ("Subpart F income") even if the income is not currently distributed. Temporary exceptions (the "active financing" and "look through" exceptions) were applicable for tax years beginning before January 1, 2015, to avoid the current recognition of Subpart F income derived in either the active conduct of a banking, financing, insurance or similar business or for certain payments between related corporations in different foreign jurisdictions. The U.S. Congress passed and the President enacted legislation on December 18, 2015, retroactive to January 1, 2015, permanently extending the active financing exception and extending the look-through exception for five years. This legislation did not have a material impact on our consolidated results.

As of December 31, 2015 and 2014, U.S. federal and state deferred income taxes have not been provided on approximately \$1,004.6 million and \$824.8 million, respectively, of accumulated but undistributed earnings from operations of foreign subsidiaries. These earnings are considered to be indefinitely reinvested in the business. It is not practicable to determine the amount of the unrecognized deferred tax liability that would arise if these earnings were remitted due to foreign tax credits and exclusions that may become available at the time of remittance. At December 31, 2015, deferred taxes were also not provided on the approximately \$106.2 million of excess book carrying value over tax basis with respect to the original investment of our foreign subsidiaries. A tax liability will be recognized when we no longer plan to indefinitely reinvest a portion or all of these earnings or when we plan to sell a portion or all of our ownership interest.

**Other Tax Information**

Income tax returns are filed in the U.S. federal jurisdiction as well as various states and foreign jurisdictions where we and one or more of our subsidiaries conduct business. Although determined by jurisdiction, with few exceptions our tax uncertainties relate primarily to the U.S. federal jurisdiction. The Internal Revenue Service ("IRS") has completed examination of our consolidated U.S. federal income tax returns for years prior to 2009. We are contesting certain issues and have filed suit in the Court of Federal Claims, requesting refunds for the years 1995-2003. We believe there is a reasonable possibility this litigation can be resolved within the next twelve months. As of December 31, 2015 and 2014, we had \$229.9 million and \$298.3 million, respectively, of current income tax receivables associated with outstanding audit issues reported as other assets in our consolidated statements of financial position.

We filed claims for refund for tax years 2006 through 2008 in 2015. The IRS commenced audit of our U.S. federal income tax return for 2009 in the fourth quarter of 2011, 2010 in the first quarter of 2012, 2011 in the first quarter of 2013, and 2012 in the third quarter of 2015. We do not expect the results of these audits or developments in other tax areas for all open tax years to significantly change the possible increase in the amount of unrecognized tax benefits, but the outcome of tax reviews is uncertain and unforeseen results can occur.

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**10. Income Taxes — (continued)**

The U.S. Court of Federal Claims denied cross-motions for partial summary judgment on February 4, 2015, and ordered a trial on the previously taxed income issue in the case of Principal Life Insurance Company and Subsidiaries ("Principal Life") v. the United States. Previously, in the same case, on May 9, 2014, the court ruled against Principal Life's tax treatment of transactions involving the purchase and sale of principal-only certificates. These recent events caused the re-evaluation of all our pending uncertain tax positions, which resulted in a \$30.3 million reduction in net income in the first quarter of 2015 and a \$47.5 million reduction in net income in the second quarter of 2014. We believe that we have adequate defenses against, or sufficient provisions for, the contested issues, but final resolution could take several years while legal remedies are pursued. Consequently, we do not expect the ultimate resolution of issues from tax years 1995-2003 or those that might arise in tax years subsequent to 2003 to have a material impact on our net income. We do not believe there is a reasonable possibility the total amount of uncertain tax benefits will significantly increase or decrease in the next twelve months.

**11. Employee and Agent Benefits**

We have defined benefit pension plans covering substantially all of our U.S. employees and certain agents. Some of these plans provide supplemental pension benefits to employees and agents with salaries and/or pension benefits in excess of the qualified plan limits imposed by federal tax law. The employees and agents are generally first eligible for the pension plans when they reach age 21. For plan participants employed prior to January 1, 2002, the pension benefits are based on the greater of a final average pay benefit or a cash balance benefit. The final average pay benefit is based on the years of service and generally the employee's or agent's average annual compensation during the last five years of employment. Partial benefit accrual of final average pay benefits is recognized from first eligibility until retirement based on attained service divided by potential service to age 65 with a minimum of 35 years of potential service. The cash balance portion of the plan started on January 1, 2002. An employee's account is credited with an amount based on the employee's salary, age and service. These credits accrue with interest. For plan participants hired on and after January 1, 2002, only the cash balance plan applies. Our policy is to fund the cost of providing pension benefits in the years that the employees and agents are providing service to us. Our funding policy for the qualified defined benefit plan is to contribute an amount annually 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. Our funding policy for the nonqualified benefit plan is to fund the plan in the years that the employees are providing service, taking into account the funded status of the trust. While we designate assets to cover the computed liability of the nonqualified plan, the assets are not included as part of the asset balances presented in this footnote as they do not qualify as plan assets in accordance with U.S. GAAP.

We also provide certain health care, life insurance and long-term care benefits for retired employees. Subsidized retiree health benefits are provided for employees hired prior to January 1, 2002. Employees hired after December 31, 2001, have access to retiree health benefits but it is intended that they pay for the full cost of the coverage. The health care plans are contributory with participants' contributions adjusted annually. The contributions are based on the number of years of service and age at retirement for those hired prior to January 1, 2002, who retired prior to January 1, 2011. For employees hired prior to January 1, 2002, who retired on or after January 1, 2011, the contributions are 60% of the expected cost. As part of the substantive plan, the retiree health contributions are assumed to be adjusted in the future as claim levels change. The life insurance plans are contributory for a small group of previously grandfathered participants that have elected supplemental coverage and dependent coverage.

Covered employees are first eligible for the health and life postretirement benefits when they reach age 57 and have completed ten years of service with us. Retiree long-term care benefits are provided for employees whose retirement was effective prior to July 1, 2000. Our policy is to fund the cost of providing retiree benefits in the years that the employees are providing service, taking into account the funded status of the trust.

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**11. Employee and Agent Benefits — (continued)**

**Obligations and Funded Status**

The plans' combined funded status, reconciled to amounts recognized in the consolidated statements of financial position, was as follows:

	Pension benefits		Other postretirement benefits	
	December 31,		December 31,	
	2015	2014	2015	2014
	<i>(in millions)</i>			
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$ (3,060.0)	\$ (2,440.2)	\$ (169.7)	\$ (140.6)
Service cost	(63.2)	(54.0)	(2.0)	(1.4)
Interest cost	(120.3)	(117.1)	(6.6)	(6.6)
Actuarial gain (loss)	96.3	(532.9)	(2.7)	(26.0)
Participant contribution	—	—	(6.4)	(6.6)
Benefits paid	95.0	84.2	12.7	12.2
Other	—	—	9.0	(0.7)
Benefit obligation at end of year	<u>\$ (3,052.2)</u>	<u>\$ (3,060.0)</u>	<u>\$ (165.7)</u>	<u>\$ (169.7)</u>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	\$ 2,218.3	\$ 1,925.6	\$ 639.7	\$ 613.0
Actual return on plan assets	(50.0)	246.0	(6.9)	31.9
Employer contribution	93.0	130.9	0.5	0.4
Participant contributions	—	—	6.4	6.6
Benefits paid	(95.0)	(84.2)	(12.7)	(12.2)
Fair value of plan assets at end of year	<u>\$ 2,166.3</u>	<u>\$ 2,218.3</u>	<u>\$ 627.0</u>	<u>\$ 639.7</u>
<b>Amount recognized in statement of financial position</b>				
Other assets	\$ —	\$ —	\$ 461.9	\$ 470.7
Other liabilities	(885.9)	(841.7)	(0.6)	(0.7)
Total	<u>\$ (885.9)</u>	<u>\$ (841.7)</u>	<u>\$ 461.3</u>	<u>\$ 470.0</u>
<b>Amount recognized in accumulated other comprehensive (income) loss</b>				
Total net actuarial (gain) loss	\$ 771.2	\$ 759.2	\$ (8.6)	\$ (53.0)
Prior service benefit	(5.1)	(6.9)	(33.0)	(35.9)
Pre-tax accumulated other comprehensive (income) loss	<u>\$ 766.1</u>	<u>\$ 752.3</u>	<u>\$ (41.6)</u>	<u>\$ (88.9)</u>

The accumulated benefit obligation for all defined benefit pension plans was \$2,799.2 million and \$2,854.0 million at December 31, 2015 and 2014, respectively.

Employer contributions to the pension plans include contributions made directly to the qualified pension plan assets and contributions from corporate assets to pay nonqualified pension benefits. Benefits paid from the pension plans include both qualified and nonqualified plan benefits. Nonqualified pension plan assets are not included as part of the asset balances presented in this footnote. The nonqualified pension plan assets are held in Rabbi trusts for the benefit of all nonqualified plan participants. The assets held in a Rabbi trust are available to satisfy the claims of general creditors only in the event of bankruptcy. Therefore, these assets are fully consolidated in our consolidated statements of financial position and are not reflected in our funded status as they do not qualify as plan assets under U.S. GAAP. The market value of assets held in these trusts was \$330.8 million and \$329.6 million as of December 31, 2015 and 2014, respectively.

**Pension Plan Changes and Plan Gains/Losses**

On January 1, 2010, benefits under the Principal Pension Plan were frozen for certain participants.

For the year ended December 31, 2015, the pension plans had a gain primarily due to the increase in discount rate offset by less than expected investment returns. For the year ended December 31, 2014, the pension plans had a loss primarily due to a decrease in the discount rate and updates to the mortality assumption.

**Other Postretirement Plan Changes and Plan Gains/Losses**

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Medicare Modernization Act") provides a prescription drug benefit under Medicare ("Medicare Part D") as well as a federal subsidy to sponsors

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**11. Employee and Agent Benefits — (continued)**

of retiree medical benefit plans. During each of the years ended December 31, 2015, 2014 and 2013, the Medicare subsidies we received and accrued for were \$0.7 million, \$0.7 million and \$0.8 million, respectively.

Effective January 1, 2016, post-65 medical coverage for employees who retired from January 1, 1992, to December 31, 2010, will transition from a traditional medical plan to a stipend health reimbursement arrangement. This plan change reduced our accumulated postretirement benefit obligation by \$15.5 million as of December 31, 2015. Offsetting this reduction is an adjustment in accumulated postretirement benefit obligation (recognized in fourth quarter 2015 expense) of \$5.8 million related to dental plan benefits.

An actuarial loss occurred during 2015 for the other postretirement benefit plans. This was primarily due to a greater than expected increase in claim costs and a longer trend rate for participants under age 65. An actuarial loss occurred during 2014 for the other postretirement benefit plans. This was due to a decrease in the discount rate, a change in the mortality assumption, a lower than expected increase in the medical premium equivalents for participants over age 65 and a greater than expected increase in the claim costs for participants under age 65.

**Information for Pension Plans With an Accumulated Benefit Obligation in Excess of Plan Assets**

For 2015 and 2014, both the qualified and nonqualified plans had accumulated benefit obligations in excess of plan assets. As noted previously, the nonqualified plans have assets that are deposited in trusts that fail to meet the U.S. GAAP requirements to be included in plan assets; however, these assets are included in our consolidated statements of financial position.

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
	<i>(in millions)</i>	
Projected benefit obligation	\$ 3,052.2	\$ 3,060.0
Accumulated benefit obligation	2,799.2	2,854.0
Fair value of plan assets	2,166.3	2,218.3

**Information for Other Postretirement Benefit Plans With an Accumulated Postretirement Benefit Obligation in Excess of Plan Assets**

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
	<i>(in millions)</i>	
Accumulated postretirement benefit obligation	\$ 1.3	\$ 1.5
Fair value of plan assets	0.7	0.8

**Components of Net Periodic Benefit Cost**

	<u>Pension benefits</u>			<u>Other postretirement benefits</u>		
	<u>For the year ended December 31,</u>					
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
	<i>(in millions)</i>					
Service cost	\$ 63.2	\$ 54.0	\$ 57.1	\$ 2.0	\$ 1.4	\$ 1.0
Interest cost	120.3	117.1	103.8	6.6	6.6	5.7
Expected return on plan assets	(160.6)	(131.9)	(127.4)	(33.9)	(32.6)	(28.8)
Amortization of prior service benefit	(1.9)	(4.7)	(8.7)	(18.5)	(20.3)	(25.9)
Recognized net actuarial (gain) loss	102.4	50.5	118.5	(0.8)	(3.4)	1.0
Other	—	—	—	5.8	—	—
Net periodic benefit cost (income)	<u>\$ 123.4</u>	<u>\$ 85.0</u>	<u>\$ 143.3</u>	<u>\$ (38.8)</u>	<u>\$ (48.3)</u>	<u>\$ (47.0)</u>

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements — (continued)

December 31, 2015

11. Employee and Agent Benefits — (continued)

The pension plans' actuarial gains and losses are amortized using a straight-line amortization method over the average remaining service period of plan participants. For the qualified pension plan, gains and losses are amortized without use of the 10% allowable corridor. For the nonqualified pension plans and other postretirement benefit plans, the corridors allowed are used.

	Pension benefits		Other postretirement benefits	
	For the year ended December 31,			
	2015	2014	2015	2014
	(in millions)			
<b>Other changes recognized in accumulated other comprehensive loss</b>				
Net actuarial loss	\$ 114.3	\$ 418.8	\$ 43.5	\$ 26.7
Amortization of gain (loss)	(102.4)	(50.5)	0.8	3.4
Amortization of prior service benefit	1.9	4.7	18.5	20.3
Plan changes	—	—	(15.5)	—
Total recognized in pre-tax accumulated other comprehensive loss	\$ 13.8	\$ 373.0	\$ 47.3	\$ 50.4
<b>Total recognized in net periodic benefit cost and pre-tax accumulated other comprehensive loss</b>	<b>\$ 137.2</b>	<b>\$ 458.0</b>	<b>\$ 8.5</b>	<b>\$ 2.1</b>

Net actuarial (gain) loss and net prior service cost benefit have been recognized in AOCI.

The estimated net actuarial (gain) loss and prior service cost (benefit) that will be amortized from AOCI into net periodic benefit cost for the pension benefits during the 2016 fiscal year are \$77.0 million and \$(2.2) million, respectively. The estimated net actuarial (gain) loss and prior service cost (benefit) for the postretirement benefits that will be amortized from AOCI into net periodic benefit cost during the 2016 fiscal year are \$0.2 million and \$(20.3) million, respectively.

Assumptions

Weighted-average assumptions used to determine benefit obligations as disclosed under the Obligations and Funded Status section

	Pension benefits	
	For the year ended December 31,	
	2015	2014
Discount rate	4.50%	4.00%
Rate of compensation increase:		
Traditional benefit	2.98%	3.02%

	Other postretirement benefits	
	For the year ended December 31,	
	2015	2014
Discount rate	4.15%	4.00%
Rate of compensation increase	4.82%	4.82%

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**11. Employee and Agent Benefits — (continued)**

*Weighted average assumptions used to determine net periodic benefit cost*

	<b>Pension benefits</b>		
	<b>For the year ended</b>		
	<b>December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Discount rate	4.00%	4.90%	4.00%
Expected long-term return on plan assets	7.20%	6.75%	7.50%
Rate of compensation increase:			
Cash balance benefit	5.25%	5.29%	5.29%
Traditional benefit	3.02%	3.06%	3.06%

	<b>Other postretirement benefits</b>		
	<b>For the year ended</b>		
	<b>December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Discount rate	4.00%	4.90%	4.00%
Expected long-term return on plan assets	5.36%	5.36%	5.62%
Rate of compensation increase	4.82%	4.83%	4.83%

The assumed salary growth rates used to project benefits for the projected benefit obligation are age-based for home office employees, ranging from 10.73% at age 21 to 2.25% at age 64. As a single representative rate for this assumption scale, past disclosures reflected the arithmetic average of the rates for the 44 ages (age 22 to age 65). The rate labeled cash balance benefit (relative to employees accruing a cash balance) is the lifecount-weighted average rate of salary growth in the coming year only, as the impact of salary assumption for cash balance benefits are limited to the upcoming year service cost. The rate labeled traditional benefit (relative to employees still accruing a final average pay benefit) is the lifecount-weighted average (at each age) of the single annual growth rate at the age that is equivalent to applying the scale from that age to age 65.

For the pension benefits, the discount rate is determined by projecting future benefit payments inherent in the projected benefit obligation and discounting those cash flows using a spot yield curve for high quality corporate bonds. The plans' expected benefit payments are discounted to determine a present value using the yield curve and the discount rate is the level rate that produces the same present value. The expected return on plan assets is the long-term rate we expect to be earned based on the plans' investment strategy. Historical and expected future returns of multiple asset classes were analyzed to develop a risk free rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk free real rate of return and the associated risk premium. A weighted average rate was developed based on those overall rates and the target asset allocation of the plans.

For other postretirement benefits, the discount rate is determined by projecting future benefit payments inherent in the accumulated postretirement benefit obligation, and discounting those cash flows using a spot yield curve for high quality corporate bonds. The plans' expected benefit payments are discounted to determine a present value using the yield curve and the discount rate is the level rate that produces the same present value. The 5.36% expected long-term return on plan assets for 2015 is based on the weighted average expected long-term asset returns for the medical, life and long-term care plans. The expected long-term rates for the medical, life and long-term care plans are 5.4%, 5.0% and 5.85%, respectively.

**Assumed Health Care Cost Trend Rates**

	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
Health care cost trend rate assumed for next year under age 65	7.0%	7.0%
Health care cost trend rate assumed for next year age 65 and over	6.0%	6.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.5%	4.5%
Year that the rate reaches the ultimate trend rate (under age 65)	2023	2019
Year that the rate reaches the ultimate trend rate (65 and older)	2021	2020

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****11. Employee and Agent Benefits — (continued)**

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	<u>1-percentage point increase</u>	<u>1-percentage point decrease</u>
	<i>(in millions)</i>	
Effect on total of service cost and interest cost components	\$ 0.6	\$ (0.5)
Effect on accumulated postretirement benefit obligation	(7.1)	6.5

**Pension Plan and Other Postretirement Benefit Plan Assets**

Fair value is defined as the price that would be received to sell an asset 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.

- Level 1 — Fair values are based on unadjusted quoted prices in active markets for identical assets. Our Level 1 assets include cash, fixed income investment funds and exchange traded equity securities.
- Level 2 — Fair values are based on inputs other than quoted prices within Level 1 that are observable for the asset, either directly or indirectly. Our Level 2 assets primarily include fixed income and equity investment funds and real estate investments.
- Level 3 — Fair values are based on significant unobservable inputs for the asset. Our Level 3 assets include a Principal Life general account investment.

Our pension plan assets consist of investments in separate accounts. Net asset value ("NAV") of the separate accounts is calculated in a manner consistent with U.S. GAAP for investment companies and is determinative of their fair value. Several of the separate accounts invest in publicly quoted mutual funds or actively managed stocks. The fair value of the underlying mutual funds or stock is used to determine the NAV of the separate account, which is not publicly quoted. Some of the separate accounts also invest in fixed income securities. The fair value of the underlying securities is based on quoted prices of similar assets and used to determine the NAV of the separate account.

Our other postretirement benefit plan assets consist of cash, investments in fixed income security portfolios and investments in equity security portfolios. Because of the nature of cash, its carrying amount approximates fair value. The fair value of fixed income investment funds, U.S. equity portfolios and international equity portfolios is based on quoted prices in active markets for identical assets. The fair value of the Principal Life general account investment is the amount the plan would receive if withdrawing funds from this participating contract. The amount that would be received is calculated using a cash-out factor based on an associated pool of general account fixed income securities. The cash-out factor is a ratio of the asset investment value of these securities to asset book value. As the investment values change, the cash-out factor is adjusted, impacting the amount the plan receives at measurement date. To determine investment value for each category of assets, we project cash flows. This is done using contractual provisions for the assets, with adjustment for expected prepayments and call provisions. Projected cash flows are discounted to present value for each asset category. Interest rates for discounting are based on current rates on similar new assets in the general account based on asset strategy.

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**11. Employee and Agent Benefits — (continued)**

**Pension Plan Assets**

The fair value of the qualified pension plan's assets by asset category as of the most recent measurement date is as follows:

Asset category	December 31, 2015			
	Assets measured at fair value	Fair value hierarchy level		
		Level 1	Level 2	Level 3
		<i>(in millions)</i>		
U.S. large cap equity portfolios (1)	\$ 591.2	\$ —	\$ 591.2	\$ —
U.S. small/mid cap equity portfolios (2)	138.0	—	138.0	—
Balanced asset portfolios (3)	119.9	—	119.9	—
International equity portfolios (4)	201.7	—	201.7	—
Fixed income security portfolios (5)	997.0	—	997.0	—
Real estate investment portfolios:				
Direct real estate investments (6)	118.5	—	118.5	—
<b>Total</b>	<b>\$ 2,166.3</b>	<b>\$ —</b>	<b>\$ 2,166.3</b>	<b>\$ —</b>

Asset category	December 31, 2014			
	Assets measured at fair value	Fair value hierarchy level		
		Level 1	Level 2	Level 3
		<i>(in millions)</i>		
U.S. large cap equity portfolios (1)	\$ 493.7	\$ —	\$ 493.7	\$ —
U.S. small/mid cap equity portfolios (2)	118.1	—	118.1	—
Balanced asset portfolios (3)	114.2	—	114.2	—
International equity portfolios (4)	174.8	—	174.8	—
Fixed income security portfolios (5)	1,213.2	—	1,213.2	—
Real estate investment portfolios:				
Direct real estate investments (6)	104.3	—	104.3	—
<b>Total</b>	<b>\$ 2,218.3</b>	<b>\$ —</b>	<b>\$ 2,218.3</b>	<b>\$ —</b>

- (1) The portfolios invest primarily in publicly traded equity securities of large U.S. companies.
- (2) The portfolios invest primarily in publicly traded equity securities of mid-sized and small U.S. companies.
- (3) The portfolios are a combination of underlying fixed income and equity investment options. These investment options may include balanced, asset allocation, target-date and target-risk investment options. Although typically lower risk than investment options that invest solely in equities, all investment options in this category have the potential to lose value.
- (4) The portfolios invest primarily in publicly traded equity securities of non-U.S. companies.
- (5) The portfolios invest in various fixed income securities, primarily of U.S. origin. These include, but are not limited to, corporate bonds, mortgage-backed securities, commercial mortgage-backed securities, U.S. Treasury securities, agency securities, asset-backed securities and collateralized mortgage obligations.
- (6) The portfolio invests primarily in U.S. commercial real estate properties through a separate account.

We had no Level 3 assets in 2015, 2014 and 2013.

We have established an investment policy that provides the investment objectives and guidelines for the pension plan. Our investment strategy is to achieve the following:

- Obtain a reasonable long-term return consistent with the level of risk assumed and at a cost of operation within prudent levels. Performance benchmarks are monitored.
- Ensure sufficient liquidity to meet the emerging benefit liabilities for the plan.
- Provide for diversification of assets in an effort to avoid the risk of large losses and maximize the investment return to the pension plan consistent with market and economic risk.

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**11. Employee and Agent Benefits — (continued)**

In administering the qualified pension plan's asset allocation strategy, we consider the projected liability stream of benefit payments, the relationship between current and projected assets of the plan and the projected actuarial liabilities streams, the historical performance of capital markets adjusted for the perception of future short- and long-term capital market performance and the perception of future economic conditions.

According to our investment policy, the target asset allocation for the qualified plan is:

<u>Asset Category</u>	<u>Target allocation</u>
U.S. equity portfolios	0% - 45%
International equity portfolios	0% - 15%
Fixed income security portfolios	30% - 100%
Real estate investment portfolios	0% - 10%

**Other Postretirement Benefit Plan Assets**

The fair value of the other postretirement benefit plans' assets by asset category as of the most recent measurement date is as follows:

<u>Asset category</u>	<u>December 31, 2015</u>			
	<u>Assets measured at fair value</u>	<u>Fair value hierarchy level</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
		<i>(in millions)</i>		
Cash and cash equivalents	\$ 5.9	\$ 5.9	\$ —	\$ —
Fixed income security portfolios:				
Fixed income investment funds (1)	181.7	173.2	8.5	—
Principal Life general account investment (2)	33.5	—	—	33.5
U.S. equity portfolios (3)	339.6	278.8	60.8	—
International equity portfolios (4)	66.3	54.4	11.9	—
<b>Total</b>	<b>\$ 627.0</b>	<b>\$ 512.3</b>	<b>\$ 81.2</b>	<b>\$ 33.5</b>

<u>Asset category</u>	<u>December 31, 2014</u>			
	<u>Assets measured at fair value</u>	<u>Fair value hierarchy level</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
		<i>(in millions)</i>		
Cash and cash equivalents	\$ 5.5	\$ 5.5	\$ —	\$ —
Fixed income security portfolios:				
Fixed income investment funds (1)	164.4	161.1	3.3	—
Principal Life general account investment (2)	36.3	—	—	36.3
U.S. equity portfolios (3)	375.6	311.0	64.6	—
International equity portfolios (4)	57.9	44.5	13.4	—
<b>Total</b>	<b>\$ 639.7</b>	<b>\$ 522.1</b>	<b>\$ 81.3</b>	<b>\$ 36.3</b>

- (1) The portfolios invest in various fixed income securities, primarily of U.S. origin. These include, but are not limited to, corporate bonds, mortgage-backed securities, commercial mortgage-backed securities, U.S. Treasury securities, agency securities, asset-backed securities and collateralized mortgage obligations.
- (2) The general account is invested in various fixed income securities.
- (3) The portfolios invest primarily in publicly traded equity securities of large U.S. companies.
- (4) The portfolios invest primarily in publicly traded equity securities of non-U.S. companies.

As of December 31, 2015 and 2014, respectively, \$81.2 million and \$81.3 million of assets in the U.S. equity and international equity portfolios were included in a trust owned life insurance contract.

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**11. Employee and Agent Benefits — (continued)**

The reconciliation for all assets measured at fair value using significant unobservable inputs (Level 3) is as follows:

Asset category	For the year ended December 31, 2015						Ending asset balance as of December 31, 2015
	Beginning asset balance as of December 31, 2014	Actual return gains (losses) on plan assets		Net purchases, sales, and settlements	Transfers into Level 3	Transfers out of Level 3	
		Relating to assets still held at the reporting date	Relating to assets sold during the period				
Principal Life general account investment	\$ 36.3	\$ 0.2	\$ —	\$ (3.0)	\$ —	\$ —	\$ 33.5

Asset category	For the year ended December 31, 2014						Ending assets balance as of December 31, 2014
	Beginning assets balance as of December 31, 2013	Actual return gains (losses) on plan assets		Net purchases, sales, and settlements	Transfers into Level 3	Transfers out of Level 3	
		Relating to assets still held at the reporting date	Relating to assets sold during the period				
Principal Life general account investment	\$ 38.8	\$ 0.8	\$ —	\$ (3.3)	\$ —	\$ —	\$ 36.3

Asset category	For the year ended December 31, 2013						Ending assets balance as of December 31, 2013
	Beginning assets balance as of December 31, 2012	Actual return gains (losses) on plan assets		Net purchases, sales, and settlements	Transfers into Level 3	Transfers out of Level 3	
		Relating to assets still held at the reporting date	Relating to assets sold during the period				
Principal Life general account investment	\$ 42.1	\$ 1.1	\$ —	\$ (4.4)	\$ —	\$ —	\$ 38.8

According to our investment policy, the target asset allocation for the other postretirement benefit plans is:

Asset Category	Target allocation
U.S. equity portfolios	45%
International equity portfolios	30%
Fixed income security portfolios	25%

The investment strategies and policies for the other postretirement benefit plans are similar to those employed by the qualified pension plan.

**Contributions**

Our funding policy for the qualified pension plan is to fund the plan annually in an amount at least equal to the minimum annual contribution required under ERISA and, generally, not greater than the maximum amount that can be deducted for federal income tax purposes. We do not anticipate contributions will be needed to satisfy the minimum funding requirements of ERISA for our qualified plan. At this time, it is too early to estimate the amount that may be contributed, but it is possible that we may fund the plans in 2016 up to \$125 million. This includes funding for both our qualified and nonqualified pension plans. While we designate assets to cover the computed liability of the nonqualified plan, the assets are not included as part of the asset balances presented in this footnote as they do not qualify as plan assets in accordance with U.S. GAAP. We may contribute to our other postretirement benefit plans in 2016 pending future analysis.

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**11. Employee and Agent Benefits — (continued)**

**Estimated Future Benefit Payments**

The estimated future benefit payments, which reflect expected future service, and the expected amount of subsidy receipts under Medicare Part D are:

	<u>Pension benefits</u>	<u>Other postretirement benefits (gross benefit payments, including prescription drug benefits)</u>	<u>Amount of Medicare Part D subsidy receipts</u>
	<i>(in millions)</i>		
Year ending December 31:			
2016	\$ 110.0	\$ 14.3	\$ 0.2
2017	117.9	14.4	0.1
2018	127.9	14.5	0.2
2019	131.5	14.9	0.1
2020	141.9	15.2	0.1
2021 - 2025	842.4	83.9	0.4

The above table reflects the total estimated future benefits to be paid from the plan, including both our share of the benefit cost and the participants' share of the cost, which is funded by their contributions to the plan.

The assumptions used in calculating the estimated future benefit payments are the same as those used to measure the benefit obligation for the year ended December 31, 2015.

The information that follows shows supplemental information for our defined benefit pension plans. Certain key summary data is shown separately for qualified and nonqualified plans.

	For the year ended December 31,					
	2015			2014		
	<u>Qualified Plan</u>	<u>Nonqualified Plan</u>	<u>Total</u>	<u>Qualified Plan</u>	<u>Nonqualified Plan</u>	<u>Total</u>
	<i>(in millions)</i>					
<b>Amount recognized in statement of financial position</b>						
Other assets	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Other liabilities	(453.0)	(432.9)	(885.9)	(385.3)	(456.4)	(841.7)
Total	<u>\$ (453.0)</u>	<u>\$ (432.9)</u>	<u>\$ (885.9)</u>	<u>\$ (385.3)</u>	<u>\$ (456.4)</u>	<u>\$ (841.7)</u>
<b>Amount recognized in accumulated other comprehensive loss</b>						
Total net actuarial loss	\$ 659.0	\$ 112.2	\$ 771.2	\$ 603.1	\$ 156.1	\$ 759.2
Prior service benefit	(2.6)	(2.5)	(5.1)	(3.4)	(3.5)	(6.9)
Pre-tax accumulated other comprehensive loss	<u>\$ 656.4</u>	<u>\$ 109.7</u>	<u>\$ 766.1</u>	<u>\$ 599.7</u>	<u>\$ 152.6</u>	<u>\$ 752.3</u>
<b>Components of net periodic benefit cost</b>						
Service cost	\$ 54.8	\$ 8.4	\$ 63.2	\$ 46.8	\$ 7.2	\$ 54.0
Interest cost	102.3	18.0	120.3	99.1	18.0	117.1
Expected return on plan assets	(160.6)	—	(160.6)	(131.9)	—	(131.9)
Amortization of prior service benefit	(0.8)	(1.1)	(1.9)	(3.1)	(1.6)	(4.7)
Recognized net actuarial loss	86.3	16.1	102.4	42.9	7.6	50.5
Net periodic benefit cost	<u>\$ 82.0</u>	<u>\$ 41.4</u>	<u>\$ 123.4</u>	<u>\$ 53.8</u>	<u>\$ 31.2</u>	<u>\$ 85.0</u>
<b>Other changes recognized in accumulated other comprehensive (income) loss</b>						
Net actuarial (gain) loss	\$ 142.1	\$ (27.8)	\$ 114.3	\$ 347.8	\$ 71.0	\$ 418.8
Amortization of net loss	(86.3)	(16.1)	(102.4)	(42.9)	(7.6)	(50.5)
Amortization of prior service benefit	0.8	1.1	1.9	3.1	1.6	4.7
Total recognized in pre-tax accumulated other comprehensive (income) loss	<u>\$ 56.6</u>	<u>\$ (42.8)</u>	<u>\$ 13.8</u>	<u>\$ 308.0</u>	<u>\$ 65.0</u>	<u>\$ 373.0</u>
<b>Total recognized in net periodic benefit cost and pre-tax accumulated other comprehensive (income) loss</b>	<u>\$ 138.6</u>	<u>\$ (1.4)</u>	<u>\$ 137.2</u>	<u>\$ 361.8</u>	<u>\$ 96.2</u>	<u>\$ 458.0</u>

In addition, we have defined contribution plans that are generally available to all U.S. employees and agents. Eligible participants could not contribute more than \$18,000 of their compensation to the plans in 2015. Effective January 1, 2006, we made several changes to the retirement programs. In general, the pension and supplemental executive retirement plan

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****11. Employee and Agent Benefits — (continued)**

benefit formulas were reduced, and the 401(k) matching contribution was increased. Employees who were ages 47 or older with at least ten years of service on December 31, 2005, could elect to retain the prior benefit provisions and forgo receipt of the additional matching contributions. The employees who elected to retain the prior benefit provisions are referred to as "Grandfathered Choice Participants." We match the Grandfathered Choice Participant's contribution at a 50% contribution rate up to a maximum matching contribution of 3% of the participant's compensation. For all other participants, we match the participant's contributions at a 75% contribution rate up to a maximum matching contribution of 6% of the participant's compensation. The defined contribution plans allow employees to choose among various investment options, including our common stock. We contributed \$45.7 million, \$41.7 million and \$39.8 million in 2015, 2014 and 2013, respectively, to our qualified defined contribution plans.

We also have nonqualified deferred compensation plans available to select employees and agents that allow them to defer compensation amounts in excess of limits imposed by federal tax law with respect to the qualified plans. In 2015, we matched the Grandfathered Choice Participant's deferral at a 50% match deferral rate up to a maximum matching deferral of 3% of the participant's compensation. For all other participants, we matched the participant's deferral at a 75% match deferral rate up to a maximum matching deferral of 6% of the participant's compensation. We contributed \$4.5 million, \$4.1 million and \$5.0 million in 2015, 2014 and 2013, respectively, to our nonqualified deferred compensation plans.

**12. Contingencies, Guarantees and Indemnifications****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 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, the Department of Labor and other regulatory agencies 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.

On December 30, 2015, Mary Ventura, William Littlejohn and Ryan Kadota filed a lawsuit in the United States District Court for the Southern District of Iowa against Principal Management Corporation ("PMC"). The lawsuit alleges PMC breached its fiduciary duty under Section 36(b) of the Investment Company Act by charging excessive fees on the LargeCap Growth I Fund, SmallCap Growth I Fund, SmallCap Fund, High Yield Fund, MidCap Fund and the MidCap Value III Fund. PMC intends to aggressively defend the lawsuit.

On March 18, 2014, McCaffree Financial Corp. Employee Retirement Program ("McCaffree") filed a putative class action lawsuit in the United States District Court for the Southern District of Iowa against Principal Life. The complaint alleged, among other things, breach of duty of loyalty, breach of duty of prudence and prohibited transactions under ERISA. McCaffree seeks a nationwide class action on behalf of all participants and beneficiaries of defined contribution retirement plans that invested in any Principal Separate Account in the last six years. McCaffree seeks disgorgement of all fees it alleges Principal Life improperly retained in addition to other general claims for relief. Principal Life filed a motion to dismiss the case and on December 11, 2014, the court granted the motion. On January 8, 2016, the Eighth Circuit Court of Appeals affirmed the district court's decision dismissing the complaint against Principal Life. Principal Life will continue to aggressively defend the case.

On August 29, 2013, American Chemicals & Equipment, Inc. 401(k) Retirement Plan ("ACE") filed a lawsuit in the United States District Court for the Northern District of Alabama against Principal Management Corporation and Principal Global Investors, LLC (the "ACE Defendants"). The lawsuit alleges the ACE Defendants breached their fiduciary duty under Section 36(b) of the Investment Company Act by charging excessive fees on certain of the LifeTime

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****12. Contingencies, Guarantees and Indemnifications — (continued)**

series target date funds. On January 24, 2014, the court granted the motion filed by the ACE Defendants to transfer the case to the Southern District of Iowa. The case is set for trial on April 11, 2016. The ACE Defendants continue to aggressively defend the lawsuit.

In 2008, Principal Life received approximately \$440.0 million in connection with the termination of certain structured transactions and the resulting prepayment of Principal Life's investment in those transactions. The transactions involved Lehman Brothers Special Financing Inc. and Lehman Brothers Holdings Inc. (collectively, "Lehman") in various capacities. Subsequent to Lehman's 2008 bankruptcy filing, its bankruptcy estate initiated several lawsuits seeking to recover from numerous sources significant amounts to which it claims entitlement under various theories. We are one of a large group of defendants to this action, and believe that we have meritorious defenses to Lehman's claims and intend to aggressively defend against them. The estate's claim against Principal Life, including interest through November 2014 (which we also dispute), was approximately \$550.0 million.

While the outcome of any pending or future litigation or regulatory matter cannot be predicted, management does not believe that any such matter will have a material adverse effect on our business or financial position. As of December 31, 2015, there were no estimated losses accrued related to the legal matters discussed above because we believe the loss from these matters is not probable and cannot be reasonably estimated.

We believe all of the litigation contingencies discussed above involve a chance of loss that is either remote or reasonably possible. Unless otherwise noted, all of these matters involve unspecified claim amounts, in which the respective plaintiffs seek an indeterminate amount of damages. To the extent such matters present a reasonably possible chance of loss, we are generally not able to estimate the possible loss or range of loss associated therewith.

The outcome of such matters is always uncertain, and unforeseen results can occur. It is possible that such outcomes could require us to pay damages or make other expenditures or establish accruals in amounts that we could not estimate at December 31, 2015.

**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 December 31, 2015, was approximately \$200.0 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 that 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.

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.

**Guaranty Funds**

Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, for certain obligations of insolvent insurance companies to policyholders and claimants. A state's fund assesses its members based on their pro rata market share of written premiums in the state for the classes of insurance for which the insolvent insurer was engaged. Some states permit member insurers to recover assessments paid through full or partial

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****12. Contingencies, Guarantees and Indemnifications — (continued)**

premium tax offsets. We accrue liabilities for guaranty fund assessments when an assessment is probable, can be reasonably estimated and when the event obligating us to pay has occurred. While we cannot predict the amount and timing of any future assessments, we have established reserves we believe are adequate for assessments relating to insurance companies that are currently subject to insolvency proceedings. As of December 31, 2015 and 2014, the liability balance for guaranty fund assessments, which is not discounted, was \$15.1 million and \$16.8 million, respectively, and was reported within other liabilities in the consolidated statements of financial position. As of December 31, 2015 and 2014, \$5.7 million and \$7.1 million, respectively, related to premium tax offsets were included in premiums due and other receivables in the consolidated statements of financial position.

**Operating Leases**

As a lessee, we lease office space, data processing equipment, office furniture and office equipment under various operating leases. Rental expense for the years ended December 31, 2015, 2014 and 2013, was \$38.0 million, \$37.3 million and \$36.3 million, respectively.

The following represents payments due by period for operating lease obligations (in millions):

Year ending December 31:	
2016	\$ 40.3
2017	34.8
2018	23.3
2019	16.0
2020	11.8
2021 and thereafter	37.8
Total operating lease obligations	164.0
Less: Future sublease rental income on noncancelable leases	4.2
Total future minimum lease payments	<u>\$ 159.8</u>

**Capital Leases**

We lease buildings and hardware storage equipment under capital leases. As of December 31, 2015 and 2014, these leases had a gross asset balance of \$63.6 million and \$61.3 million and accumulated depreciation of \$29.9 million and \$18.8 million, respectively. Depreciation expense for the years ended December 31, 2015, 2014 and 2013 was \$14.1 million, \$14.0 million and \$10.8 million, respectively.

The following represents future minimum lease payments due by period for capital lease obligations (in millions).

Year ending December 31:	
2016	\$ 5.8
2017	2.8
2018	0.9
2019	—
2020	—
2021 and thereafter	0.4
Total	9.9
Less: Amounts representing interest	0.3
Net present value of minimum lease payments	<u>\$ 9.6</u>

**13. Stockholders' Equity****Preferred Stock**

On June 30, 2015 we redeemed our 3.0 million shares of series A preferred stock for \$300.0 million and our 10.0 million shares of series B preferred stock for \$250.0 million. At redemption, we recognized \$8.2 million excess redemption value over carrying value of the preferred shares redeemed as an adjustment to determine net income available to common stockholders.

**Series A.** Dividends on the Series A Preferred Stock were non-cumulative and were payable quarterly when, and if, declared by our Board of Directors at a rate of 5.563% per annum of the liquidation preference. The Series A Preferred Stock had no stated maturity and was not convertible into any other of our securities. Series A Preferred Stock had no

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****13. Stockholders' Equity — (continued)**

voting rights, except with respect to certain fundamental changes in the terms of the shares and in the case of certain dividend non-payments.

**Series B.** Dividends on the Series B Preferred Stock were non-cumulative and were payable quarterly when, and if, declared by the Board of Directors at a rate of 6.518% per annum of the liquidation preference. The Series B Preferred Stock had no stated maturity and was not convertible into any other of our securities. Series B Preferred Stock had no voting rights, except with respect to certain fundamental changes in the terms of the shares and in the case of certain dividend non-payments.

**Dividend Payments**

On March 30, 2015 and June 30, 2015, we paid a dividend of \$8.2 million and \$8.3 million, respectively, equal to \$1.39 per share on Series A non-cumulative perpetual preferred stock and equal to \$0.41 per share on Series B non-cumulative perpetual preferred stock. Dividends were paid to stockholders of record as of March 12, 2015 and June 11, 2015, respectively.

On April 1, 2014; June 30, 2014; September 30, 2014 and December 30, 2014, we paid a dividend of \$8.2 million, \$8.3 million, \$8.2 million and \$8.3 million, respectively, equal to \$1.39 per share on Series A non-cumulative perpetual preferred stock and equal to \$0.41 per share on Series B non-cumulative perpetual preferred stock. Dividends were paid to stockholders of record as of March 13, 2014; June 12, 2014; September 11, 2014 and December 11, 2014, respectively.

On April 1, 2013; July 1, 2013; September 30, 2013 and December 30, 2013, we paid a dividend of \$8.2 million, \$8.3 million, \$8.2 million and \$8.3 million, respectively, equal to \$1.39 per share on Series A non-cumulative perpetual preferred stock and equal to \$0.41 per share on Series B non-cumulative perpetual preferred stock. Dividends were paid to stockholders of record as of March 14, 2013; June 13, 2013; September 12, 2013 and December 12, 2013, respectively.

**Reconciliation of Outstanding Shares**

	<u>Series A</u> <u>preferred stock</u>	<u>Series B</u> <u>preferred stock</u> <i>(in millions)</i>	<u>Common</u> <u>stock</u>
Outstanding shares at January 1, 2013	3.0	10.0	293.8
Shares issued	—	—	5.8
Treasury stock acquired	—	—	(4.4)
Outstanding shares at December 31, 2013	3.0	10.0	295.2
Shares issued	—	—	3.4
Treasury stock acquired	—	—	(4.7)
Outstanding shares at December 31, 2014	3.0	10.0	293.9
Shares issued	—	—	3.5
Treasury stock acquired	—	—	(6.0)
Preferred stock redemption	(3.0)	(10.0)	—
Outstanding shares at December 31, 2015	<u>—</u>	<u>—</u>	<u>291.4</u>

In February 2013, our Board of Directors authorized a share repurchase program of up to \$150.0 million of our outstanding common stock, which was completed in March 2014. In February 2014, our Board of Directors authorized a share repurchase program of up to \$200.0 million of our outstanding common stock, which was completed in March 2015. In February 2015, our Board of Directors authorized a share repurchase program of up to \$150.0 million of our outstanding common stock, which was completed in October 2015. In October 2015, our Board of Directors authorized a share repurchase program of up to \$150.0 million of our outstanding common stock. Shares repurchased under these programs are accounted for as treasury stock, carried at cost and reflected as a reduction to stockholders' equity.

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements — (continued)

December 31, 2015

13. Stockholders' Equity — (continued)

Other Comprehensive Loss

	For the year ended December 31, 2015		
	Pre-Tax	Tax (in millions)	After-Tax
Net unrealized losses on available-for-sale securities during the period	\$ (1,713.7)	\$ 589.0	\$ (1,124.7)
Reclassification adjustment for losses included in net income (1)	15.1	(5.4)	9.7
Adjustments for assumed changes in amortization patterns	201.2	(70.4)	130.8
Adjustments for assumed changes in policyholder liabilities	779.0	(265.5)	513.5
Net unrealized losses on available-for-sale securities	(718.4)	247.7	(470.7)
Noncredit component of impairment losses on fixed maturities, available-for-sale during the period	29.4	(10.2)	19.2
Adjustments for assumed changes in amortization patterns	(0.9)	0.3	(0.6)
Adjustments for assumed changes in policyholder liabilities	0.7	(0.2)	0.5
Noncredit component of impairment losses on fixed maturities, available-for-sale (2)	29.2	(10.1)	19.1
Net unrealized gains on derivative instruments during the period	58.4	(20.4)	38.0
Reclassification adjustment for gains included in net income (3)	(36.9)	12.5	(24.4)
Adjustments for assumed changes in amortization patterns	19.5	(6.9)	12.6
Adjustments for assumed changes in policyholder liabilities	(10.8)	3.8	(7.0)
Net unrealized gains on derivative instruments	30.2	(11.0)	19.2
Foreign currency translation adjustment	(543.6)	72.0	(471.6)
Unrecognized postretirement benefit obligation during the period	(142.5)	55.5	(87.0)
Amortization of prior service cost and actuarial loss included in net periodic benefit cost (4)	81.2	(33.3)	47.9
Net unrecognized postretirement benefit obligation	(61.3)	22.2	(39.1)
Other comprehensive loss	\$ (1,263.9)	\$ 320.8	\$ (943.1)

	For the year ended December 31, 2014		
	Pre-Tax	Tax (in millions)	After-Tax
Net unrealized gains on available-for-sale securities during the period	\$ 1,087.9	\$ (425.2)	\$ 662.7
Reclassification adjustment for gains included in net income (1)	(73.2)	24.4	(48.8)
Adjustments for assumed changes in amortization patterns	(63.4)	22.2	(41.2)
Adjustments for assumed changes in policyholder liabilities	(458.4)	210.4	(248.0)
Net unrealized gains on available-for-sale securities	492.9	(168.2)	324.7
Noncredit component of impairment losses on fixed maturities, available-for-sale during the period	102.0	(35.6)	66.4
Adjustments for assumed changes in amortization patterns	(4.7)	1.7	(3.0)
Adjustments for assumed changes in policyholder liabilities	(2.2)	0.7	(1.5)
Noncredit component of impairment losses on fixed maturities, available-for-sale (2)	95.1	(33.2)	61.9
Net unrealized gains on derivative instruments during the period	100.3	(35.1)	65.2
Reclassification adjustment for losses included in net income (3)	3.8	(1.7)	2.1
Adjustments for assumed changes in amortization patterns	(12.8)	4.5	(8.3)
Adjustments for assumed changes in policyholder liabilities	3.2	(1.1)	2.1
Net unrealized gains on derivative instruments	94.5	(33.4)	61.1
Foreign currency translation adjustment	(374.7)	38.1	(336.6)
Unrecognized postretirement benefit obligation during the period	(445.5)	176.3	(269.2)
Amortization of prior service cost and actuarial loss included in net periodic benefit cost (4)	22.1	(8.1)	14.0
Net unrecognized postretirement benefit obligation	(423.4)	168.2	(255.2)
Other comprehensive loss	\$ (115.6)	\$ (28.5)	\$ (144.1)

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**13. Stockholders' Equity — (continued)**

	For the year ended December 31, 2013		
	Pre-Tax	Tax <i>(in millions)</i>	After-Tax
Net unrealized losses on available-for-sale securities during the period	\$ (1,686.5)	\$ 559.5	\$ (1,127.0)
Reclassification adjustment for losses included in net income (1)	61.1	(20.9)	40.2
Adjustments for assumed changes in amortization patterns	252.8	(88.5)	164.3
Adjustments for assumed changes in policyholder liabilities	575.7	(193.4)	382.3
Net unrealized losses on available-for-sale securities	<u>(796.9)</u>	<u>256.7</u>	<u>(540.2)</u>
Noncredit component of impairment losses on fixed maturities, available-for-sale during the period	24.5	(8.3)	16.2
Adjustments for assumed changes in amortization patterns	(14.4)	5.1	(9.3)
Noncredit component of impairment losses on fixed maturities, available-for-sale (2)	10.1	(3.2)	6.9
Net unrealized losses on derivative instruments during the period	(46.3)	16.8	(29.5)
Reclassification adjustment for losses included in net income (3)	11.6	(4.3)	7.3
Adjustments for assumed changes in amortization patterns	10.9	(3.8)	7.1
Adjustments for assumed changes in policyholder liabilities	20.5	(7.2)	13.3
Net unrealized losses on derivative instruments	<u>(3.3)</u>	<u>1.5</u>	<u>(1.8)</u>
Foreign currency translation adjustment	(282.6)	13.2	(269.4)
Unrecognized postretirement benefit obligation during the period	426.7	(149.3)	277.4
Amortization of prior service cost and actuarial loss included in net periodic benefit cost (4)	84.9	(29.7)	55.2
Net unrecognized postretirement benefit obligation	<u>511.6</u>	<u>(179.0)</u>	<u>332.6</u>
Other comprehensive loss	<u>\$ (561.1)</u>	<u>\$ 89.2</u>	<u>\$ (471.9)</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 5, Derivative Financial Instruments — Cash Flow Hedges, for further details.
- (4) Pre-tax amortization of prior service cost and actuarial loss included in net periodic benefit cost, which is comprised of amortization of prior service cost (benefit) and recognized net actuarial (gain) loss, is reported in operating expenses on the consolidated statements of operations. See Note 11, Employee and Agent Benefits — Components of Net Periodic Benefit Cost, for further details.

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements — (continued)

December 31, 2015

13. Stockholders' Equity — (continued)

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 (losses) on derivative instruments <i>(in millions)</i>	Foreign currency translation adjustment	Unrecognized postretirement benefit obligation	Accumulated other comprehensive income (loss)
<b>Balances at January 1, 2013</b>	\$ 1,418.3	\$ (173.9)	\$ (8.7)	\$ (106.9)	\$ (488.5)	\$ 640.3
Other comprehensive loss during the period, net of adjustments	(580.4)	—	(9.1)	(254.6)	277.4	(566.7)
Amounts reclassified from AOCI	40.2	6.9	7.3	—	55.2	109.6
Other comprehensive loss	(540.2)	6.9	(1.8)	(254.6)	332.6	(457.1)
<b>Balances at December 31, 2013</b>	878.1	(167.0)	(10.5)	(361.5)	(155.9)	183.2
Other comprehensive loss during the period, net of adjustments	373.5	—	59.0	(325.3)	(269.2)	(162.0)
Amounts reclassified from AOCI	(48.8)	61.9	2.1	—	14.0	29.2
Other comprehensive loss	324.7	61.9	61.1	(325.3)	(255.2)	(132.8)
<b>Balances at December 31, 2014</b>	1,202.8	(105.1)	50.6	(686.8)	(411.1)	50.4
Other comprehensive loss during the period, net of adjustments	(480.4)	—	43.6	(451.1)	(87.0)	(974.9)
Amounts reclassified from AOCI	9.7	19.1	(24.4)	—	47.9	52.3
Other comprehensive loss	(470.7)	19.1	19.2	(451.1)	(39.1)	(922.6)
Purchase of subsidiary shares from noncontrolling interest	—	—	—	(10.3)	—	(10.3)
<b>Balances at December 31, 2015</b>	<u>\$ 732.1</u>	<u>\$ (86.0)</u>	<u>\$ 69.8</u>	<u>\$ (1,148.2)</u>	<u>\$ (450.2)</u>	<u>\$ (882.5)</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 presented on the consolidated statements of financial position line item titled "Redeemable noncontrolling interest." If the interest were to be redeemed, we would be required to purchase such interest at a redemption value based on fair value or a formula that management intended to reasonably approximate fair value based on a fixed multiple of earnings over a measurement period. As such, 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 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.

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****13. Stockholders' Equity — (continued)**

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

<b>Balance at January 1, 2013</b>	<b>\$ 60.4</b>
Net income attributable to redeemable noncontrolling interest	13.6
Reclassification from stockholders' equity (1)	173.9
Redeemable noncontrolling interest assumed related to acquisition	1.2
Distributions to redeemable noncontrolling interest	(13.9)
Purchase of subsidiary shares from redeemable noncontrolling interest	(2.4)
Change in redemption value of redeemable noncontrolling interest	19.2
Foreign currency translation adjustment	(4.8)
<b>Balance at December 31, 2013</b>	<b>247.2</b>
Net income attributable to redeemable noncontrolling interest	9.0
Contributions from redeemable noncontrolling interest	9.5
Distributions to redeemable noncontrolling interest	(16.1)
Purchase of subsidiary shares from redeemable noncontrolling interest (2)	(215.2)
Change in redemption value of redeemable noncontrolling interest	28.9
Foreign currency translation adjustment	(5.3)
<b>Balance at December 31, 2014</b>	<b>58.0</b>
Net income attributable to redeemable noncontrolling interest	4.9
Contributions from redeemable noncontrolling interest	56.1
Distributions to redeemable noncontrolling interest	(15.1)
Purchase of subsidiary shares from redeemable noncontrolling interest	(6.0)
Change in redemption value of redeemable noncontrolling interest	6.6
Foreign currency translation adjustment	(18.8)
<b>Balance at December 31, 2015</b>	<b>\$ 85.7</b>

- (1) During the third quarter of 2013, we identified a classification error of certain of our noncontrolling interests. The classification error had no impact on net income, but did impact earnings per share to the extent the redemption value of the redeemable noncontrolling interest exceeded the fair value. We evaluated the classification error and related earnings per share impact based on qualitative and quantitative factors in accordance with SEC Staff Accounting Bulletins 99 and 108 and concluded the impact was not material in the current or any prior quarterly or annual periods presented. During the third quarter of 2013, we recorded a \$173.9 million increase to redeemable noncontrolling interest and a corresponding decrease to stockholders' equity. See related discussion in Note 18, Earnings Per Common Share.
- (2) During the third quarter of 2014, we increased our ownership stake in Columbus Circle Investors.

**Dividend Limitations**

The declaration and payment of our 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. There are no significant restrictions that limit the payment of dividends by us, except those generally applicable to corporations incorporated in Delaware.

Under Iowa law, Principal Life may pay stockholder dividends only from the earned surplus arising from its business and must receive the prior approval of the Commissioner to pay a stockholder dividend if such a stockholder dividend would exceed certain statutory limitations. In general, the current statutory limitation is the greater of 10% of Principal Life's policyholder surplus as of the preceding year-end or the net gain from operations from the previous calendar year. Based on this limitation and 2015 statutory results, Principal Life could pay approximately \$937.0 million in stockholder dividends in 2016 without exceeding the statutory limitation.

**14. 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.

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****14. Fair Value Measurements — (continued)****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. Our Level 1 assets and liabilities primarily include exchange traded equity securities, mutual funds and U.S. Treasury bonds.
- **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. Our Level 2 assets and liabilities primarily include fixed maturities (including public and private bonds), equity securities, derivatives and other investments for which public quotations are not available but that are priced by third party pricing services or internal models using substantially all observable inputs. Our level 2 assets also include commercial mortgage loan investments of consolidated VIEs for which the fair value option was elected.
- **Level 3** — Fair values are based on at least one significant unobservable input for the asset or liability. Our Level 3 assets and liabilities include certain assets and liabilities priced using broker quotes or other valuation methods that utilize at least one significant unobservable input. These include fixed maturities, private equity securities, real estate and commercial mortgage loan investments of our separate accounts, obligations of consolidated VIEs for which the fair value option was elected, complex derivatives, embedded derivatives and equity method real estate investments for which the fair value option was elected.

**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 values 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. Beginning in 2015 a measurement alternative is used for CCFEs utilizing the more observable of the fair value of the financial assets or the financial liabilities for both the financial assets and financial liabilities. We did not make any other significant changes to our valuation processes during 2015.

**Fixed Maturities**

Fixed maturities include bonds, ABS, redeemable preferred stock and certain nonredeemable 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 where 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

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****14. Fair Value Measurements — (continued)**

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 actually 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, which are reflected in Level 3 and can include fixed maturities across all asset classes. As of December 31, 2015, less than 1% of our fixed maturities were valued using internal pricing models, which were classified as Level 3 assets accordingly.

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, nonredeemable 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 net asset value ("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.

**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 such that their fair value is not reflected in the consolidated statements of financial position. The fair values of derivative instruments cleared through centralized clearinghouses 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. 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

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****14. Fair Value Measurements — (continued)**

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 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 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 a limited number of complex inflation-linked interest rate swaps, interest rate collars and 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 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 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. In addition, we have a limited number of total return swaps that are valued based on the observable quoted price of underlying equity indices. These are reflected in Level 2.

**Other Investments**

Other investments reported at fair value include seed money investments, other investment funds, commercial mortgage loans of consolidated VIEs and equity method real estate investments for which the fair value option was elected.

The fair value of seed money and other investment funds is determined using the NAV of the fund. The NAV of the fund represents the price at which we feel we would be able to initiate a transaction. Seed money investments in mutual funds for which the NAV represents a quoted price in an active market for identical assets are reflected in Level 1. Seed money investments in mutual funds that do not have a quoted price in an active market and other investment funds, which are relatively illiquid due to restrictions on sale, are reflected in Level 2.

Commercial mortgage loans of consolidated VIEs valued using the measurement alternative for CCFEs are reflected in Level 2. These investments are based on the more observable fair value of the liabilities of the consolidated VIEs.

Prior to 2015, commercial mortgage loans of consolidated VIEs for which the fair value option was elected were reflected in Level 3. The fair value of the commercial mortgage loans was computed utilizing a discount rate based on the current market. The market discount rate was then adjusted based on various factors that differentiate it from our pool of loans. 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.

**Cash and 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 less than three months. 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 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

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****14. Fair Value Measurements — (continued)**

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 that 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 that 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.

Additionally, obligations of consolidated VIEs for which the fair value option was elected are included in other liabilities. The VIEs' obligations are valued either based on prices obtained from third party pricing vendors which are reflected in Level 2, or internal pricing models, which are reflected in Level 3.

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements — (continued)

December 31, 2015

14. Fair Value Measurements — (continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below.

	December 31, 2015			
	Assets/ (liabilities) measured at fair value	Fair value hierarchy level		
		Level 1	Level 2	Level 3
	<i>(in millions)</i>			
<b>Assets</b>				
Fixed maturities, available-for-sale:				
U.S. government and agencies	\$ 1,503.5	\$ 931.0	\$ 572.5	\$ —
Non-U.S. governments	793.3	3.0	711.2	79.1
States and political subdivisions	4,717.1	—	4,717.1	—
Corporate	31,140.2	38.2	30,878.1	223.9
Residential mortgage-backed securities	2,627.5	—	2,627.5	—
Commercial mortgage-backed securities	3,919.8	—	3,915.0	4.8
Collateralized debt obligations	667.5	—	604.0	63.5
Other debt obligations	4,597.6	—	4,590.1	7.5
Total fixed maturities, available-for-sale	49,966.5	972.2	48,615.5	378.8
Fixed maturities, trading	686.8	199.2	352.1	135.5
Equity securities, available-for-sale	104.5	62.2	38.2	4.1
Equity securities, trading	1,202.7	413.9	788.8	—
Derivative assets (1)	666.6	—	619.4	47.2
Other investments (2)	517.2	208.1	274.0	35.1
Cash equivalents (3)	1,603.2	26.5	1,576.7	—
Sub-total excluding separate account assets	54,747.5	1,882.1	52,264.7	600.7
Separate account assets	136,978.9	72,303.6	57,661.4	7,013.9
<b>Total assets</b>	<b>\$ 191,726.4</b>	<b>\$ 74,185.7</b>	<b>\$ 109,926.1</b>	<b>\$ 7,614.6</b>
<b>Liabilities</b>				
Investment contracts (4)	\$ (177.4)	\$ —	\$ —	\$ (177.4)
Derivative liabilities (1)	(772.4)	—	(721.9)	(50.5)
Other liabilities (4)	(298.4)	—	(230.3)	(68.1)
<b>Total liabilities</b>	<b>\$ (1,248.2)</b>	<b>\$ —</b>	<b>\$ (952.2)</b>	<b>\$ (296.0)</b>
<b>Net assets</b>	<b>\$ 190,478.2</b>	<b>\$ 74,185.7</b>	<b>\$ 108,973.9</b>	<b>\$ 7,318.6</b>

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**14. Fair Value Measurements — (continued)**

	December 31, 2014			
	Assets/ (liabilities) measured at fair value	Fair value hierarchy level		
		Level 1	Level 2	Level 3
(in millions)				
<b>Assets</b>				
Fixed maturities, available-for-sale:				
U.S. government and agencies	\$ 1,121.8	\$ 720.5	\$ 401.3	\$ —
Non-U.S. governments	891.1	—	852.4	38.7
States and political subdivisions	4,204.0	—	4,204.0	—
Corporate	31,535.0	40.3	31,249.1	245.6
Residential mortgage-backed securities	2,822.9	—	2,822.9	—
Commercial mortgage-backed securities	3,975.5	—	3,975.5	—
Collateralized debt obligations	504.1	—	439.9	64.2
Other debt obligations	4,616.4	—	4,552.7	63.7
Total fixed maturities, available-for-sale	49,670.8	760.8	48,497.8	412.2
Fixed maturities, trading	604.6	—	464.9	139.7
Equity securities, available-for-sale	123.0	64.2	54.7	4.1
Equity securities, trading	840.2	105.9	734.3	—
Derivative assets (1)	661.8	—	608.1	53.7
Other investments (2)	478.9	3.3	348.4	127.2
Cash equivalents (3)	1,041.7	—	1,041.7	—
Sub-total excluding separate account assets	53,421.0	934.2	51,749.9	736.9
Separate account assets	140,072.8	73,363.4	60,818.0	5,891.4
<b>Total assets</b>	<b>\$ 193,493.8</b>	<b>\$ 74,297.6</b>	<b>\$ 112,567.9</b>	<b>\$ 6,628.3</b>
<b>Liabilities</b>				
Investment contracts (4)	\$ (176.4)	\$ —	\$ —	\$ (176.4)
Derivative liabilities (1)	(791.8)	—	(756.3)	(35.5)
Other liabilities (4)	(310.1)	—	(243.8)	(66.3)
<b>Total liabilities</b>	<b>\$ (1,278.3)</b>	<b>\$ —</b>	<b>\$ (1,000.1)</b>	<b>\$ (278.2)</b>
<b>Net assets</b>	<b>\$ 192,215.5</b>	<b>\$ 74,297.6</b>	<b>\$ 111,567.8</b>	<b>\$ 6,350.1</b>

- (1) Within the consolidated statements of financial position, derivative assets are reported with other investments and derivative liabilities are reported with other liabilities. Refer to Note 5, Derivative Financial Instruments, for further information on fair value by class of derivative instruments. Our derivatives are primarily Level 2, with the exception of certain credit default swaps and other swaps that are Level 3.
- (2) Primarily includes seed money investments, other investment funds, commercial mortgage loans of consolidated VIEs and equity method investments reported at fair value.
- (3) Includes money market instruments and short-term investments with a maturity date of three months or less when purchased.
- (4) Includes bifurcated embedded derivatives that are reported at fair value within the same line item in the consolidated statements of financial position in which the host contract is reported. Other liabilities also include obligations of consolidated VIEs reported at fair value.

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements — (continued)

December 31, 2015

14. Fair Value Measurements — (continued)

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) are summarized as follows:

	For the year ended December 31, 2015						Ending asset/ (liability) balance as of December 31, 2015	Changes in unrealized gains (losses) included in net income relating to positions still held (1)
	Beginning asset/ (liability) balance as of December 31, 2014	Total realized/unrealized gains (losses)		Net purchases, sales, issuances and settlements (4)	Transfers into Level 3	Transfers out of Level 3		
		Included in net income (1)	Included in other comprehensive income					
<i>(in millions)</i>								
<b>Assets</b>								
Fixed maturities, available-for-sale:								
Non-U.S. governments	\$ 38.7	\$ (0.2)	\$ (0.4)	\$ 41.0	\$ —	\$ —	\$ 79.1	\$ (0.2)
Corporate	245.6	(0.3)	(4.4)	27.7	42.8	(87.5)	223.9	(0.4)
Commercial mortgage-backed securities	—	0.1	—	12.3	—	(7.6)	4.8	—
Collateralized debt obligations	64.2	—	(0.1)	(0.6)	—	—	63.5	—
Other debt obligations	63.7	—	0.8	7.0	—	(64.0)	7.5	—
Total fixed maturities, available-for-sale	412.2	(0.4)	(4.1)	87.4	42.8	(159.1)	378.8	(0.6)
Fixed maturities, trading	139.7	(4.0)	—	(0.2)	—	—	135.5	(4.2)
Equity securities, available-for-sale	4.1	—	—	—	—	—	4.1	—
Derivative assets	53.7	(8.7)	—	2.2	—	—	47.2	(8.5)
Other investments	127.2	7.3	—	(64.4)	—	(35.0)	35.1	7.2
Separate account assets (2)	5,891.4	1,054.8	—	59.5	8.5	(0.3)	7,013.9	850.3
<b>Liabilities</b>								
Investment contracts	(176.4)	(13.4)	—	12.4	—	—	(177.4)	(17.8)
Derivative liabilities	(35.5)	(17.4)	2.2	0.2	—	—	(50.5)	(18.0)
Other liabilities (3)	(66.3)	(1.8)	—	—	—	—	(68.1)	(1.9)

	For the year ended December 31, 2014						Ending asset/ (liability) balance as of December 31, 2014	Changes in unrealized gains (losses) included in net income relating to positions still held (1)
	Beginning asset/ (liability) balance as of December 31, 2013	Total realized/unrealized gains (losses)		Net purchases, sales, issuances and settlements (4)	Transfers into Level 3	Transfers out of Level 3		
		Included in net income (1)	Included in other comprehensive income					
<i>(in millions)</i>								
<b>Assets</b>								
Fixed maturities, available-for-sale:								
Non-U.S. governments	\$ 47.5	\$ (0.3)	\$ —	\$ (8.5)	\$ —	\$ —	\$ 38.7	\$ (0.2)
States and political subdivisions	1.8	—	—	(0.1)	—	(1.7)	—	—
Corporate	164.0	(1.8)	(1.3)	56.0	46.6	(17.9)	245.6	(1.6)
Commercial mortgage-backed securities	1.6	(1.2)	1.3	(6.0)	6.8	(2.5)	—	—
Collateralized debt obligations	37.8	—	0.4	46.1	3.9	(24.0)	64.2	—
Other debt obligations	84.1	—	1.4	7.9	—	(29.7)	63.7	—
Total fixed maturities, available-for-sale	336.8	(3.3)	1.8	95.4	57.3	(75.8)	412.2	(1.8)
Fixed maturities, trading	169.9	9.9	—	(40.1)	—	—	139.7	1.2
Equity securities, available-for-sale	16.9	4.2	2.8	(20.0)	0.2	—	4.1	(0.3)
Derivative assets	74.2	(32.0)	—	11.5	—	—	53.7	(32.0)
Other investments	142.9	15.7	—	(31.4)	—	—	127.2	15.7
Separate account assets (2)	5,265.2	649.6	—	(13.9)	4.4	(13.9)	5,891.4	608.4
<b>Liabilities</b>								
Investment contracts	(6.9)	(196.0)	—	26.5	—	—	(176.4)	(196.5)
Derivative liabilities	(39.6)	3.9	(0.4)	0.6	—	—	(35.5)	(0.9)
Other liabilities (3)	(73.9)	(1.4)	—	9.0	—	—	(66.3)	(0.8)

**Principal Financial Group, Inc.**
**Notes to Consolidated Financial Statements — (continued)**
**December 31, 2015**
**14. Fair Value Measurements — (continued)**

	For the year ended December 31, 2013							Changes in unrealized gains (losses) included in net income relating to positions still held (1)
	Beginning asset/ (liability) balance as of December 31, 2012	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 December 31, 2013	
		Included in net income (1)	Included in other comprehensive income					
	(in millions)							
<b>Assets</b>								
Fixed maturities, available-for-sale:								
Non-U.S. governments	\$ 44.3	\$ (0.1)	\$ (0.9)	\$ 4.2	\$ —	\$ —	\$ 47.5	\$ (0.1)
States and political subdivisions	1.9	—	—	(0.1)	—	—	1.8	—
Corporate	174.5	(13.4)	4.5	(23.0)	105.3	(83.9)	164.0	(10.4)
Commercial mortgage-backed securities	—	—	(0.1)	(0.7)	2.4	—	1.6	—
Collateralized debt obligations	77.6	2.1	7.2	(56.0)	31.7	(24.8)	37.8	—
Other debt obligations	14.7	(0.3)	2.8	34.9	32.0	—	84.1	(0.3)
Total fixed maturities, available-for-sale	313.0	(11.7)	13.5	(40.7)	171.4	(108.7)	336.8	(10.8)
Fixed maturities, trading	166.8	3.0	—	0.1	—	—	169.9	3.1
Equity securities, available-for-sale	15.3	(0.2)	1.8	—	—	—	16.9	(0.2)
Derivative assets	75.1	(19.5)	—	18.6	—	—	74.2	(19.8)
Other investments	113.9	11.2	—	17.8	—	—	142.9	11.2
Separate account assets (2)	4,616.0	574.9	(0.1)	68.2	12.7	(6.5)	5,265.2	545.8
<b>Liabilities</b>								
Investment contracts	(170.5)	147.3	—	16.3	—	—	(6.9)	145.0
Derivative liabilities	(102.6)	55.0	(0.1)	8.1	—	—	(39.6)	53.9
Other liabilities (3)	(39.6)	(34.3)	—	—	—	—	(73.9)	(34.3)

- 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 fixed maturities, trading and certain derivatives used in relation to certain trading portfolios are reported in net investment income within the consolidated statements of operations.
- 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.
- Certain embedded derivatives reported in other liabilities are part of a cash flow hedge, with the effective portion of the unrealized gains (losses) recorded in AOCI.
- Gross purchases, sales, issuances and settlements were:

	For the year ended December 31, 2015				
	Purchases	Sales	Issuances	Settlements	Net purchases, sales, issuances and settlements
	(in millions)				
<b>Assets</b>					
Fixed maturities, available-for-sale:					
Non-U.S. governments	\$ 42.4	\$ (0.1)	\$ —	\$ (1.3)	\$ 41.0
Corporate	52.8	(7.7)	—	(17.4)	27.7
Commercial mortgage-backed securities	12.4	—	—	(0.1)	12.3
Collateralized debt obligations	—	—	—	(0.6)	(0.6)
Other debt obligations	16.5	—	—	(9.5)	7.0
Total fixed maturities, available-for-sale	124.1	(7.8)	—	(28.9)	87.4
Fixed maturities, trading	—	(0.2)	—	—	(0.2)
Derivative assets	2.5	(0.3)	—	—	2.2
Other investments	4.4	(68.8)	—	—	(64.4)
Separate account assets (5)	796.9	(436.5)	(323.4)	22.5	59.5
<b>Liabilities</b>					
Investment contracts	—	—	5.1	7.3	12.4
Derivative liabilities	—	0.2	—	—	0.2

**Principal Financial Group, Inc.**
**Notes to Consolidated Financial Statements — (continued)**
**December 31, 2015**
**14. Fair Value Measurements — (continued)**

For the year ended December 31, 2014					
	Purchases	Sales	Issuances	Settlements	Net purchases, sales, issuances and settlements
	<i>(in millions)</i>				
<b>Assets</b>					
Fixed maturities, available-for-sale:					
Non-U.S. governments	\$ 12.1	\$ (19.4)	\$ —	\$ (1.2)	\$ (8.5)
States and political subdivisions	—	—	—	(0.1)	(0.1)
Corporate	118.5	(54.8)	—	(7.7)	56.0
Commercial mortgage-backed securities	—	(5.8)	—	(0.2)	(6.0)
Collateralized debt obligations	61.3	—	—	(15.2)	46.1
Other debt obligations	19.2	—	—	(11.3)	7.9
Total fixed maturities, available-for-sale	211.1	(80.0)	—	(35.7)	95.4
Fixed maturities, trading	—	(10.0)	—	(30.1)	(40.1)
Equity securities, available-for-sale	—	(20.0)	—	—	(20.0)
Derivative assets	11.8	(0.3)	—	—	11.5
Other investments	0.2	—	—	(31.6)	(31.4)
Separate account assets (5)	705.9	(500.2)	(331.8)	112.2	(13.9)
<b>Liabilities</b>					
Investment contracts	—	—	20.7	5.8	26.5
Derivative liabilities	(1.5)	2.1	—	—	0.6
Other liabilities	—	9.0	—	—	9.0

For the year ended December 31, 2013					
	Purchases	Sales	Issuances	Settlements	Net purchases, sales, issuances and settlements
	<i>(in millions)</i>				
<b>Assets</b>					
Fixed maturities, available-for-sale:					
Non-U.S. governments	\$ 9.3	\$ (3.9)	\$ —	\$ (1.2)	\$ 4.2
States and political subdivisions	—	—	—	(0.1)	(0.1)
Corporate	32.6	(33.3)	—	(22.3)	(23.0)
Commercial mortgage-backed securities	—	—	—	(0.7)	(0.7)
Collateralized debt obligations	17.0	(47.4)	—	(25.6)	(56.0)
Other debt obligations	37.8	—	—	(2.9)	34.9
Total fixed maturities, available-for-sale	96.7	(84.6)	—	(52.8)	(40.7)
Fixed maturities, trading	—	—	—	0.1	0.1
Derivative assets	22.1	(3.5)	—	—	18.6
Other investments	30.2	—	—	(12.4)	17.8
Separate account assets (5)	418.4	(300.8)	(21.8)	(27.6)	68.2
<b>Liabilities</b>					
Investment contracts	—	—	11.0	5.3	16.3
Derivative liabilities	(3.4)	11.5	—	—	8.1

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

**Transfers**

Transfers of assets and liabilities measured at fair value on a recurring basis between fair value hierarchy levels are summarized below.

For the year ended December 31, 2015						
	Transfers out of Level 1 into Level 2	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
	<i>(in millions)</i>					
<b>Assets</b>						
Fixed maturities, available-for-sale:						
Corporate	\$ —	\$ —	\$ —	\$ 42.8	\$ —	\$ 87.5
Commercial mortgage-backed securities	—	—	—	—	—	7.6
Other debt obligations	—	—	—	—	—	64.0
Total fixed maturities, available-for-sale	—	—	—	42.8	—	159.1
Other investments	—	—	141.4	—	—	35.0
Separate account assets	26.9	—	8.1	8.5	—	0.3

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**14. Fair Value Measurements — (continued)**

	For the year ended December 31, 2014					
	Transfers out of Level 1 into Level 2	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
	<i>(in millions)</i>					
<b>Assets</b>						
Fixed maturities, available-for-sale:						
States and political subdivisions	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1.7
Corporate	—	—	—	46.6	—	17.9
Commercial mortgage-backed securities	—	—	—	6.8	—	2.5
Collateralized debt obligations	—	—	—	3.9	—	24.0
Other debt obligations	—	—	—	—	—	29.7
Total fixed maturities, available-for-sale	—	—	—	57.3	—	75.8
Equity securities, available-for-sale	—	—	—	0.2	—	—
Separate account assets	33.0	—	71.3	4.4	—	13.9

	For the year ended December 31, 2013					
	Transfers out of Level 1 into Level 2	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
	<i>(in millions)</i>					
<b>Assets</b>						
Fixed maturities, available-for-sale:						
Corporate	\$ —	\$ —	\$ —	\$ 105.3	\$ —	\$ 83.9
Commercial mortgage-backed securities	—	—	—	2.4	—	—
Collateralized debt obligations	—	—	—	31.7	—	24.8
Other debt obligations	—	—	—	32.0	—	—
Total fixed maturities, available-for-sale	—	—	—	171.4	—	108.7
Separate account assets	253.9	0.1	15.5	12.6	—	6.5

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

Assets transferred from Level 2 into Level 1 during 2015, 2014 and 2013, primarily included assets valued using a NAV with a quoted price in an active market for identical assets as a result of additional analysis to clarify the source of the quoted price.

Assets transferred into Level 3 during 2015, 2014 and 2013, 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.

Assets transferred out of Level 3 during 2015, 2014 and 2013, included those 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. Additionally, for the year ended December 31, 2015, assets transferred out of Level 3 included assets valued using the measurement alternative for CCFEs for which the corresponding liabilities have the more observable fair value and are reflected in Level 2.

**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.

**Principal Financial Group, Inc.**
**Notes to Consolidated Financial Statements — (continued)**
**December 31, 2015**
**14. Fair Value Measurements — (continued)**

December 31, 2015					
	Assets / (liabilities) measured at fair value <i>(in millions)</i>	Valuation technique(s)	Unobservable input description	Input/range of inputs	Weighted average
<b>Assets</b>					
Fixed maturities, available-for-sale:					
Non-U.S. governments	\$ 8.9	Discounted cash flow	Discount rate (1)	2.2%	2.2%
			Illiquidity premium	50 basis points ("bps")	50bps
Corporate	43.2	Discounted cash flow	Discount rate (1)	0.0% - 7.5%	5.1%
			Comparability adjustment	(4)bps - 7bps	0bps
			Illiquidity premium	0bps - 60bps	33bps
Collateralized debt obligations	3.1	Discounted cash flow	Discount rate (1)	28.0%	28.0%
			Probability of default	100.0%	100.0%
			Potential loss severity	67.0%	67.0%
Other debt obligations	7.5	Discounted cash flow	Discount rate (1)	5.0%	5.0%
			Illiquidity premium	750bps	750bps
Fixed maturities, trading	10.5	Discounted cash flow	Discount rate (1)	1.1% - 2.7%	2.6%
			Illiquidity premium	0bps - 300bps	240bps
Other investments	35.1	Discounted cash flow — equity method real estate investments	Discount rate (1)	7.8%	7.8%
			Terminal capitalization rate	6.8%	6.8%
			Average market rent growth rate	3.2%	3.2%
		Discounted cash flow — equity method real estate investments — debt	Loan to value	52.3%	52.3%
			Credit spread rate	2.3%	2.3%
Separate account assets	6,881.8	Discounted cash flow — mortgage loans	Discount rate (1)	1.4% - 8.2%	3.9%
			Illiquidity premium	0bps - 60bps	7bps
			Credit spread rate	81bps - 750bps	241bps
		Discounted cash flow — real estate	Discount rate (1)	5.3% - 16.4%	7.2%
			Terminal capitalization rate	4.3% - 9.8%	6.2%
			Average market rent growth rate	2.0% - 4.3%	3.0%
		Discounted cash flow — real estate debt	Loan to value	7.8% - 63.1%	47.4%
			Credit spread rate	1.4% - 4.6%	2.2%

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**14. Fair Value Measurements — (continued)**

December 31, 2015				
Assets / (liabilities) measured at fair value <i>(in millions)</i>	Valuation technique(s)	Unobservable input description	Input/range of inputs	Weighted average
<b>Liabilities</b>				
Investment contracts	(177.4)	Discounted cash flow	Long duration interest rate	2.5% - 2.6% (3)
			Long-term equity market volatility	14.9% - 44.4%
			Non-performance risk	0.4% - 1.9%
			Utilization rate	See note (4)
			Lapse rate	0.5% - 14.1%
			Mortality rate	See note (5)

December 31, 2014				
Assets / (liabilities) measured at fair value <i>(in millions)</i>	Valuation technique(s)	Unobservable input description	Input/range of inputs	Weighted average
<b>Assets</b>				
Fixed maturities, available-for-sale:				
Non-U.S. governments	\$ 10.3	Discounted cash flow	Discount rate (1)	2.2%
			Illiquidity premium	50 bps
Corporate	83.0	Discounted cash flow	Discount rate (1)	1.8% - 6.7%
			Comparability adjustment	0bps - 1bps
			Illiquidity premium	0bps - 25bps
Collateralized debt obligations	12.7	Discounted cash flow	Discount rate (1)	2.7% - 17.1%
			Probability of default	0% - 100%
			Potential loss severity	0% - 70.0%
Other debt obligations	49.3	Discounted cash flow	Discount rate (1)	1.4% - 5.0%
			Illiquidity premium	0bps - 1,000bps
Fixed maturities, trading	15.2	Discounted cash flow	Discount rate (1)	1.8% - 126.9%
			Illiquidity premium	200bps - 1,400bps
	100.4	See note (2)		

**Principal Financial Group, Inc.**
**Notes to Consolidated Financial Statements — (continued)**
**December 31, 2015**
**14. Fair Value Measurements — (continued)**

December 31, 2014					
	Assets / (liabilities) measured at fair value <i>(in millions)</i>	Valuation technique(s)	Unobservable input description	Input/range of inputs	Weighted average
Other investments	35.0	Discounted cash flow — commercial mortgage loans of consolidated VIEs	Discount rate (1)	4.2%	4.2%
			Illiquidity premium	76bps	76bps
	92.2	Discounted cash flow — equity method real estate investments	Discount rate (1)	7.3% - 8.0%	7.6%
			Terminal capitalization rate	5.5% - 6.8%	6.1%
			Average market rent growth rate	3.3% - 3.7%	3.5%
			Loan to value	34.2% - 58.9%	46.5%
		Discounted cash flow — equity method real estate investments — debt	Credit spread rate	1.8% - 2.0%	1.9%
			Discount rate (1)	1.1% - 6.9%	3.2%
Separate account assets	5,857.4	Discounted cash flow — mortgage loans	Illiquidity premium	0bps - 60bps	7bps
			Credit spread rate	70bps - 632bps	221bps
		Discounted cash flow — real estate	Discount rate (1)	6.0% - 24.6%	7.4%
			Terminal capitalization rate	4.5% - 9.5%	6.4%
			Average market rent growth rate	1.3% - 4.4%	3.0%
			Loan to value	6.8% - 64.1%	46.5%
		Discounted cash flow — real estate debt	Credit spread rate	2.1% - 4.8%	3.4%
<b>Liabilities</b>					
Investment contracts	(176.4)	Discounted cash flow	Long duration interest rate	2.6% - 2.7% (3)	
			Long-term equity market volatility	14.9% - 39.5%	
			Non-performance risk	0.1% - 1.4%	
			Utilization rate	See note (4)	
			Lapse rate	0.5% - 14.1%	
			Mortality rate	See note (5)	
Derivative liabilities	(19.3)	See note (2)			
Other liabilities	(66.3)	See note (2)			

- (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 credit spread, illiquidity or other adjustments, where applicable.

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****14. Fair Value Measurements — (continued)**

- (2) Prior to 2015, the assets and liabilities fair values relate to a consolidated collateralized private investment vehicle that is a VIE. Fixed maturities, trading represents the underlying collateral of the investment structure and consists of high-grade fixed maturity investments, which are over-collateralized based on outstanding notes priced at par. The derivative liability represents credit default swaps that are valued using a correlation model to the credit default swap ("CDS") Index ("CDX") and inputs to the valuation are based on observable market data such as the end of period swap curve, CDS constituents of the index and spread levels of the index, as well as CDX tranche spreads. The value of the obligations, which are due at maturity or termination of the trust, reflect the third parties' interest in the investment structure.
- (3) 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.
- (4) 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.
- (5) This input is based on an appropriate industry mortality table and a range does not provide a meaningful presentation.

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 can be either assets or liabilities within the investment contracts line item, 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**

Certain assets are measured at fair value on a nonrecurring basis. During 2015, certain mortgage loans had been marked to fair value of \$9.4 million. The net impact of impairments and improvements in estimated fair value of previously impaired loans resulted in a net loss of \$3.0 million that was recorded in net realized capital gains (losses) as part of the mortgage loan valuation allowance. This includes the impact of certain loans no longer on our books. These collateral-dependent mortgage loans are a Level 3 fair value measurement, as fair value is based on the fair value of the underlying real estate collateral, which is estimated using appraised values that involve significant unobservable inputs.

During 2015, certain real estate had been written down to fair value of \$30.9 million. This write down resulted in a loss of \$2.9 million that was recorded in net realized capital gains (losses). This is a Level 3 fair value measurement, as the fair value of real estate is estimated based on a discounted cash flow valuation from an internal model. Significant inputs used in the discounted cash flow calculation include a discount rate, terminal capitalization rate and average market rent growth. The ranges of inputs used in the fair value measurements for the real estate marked to fair value during 2015 were:

Discount rate = 8.6% - 10.5%  
Terminal capitalization rate = 7.3% - 8.5%  
Average market rent growth = 2.7% - 3.0%

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****14. Fair Value Measurements — (continued)**

During 2015, identified intangibles that originated from the acquisition of our mutual fund company in Brazil were deemed to be impaired, and were marked to fair value of zero. These impairments were driven by the current macroeconomic and market conditions in Brazil, including higher discount rates and change in the mix of business. The fair value calculation for intangibles is a Level 3 fair value measurement, as the fair value is determined by calculating the present value of future cash flows that are expected to emerge from the identified intangibles. The net impact of impairments of identified intangibles resulted in a loss of \$23.0 million that was recorded in operating expenses.

During 2014, certain mortgage loans had been marked to fair value of \$68.9 million. The net impact of impairments and improvements in estimated fair value of previously impaired loans resulted in a net loss of \$10.0 million that was recorded in net realized capital gains (losses) as part of the mortgage loan valuation allowance. This includes the impact of certain loans no longer on our books. These collateral-dependent mortgage loans are a Level 3 fair value measurement, as fair value is based on the fair value of the underlying real estate collateral, which is estimated using appraised values that involve significant unobservable inputs. The fair value of the underlying collateral is determined based on a discounted cash flow valuation either from an external broker opinion of value or an internal model. Significant inputs used in the discounted cash flow calculation include: a discount rate, terminal capitalization rate and average market rent growth. The ranges of inputs used in the fair value measurements for the mortgage loans marked to fair value during 2014 were:

Discount rate = 8.8% - 11.0%  
Terminal capitalization rate = 7.3% - 9.0%  
Average market rent growth = 2.0% - 10.9%

During 2014, certain real estate had been written down to fair value of \$22.3 million. This write down resulted in a loss of \$6.2 million that was recorded in net realized capital gains (losses). This is a Level 3 fair value measurement, as the fair value of real estate is estimated based on a discounted cash flow valuation from an internal model. Significant inputs used in the discounted cash flow calculation include a discount rate, terminal capitalization rate and average market rent growth. The ranges of inputs used in the fair value measurements for the real estate marked to fair value during 2014 were:

Discount rate = 9.6% - 11.8%  
Terminal capitalization rate = 8.3% - 8.5%  
Average market rent growth = 3.0% - 3.6%

During 2013, certain mortgage loans had been marked to fair value of \$153.1 million. The net impact of impairments and improvements in estimated fair value of previously impaired loans resulted in a net loss of \$27.5 million that was recorded in net realized capital gains (losses) as part of the mortgage loan valuation allowance. This includes the impact of certain loans no longer on our books. These collateral-dependent mortgage loans are a Level 3 fair value measurement, as fair value is based on the fair value of the underlying real estate collateral, which is estimated using appraised values that involve significant unobservable inputs. The fair value of the underlying collateral is determined based on a discounted cash flow valuation either from an external broker opinion of value or an internal model. Significant inputs used in the discounted cash flow calculation include: a discount rate, terminal capitalization rate and average market rent growth. The ranges of inputs used in the fair value measurements for the mortgage loans marked to fair value during 2013 were:

Discount rate = 8.0% - 20.0%  
Terminal capitalization rate = 7.3% - 10.5%  
Average market rent growth = 1.0% - 10.9%

During 2013, certain mortgage servicing rights had been marked to fair value of \$7.3 million. The net impact of impairments and subsequent improvements in estimated fair value of previously impaired mortgage servicing rights resulted in a net gain of \$1.3 million that was recorded in operating expenses. These mortgage servicing rights are a Level 3 fair value measurement, as fair value is determined by calculating the present value of the future servicing cash flows from the underlying mortgage loans. The discount rate used in calculating the present value of the future servicing cash flows was 4.3% for the year ended December 31, 2013.

**Fair Value Option**

We elected fair value accounting for certain assets and liabilities of consolidated VIEs for which it was not practicable for us to determine the carrying value. The fair value option was elected for commercial mortgage loans reported with other investments and obligations reported with other liabilities in the consolidated statements of financial

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**14. Fair Value Measurements — (continued)**

position. The changes in fair value of these items are reported in net realized capital gains (losses) on the consolidated statements of operations.

The fair value and aggregate contractual principal amounts of commercial mortgage loans for which the fair value option has been elected were \$18.3 million and \$17.8 million as of December 31, 2015, and \$35.0 million and \$32.4 million as of December 31, 2014, respectively. The change in fair value of the loans resulted in a \$(2.0) million, \$(1.5) million and \$0.2 million pre-tax gain (loss) for the years ended December 31, 2015, 2014 and 2013, respectively, none of which related to instrument-specific credit risk. None of these loans were more than 90 days past due or in nonaccrual status. Interest income on these commercial mortgage loans is included in net investment income on the consolidated statements of operations and is recorded based on the effective interest rates as determined at the closing of the loan. Interest income recorded on these commercial mortgage loans was \$3.6 million, \$6.2 million and \$5.7 million for the years ended December 31, 2015, 2014 and 2013, respectively.

The fair value and aggregate unpaid principal amounts of obligations for which the fair value option has been elected were \$68.1 million and \$118.2 million as of December 31, 2015, and \$71.0 million and \$132.8 million as of December 31, 2014, respectively. For the years ended December 31, 2015, 2014 and 2013, the change in fair value of the obligations resulted in a pre-tax loss of \$2.1 million, \$0.7 million and \$32.8 million, which includes a pre-tax loss of \$1.9 million, \$2.4 million and \$34.3 million related to instrument-specific credit risk that is estimated based on credit spreads and quality ratings, respectively. Interest expense recorded on these obligations is included in operating expenses on the consolidated statements of operations and was \$1.1 million, \$3.0 million and \$3.6 million for the years ended December 31, 2015, 2014 and 2013, respectively.

We invest in real estate ventures for the purpose of earning investment returns and for capital appreciation. We elected the fair value option for certain 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. These investments are reported with other investments in the consolidated statements of financial position. The changes in fair value are reported in net investment income on the consolidated statements of operations. The fair value of the equity method investments for which the fair value option has been elected was \$35.1 million and \$92.2 million as of December 31, 2015 and 2014, respectively. The change in fair value of the investments resulted in a \$7.2 million, \$17.3 million and \$11.0 million pre-tax gain (loss) for the years ended December 31, 2015, 2014 and 2013, respectively.

**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:

	December 31, 2015				
	Carrying amount	Fair value	Fair value hierarchy level		
			Level 1	Level 2	Level 3
	<i>(in millions)</i>				
<b>Assets (liabilities)</b>					
Mortgage loans	\$ 12,339.4	\$ 12,653.5	\$ —	\$ —	\$ 12,653.5
Policy loans	817.1	1,023.1	—	—	1,023.1
Other investments	185.0	197.8	—	118.9	78.9
Cash and cash equivalents	961.6	961.6	961.6	—	—
Investment contracts	(29,063.6)	(28,703.2)	—	(4,925.0)	(23,778.2)
Short-term debt	(181.1)	(181.1)	—	(181.1)	—
Long-term debt	(3,290.8)	(3,411.9)	—	(3,369.1)	(42.8)
Separate account liabilities	(125,265.0)	(124,005.9)	—	—	(124,005.9)
Bank deposits	(2,070.8)	(2,074.4)	(1,457.4)	(617.0)	—
Cash collateral payable	(216.3)	(216.3)	(216.3)	—	—

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**14. Fair Value Measurements — (continued)**

	December 31, 2014				
	Carrying amount	Fair value	Fair value hierarchy level		
			Level 1	Level 2	Level 3
<i>(in millions)</i>					
<b>Assets (liabilities)</b>					
Mortgage loans	\$ 11,811.6	\$ 12,350.2	\$ —	\$ —	\$ 12,350.2
Policy loans	829.2	1,083.2	—	—	1,083.2
Other investments	211.2	211.6	—	183.7	27.9
Cash and cash equivalents	822.2	822.2	822.2	—	—
Investment contracts	(28,256.3)	(28,322.7)	—	(5,455.4)	(22,867.3)
Short-term debt	(28.0)	(28.0)	—	(28.0)	—
Long-term debt	(2,531.2)	(2,786.1)	—	(2,703.8)	(82.3)
Separate account liabilities	(128,480.5)	(127,131.0)	—	—	(127,131.0)
Bank deposits	(1,979.7)	(1,985.5)	(1,343.8)	(641.7)	—
Cash collateral payable	(148.3)	(148.3)	(148.3)	—	—

**Mortgage Loans**

Fair values of commercial and residential mortgage loans are primarily determined by discounting the expected cash flows at current treasury rates plus an applicable risk spread, which reflects credit quality and maturity of the loans. The risk spread is based on market clearing levels for loans with comparable credit quality, maturities and risk. The fair value of mortgage loans may also be based on the fair value of the underlying real estate collateral less cost to sell, which is estimated using appraised values. These are reflected in Level 3.

**Policy Loans**

Fair values of policy loans are estimated by discounting expected cash flows using a risk-free rate based on the Treasury curve. The expected cash flows reflect an estimate of timing of the repayment of the loans. These are reflected in Level 3.

**Other Investments**

The fair value of commercial loans and certain consumer loans included in other investments is calculated by discounting expected cash flows through the estimated maturity date using market interest rates that reflect the credit and interest rate risk inherent in the loans. The estimate of term to maturity is based on historical experience, adjusted as required, for current economic and lending conditions. The effect of nonperforming loans is considered in assessing the credit risk inherent in the fair value estimate. These are reflected in Level 3. The fair value of certain tax credit investments are estimated by discounting expected future tax benefits using estimated investment return rates. These are reflected in Level 3. The carrying value of the remaining investments reported in this line item approximate their fair value. These are reflected in Level 2.

**Cash and Cash Equivalents**

Certain cash equivalents not reported at fair value include short-term investments with maturities of less than three months for which public quotations are not available to use in determining fair value. Because of the highly liquid nature of these assets, carrying amounts are used to approximate fair value, which are reflected in Level 2. The carrying amounts of the remaining cash and cash equivalents that are not reported at fair value on a recurring basis approximate their fair value, which are reflected in Level 1 given the nature of cash.

**Investment Contracts**

The fair values of our reserves and liabilities for investment contracts are determined via a third party pricing vendor or using discounted cash flow analyses when we are unable to find a price from third party pricing vendors. Third party pricing on various outstanding medium-term notes and funding agreements is based on observable inputs such as benchmark yields and spreads based on reported trades for our medium-term notes and funding agreement issuances. These are reflected in Level 2. The discounted cash flow analyses for the remaining contracts is based on current interest rates, including non-performance risk, being offered for similar contracts with maturities consistent with those remaining for the investment contracts being valued. These are reflected in Level 3. Investment contracts include insurance, annuity and other policy contracts that do not involve significant mortality or morbidity risk and are only a portion of the policyholder liabilities appearing in the consolidated statements of financial position. Insurance contracts include

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****14. Fair Value Measurements — (continued)**

insurance, annuity and other policy contracts that do involve significant mortality or morbidity risk. The fair values for our insurance contracts, other than investment contracts, are not required to be disclosed.

***Short-Term Debt***

The carrying amount of short-term debt approximates its fair value because of the relatively short time between origination of the debt instrument and its maturity, which is reflected in Level 2.

***Long-Term Debt***

Long-term debt primarily includes senior note issuances for which the fair values are determined using inputs that are observable in the market or that can be derived from or corroborated with observable market data. These are reflected in Level 2. Additionally, our long-term debt includes non-recourse mortgages and notes payable that are primarily financings for real estate developments for which the fair values are estimated using discounted cash flow analysis based on our incremental borrowing rate for similar borrowing arrangements. These are reflected in Level 3.

***Separate Account Liabilities***

Fair values of separate account liabilities, excluding insurance-related elements, are estimated based on market assumptions around what a potential acquirer would pay for the associated block of business, including both the separate account assets and liabilities. As the applicable separate account assets are already reflected at fair value, any adjustment to the fair value of the block is an assumed adjustment to the separate account liabilities. To compute fair value, the separate account liabilities are originally set to equal separate account assets because these are pass-through contracts. The separate account liabilities are reduced by the amount of future fees expected to be collected that are intended to offset upfront acquisition costs already incurred that a potential acquirer would not have to pay. The estimated future fees are adjusted by an adverse deviation discount and the amount is then discounted at a risk-free rate as measured by the yield on Treasury securities at maturities aligned with the estimated timing of fee collection. These are reflected in Level 3.

***Bank Deposits***

The fair value of deposits of our Principal Bank subsidiary with no stated maturity is equal to the amount payable on demand (i.e., their carrying amounts). These are reflected in Level 1. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount is estimated using the rates currently offered for deposits of similar remaining maturities. These are reflected in Level 2.

***Cash Collateral Payable***

The carrying amount of the payable associated with our obligation to return the cash collateral received under derivative credit support annex (collateral) agreements approximates its fair value, which is reflected in Level 1.

**15. Statutory Insurance Financial Information**

Principal Life, the largest indirect subsidiary of PFG, prepares statutory financial statements in accordance with the accounting practices prescribed or permitted by the Insurance Division of the Department of Commerce of the State of Iowa (the "State of Iowa"). The State of Iowa recognizes only statutory accounting practices prescribed or permitted by the State of Iowa for determining and reporting the financial condition and results of operations of an insurance company to determine its solvency under the Iowa Insurance Law. The National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual has been adopted as a component of prescribed practices by the State of Iowa. The Commissioner has the right to permit other specific practices that deviate from prescribed practices. As of December 31, 2015, our use of prescribed statutory accounting practices has resulted in lower statutory net income of \$2.1 million relative to the accounting practices and procedures of the NAIC due to our accounting for derivatives that hedge some of our equity indexed products. In addition, as of December 31, 2015, our permitted statutory accounting practice relating to variable annuities with a guaranteed living benefit rider resulted in lower statutory surplus of \$158.1 million relative to carrying certain interest rate swaps at book value rather than fair value, as if they received hedge accounting treatment for statutory. Statutory accounting practices differ from U.S. GAAP primarily due to charging policy acquisition costs to expense as incurred, establishing reserves using different actuarial assumptions, valuing investments on a different basis and not admitting certain assets, including certain net deferred income tax assets.

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****15. Statutory Insurance Financial Information — (continued)**

Principal Life cedes certain term and universal life insurance statutory reserves to our affiliated reinsurance subsidiaries on a funds withheld coinsurance basis. The reserves are secured by cash, invested assets and financing provided by highly rated third parties. As of December 31, 2015, our affiliated reinsurance subsidiaries assumed statutory reserves of \$3,934.2 million from Principal Life. In the states of Vermont and Delaware, the affiliated reinsurers had permitted and prescribed practices allowing for the admissibility of certain assets backing these reserves. As of December 31, 2015, assets admitted under these practices totaled \$1,447.0 million.

Life and health insurance companies are subject to certain risk-based capital ("RBC") requirements as specified by the NAIC. Under those requirements, the amount of capital and surplus maintained by a life and health insurance company is to be determined based on the various risk factors related to it. At December 31, 2015, Principal Life meets the minimum RBC requirements.

Statutory net income and statutory capital and surplus of Principal Life were as follows:

	As of or for the year ended		
	December 31,		
	2015	2014	2013
	<i>(in millions)</i>		
Statutory net income	\$ 948.6	\$ 535.5	\$ 607.9
Statutory capital and surplus	4,496.7	4,202.1	4,142.2

**16. 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.

Prior to fourth quarter 2015, Principal Funds, which included our mutual fund business and Princor, our retail broker-dealer and registered investment advisor, as well as PFA were previously reported in our Retirement and Investor Services segment, which has been renamed to Retirement and Income Solutions. Our mutual fund business and PFA are now reported as part of our Principal Global Investors segment, while Princor is now reported as part of our Corporate segment. The new segment presentation has been applied retrospectively to our segment financial information but did not impact our consolidated financial statements.

The Retirement and Income Solutions segment provides retirement and related financial products and services primarily to businesses, their employees and other individuals.

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 Brazil, Chile, China, Hong Kong Special Administrative Region, India, Mexico and Southeast Asia. We focus on countries with large middle classes, favorable demographics and growing long-term savings, ideally with defined contribution markets. We entered these countries through acquisitions, start-up operations and joint ventures.

The U.S. Insurance Solutions segment provides specialty benefits insurance, which consists of group dental and vision insurance, individual and group disability insurance, group life insurance and non-medical fee-for-service claims administration, and individual life insurance throughout the United States.

The 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 interest expense and preferred stock dividends), 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 Princor, our retail broker-dealer and registered investment advisor, and our exited group medical insurance business are reported in this segment.

Concurrent with the changes in our organizational structure, we changed our measure of segment profit or loss to pre-tax operating earnings. Management uses segment pre-tax operating earnings in evaluating performance and 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

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****16. Segment Information — (continued)**

adjusted, pre-tax other adjustments that management believes are not indicative of overall operating trends and certain adjustments related to equity method investments. Pre-tax net realized capital gains (losses), as adjusted, are net of related changes in the amortization pattern of DAC and related actuarial balances, recognition of deferred front-end fee revenues for sales charges on retirement and life insurance products and services, amortization of hedge accounting book value adjustments for certain discontinued hedges, net realized capital gains and losses distributed, noncontrolling interest capital gains and losses, certain adjustments related to seed money and certain market value adjustments to fee revenues. Pre-tax net realized capital gains (losses), as adjusted, exclude periodic settlements and accruals on derivative instruments not designated as hedging instruments and exclude certain market value adjustments of embedded derivatives and realized capital gains (losses) associated with our exited group medical insurance business. Segment operating revenues exclude net realized capital gains (losses) (except periodic settlements and accruals on derivatives not designated as hedging instruments), including their impact on recognition of front-end fee revenues, certain market value adjustments to fee revenues, certain adjustments related to seed money and amortization of hedge accounting book value adjustments for certain discontinued hedges; certain adjustments related to equity method investments and revenue from our exited group medical insurance business. While these items may be significant components in understanding and assessing the consolidated financial performance, management believes the presentation of segment 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 change to our new measure of segment profit or loss has been applied retrospectively.

The accounting policies of the segments are consistent with the accounting policies for the consolidated financial statements, with the exception of income tax allocation. The Corporate segment functions to absorb the risk inherent in interpreting and applying tax law. For purposes of determining 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.

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:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	<i>(in millions)</i>	
<b>Assets:</b>		
Retirement and Income Solutions	\$ 139,678.5	\$ 137,860.7
Principal Global Investors	1,880.4	1,875.2
Principal International	50,588.6	53,531.8
U.S. Insurance Solutions	22,156.9	21,554.5
Corporate	4,381.5	4,264.8
Total consolidated assets	<u>\$ 218,685.9</u>	<u>\$ 219,087.0</u>

**Principal Financial Group, Inc.**
**Notes to Consolidated Financial Statements — (continued)**
**December 31, 2015**
**16. Segment Information — (continued)**

	For the year ended		
	December 31,		
	2015	2014	2013
	<i>(in millions)</i>		
<b>Operating revenues by segment:</b>			
Retirement and Income Solutions:			
Retirement and Income Solutions — Fee	\$ 1,774.0	\$ 1,778.9	\$ 1,645.8
Retirement and Income Solutions — Spread	4,392.9	3,020.8	2,566.7
Total Retirement and Income Solutions	6,166.9	4,799.7	4,212.5
Principal Global Investors (1)	1,343.5	1,257.4	1,189.7
Principal International	1,220.6	1,329.8	1,201.2
U.S. Insurance Solutions:			
Specialty benefits insurance	1,868.1	1,727.1	1,623.6
Individual life insurance	1,572.7	1,535.7	1,483.0
Eliminations	(0.2)	(0.2)	(0.2)
Total U.S. Insurance Solutions	3,440.6	3,262.6	3,106.4
Corporate	(50.5)	(40.3)	(51.2)
Total segment operating revenues	12,121.1	10,609.2	9,658.6
Net realized capital losses, net of related revenue adjustments	(162.7)	(77.4)	(320.0)
Certain adjustments related to equity method investments	(55.5)	(54.4)	(51.2)
Other income on a tax indemnification	60.2	—	—
Exited group medical insurance business	1.3	0.2	2.1
Total revenues per consolidated statements of operations	<u>\$ 11,964.4</u>	<u>\$ 10,477.6</u>	<u>\$ 9,289.5</u>
<b>Pre-tax operating earnings (losses) by segment:</b>			
Retirement and Income Solutions	\$ 740.1	\$ 851.2	\$ 752.5
Principal Global Investors	388.5	350.1	289.6
Principal International	271.3	352.7	294.4
U.S. Insurance Solutions	429.5	344.1	290.6
Corporate	(192.3)	(175.0)	(193.1)
Total segment pre-tax operating earnings	1,637.1	1,723.1	1,434.0
Pre-tax net realized capital losses, as adjusted (2)	(170.7)	(143.1)	(280.3)
Pre-tax other adjustments (3)	11.7	(63.1)	(1.7)
Certain adjustments related to equity method investments and noncontrolling interest	(47.3)	(22.0)	(28.0)
Income before income taxes per consolidated statements of operations	<u>\$ 1,430.8</u>	<u>\$ 1,494.9</u>	<u>\$ 1,124.0</u>

(1) Reflects inter-segment revenues of \$220.6 million, \$206.3 million and \$169.5 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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

	For the year ended		
	December 31,		
	2015	2014	2013
	<i>(in millions)</i>		
<b>Net realized capital gains (losses):</b>			
Net realized capital gains (losses)	\$ (51.1)	\$ 14.7	\$ (225.2)
Certain derivative and hedging-related adjustments	(111.7)	(92.8)	(93.9)
Certain market value adjustments to fee revenues	(1.1)	—	—
Certain adjustments related to seed money	1.3	—	—
Recognition of front-end fee (revenue) expense	(0.1)	0.7	(0.9)
Net realized capital losses, net of related revenue adjustments	(162.7)	(77.4)	(320.0)
Amortization of deferred acquisition costs and other actuarial balances	(14.0)	(49.3)	47.1
Capital (gains) losses distributed	6.2	(21.2)	(25.8)
Certain market value adjustments of embedded derivatives	(0.2)	4.8	18.4
Pre-tax net realized capital losses, as adjusted (a)	<u>\$ (170.7)</u>	<u>\$ (143.1)</u>	<u>\$ (280.3)</u>

(a) As adjusted before noncontrolling interest capital gains (losses) and net realized capital gains (losses) associated with exited group medical insurance business.

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**16. Segment Information — (continued)**

(3) For the year ended December 31, 2015, pre-tax other adjustments included the positive effect of the impact of a court ruling on some uncertain tax positions (\$15.1 million) and the negative effect of losses associated with our exited group medical insurance business that did not qualify for discontinued operations accounting treatment under U.S. GAAP (\$3.4 million).

For the year ended December 31, 2014, pre-tax other adjustments included the negative effect of the impact of (a) a court ruling on some uncertain tax positions (\$62.2 million) and (b) the effect of losses associated with our exited group medical insurance business that did not qualify for discontinued operations accounting treatment under U.S. GAAP (\$0.9 million).

For the year ended December 31, 2013, pre-tax other adjustments included the negative effect of losses associated with our exited group medical insurance business that did not qualify for discontinued operations accounting treatment under U.S. GAAP.

The following is a summary of income tax expense (benefit) allocated to our segments for purposes of determining operating earnings. Segment income taxes are reconciled to income taxes reported on our consolidated statements of operations.

	For the year ended December 31,		
	2015	2014	2013
	<i>(in millions)</i>		
<b>Income tax expense (benefit) by segment:</b>			
Retirement and Income Solutions	\$ 76.1	\$ 128.5	\$ 139.2
Principal Global Investors	148.4	132.9	109.5
Principal International	51.5	84.7	79.2
U.S. Insurance Solutions	143.1	112.8	94.0
Corporate	(77.2)	(86.7)	(80.8)
Total segment income taxes from operating earnings	341.9	372.2	341.1
Tax benefit related to net realized capital losses, as adjusted	(45.6)	(43.6)	(101.4)
Tax expense (benefit) related to other after-tax adjustments	(63.2)	44.3	(0.6)
Certain adjustments related to equity method investments and noncontrolling interest	(55.5)	(54.4)	(51.2)
Total income taxes per consolidated statements of operations	<u>\$ 177.6</u>	<u>\$ 318.5</u>	<u>\$ 187.9</u>

The following is a summary of depreciation and amortization expense allocated to our segments for purposes of determining pre-tax operating earnings. Segment depreciation and amortization is reconciled to depreciation and amortization included in operating expenses in our consolidated statements of operations.

	For the year ended December 31,		
	2015	2014	2013
	<i>(in millions)</i>		
<b>Depreciation and amortization expense by segment:</b>			
Retirement and Income Solutions	\$ 28.3	\$ 27.5	\$ 23.1
Principal Global Investors	16.5	17.1	14.3
Principal International	69.3	51.6	47.8
U.S. Insurance Solutions	23.1	21.2	17.2
Corporate	6.5	5.3	5.7
Total segment depreciation and amortization expense included in pre-tax operating earnings	143.7	122.7	108.1
Depreciation and amortization expense related to pre-tax other adjustments	—	—	1.4
Total depreciation and amortization expense included in our consolidated statements of operations	<u>\$ 143.7</u>	<u>\$ 122.7</u>	<u>\$ 109.5</u>

**17. Stock-Based Compensation Plans**

As of December 31, 2015, we have the 2014 Stock Incentive Plan, the Employee Stock Purchase Plan, the 2014 Directors Stock Plan, the Long-Term Performance 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, the Directors Stock Plan or the Long-Term Performance 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

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**17. Stock-Based Compensation Plans — (continued)**

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 December 31, 2015, the maximum number of new shares of common stock that were available for grant under the 2014 Stock Incentive Plan and the 2014 Directors Stock Plan was 12.0 million.

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

	For the year ended December 31,		
	2015	2014	2013
	<i>(in millions)</i>		
Compensation cost	\$ 69.7	\$ 66.2	\$ 65.2
Related income tax benefit	22.5	21.6	20.0
Capitalized as part of an asset	2.2	2.5	2.6

**Nonqualified Stock Options**

Nonqualified stock options were granted to certain employees under the 2014 Stock Incentive Plan, the Amended and Restated 2010 Stock Incentive Plan and the Stock Incentive Plan. Options outstanding were granted at an exercise price equal to the fair market value of our common stock on the date of grant, and expire ten years after the grant date. These options have graded vesting over a three-year period, except in the case of specific types of terminations. Total options granted were 0.6 million, 0.6 million and 0.8 million during 2015, 2014 and 2013, respectively.

The following is a summary of the status of all of our stock option plans:

	Number of options <i>(in millions)</i>	Weighted- average exercise price	Intrinsic value <i>(in millions)</i>
Options outstanding at January 1, 2015	8.6	\$ 42.68	
Granted	0.6	51.33	
Exercised	1.3	40.00	
Expired	0.2	48.21	
Options outstanding at December 31, 2015	<u>7.7</u>	<u>\$ 43.71</u>	<u>\$ 63.4</u>
Options vested or expected to vest at December 31, 2015	<u>7.7</u>	<u>\$ 43.70</u>	<u>\$ 63.4</u>
Options exercisable at December 31, 2015	<u>6.5</u>	<u>\$ 43.47</u>	<u>\$ 59.7</u>

The total intrinsic value of stock options exercised was \$17.4 million, \$25.4 million and \$30.7 million during 2015, 2014, and 2013, respectively.

The following is a summary of weighted-average remaining contractual lives for stock options outstanding and the range of exercise prices on the stock options as of December 31, 2015:

Range of exercise prices	Number of options outstanding <i>(in millions)</i>	Weighted- average remaining contractual life
\$11.07 - \$21.69	0.8	3.2
\$21.70 - \$32.32	1.8	6.0
\$32.33 - \$42.95	0.4	5.2
\$42.96 - \$53.58	1.8	5.8
\$53.59 - \$64.22	2.9	1.7
\$11.07 - \$64.22	<u>7.7</u>	4.0

The weighted-average remaining contractual lives for stock options exercisable is approximately 3.2 years as of December 31, 2015.

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****17. Stock-Based Compensation Plans — (continued)**

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:

Options	For the year ended December 31,		
	2015	2014	2013
Expected volatility	52.2%	53.2%	53.3%
Expected term (in years)	6.5	6.5	6.5
Risk-free interest rate	1.8%	2.0%	1.1%
Expected dividend yield	2.81%	2.50%	3.00%
Weighted average estimated fair value	\$ 20.43	\$ 18.89	\$ 11.95

We previously determined expected volatility based on, among other factors, historical volatility using daily price observations. Beginning with nonqualified stock options granted in 2013, we determine expected volatility based on a combination of historical volatility using daily price observations and implied volatility from traded options on our common stock. We believe that incorporating both historical and implied volatility into our expected volatility assumption calculation better reflects market expectations. The expected term represents the period of time that options granted are expected to be outstanding. We determine expected term using historical exercise and employee termination data. The risk-free rate for periods within the expected term of the option is based on the U.S. Treasury risk-free interest rate in effect at the time of grant. The dividend yield is based on historical dividend distributions compared to the closing price of our common shares on the grant date.

As of December 31, 2015, there was \$2.6 million of total unrecognized compensation costs related to nonvested stock options. The cost is expected to be recognized over a weighted-average service period of approximately 1.7 years.

Cash received from stock options exercised under these share-based payment arrangements during 2015, 2014 and 2013 was \$52.7 million, \$56.1 million and \$105.6 million, respectively. The actual tax benefits realized for the tax deductions for options exercised under these share-based payment arrangements during 2015, 2014 and 2013 was \$6.0 million, \$8.6 million and \$10.6 million, respectively.

**Performance Share Awards**

We granted performance share awards to certain employees under the 2014 Stock Incentive Plan and the Amended and Restated 2010 Stock Incentive Plan. The performance share awards are treated as an equity award and are paid in shares. Whether the performance shares are earned depends upon the participant's continued employment through the performance period (except in the case of specific types of terminations) and our performance against three-year goals set at the beginning of the performance period. Performance goals based on various factors, including return on equity, operating income and book value per share, must be achieved for any of the performance shares to be earned. If the performance requirements are not met, the performance shares will be forfeited, no compensation cost is recognized and any previously recognized compensation cost is reversed. There is no maximum contractual term on these awards. Dividend equivalents are credited on performance shares outstanding as of the record date. These dividend equivalents are only paid on the shares released. Total performance share awards granted were 0.3 million, 0.3 million and 0.3 million in 2015, 2014 and 2013, respectively.

The following is a summary of activity for the nonvested performance share awards:

	Number of performance share awards <i>(in millions)</i>	Weighted- average grant-date fair value
Nonvested performance share awards at January 1, 2015	1.0	\$ 33.01
Granted	0.3	51.33
Vested	0.4	27.46
Nonvested performance share awards at December 31, 2015	0.9	\$ 41.57

The total intrinsic value of performance share awards vested was \$20.1 million, \$11.4 million and \$10.9 million during 2015, 2014 and 2013, respectively.

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****17. Stock-Based Compensation Plans — (continued)**

Performance share awards above represent initial target awards and do not reflect potential increases or decreases resulting from the final performance objectives to be determined at the end of the respective performance period. The actual number of 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 performance share awards granted during 2015, 2014 and 2013 was \$51.33, \$44.88 and \$30.70, respectively.

As of December 31, 2015, there was \$6.3 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 1.7 years.

Actual tax benefits realized for the tax deductions for performance share awards paid out under these share based payment arrangements for 2015, 2014 and 2013 was \$7.4 million, \$4.0 million and \$4.7 million, respectively.

**Restricted Stock Units**

We issue restricted stock units under the 2014 Stock Incentive 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. Restricted stock units are treated as an equity award and are paid in shares. There is no maximum contractual term on these awards. Dividend equivalents are credited on restricted stock units outstanding as of the record date. These dividend equivalents are only paid on the shares released. Restricted stock units granted were 0.9 million, 0.9 million and 1.3 million in 2015, 2014 and 2013, respectively.

Restricted stock units were issued to certain employees and agents pursuant to the 2014 Stock Incentive Plan, the Amended and Restated 2010 Stock Incentive Plan and Stock Incentive Plan. Under these plans, awards have graded or cliff vesting over a three-year service period. When service for PFG ceases (except in the case of specific types of terminations), all vesting stops and unvested units are forfeited.

Pursuant to the 2014 Directors Stock Plan and the 2005 Directors Stock Plan, restricted stock units are granted to each non-employee director in office immediately following each annual meeting of stockholders and, at the discretion of the Nominating and Governance Committee, to each person who becomes a member of the Board other than on the date of the annual meeting of stockholders. Under these plans, awards are granted on an annual basis and cliff vest after a one-year service period. When service to PFG ceases, all vesting stops and unvested units are forfeited.

The following is a summary of activity for the nonvested restricted stock units:

	<u>Number of restricted stock units</u> <i>(in millions)</i>	<u>Weighted- average grant-date fair value</u>
Nonvested restricted stock units at January 1, 2015	3.1	\$ 33.87
Granted	0.9	51.35
Vested	1.0	27.93
Nonvested restricted stock units at December 31, 2015	<u>3.0</u>	<u>\$ 41.32</u>

The total intrinsic value of restricted stock units vested was \$53.6 million, \$38.5 million and \$37.7 during 2015, 2014 and 2013, respectively.

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 restricted stock units granted during 2015, 2014 and 2013 was \$51.35, \$45.03 and \$31.02, respectively.

As of December 31, 2015, there was \$44.0 million of total unrecognized compensation cost related to nonvested restricted stock unit awards granted under these plans. The cost is expected to be recognized over a weighted-average period of approximately 1.7 years.

The actual tax benefits realized for the tax deductions for restricted stock unit payouts under these share-based payment arrangements for 2015, 2014 and 2013 was \$18.8 million, \$12.8 million and \$11.5 million, respectively.

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****17. Stock-Based Compensation Plans — (continued)****Employee Stock Purchase Plan**

Under our Employee Stock Purchase Plan, participating employees have the opportunity to purchase shares of our common stock on a semi-annual basis. Employees may purchase up to \$25,000 worth of company stock each year. Employees may purchase shares of our common stock at a price equal to 85% of the shares' fair market value as of the beginning or end of the purchase period, whichever is lower. Under the Employee Stock Purchase Plan, employees purchased 0.6 million, 0.5 million and 0.8 million shares during 2015, 2014 and 2013, respectively.

We recognize compensation expense for the fair value of the discount granted to employees participating in the employee stock purchase plan in the period of grant. Shares of the Employee Stock Purchase Plan are treated as an equity award. The weighted-average fair value of the discount on the stock purchased was \$7.29, \$8.94 and \$14.20 during 2015, 2014 and 2013, respectively. The total intrinsic value of the Employee Stock Purchase Plan shares settled was \$4.1 million, \$4.7 million and \$11.4 million during 2015, 2014 and 2013, respectively.

Cash received from shares issued under these share-based payment arrangements for 2015, 2014 and 2013 was \$23.4 million, \$22.2 million and \$20.4 million, respectively. The actual tax benefit realized for the tax deductions for the settlement of the share-based payment arrangements for 2015, 2014 and 2013 was \$0.6 million, \$1.1 million and \$1.1 million, respectively.

As of December 31, 2015, a total of 4.2 million of new shares are available to be made issuable by us for this plan.

**18. Earnings Per Common Share**

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

	<b>For the year ended</b>		
	<b>December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<i>(in millions, except per share data)</i>		
Net income	\$ 1,253.2	\$ 1,176.4	\$ 936.1
Subtract:			
Net income attributable to noncontrolling interest	19.2	32.3	23.4
Preferred stock dividends	16.5	33.0	33.0
Excess of redemption value over carrying value of preferred shares redeemed	8.2	—	—
Adjustments to redemption amounts of redeemable noncontrolling interests (1)	—	19.7	—
<b>Total</b>	<b>\$ 1,209.3</b>	<b>\$ 1,091.4</b>	<b>\$ 879.7</b>
Weighted-average shares outstanding:			
Basic	294.4	294.7	294.6
Dilutive effects:			
Stock options	1.5	1.8	1.6
Restricted stock units	1.7	1.8	1.7
Performance share awards	0.4	0.4	0.3
Diluted	<u>298.0</u>	<u>298.7</u>	<u>298.2</u>
Net income per common share:			
Basic	<u>\$ 4.11</u>	<u>\$ 3.70</u>	<u>\$ 2.99</u>
Diluted	<u>\$ 4.06</u>	<u>\$ 3.65</u>	<u>\$ 2.95</u>

- (1) During the third quarter of 2013, we identified a classification error of certain of our noncontrolling interests. See related discussion in Note 13, Stockholders' Equity — Noncontrolling Interest. The correction of the classification error in the third quarter of 2013 did not significantly impact earnings per share.

The calculation of diluted earnings per share for the years ended December 31, 2015, 2014 and 2013, excludes the incremental effect related to certain outstanding stock-based compensation grants due to their anti-dilutive effect.

**Principal Financial Group, Inc.****Notes to Consolidated Financial Statements — (continued)****December 31, 2015****19. Quarterly Results of Operations (Unaudited)**

The following is a summary of unaudited quarterly results of operations.

	<b>For the three months ended,</b>			
	<b>December 31</b>	<b>September 30</b>	<b>June 30</b>	<b>March 31</b>
	<i>(in millions, except per share data)</i>			
<b>2015</b>				
Total revenues	\$ 2,807.0	\$ 3,240.9	\$ 3,259.2	\$ 2,657.3
Total expenses	2,498.0	2,871.7	2,964.7	2,199.2
Net income	258.3	300.9	264.9	429.1
Net income available to common stockholders	253.6	300.4	241.1	414.2
Basic earnings per common share for net income available to common stockholders	0.87	1.02	0.82	1.41
Diluted earnings per common share for net income available to common stockholders	0.86	1.01	0.81	1.39
<b>2014</b>				
Total revenues	\$ 2,908.0	\$ 2,484.3	\$ 2,606.7	\$ 2,478.6
Total expenses	2,590.8	2,090.5	2,199.2	2,102.2
Net income	280.3	252.8	319.2	324.1
Net income available to common stockholders	270.4	240.7	306.3	293.7
Basic earnings per common share for net income available to common stockholders	0.92	0.78	1.04	0.96
Diluted earnings per common share for net income available to common stockholders	0.91	0.77	1.03	0.95

**20. 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 December 31, 2015 and December 31, 2014, and for the years ended December 31, 2015, 2014 and 2013.

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.

**Principal Financial Group, Inc.**
**Notes to Consolidated Financial Statements — (continued)**
**December 31, 2015**
**20. Condensed Consolidating Financial Information — (continued)**
**Condensed Consolidating Statements of Financial Position  
December 31, 2015**

	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>					
<b>Assets</b>					
Fixed maturities, available-for-sale	\$ —	\$ 43,862.7	\$ 6,482.5	\$ (378.7)	\$ 49,966.5
Fixed maturities, trading	—	436.2	250.6	—	686.8
Equity securities, available-for-sale	—	101.7	2.8	—	104.5
Equity securities, trading	—	0.3	1,202.4	—	1,202.7
Mortgage loans	—	11,696.9	1,155.3	(512.8)	12,339.4
Real estate	—	6.3	1,445.5	—	1,451.8
Policy loans	—	786.3	30.8	—	817.1
Investment in unconsolidated entities	12,223.4	2,220.5	6,229.8	(20,041.0)	632.7
Other investments	9.7	3,944.3	1,636.5	(2,971.5)	2,619.0
Cash and cash equivalents	578.7	1,127.9	1,253.7	(395.5)	2,564.8
Accrued investment income	—	477.9	76.7	(9.0)	545.6
Premiums due and other receivables	—	1,512.7	2,465.9	(2,549.3)	1,429.3
Deferred acquisition costs	—	3,057.3	218.8	—	3,276.1
Property and equipment	—	552.0	81.8	—	633.8
Goodwill	—	54.3	954.7	—	1,009.0
Other intangibles	—	24.6	1,334.6	—	1,359.2
Separate account assets	—	94,762.8	42,216.1	—	136,978.9
Other assets	482.1	878.0	2,997.1	(3,288.5)	1,068.7
<b>Total assets</b>	<b>\$ 13,293.9</b>	<b>\$ 165,502.7</b>	<b>\$ 70,035.6</b>	<b>\$ (30,146.3)</b>	<b>\$ 218,685.9</b>
<b>Liabilities</b>					
Contractholder funds	\$ —	\$ 33,151.7	\$ 2,885.1	\$ (320.7)	\$ 35,716.1
Future policy benefits and claims	—	21,914.0	4,479.3	(536.8)	25,856.5
Other policyholder funds	—	718.1	88.2	(0.9)	805.4
Short-term debt	—	—	181.1	—	181.1
Long-term debt	3,247.9	—	536.7	(493.8)	3,290.8
Income taxes currently payable	—	—	101.9	(83.5)	18.4
Deferred income taxes	—	415.2	928.9	(646.9)	697.2
Separate account liabilities	—	94,762.8	42,216.1	—	136,978.9
Other liabilities	734.4	6,330.1	6,323.6	(7,709.7)	5,678.4
<b>Total liabilities</b>	<b>3,982.3</b>	<b>157,291.9</b>	<b>57,740.9</b>	<b>(9,792.3)</b>	<b>209,222.8</b>
Redeemable noncontrolling interest	—	—	85.7	—	85.7
<b>Stockholders' equity</b>					
Common stock	4.7	2.5	—	(2.5)	4.7
Additional paid-in capital	9,544.8	5,334.4	9,000.0	(14,334.4)	9,544.8
Retained earnings	6,875.9	2,232.6	3,522.3	(5,754.9)	6,875.9
Accumulated other comprehensive income (loss)	(882.5)	641.3	(383.6)	(257.7)	(882.5)
Treasury stock, at cost	(6,231.3)	—	—	—	(6,231.3)
<b>Total stockholders' equity attributable to PFG</b>	<b>9,311.6</b>	<b>8,210.8</b>	<b>12,138.7</b>	<b>(20,349.5)</b>	<b>9,311.6</b>
Noncontrolling interest	—	—	70.3	(4.5)	65.8
<b>Total stockholders' equity</b>	<b>9,311.6</b>	<b>8,210.8</b>	<b>12,209.0</b>	<b>(20,354.0)</b>	<b>9,377.4</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 13,293.9</b>	<b>\$ 165,502.7</b>	<b>\$ 70,035.6</b>	<b>\$ (30,146.3)</b>	<b>\$ 218,685.9</b>

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**20. Condensed Consolidating Financial Information — (continued)**

**Condensed Consolidating Statements of Financial Position  
December 31, 2014**

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined <i>(in millions)</i>	Eliminations	Principal Financial Group, Inc. Consolidated
<b>Assets</b>					
Fixed maturities, available-for-sale	\$ —	\$ 43,649.7	\$ 6,411.6	\$ (390.5)	\$ 49,670.8
Fixed maturities, trading	—	298.5	306.1	—	604.6
Equity securities, available-for-sale	—	108.9	14.1	—	123.0
Equity securities, trading	—	0.3	839.9	—	840.2
Mortgage loans	—	10,972.6	1,188.6	(349.6)	11,811.6
Real estate	—	7.0	1,337.6	—	1,344.6
Policy loans	—	799.0	30.2	—	829.2
Investment in unconsolidated entities	12,446.5	2,787.9	5,745.7	(20,164.3)	815.8
Other investments	9.5	3,416.7	1,578.5	(2,610.7)	2,394.0
Cash and cash equivalents	412.4	602.7	1,253.6	(404.8)	1,863.9
Accrued investment income	—	449.2	58.1	(1.4)	505.9
Premiums due and other receivables	—	1,237.4	2,165.6	(2,190.0)	1,213.0
Deferred acquisition costs	—	2,754.6	238.4	—	2,993.0
Property and equipment	—	505.8	84.4	—	590.2
Goodwill	—	54.3	953.1	—	1,007.4
Other intangibles	—	25.7	1,297.8	—	1,323.5
Separate account assets	—	94,328.4	45,744.4	—	140,072.8
Other assets	450.7	873.2	2,768.6	(3,009.0)	1,083.5
<b>Total assets</b>	<b>\$ 13,319.1</b>	<b>\$ 162,871.9</b>	<b>\$ 72,016.3</b>	<b>\$ (29,120.3)</b>	<b>\$ 219,087.0</b>
<b>Liabilities</b>					
Contractholder funds	\$ —	\$ 33,428.3	\$ 1,607.5	\$ (309.1)	\$ 34,726.7
Future policy benefits and claims	—	19,768.1	4,718.2	(449.7)	24,036.6
Other policyholder funds	—	742.8	70.4	(0.5)	812.7
Short-term debt	—	—	28.0	—	28.0
Long-term debt	2,448.9	—	417.5	(335.2)	2,531.2
Income taxes currently payable	—	—	83.1	(71.6)	11.5
Deferred income taxes	—	629.9	1,022.5	(617.1)	1,035.3
Separate account liabilities	—	94,328.4	45,744.4	—	140,072.8
Other liabilities	686.2	5,793.0	5,845.5	(6,782.5)	5,542.2
<b>Total liabilities</b>	<b>3,135.1</b>	<b>154,690.5</b>	<b>59,537.1</b>	<b>(8,565.7)</b>	<b>208,797.0</b>
Redeemable noncontrolling interest	—	—	58.0	—	58.0
<b>Stockholders' equity</b>					
Series A preferred stock	—	—	—	—	—
Series B preferred stock	0.1	—	—	—	0.1
Common stock	4.6	2.5	—	(2.5)	4.6
Additional paid-in capital	9,945.5	5,275.0	8,964.2	(14,239.2)	9,945.5
Retained earnings	6,114.1	1,817.2	2,858.6	(4,675.8)	6,114.1
Accumulated other comprehensive income	50.4	1,086.7	545.9	(1,632.6)	50.4
Treasury stock, at cost	(5,930.7)	—	—	—	(5,930.7)
<b>Total stockholders' equity attributable to PFG</b>	<b>10,184.0</b>	<b>8,181.4</b>	<b>12,368.7</b>	<b>(20,550.1)</b>	<b>10,184.0</b>
Noncontrolling interest	—	—	52.5	(4.5)	48.0
<b>Total stockholders' equity</b>	<b>10,184.0</b>	<b>8,181.4</b>	<b>12,421.2</b>	<b>(20,554.6)</b>	<b>10,232.0</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 13,319.1</b>	<b>\$ 162,871.9</b>	<b>\$ 72,016.3</b>	<b>\$ (29,120.3)</b>	<b>\$ 219,087.0</b>

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**20. Condensed Consolidating Financial Information — (continued)**

**Condensed Consolidating Statements of Operations  
For the year ended December 31, 2015**

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined <i>(in millions)</i>	Eliminations	Principal Financial Group, Inc. Consolidated
<b>Revenues</b>					
Premiums and other considerations	\$ —	\$ 4,950.0	\$ 360.3	\$ —	\$ 5,310.3
Fees and other revenues	—	2,014.1	2,037.1	(398.1)	3,653.1
Net investment income	1.6	2,164.0	1,632.5	(746.0)	3,052.1
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	—	357.2	(378.1)	—	(20.9)
Net other-than-temporary impairment losses on available-for-sale securities	—	(0.4)	(0.4)	—	(0.8)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified from other comprehensive income	—	(29.4)	—	—	(29.4)
Net impairment losses on available-for-sale securities	—	(29.8)	(0.4)	—	(30.2)
Net realized capital gains (losses)	—	327.4	(378.5)	—	(51.1)
Total revenues	1.6	9,455.5	3,651.4	(1,144.1)	11,964.4
<b>Expenses</b>					
Benefits, claims and settlement expenses	—	6,047.1	661.9	(11.3)	6,697.7
Dividends to policyholders	—	163.5	—	—	163.5
Operating expenses	175.4	2,189.2	1,643.3	(335.5)	3,672.4
Total expenses	175.4	8,399.8	2,305.2	(346.8)	10,533.6
Income (loss) before income taxes	(173.8)	1,055.7	1,346.2	(797.3)	1,430.8
Income taxes (benefits)	(71.2)	235.7	14.7	(1.6)	177.6
Equity in the net income of subsidiaries	1,336.6	114.6	17.4	(1,468.6)	—
Net income	1,234.0	934.6	1,348.9	(2,264.3)	1,253.2
Net income attributable to noncontrolling interest	—	—	19.2	—	19.2
Net income attributable to PFG	1,234.0	934.6	1,329.7	(2,264.3)	1,234.0
Preferred stock dividends	16.5	—	—	—	16.5
Excess of redemption value over carrying value of preferred shares redeemed	8.2	—	—	—	8.2
Net income available to common stockholders	\$ 1,209.3	\$ 934.6	\$ 1,329.7	\$ (2,264.3)	\$ 1,209.3
Net income	\$ 1,234.0	\$ 934.6	\$ 1,348.9	\$ (2,264.3)	\$ 1,253.2
Other comprehensive loss	(988.0)	(446.9)	(935.0)	1,426.8	(943.1)
Comprehensive income	\$ 246.0	\$ 487.7	\$ 413.9	\$ (837.5)	\$ 310.1

**Principal Financial Group, Inc.**
**Notes to Consolidated Financial Statements — (continued)**
**December 31, 2015**
**20. Condensed Consolidating Financial Information — (continued)**
**Condensed Consolidating Statements of Operations  
For the year ended December 31, 2014**

	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>				
<b>Revenues</b>					
Premiums and other considerations	\$ —	\$ 3,329.2	\$ 393.7	\$ —	\$ 3,722.9
Fees and other revenues	—	1,892.5	1,981.3	(391.7)	3,482.1
Net investment income	0.5	2,288.3	1,738.2	(769.1)	3,257.9
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	—	1,117.6	(1,024.9)	—	92.7
Net other-than-temporary impairment (losses) recoveries on available-for-sale securities	—	33.0	(9.2)	—	23.8
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from) other comprehensive income	—	(102.1)	0.3	—	(101.8)
Net impairment losses on available-for-sale securities	—	(69.1)	(8.9)	—	(78.0)
Net realized capital gains (losses)	—	1,048.5	(1,033.8)	—	14.7
Total revenues	0.5	8,558.5	3,079.4	(1,160.8)	10,477.6
<b>Expenses</b>					
Benefits, claims and settlement expenses	—	4,521.2	721.3	(11.5)	5,231.0
Dividends to policyholders	—	177.4	—	—	177.4
Operating expenses	144.3	2,168.8	1,589.3	(328.1)	3,574.3
Total expenses	144.3	6,867.4	2,310.6	(339.6)	8,982.7
Income (loss) before income taxes	(143.8)	1,691.1	768.8	(821.2)	1,494.9
Income taxes (benefits)	(86.3)	426.8	(19.8)	(2.2)	318.5
Equity in the net income (loss) of subsidiaries	1,201.6	(306.8)	449.6	(1,344.4)	—
Net income	1,144.1	957.5	1,238.2	(2,163.4)	1,176.4
Net income attributable to noncontrolling interest	—	—	32.3	—	32.3
Net income attributable to PFG	1,144.1	957.5	1,205.9	(2,163.4)	1,144.1
Preferred stock dividends	33.0	—	—	—	33.0
Net income available to common stockholders	\$ 1,111.1	\$ 957.5	\$ 1,205.9	\$ (2,163.4)	\$ 1,111.1
Net income	\$ 1,144.1	\$ 957.5	\$ 1,238.2	\$ (2,163.4)	\$ 1,176.4
Other comprehensive income (loss)	(198.8)	367.7	180.3	(493.3)	(144.1)
Comprehensive income	\$ 945.3	\$ 1,325.2	\$ 1,418.5	\$ (2,656.7)	\$ 1,032.3

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**20. Condensed Consolidating Financial Information — (continued)**

**Condensed Consolidating Statements of Operations  
For the year ended December 31, 2013**

	<b>Principal Financial Group, Inc. Parent Only</b>	<b>Principal Life Insurance Company Only</b>	<b>Principal Financial Services, Inc. and Other Subsidiaries Combined (in millions)</b>	<b>Eliminations</b>	<b>Principal Financial Group, Inc. Consolidated</b>
<b>Revenues</b>					
Premiums and other considerations	\$ —	\$ 2,788.1	\$ 366.0	\$ —	\$ 3,154.1
Fees and other revenues	—	1,723.8	1,855.0	(356.6)	3,222.2
Net investment income	0.4	2,354.5	753.8	29.7	3,138.4
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	6.3	(779.5)	663.9	0.1	(109.2)
Net other-than-temporary impairment losses on available-for-sale securities	—	(85.6)	(5.9)	—	(91.5)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified from other comprehensive income	—	(17.0)	(7.5)	—	(24.5)
Net impairment losses on available-for-sale securities	—	(102.6)	(13.4)	—	(116.0)
Net realized capital gains (losses)	6.3	(882.1)	650.5	0.1	(225.2)
Total revenues	6.7	5,984.3	3,625.3	(326.8)	9,289.5
<b>Expenses</b>					
Benefits, claims and settlement expenses	—	4,056.6	639.2	(12.2)	4,683.6
Dividends to policyholders	—	189.0	—	—	189.0
Operating expenses	140.5	1,887.7	1,567.5	(302.8)	3,292.9
Total expenses	140.5	6,133.3	2,206.7	(315.0)	8,165.5
Income (loss) before income taxes	(133.8)	(149.0)	1,418.6	(11.8)	1,124.0
Income taxes (benefits)	(54.0)	(167.5)	412.6	(3.2)	187.9
Equity in the net income of subsidiaries	992.5	678.1	10.1	(1,680.7)	—
Net income	912.7	696.6	1,016.1	(1,689.3)	936.1
Net income attributable to noncontrolling interest	—	—	23.6	(0.2)	23.4
Net income attributable to PFG	912.7	696.6	992.5	(1,689.1)	912.7
Preferred stock dividends	33.0	—	—	—	33.0
Net income available to common stockholders	\$ 879.7	\$ 696.6	\$ 992.5	\$ (1,689.1)	\$ 879.7
Net income	\$ 912.7	\$ 696.6	\$ 1,016.1	\$ (1,689.3)	\$ 936.1
Other comprehensive loss	(450.1)	(146.6)	(300.1)	424.9	(471.9)
Comprehensive income	\$ 462.6	\$ 550.0	\$ 716.0	\$ (1,264.4)	\$ 464.2

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

December 31, 2015

**20. Condensed Consolidating Financial Information — (continued)**

**Condensed Consolidating Statements of Cash Flows  
For the year ended December 31, 2015**

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined <i>(in millions)</i>	Eliminations	Principal Financial Group, Inc. Consolidated
<b>Operating activities</b>					
Net cash provided by (used in) operating activities	\$ (85.1)	\$ 3,803.0	\$ 317.0	\$ 342.2	\$ 4,377.1
<b>Investing activities</b>					
Available-for-sale securities:					
Purchases	—	(8,835.2)	(1,085.1)	—	(9,920.3)
Sales	—	1,017.2	546.4	(0.6)	1,563.0
Maturities	—	5,847.9	778.0	—	6,625.9
Mortgage loans acquired or originated	—	(2,177.1)	(325.8)	227.8	(2,275.1)
Mortgage loans sold or repaid	—	1,441.8	307.6	(62.1)	1,687.3
Real estate acquired	—	(0.3)	(321.7)	—	(322.0)
Net purchases of property and equipment	—	(109.3)	(27.1)	—	(136.4)
Purchases of interests in subsidiaries, net of cash acquired	—	—	(291.2)	—	(291.2)
Dividends and returns of capital received from (contributed to) unconsolidated entities	685.5	(1.5)	485.6	(1,169.6)	—
Net change in other investments	5.4	555.0	(319.8)	(339.4)	(98.8)
Net cash provided by (used in) investing activities	690.9	(2,261.5)	(253.1)	(1,343.9)	(3,167.6)
<b>Financing activities</b>					
Issuance of common stock	76.1	—	—	—	76.1
Acquisition of treasury stock	(300.6)	—	—	—	(300.6)
Proceeds from financing element derivatives	—	0.3	—	—	0.3
Payments for financing element derivatives	—	(82.0)	—	—	(82.0)
Excess tax benefits from share-based payment arrangements	0.7	5.7	9.3	—	15.7
Purchase of subsidiary shares from noncontrolling interest	—	—	(23.4)	0.9	(22.5)
Sale of subsidiary shares to noncontrolling interest	—	—	0.9	(0.9)	—
Dividends to common stockholders	(441.0)	—	—	—	(441.0)
Dividends to preferred stockholders	(16.5)	—	—	—	(16.5)
Preferred stock redemption	(550.0)	—	—	—	(550.0)
Issuance of long-term debt	791.8	—	235.5	(222.4)	804.9
Principal repayments of long-term debt	—	—	(116.4)	63.8	(52.6)
Net proceeds from short-term borrowings	—	—	157.0	—	157.0
Dividends and capital paid to parent	—	(485.6)	(684.0)	1,169.6	—
Investment contract deposits	—	6,214.8	277.5	—	6,492.3
Investment contract withdrawals	—	(6,655.5)	(11.3)	—	(6,666.8)
Net increase in banking operation deposits	—	—	91.1	—	91.1
Other	—	(14.0)	—	—	(14.0)
Net cash used in financing activities	(439.5)	(1,016.3)	(63.8)	1,011.0	(508.6)
Net increase in cash and cash equivalents	166.3	525.2	0.1	9.3	700.9
Cash and cash equivalents at beginning of period	412.4	602.7	1,253.6	(404.8)	1,863.9
Cash and cash equivalents at end of period	\$ 578.7	\$ 1,127.9	\$ 1,253.7	\$ (395.5)	\$ 2,564.8

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**20. Condensed Consolidating Financial Information — (continued)**

**Condensed Consolidating Statements of Cash Flows  
For the year ended December 31, 2014**

	<b>Principal Financial Group, Inc. Parent Only</b>	<b>Principal Life Insurance Company Only</b>	<b>Principal Financial Services, Inc. and Other Subsidiaries Combined</b>	<b>Eliminations</b>	<b>Principal Financial Group, Inc. Consolidated</b>
	<i>(in millions)</i>				
<b>Operating activities</b>					
Net cash provided by (used in) operating activities	\$ (81.6)	\$ 2,461.0	\$ 1,205.0	\$ (481.5)	\$ 3,102.9
<b>Investing activities</b>					
Available-for-sale securities:					
Purchases	—	(8,038.3)	(1,025.9)	10.2	(9,054.0)
Sales	—	2,066.1	445.9	—	2,512.0
Maturities	—	5,696.6	548.1	—	6,244.7
Mortgage loans acquired or originated	—	(2,141.0)	(188.6)	160.0	(2,169.6)
Mortgage loans sold or repaid	—	1,658.3	254.8	(119.5)	1,793.6
Real estate acquired	—	(0.8)	(280.9)	—	(281.7)
Net purchases of property and equipment	—	(115.1)	(20.9)	—	(136.0)
Dividends and returns of capital received from unconsolidated entities	917.7	255.2	867.7	(2,040.6)	—
Net change in other investments	(0.7)	175.7	(290.7)	34.0	(81.7)
Net cash provided by (used in) investing activities	917.0	(443.3)	309.5	(1,955.9)	(1,172.7)
<b>Financing activities</b>					
Issuance of common stock	77.5	—	—	—	77.5
Acquisition of treasury stock	(222.7)	—	—	—	(222.7)
Proceeds from financing element derivatives	—	15.1	—	—	15.1
Payments for financing element derivatives	—	(58.0)	—	—	(58.0)
Excess tax benefits from share-based payment arrangements	0.3	4.2	5.2	—	9.7
Purchase of subsidiary shares from noncontrolling interest	—	—	(227.5)	0.5	(227.0)
Sale of subsidiary shares to noncontrolling interest	—	—	0.5	(0.5)	—
Dividends to common stockholders	(376.6)	—	—	—	(376.6)
Dividends to preferred stockholders	(33.0)	—	—	—	(33.0)
Issuance of long-term debt	—	—	140.9	(102.4)	38.5
Principal repayments of long-term debt	—	(100.0)	(81.1)	80.8	(100.3)
Net repayments of short-term borrowings	—	—	(118.3)	—	(118.3)
Dividends and capital paid to parent	—	(867.7)	(1,172.9)	2,040.6	—
Investment contract deposits	—	5,349.1	289.3	—	5,638.4
Investment contract withdrawals	—	(7,088.8)	(10.4)	—	(7,099.2)
Net increase in banking operation deposits	—	—	30.7	—	30.7
Other	—	(1.1)	(11.8)	—	(12.9)
Net cash used in financing activities	(554.5)	(2,747.2)	(1,155.4)	2,019.0	(2,438.1)
Net increase (decrease) in cash and cash equivalents	280.9	(729.5)	359.1	(418.4)	(507.9)
Cash and cash equivalents at beginning of period	131.5	1,332.2	894.5	13.6	2,371.8
Cash and cash equivalents at end of period	\$ 412.4	\$ 602.7	\$ 1,253.6	\$ (404.8)	\$ 1,863.9

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**20. Condensed Consolidating Financial Information — (continued)**

**Condensed Consolidating Statements of Cash Flows  
For the year ended December 31, 2013**

	<b>Principal Financial Group, Inc. Parent Only</b>	<b>Principal Life Insurance Company Only</b>	<b>Principal Financial Services, Inc. and Other Subsidiaries Combined <i>(in millions)</i></b>	<b>Eliminations</b>	<b>Principal Financial Group, Inc. Consolidated</b>
<b>Operating activities</b>					
Net cash provided by (used in) operating activities	\$ (42.8)	\$ 2,271.7	\$ (170.1)	\$ 162.4	\$ 2,221.2
<b>Investing activities</b>					
Available-for-sale securities:					
Purchases	—	(7,850.8)	(1,186.1)	11.7	(9,025.2)
Sales	—	1,536.0	434.0	(50.9)	1,919.1
Maturities	—	6,433.3	925.9	—	7,359.2
Mortgage loans acquired or originated	—	(2,378.4)	(202.2)	387.7	(2,192.9)
Mortgage loans sold or repaid	—	1,918.0	634.3	(457.2)	2,095.1
Real estate acquired	—	—	(85.6)	—	(85.6)
Net purchases of property and equipment	—	(52.4)	(7.0)	—	(59.4)
Purchase of interests in subsidiaries, net of cash acquired	—	—	(1,268.3)	—	(1,268.3)
Dividends and returns of capital received from (contributions to) unconsolidated entities	319.5	444.2	319.5	(1,083.2)	—
Net change in other investments	(3.1)	56.1	(70.2)	48.9	31.7
Net cash provided by (used in) investing activities	316.4	106.0	(505.7)	(1,143.0)	(1,226.3)
<b>Financing activities</b>					
Issuance of common stock	125.8	—	—	—	125.8
Acquisition of treasury stock	(153.6)	—	—	—	(153.6)
Proceeds from financing element derivatives	—	47.0	—	—	47.0
Payments for financing element derivatives	—	(48.0)	—	—	(48.0)
Excess tax benefits from share-based payment arrangements	—	3.1	7.0	—	10.1
Purchase of subsidiary shares from noncontrolling interest	—	—	(52.9)	—	(52.9)
Sale of subsidiary shares to noncontrolling interest	—	—	31.8	—	31.8
Dividends to common stockholders	(288.4)	—	—	—	(288.4)
Dividends to preferred stockholders	(33.0)	—	—	—	(33.0)
Issuance of long-term debt	—	—	38.2	—	38.2
Principal repayments of long-term debt	—	—	(214.4)	(3.8)	(218.2)
Net proceeds from short-term borrowings	—	—	108.0	—	108.0
Dividends and capital received from (paid to) parent	—	(249.5)	(763.7)	1,013.2	—
Investment contract deposits	—	6,355.1	361.2	—	6,716.3
Investment contract withdrawals	—	(8,846.6)	(6.1)	—	(8,852.7)
Net decrease in banking operation deposits	—	—	(225.7)	—	(225.7)
Other	—	(5.0)	—	—	(5.0)
Net cash used in financing activities	(349.2)	(2,743.9)	(716.6)	1,009.4	(2,800.3)
Net decrease in cash and cash equivalents	(75.6)	(366.2)	(1,392.4)	28.8	(1,805.4)
Cash and cash equivalents at beginning of period	207.1	1,698.4	2,286.9	(15.2)	4,177.2
Cash and cash equivalents at end of period	\$ 131.5	\$ 1,332.2	\$ 894.5	\$ 13.6	\$ 2,371.8

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**20. Condensed Consolidating Financial Information — (continued)**

On May 7, 2014, our shelf registration statement was filed with the SEC and became effective replacing the shelf registration that had been in effect since May 2011. 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, depository shares, stock purchase contracts and stock purchase units of PFG, trust preferred securities of three subsidiary trusts and guarantees by PFG of these trust preferred securities. 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 December 31, 2015 and December 31, 2014, and for the years ended December 31, 2015, 2014 and 2013.

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.

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

December 31, 2015

**20. Condensed Consolidating Financial Information — (continued)**

**Condensed Consolidating Statements of Financial Position  
December 31, 2015**

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined <i>(in millions)</i>	Eliminations	Principal Financial Group, Inc. Consolidated
<b>Assets</b>					
Fixed maturities, available-for-sale	\$ —	\$ —	\$ 49,966.5	\$ —	\$ 49,966.5
Fixed maturities, trading	—	—	686.8	—	686.8
Equity securities, available-for-sale	—	—	104.5	—	104.5
Equity securities, trading	—	—	1,202.7	—	1,202.7
Mortgage loans	—	—	12,339.4	—	12,339.4
Real estate	—	—	1,451.8	—	1,451.8
Policy loans	—	—	817.1	—	817.1
Investment in unconsolidated entities	12,223.4	12,209.1	583.2	(24,383.0)	632.7
Other investments	9.7	185.9	2,423.4	—	2,619.0
Cash and cash equivalents	578.7	730.5	2,413.3	(1,157.7)	2,564.8
Accrued investment income	—	—	545.6	—	545.6
Premiums due and other receivables	—	0.1	1,584.6	(155.4)	1,429.3
Deferred acquisition costs	—	—	3,276.1	—	3,276.1
Property and equipment	—	—	633.8	—	633.8
Goodwill	—	—	1,009.0	—	1,009.0
Other intangibles	—	—	1,359.2	—	1,359.2
Separate account assets	—	—	136,978.9	—	136,978.9
Other assets	482.1	205.2	1,066.9	(685.5)	1,068.7
Total assets	<u>\$ 13,293.9</u>	<u>\$ 13,330.8</u>	<u>\$ 218,442.8</u>	<u>\$ (26,381.6)</u>	<u>\$ 218,685.9</u>
<b>Liabilities</b>					
Contractholder funds	\$ —	\$ —	\$ 35,716.1	\$ —	\$ 35,716.1
Future policy benefits and claims	—	—	25,856.5	—	25,856.5
Other policyholder funds	—	—	805.4	—	805.4
Short-term debt	—	—	290.0	(108.9)	181.1
Long-term debt	3,247.9	156.0	42.9	(156.0)	3,290.8
Income taxes currently payable	—	3.2	69.6	(54.4)	18.4
Deferred income taxes	—	—	1,325.2	(628.0)	697.2
Separate account liabilities	—	—	136,978.9	—	136,978.9
Other liabilities	734.4	1,032.9	4,912.9	(1,001.8)	5,678.4
Total liabilities	<u>3,982.3</u>	<u>1,192.1</u>	<u>205,997.5</u>	<u>(1,949.1)</u>	<u>209,222.8</u>
Redeemable noncontrolling interest	—	—	85.7	—	85.7
<b>Stockholders' equity</b>					
Common stock	4.7	—	17.8	(17.8)	4.7
Additional paid-in capital	9,544.8	9,000.0	9,888.7	(18,888.7)	9,544.8
Retained earnings	6,875.9	3,522.3	2,905.9	(6,428.2)	6,875.9
Accumulated other comprehensive loss	(882.5)	(383.6)	(516.6)	900.2	(882.5)
Treasury stock, at cost	(6,231.3)	—	(2.0)	2.0	(6,231.3)
Total stockholders' equity attributable to PFG	<u>9,311.6</u>	<u>12,138.7</u>	<u>12,293.8</u>	<u>(24,432.5)</u>	<u>9,311.6</u>
Noncontrolling interest	—	—	65.8	—	65.8
Total stockholders' equity	<u>9,311.6</u>	<u>12,138.7</u>	<u>12,359.6</u>	<u>(24,432.5)</u>	<u>9,377.4</u>
Total liabilities and stockholders' equity	<u>\$ 13,293.9</u>	<u>\$ 13,330.8</u>	<u>\$ 218,442.8</u>	<u>\$ (26,381.6)</u>	<u>\$ 218,685.9</u>

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**20. Condensed Consolidating Financial Information — (continued)**

**Condensed Consolidating Statements of Financial Position  
December 31, 2014**

	<b>Principal Financial Group, Inc. Parent Only</b>	<b>Principal Financial Services, Inc. Only</b>	<b>Principal Life Insurance Company and Other Subsidiaries Combined <i>(in millions)</i></b>	<b>Eliminations</b>	<b>Principal Financial Group, Inc. Consolidated</b>
<b>Assets</b>					
Fixed maturities, available-for-sale	\$ —	\$ —	\$ 49,670.8	\$ —	\$ 49,670.8
Fixed maturities, trading	—	—	604.6	—	604.6
Equity securities, available-for-sale	—	—	123.0	—	123.0
Equity securities, trading	—	—	840.2	—	840.2
Mortgage loans	—	—	11,811.6	—	11,811.6
Real estate	—	—	1,344.6	—	1,344.6
Policy loans	—	—	829.2	—	829.2
Investment in unconsolidated entities	12,446.5	12,042.5	781.9	(24,455.1)	815.8
Other investments	9.5	128.2	2,256.3	—	2,394.0
Cash and cash equivalents	412.4	907.2	1,598.0	(1,053.7)	1,863.9
Accrued investment income	—	—	505.9	—	505.9
Premiums due and other receivables	—	0.3	1,211.8	0.9	1,213.0
Deferred acquisition costs	—	—	2,993.0	—	2,993.0
Property and equipment	—	—	590.2	—	590.2
Goodwill	—	—	1,007.4	—	1,007.4
Other intangibles	—	—	1,323.5	—	1,323.5
Separate account assets	—	—	140,072.8	—	140,072.8
Other assets	450.7	167.6	1,117.7	(652.5)	1,083.5
<b>Total assets</b>	<b>\$ 13,319.1</b>	<b>\$ 13,245.8</b>	<b>\$ 218,682.5</b>	<b>\$ (26,160.4)</b>	<b>\$ 219,087.0</b>
<b>Liabilities</b>					
Contractholder funds	\$ —	\$ —	\$ 34,726.7	\$ —	\$ 34,726.7
Future policy benefits and claims	—	—	24,036.6	—	24,036.6
Other policyholder funds	—	—	812.7	—	812.7
Short-term debt	—	—	182.5	(154.5)	28.0
Long-term debt	2,448.9	—	82.3	—	2,531.2
Income taxes currently payable	—	4.3	54.1	(46.9)	11.5
Deferred income taxes	—	—	1,626.1	(590.8)	1,035.3
Separate account liabilities	—	—	140,072.8	—	140,072.8
Other liabilities	686.2	872.8	4,862.4	(879.2)	5,542.2
<b>Total liabilities</b>	<b>3,135.1</b>	<b>877.1</b>	<b>206,456.2</b>	<b>(1,671.4)</b>	<b>208,797.0</b>
Redeemable noncontrolling interest	—	—	58.0	—	58.0
<b>Stockholders' equity</b>					
Series A preferred stock	—	—	—	—	—
Series B preferred stock	0.1	—	—	—	0.1
Common stock	4.6	—	17.8	(17.8)	4.6
Additional paid-in capital	9,945.5	8,964.2	9,341.0	(18,305.2)	9,945.5
Retained earnings	6,114.1	2,858.6	2,283.2	(5,141.8)	6,114.1
Accumulated other comprehensive income	50.4	545.9	480.3	(1,026.2)	50.4
Treasury stock, at cost	(5,930.7)	—	(2.0)	2.0	(5,930.7)
<b>Total stockholders' equity attributable to PFG</b>	<b>10,184.0</b>	<b>12,368.7</b>	<b>12,120.3</b>	<b>(24,489.0)</b>	<b>10,184.0</b>
Noncontrolling interest	—	—	48.0	—	48.0
<b>Total stockholders' equity</b>	<b>10,184.0</b>	<b>12,368.7</b>	<b>12,168.3</b>	<b>(24,489.0)</b>	<b>10,232.0</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 13,319.1</b>	<b>\$ 13,245.8</b>	<b>\$ 218,682.5</b>	<b>\$ (26,160.4)</b>	<b>\$ 219,087.0</b>

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**20. Condensed Consolidating Financial Information — (continued)**

**Condensed Consolidating Statements of Operations  
For the year ended December 31, 2015**

	<b>Principal Financial Group, Inc. Parent Only</b>	<b>Principal Financial Services, Inc. Only</b>	<b>Principal Life Insurance Company and Other Subsidiaries Combined (in millions)</b>	<b>Eliminations</b>	<b>Principal Financial Group, Inc. Consolidated</b>
<b>Revenues</b>					
Premiums and other considerations	\$ —	\$ —	\$ 5,310.3	\$ —	\$ 5,310.3
Fees and other revenues	—	0.3	3,653.6	(0.8)	3,653.1
Net investment income	1.6	15.6	3,027.5	7.4	3,052.1
Net realized capital losses, excluding impairment losses on available-for-sale securities	—	(0.7)	(20.2)	—	(20.9)
Net other-than-temporary impairment losses on available-for-sale securities	—	—	(0.8)	—	(0.8)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified from other comprehensive income	—	—	(29.4)	—	(29.4)
Net impairment losses on available-for-sale securities	—	—	(30.2)	—	(30.2)
Net realized capital losses	—	(0.7)	(50.4)	—	(51.1)
Total revenues	<u>1.6</u>	<u>15.2</u>	<u>11,941.0</u>	<u>6.6</u>	<u>11,964.4</u>
<b>Expenses</b>					
Benefits, claims and settlement expenses	—	—	6,697.7	—	6,697.7
Dividends to policyholders	—	—	163.5	—	163.5
Operating expenses	175.4	10.8	3,486.5	(0.3)	3,672.4
Total expenses	<u>175.4</u>	<u>10.8</u>	<u>10,347.7</u>	<u>(0.3)</u>	<u>10,533.6</u>
Income (loss) before income taxes	(173.8)	4.4	1,593.3	6.9	1,430.8
Income taxes (benefits)	(71.2)	(0.9)	249.7	—	177.6
Equity in the net income of subsidiaries	1,336.6	1,324.4	—	(2,661.0)	—
Net income	<u>1,234.0</u>	<u>1,329.7</u>	<u>1,343.6</u>	<u>(2,654.1)</u>	<u>1,253.2</u>
Net income attributable to noncontrolling interest	—	—	19.2	—	19.2
Net income attributable to PFG	<u>1,234.0</u>	<u>1,329.7</u>	<u>1,324.4</u>	<u>(2,654.1)</u>	<u>1,234.0</u>
Preferred stock dividends	16.5	—	—	—	16.5
Excess of redemption value over carrying value of preferred shares redeemed	8.2	—	—	—	8.2
Net income available to common stockholders	<u>\$ 1,209.3</u>	<u>\$ 1,329.7</u>	<u>\$ 1,324.4</u>	<u>\$ (2,654.1)</u>	<u>\$ 1,209.3</u>
Net income	\$ 1,234.0	\$ 1,329.7	\$ 1,343.6	\$ (2,654.1)	\$ 1,253.2
Other comprehensive loss	(988.0)	(923.4)	(1,007.0)	1,975.3	(943.1)
Comprehensive income	<u>\$ 246.0</u>	<u>\$ 406.3</u>	<u>\$ 336.6</u>	<u>\$ (678.8)</u>	<u>\$ 310.1</u>

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**20. Condensed Consolidating Financial Information — (continued)**

**Condensed Consolidating Statements of Operations  
For the year ended December 31, 2014**

	<b>Principal Financial Group, Inc. Parent Only</b>	<b>Principal Financial Services, Inc. Only</b>	<b>Principal Life Insurance Company and Other Subsidiaries Combined (in millions)</b>	<b>Eliminations</b>	<b>Principal Financial Group, Inc. Consolidated</b>
<b>Revenues</b>					
Premiums and other considerations	\$ —	\$ —	\$ 3,722.9	\$ —	\$ 3,722.9
Fees and other revenues	—	0.3	3,482.4	(0.6)	3,482.1
Net investment income	0.5	0.7	3,256.8	(0.1)	3,257.9
Net realized capital gains, excluding impairment losses on available-for-sale securities	—	3.8	93.0	(4.1)	92.7
Net other-than-temporary impairment recoveries on available-for-sale securities	—	—	23.8	—	23.8
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified from other comprehensive income	—	—	(101.8)	—	(101.8)
Net impairment losses on available-for-sale securities	—	—	(78.0)	—	(78.0)
Net realized capital gains	—	3.8	15.0	(4.1)	14.7
Total revenues	0.5	4.8	10,477.1	(4.8)	10,477.6
<b>Expenses</b>					
Benefits, claims and settlement expenses	—	—	5,231.0	—	5,231.0
Dividends to policyholders	—	—	177.4	—	177.4
Operating expenses	144.3	12.2	3,418.3	(0.5)	3,574.3
Total expenses	144.3	12.2	8,826.7	(0.5)	8,982.7
Income (loss) before income taxes	(143.8)	(7.4)	1,650.4	(4.3)	1,494.9
Income taxes (benefits)	(86.3)	(8.5)	413.3	—	318.5
Equity in the net income of subsidiaries	1,201.6	1,204.8	—	(2,406.4)	—
Net income	1,144.1	1,205.9	1,237.1	(2,410.7)	1,176.4
Net income attributable to noncontrolling interest	—	—	32.3	—	32.3
Net income attributable to PFG	1,144.1	1,205.9	1,204.8	(2,410.7)	1,144.1
Preferred stock dividends	33.0	—	—	—	33.0
Net income available to common stockholders	\$ 1,111.1	\$ 1,205.9	\$ 1,204.8	\$ (2,410.7)	\$ 1,111.1
Net income	\$ 1,144.1	\$ 1,205.9	\$ 1,237.1	\$ (2,410.7)	\$ 1,176.4
Other comprehensive income (loss)	(198.8)	101.3	64.4	(111.0)	(144.1)
Comprehensive income	\$ 945.3	\$ 1,307.2	\$ 1,301.5	\$ (2,521.7)	\$ 1,032.3

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**20. Condensed Consolidating Financial Information — (continued)**

**Condensed Consolidating Statements of Operations  
For the year ended December 31, 2013**

	<b>Principal Financial Group, Inc. Parent Only</b>	<b>Principal Financial Services, Inc. Only</b>	<b>Principal Life Insurance Company and Other Subsidiaries Combined (in millions)</b>	<b>Eliminations</b>	<b>Principal Financial Group, Inc. Consolidated</b>
<b>Revenues</b>					
Premiums and other considerations	\$ —	\$ —	\$ 3,154.1	\$ —	\$ 3,154.1
Fees and other revenues	—	1.0	3,250.2	(29.0)	3,222.2
Net investment income	0.4	1.3	3,136.5	0.2	3,138.4
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	6.3	4.6	(120.1)	—	(109.2)
Net other-than-temporary impairment losses on available-for-sale securities	—	—	(91.5)	—	(91.5)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified from other comprehensive income	—	—	(24.5)	—	(24.5)
Net impairment losses on available-for-sale securities	—	—	(116.0)	—	(116.0)
Net realized capital gains (losses)	6.3	4.6	(236.1)	—	(225.2)
Total revenues	6.7	6.9	9,304.7	(28.8)	9,289.5
<b>Expenses</b>					
Benefits, claims and settlement expenses	—	—	4,683.6	—	4,683.6
Dividends to policyholders	—	—	189.0	—	189.0
Operating expenses	140.5	9.0	3,172.2	(28.8)	3,292.9
Total expenses	140.5	9.0	8,044.8	(28.8)	8,165.5
Income (loss) before income taxes	(133.8)	(2.1)	1,259.9	—	1,124.0
Income taxes (benefits)	(54.0)	(2.9)	244.8	—	187.9
Equity in the net income of subsidiaries	992.5	991.7	—	(1,984.2)	—
Net income	912.7	992.5	1,015.1	(1,984.2)	936.1
Net income attributable to noncontrolling interest	—	—	23.4	—	23.4
Net income attributable to PFG	912.7	992.5	991.7	(1,984.2)	912.7
Preferred stock dividends	33.0	—	—	—	33.0
Net income available to common stockholders	\$ 879.7	\$ 992.5	\$ 991.7	\$ (1,984.2)	\$ 879.7
Net income	\$ 912.7	\$ 992.5	\$ 1,015.1	\$ (1,984.2)	\$ 936.1
Other comprehensive loss	(450.1)	(476.4)	(489.3)	943.9	(471.9)
Comprehensive income	\$ 462.6	\$ 516.1	\$ 525.8	\$ (1,040.3)	\$ 464.2

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**20. Condensed Consolidating Financial Information — (continued)**

**Condensed Consolidating Statements of Cash Flows  
For the year ended December 31, 2015**

	<u>Principal Financial Group, Inc. Parent Only</u>	<u>Principal Financial Services, Inc. Only</u>	<u>Principal Life Insurance Company and Other Subsidiaries Combined (in millions)</u>	<u>Eliminations</u>	<u>Principal Financial Group, Inc. Consolidated</u>
<b>Operating activities</b>					
Net cash provided by (used in) operating activities	\$ (85.1)	\$ 338.5	\$ 4,615.2	\$ (491.5)	\$ 4,377.1
<b>Investing activities</b>					
Available-for-sale securities:					
Purchases	—	—	(9,920.3)	—	(9,920.3)
Sales	—	—	1,563.0	—	1,563.0
Maturities	—	—	6,625.9	—	6,625.9
Mortgage loans acquired or originated	—	—	(2,275.1)	—	(2,275.1)
Mortgage loans sold or repaid	—	—	1,687.3	—	1,687.3
Real estate acquired	—	—	(322.0)	—	(322.0)
Net purchases of property and equipment	—	—	(136.4)	—	(136.4)
Purchases of interests in subsidiaries, net of cash acquired	—	—	(291.2)	—	(291.2)
Dividends and returns of capital received from unconsolidated entities	685.5	499.5	—	(1,185.0)	—
Net change in other investments	5.4	(485.2)	(116.8)	497.8	(98.8)
Net cash provided by (used in) investing	690.9	14.3	(3,185.6)	(687.2)	(3,167.6)
<b>Financing activities</b>					
Issuance of common stock	76.1	—	—	—	76.1
Acquisition of treasury stock	(300.6)	—	—	—	(300.6)
Proceeds from financing element derivatives	—	—	0.3	—	0.3
Payments for financing element derivatives	—	—	(82.0)	—	(82.0)
Excess tax benefits from share-based payment arrangements	0.7	—	15.0	—	15.7
Purchase of subsidiary shares from noncontrolling interest	—	—	(22.5)	—	(22.5)
Dividends to common stockholders	(441.0)	—	—	—	(441.0)
Dividends to preferred stockholders	(16.5)	—	—	—	(16.5)
Preferred stock redemption	(550.0)	—	—	—	(550.0)
Issuance of long-term debt	791.8	156.0	77.0	(219.9)	804.9
Principal repayments of long-term debt	—	—	(116.5)	63.9	(52.6)
Net proceeds from short-term borrowings	—	—	111.3	45.7	157.0
Dividends and capital paid to parent	—	(685.5)	(499.5)	1,185.0	—
Investment contract deposits	—	—	6,492.3	—	6,492.3
Investment contract withdrawals	—	—	(6,666.8)	—	(6,666.8)
Net increase in banking operation deposits	—	—	91.1	—	91.1
Other	—	—	(14.0)	—	(14.0)
Net cash used in financing activities	(439.5)	(529.5)	(614.3)	1,074.7	(508.6)
Net increase (decrease) in cash and cash equivalents	166.3	(176.7)	815.3	(104.0)	700.9
Cash and cash equivalents at beginning of period	412.4	907.2	1,598.0	(1,053.7)	1,863.9
Cash and cash equivalents at end of period	\$ 578.7	\$ 730.5	\$ 2,413.3	\$ (1,157.7)	\$ 2,564.8

**Principal Financial Group, Inc.**

**Notes to Consolidated Financial Statements — (continued)**

**December 31, 2015**

**20. Condensed Consolidating Financial Information — (continued)**

**Condensed Consolidating Statements of Cash Flows  
For the year ended December 31, 2014**

	<b>Principal Financial Group, Inc. Parent Only</b>	<b>Principal Financial Services, Inc. Only</b>	<b>Principal Life Insurance Company and Other Subsidiaries Combined <i>(in millions)</i></b>	<b>Eliminations</b>	<b>Principal Financial Group, Inc. Consolidated</b>
<b>Operating activities</b>					
Net cash provided by (used in) operating activities	\$ (81.6)	\$ (16.6)	\$ 3,456.7	\$ (255.6)	\$ 3,102.9
<b>Investing activities</b>					
Available-for-sale securities:					
Purchases	—	—	(9,054.0)	—	(9,054.0)
Sales	—	—	2,512.0	—	2,512.0
Maturities	—	—	6,244.7	—	6,244.7
Mortgage loans acquired or originated	—	—	(2,169.6)	—	(2,169.6)
Mortgage loans sold or repaid	—	—	1,793.6	—	1,793.6
Real estate acquired	—	—	(281.7)	—	(281.7)
Net purchases of property and equipment	—	—	(136.0)	—	(136.0)
Dividends and returns of capital received from unconsolidated entities	917.7	1,133.8	—	(2,051.5)	—
Net change in other investments	(0.7)	19.0	3.6	(103.6)	(81.7)
Net cash provided by (used in) investing activities	917.0	1,152.8	(1,087.4)	(2,155.1)	(1,172.7)
<b>Financing activities</b>					
Issuance of common stock	77.5	—	—	—	77.5
Acquisition of treasury stock	(222.7)	—	—	—	(222.7)
Proceeds from financing element derivatives	—	—	15.1	—	15.1
Payments for financing element derivatives	—	—	(58.0)	—	(58.0)
Excess tax benefits from share-based payment arrangements	0.3	—	9.4	—	9.7
Purchase of subsidiary shares from noncontrolling interest	—	—	(227.0)	—	(227.0)
Dividends to common stockholders	(376.6)	—	—	—	(376.6)
Dividends to preferred stockholders	(33.0)	—	—	—	(33.0)
Issuance of long-term debt	—	—	38.5	—	38.5
Principal repayments of long-term debt	—	—	(100.3)	—	(100.3)
Net repayments of short-term borrowings	—	—	(256.2)	137.9	(118.3)
Dividends and capital paid to parent	—	(917.7)	(1,133.8)	2,051.5	—
Investment contract deposits	—	—	5,638.4	—	5,638.4
Investment contract withdrawals	—	—	(7,099.2)	—	(7,099.2)
Net increase in banking operation deposits	—	—	30.7	—	30.7
Other	—	—	(12.9)	—	(12.9)
Net cash used in financing activities	(554.5)	(917.7)	(3,155.3)	2,189.4	(2,438.1)
Net increase (decrease) in cash and cash equivalents	280.9	218.5	(786.0)	(221.3)	(507.9)
Cash and cash equivalents at beginning of period	131.5	688.7	2,384.0	(832.4)	2,371.8
Cash and cash equivalents at end of period	\$ 412.4	\$ 907.2	\$ 1,598.0	\$ (1,053.7)	\$ 1,863.9

**Principal Financial Group, Inc.**
**Notes to Consolidated Financial Statements — (continued)**
**December 31, 2015**
**20. Condensed Consolidating Financial Information — (continued)**
**Condensed Consolidating Statements of Cash Flows  
For the year ended December 31, 2013**

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined <i>(in millions)</i>	Eliminations	Principal Financial Group, Inc. Consolidated
<b>Operating activities</b>					
Net cash provided by (used in) operating activities	\$ (42.8)	\$ 1,019.0	\$ 2,340.2	\$ (1,095.2)	\$ 2,221.2
<b>Investing activities</b>					
Available-for-sale securities:					
Purchases	—	—	(9,025.2)	—	(9,025.2)
Sales	—	—	1,919.1	—	1,919.1
Maturities	—	—	7,359.2	—	7,359.2
Mortgage loans acquired or originated	—	—	(2,192.9)	—	(2,192.9)
Mortgage loans sold or repaid	—	—	2,095.1	—	2,095.1
Real estate acquired	—	—	(85.6)	—	(85.6)
Net purchases of property and equipment	—	—	(59.4)	—	(59.4)
Purchase of interests in subsidiaries, net of cash acquired	—	—	(1,268.3)	—	(1,268.3)
Dividends and returns of capital received from (contributions to) unconsolidated entities	319.5	(594.6)	—	275.1	—
Net change in other investments	(3.1)	(28.7)	63.5	—	31.7
Net cash provided by (used in) investing activities	316.4	(623.3)	(1,194.5)	275.1	(1,226.3)
<b>Financing activities</b>					
Issuance of common stock	125.8	—	—	—	125.8
Acquisition of treasury stock	(153.6)	—	—	—	(153.6)
Proceeds from financing element derivatives	—	—	47.0	—	47.0
Payments for financing element derivatives	—	—	(48.0)	—	(48.0)
Excess tax benefits from share-based payment arrangements	—	—	10.1	—	10.1
Purchase of subsidiary shares from noncontrolling interest	—	—	(52.9)	—	(52.9)
Sale of subsidiary shares to noncontrolling interest	—	—	31.8	—	31.8
Dividends to common stockholders	(288.4)	—	—	—	(288.4)
Dividends to preferred stockholders	(33.0)	—	—	—	(33.0)
Issuance of long-term debt	—	—	1,122.5	(1,084.3)	38.2
Principal repayments of long-term debt	—	—	(218.2)	—	(218.2)
Net proceeds from (repayments of) short-term borrowings	—	—	(2,122.8)	2,230.8	108.0
Dividends and capital received from (paid to) parent	—	(319.5)	594.6	(275.1)	—
Investment contract deposits	—	—	6,716.3	—	6,716.3
Investment contract withdrawals	—	—	(8,852.7)	—	(8,852.7)
Net decrease in banking operation deposits	—	—	(225.7)	—	(225.7)
Other	—	—	(5.0)	—	(5.0)
Net cash used in financing activities	(349.2)	(319.5)	(3,003.0)	871.4	(2,800.3)
Net increase (decrease) in cash and cash equivalents	(75.6)	76.2	(1,857.3)	51.3	(1,805.4)
Cash and cash equivalents at beginning of period	207.1	612.5	4,241.3	(883.7)	4,177.2
Cash and cash equivalents at end of period	<u>\$ 131.5</u>	<u>\$ 688.7</u>	<u>\$ 2,384.0</u>	<u>\$ (832.4)</u>	<u>\$ 2,371.8</u>

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

## **Item 9A. Controls and Procedures**

### **Management's Report on Internal Control Over Financial Reporting**

Management of Principal Financial Group, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including our Chief Executive Officer, Daniel J. Houston, and our Chief Financial Officer, Terrance J. Lillis, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in the *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on our evaluation, management has concluded that Principal Financial Group, Inc.'s internal control over financial reporting was effective as of December 31, 2015.

Ernst & Young LLP, the independent registered public accounting firm that audited our financial statements included in this annual report on Form 10-K, has issued its report on the effectiveness of our internal control over financial reporting. The report is included in Item 8. "Financial Statements and Supplementary Data."

### **Changes in Internal Control Over Financial Reporting**

There was 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 our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our Chief Executive Officer, Daniel J. Houston, and our Chief Financial Officer, Terrance J. Lillis, have reviewed and evaluated our disclosure controls and procedures as of December 31, 2015, and have concluded that our disclosure controls and procedures are effective.

## **Item 9B. Other Information**

None

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information called for by Item 10 pertaining to directors is set forth in Principal Financial Group, Inc.'s proxy statement relating to the 2016 annual stockholders meeting (the "Proxy Statement"), which will be filed with the SEC on or about April 6, 2016, under the captions, "Election of Directors," "Corporate Governance," and "Security Ownership of Certain Beneficial Owners and Management — Section 16(a) Beneficial Ownership Reporting Compliance." Such information is incorporated herein by reference. The information called for by Item 10 pertaining to executive officers can be found in Part I of this Form 10-K under the caption, "Executive Officers of the Registrant." The Company has adopted a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer. The code of ethics has been posted on our Internet website, found at [www.principal.com](http://www.principal.com). We intend to satisfy disclosure requirements regarding amendments to, or waivers from, any provision of our code of ethics on our website.

**Item 11. Executive Compensation**

The information called for by Item 11 pertaining to executive compensation is set forth in the Proxy Statement under the caption, "Executive Compensation," and is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information called for by Item 12 pertaining to security ownership of certain beneficial owners and management is set forth in the Proxy Statement under the caption, "Security Ownership of Certain Beneficial Owners and Management," and is incorporated herein by reference.

**Equity Compensation Plan Information**

In general, we have three compensation plans under which our equity securities are authorized for issuance to employees or directors (not including our tax qualified pension plans): the Principal Financial Group, Inc. 2014 Stock Incentive Plan, the Principal Financial Group, Inc. Employee Stock Purchase Plan and the Principal Financial Group, Inc. 2014 Directors Stock Plan. The following table shows the number of shares of common stock issuable upon exercise of options outstanding at December 31, 2015, the weighted average exercise price of those options and the number of shares of common stock remaining available for future issuance at December 31, 2015, excluding shares issuable upon exercise of outstanding options.

<u>Plan Category</u>	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by our stockholders (1)	12,137,316	(2)\$ 43.71	16,134,871
Equity compensation plans not approved by our stockholders	—	n/a	—

- (1) The Principal Financial Group, Inc. Employee Stock Purchase Plan, the Principal Financial Group, Inc. Stock Incentive Plan and the Principal Financial Group, Inc. Directors Stock Plan were each approved by our sole stockholder, Principal Mutual Holding Company, prior to our initial public offering of common stock on October 22, 2001. Subsequently, the Principal Financial Group, Inc. 2005 Stock Incentive Plan and the Principal Financial Group, Inc. 2005 Directors Stock Plan were each approved by our stockholders on May 17, 2005. An amendment to the Principal Financial Group, Inc. Employee Stock Purchase Plan to increase the number of shares available for issuance under the plan was approved on May 19, 2009. On May 18, 2010, our shareholders approved the 2010 Stock Incentive Plan, which replaced the 2005 Stock Incentive Plan. The 2010 Stock Incentive Plan was subsequently renamed the Amended and Restated 2010 Stock Incentive Plan. On May 20, 2014, our shareholders approved the Principal Financial Group, Inc. 2014 Stock Incentive Plan and the Principal Financial Group, Inc. 2014 Directors Stock Plan.
- (2) Includes 7,692,069 options outstanding under the employee stock incentive plans, 954,731 performance shares under the employee stock incentive plans, 3,161,447 restricted stock units under the employee stock incentive plans, 273,130 restricted stock units under the directors stock plans and 55,939 other stock-based awards under the 2014 Directors Stock Plan for obligations under the Deferred Compensation Plan for Non-Employee Directors of Principal Financial Group, Inc.
- (3) The weighted-average exercise price relates only to outstanding stock options, not to outstanding performance shares, restricted stock units or other stock-based awards.
- (4) This number includes 4,175,874 shares remaining for issuance under the Employee Stock Purchase Plan, 11,668,265 shares available for issuance in respect of future awards of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other stock-based awards under the 2014 Stock Incentive Plan and 290,732 shares available for issuance in respect of future awards of stock options, restricted stock, restricted stock units and other stock-based awards under the 2014 Directors Stock Plan.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information called for by Item 13 pertaining to certain relationships and related transactions is set forth in the Proxy Statement under the captions, "Corporate Governance — Director Independence," and "Corporate Governance — Certain Relationships and Related Transactions," and is incorporated herein by reference.

**Item 14. Principal Accounting Fees and Services**

The information called for by Item 14 pertaining to principal accounting fees and services is set forth in the Proxy Statement under the caption, "Ratification of Appointment of Independent Registered Public Accountants," and is incorporated herein by reference.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

a. Documents filed as part of this report.

1. Financial Statements (see Item 8. Financial Statements and Supplementary Data)

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting  
Report of Independent Registered Public Accounting Firm  
Audited Consolidated Financial Statements

Consolidated Statements of Financial Position  
Consolidated Statements of Operations  
Consolidated Statements of Comprehensive Income  
Consolidated Statements of Stockholders' Equity  
Consolidated Statements of Cash Flows  
Notes to Consolidated Financial Statements

2. Report of Independent Registered Public Accounting Firm on Schedules

Schedule I — Summary of Investments — Other Than Investments in Related Parties  
Schedule II — Condensed Financial Information of Registrant (Parent Only)  
Schedule III — Supplementary Insurance Information  
Schedule IV — Reinsurance

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

3. Exhibits — Please refer to the Exhibit Index on page 213.

**Signatures**

Pursuant to the requirements of Section 13 or 15(d) 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: February 10, 2016

By /s/ TERRANCE J. LILLIS

Terrance J. Lillis  
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Dated: February 10, 2016

By /s/ DANIEL J. HOUSTON

Daniel J. Houston  
Chief Executive Officer and Director

By /s/ DENNIS H. FERRO

Dennis H. Ferro  
Director

By /s/ TERRANCE J. LILLIS

Terrance J. Lillis  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

By /s/ C. DANIEL GELATT, JR.

C. Daniel Gelatt, Jr.  
Director

By /s/ LARRY D. ZIMPLEMAN

Larry D. Zimpleman  
Director

By /s/ SANDRA L. HELTON

Sandra L. Helton  
Director

By /s/ BETSY J. BERNARD

Betsy J. Bernard  
Director

By /s/ ROGER C. HOCHSCHILD

Roger C. Hochschild  
Director

By /s/ JOCELYN CARTER-MILLER

Jocelyn Carter-Miller  
Director

By /s/ BLAIR C. PICKERELL

Blair C. Pickerell  
Director

By /s/ GARY E. COSTLEY

Gary E. Costley  
Director

By /s/ ELIZABETH E. TALLETT

Elizabeth E. Tallett  
Director

By /s/ MICHAEL T. DAN

Michael T. Dan  
Director

**Report of Independent Registered Public Accounting Firm on Schedules**

The Board of Directors and Stockholders  
Principal Financial Group, Inc.

We have audited the consolidated financial statements of Principal Financial Group, Inc. ("the Company") as of December 31, 2015 and 2014, and for each of the three years in the period ended December 31, 2015, and have issued our report thereon dated February 10, 2016 (included elsewhere in this Form 10-K). Our audits also included the financial statement schedules listed in the Index at Item 15.a.2 of this Form 10-K. These schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these schedules based on our audits.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ ERNST &  
YOUNG LLP

Des Moines, Iowa  
February 10, 2016

**Schedule I — Summary of Investments — Other Than Investments in Related Parties**  
**December 31, 2015**

<u>Type of Investment</u>	<u>Cost</u>	<u>Value</u>	<u>Amount as shown in the consolidated statement of financial position</u>
		<i>(in millions)</i>	
Fixed maturities, available-for-sale:			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 1,488.4	\$ 1,503.5	\$ 1,503.5
States, municipalities and political subdivisions	4,501.8	4,717.1	4,717.1
Foreign governments	669.8	793.3	793.3
Public utilities	3,860.2	3,503.5	3,503.5
Convertibles and bonds with warrants attached	39.4	—	—
Redeemable preferred stock	56.7	59.1	59.1
All other corporate bonds	26,289.2	27,577.6	27,577.6
Residential mortgage-backed securities	2,549.4	2,627.5	2,627.5
Commercial mortgage-backed securities	3,932.5	3,919.8	3,919.8
Collateralized debt obligations	692.7	667.5	667.5
Other debt obligations	4,594.2	4,597.6	4,597.6
Total fixed maturities, available-for-sale	48,674.3	49,966.5	49,966.5
Fixed maturities, trading	686.8	686.8	686.8
Equity securities, available-for-sale:			
Banks, trust and insurance companies	48.3	35.5	35.5
Industrial, miscellaneous and all other	4.1	4.8	4.8
Non-redeemable preferred stock	58.8	64.2	64.2
Total equity securities, available-for-sale	111.2	104.5	104.5
Equity securities, trading	1,202.7	1,202.7	1,202.7
Mortgage loans (1)	12,391.1	XXXX	12,339.4
Real estate, net:			
Real estate acquired in satisfaction of debt (2)	119.1	XXXX	113.8
Other real estate	1,338.0	XXXX	1,338.0
Policy loans	817.1	XXXX	817.1
Other investments (3)	3,252.4	XXXX	3,251.7
Total investments	<u>\$ 68,592.7</u>	<u>XXXX</u>	<u>\$ 69,820.5</u>

- (1) The amount shown in the consolidated statement of financial position for mortgage loans differs from cost as mortgage loans are generally reported at cost adjusted for amortization of premiums and accrual of discounts, computed using the interest method and net of valuation allowances.
- (2) The amount shown in the consolidated statement of financial position for real estate differs from cost as real estate is generally reported at cost adjusted for valuation allowances.
- (3) The amount shown in the consolidated statement of financial position for other investments differs from cost due to accumulated earnings from minority interests in unconsolidated entities and properties owned jointly with venture partners and operated by the partners. Other investments also includes derivative assets and certain seed money investments and other investment funds, which are reported at fair value, and commercial mortgage loans of consolidated VIEs and equity method real estate investments for which the fair value option was elected.

**Schedule II — Condensed Financial Information of Registrant (Parent Only)**

**Statements of Financial Position**

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
	<i>(in millions)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 578.7	\$ 412.4
Other investments	9.7	9.5
Income taxes receivable	21.3	21.8
Deferred income taxes	427.4	405.5
Amounts receivable from subsidiaries	8.9	5.4
Other assets	24.5	18.0
Investment in subsidiaries	12,223.4	12,446.5
<b>Total assets</b>	<b><u>\$ 13,293.9</u></b>	<b><u>\$ 13,319.1</u></b>
<b>Liabilities</b>		
Long-term debt	\$ 3,247.9	\$ 2,448.9
Accrued investment payable	25.8	21.8
Pension liability	708.6	664.4
<b>Total liabilities</b>	<b><u>3,982.3</u></b>	<b><u>3,135.1</u></b>
<b>Stockholders' equity</b>		
Series A preferred stock, par value \$.01 per share with liquidation preference of \$100 per share — 0.0 million and 3.0 million shares authorized, issued and outstanding in 2015 and 2014	—	—
Series B preferred stock, par value \$.01 per share with liquidation preference of \$25 per share — 0.0 million and 10.0 million shares authorized, issued and outstanding in 2015 and 2014	—	0.1
Common stock, par value \$.01 per share — 2,500 million shares authorized, 466.2 million and 462.7 million shares issued, and 291.4 million and 293.9 million shares outstanding in 2015 and 2014	4.7	4.6
Additional paid-in capital	9,544.8	9,945.5
Retained earnings	6,875.9	6,114.1
Accumulated other comprehensive income (loss)	(882.5)	50.4
Treasury stock, at cost (174.8 million and 168.8 million shares in 2015 and 2014)	(6,231.3)	(5,930.7)
<b>Total stockholders' equity attributable to Principal Financial Group, Inc.</b>	<b><u>9,311.6</u></b>	<b><u>10,184.0</u></b>
<b>Total liabilities and stockholders' equity</b>	<b><u>\$ 13,293.9</u></b>	<b><u>\$ 13,319.1</u></b>

See accompanying notes.

## Statements of Operations

	For the year ended December 31,		
	2015	2014	2013
	(in millions)		
<b>Revenues</b>			
Net investment income	\$ 1.6	\$ 0.5	\$ 0.4
Net realized capital gains	—	—	6.3
Total revenues	1.6	0.5	6.7
<b>Expenses</b>			
Other operating costs and expenses	175.4	144.3	140.5
Total expenses	175.4	144.3	140.5
Losses before income taxes	(173.8)	(143.8)	(133.8)
Income tax benefits	(71.2)	(86.3)	(54.0)
Equity in the net income of subsidiaries	1,336.6	1,201.6	992.5
Net income attributable to Principal Financial Group, Inc.	1,234.0	1,144.1	912.7
Less:			
Preferred stock dividends	16.5	33.0	33.0
Excess of redemption value over carrying value of preferred shares redeemed	8.2	—	—
Net income available to common stockholders	<u>\$ 1,209.3</u>	<u>\$ 1,111.1</u>	<u>\$ 879.7</u>

See accompanying notes.

## Statements of Cash Flows

	For the year ended December 31,		
	2015	2014	2013
	<i>(in millions)</i>		
<b>Operating activities</b>			
Net income	\$ 1,234.0	\$ 1,144.1	\$ 912.7
Adjustments to reconcile net income to net cash used in operating activities:			
Equity in the net income of subsidiaries	(1,336.6)	(1,201.6)	(992.5)
Net realized capital gains	—	—	(6.3)
Net cash flows for trading securities	—	—	10.4
Current and deferred income taxes (benefits)	(20.9)	(225.9)	12.6
Stock-based compensation	3.9	3.1	2.2
Other	34.5	198.7	18.1
Net cash used in operating activities	(85.1)	(81.6)	(42.8)
<b>Investing activities</b>			
Net change in other investments	5.4	(0.7)	(3.1)
Dividends and returns of capital received from unconsolidated entity	685.5	917.7	319.5
Net cash provided by investing activities	690.9	917.0	316.4
<b>Financing activities</b>			
Issuance of common stock	76.1	77.5	125.8
Acquisition of treasury stock	(300.6)	(222.7)	(153.6)
Excess tax benefits from share-based payment arrangements	0.7	0.3	—
Dividends to common stockholders	(441.0)	(376.6)	(288.4)
Dividends to preferred stockholders	(16.5)	(33.0)	(33.0)
Preferred stock redemption	(550.0)	—	—
Issuance of long-term debt	791.8	—	—
Net cash used in financing activities	(439.5)	(554.5)	(349.2)
Net increase (decrease) in cash and cash equivalents	166.3	280.9	(75.6)
Cash and cash equivalents at beginning of year	412.4	131.5	207.1
Cash and cash equivalents at end of year	\$ 578.7	\$ 412.4	\$ 131.5

See accompanying notes.

**(1) Basis of Presentation**

The accompanying condensed financial information should be read in conjunction with the consolidated financial statements and notes thereto of Principal Financial Group, Inc.

In the parent company only financial statements, our investments in subsidiaries are stated as cost plus equity in undistributed earnings of subsidiaries.

During November 2014, the parent company became the sponsor of the defined benefit pension plans discussed in Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 11, Employee and Agent Benefits." Prior to November 2014, Principal Life Insurance Company, an indirect wholly owned subsidiary of the parent company, was the sponsor of these plans.

**(2) Dividends and Returns of Capital Received from (Contributions to) Unconsolidated Entity**

The parent company received cash dividends and returns of capital totaling \$685.5 million, \$917.7 million and \$319.5 million from subsidiaries in 2015, 2014, and 2013, respectively.

**(3) Supplemental Disclosures of Non-Cash Investing Activity**

The parent company's assumption of the obligations associated with the defined benefit pension plans previously sponsored by Principal Life Insurance Company resulted in a non-cash increase in the parent company's investment in subsidiary of \$56.3 million in 2014.

**Schedule III — Supplementary Insurance Information**  
**As of December 31, 2015 and 2014 and for each of the years ended December 31, 2015, 2014 and 2013**

<u>Segment</u>	<u>Deferred acquisition costs</u>	<u>Future policy benefits and claims</u>	<u>Contractholder and other policyholder funds</u>
<i>(in millions)</i>			
<b>2015:</b>			
Retirement and Income Solutions	\$ 854.0	\$ 13,229.8	\$ 28,651.5
Principal Global Investors	—	—	—
Principal International	218.8	3,634.9	1,403.9
U.S. Insurance Solutions	2,203.3	8,953.2	6,784.2
Corporate	—	38.6	(318.1)
Total	<u>\$ 3,276.1</u>	<u>\$ 25,856.5</u>	<u>\$ 36,521.5</u>
<b>2014:</b>			
Retirement and Income Solutions	\$ 797.4	\$ 11,274.2	\$ 28,968.5
Principal Global Investors	—	—	—
Principal International	238.1	4,071.8	275.0
U.S. Insurance Solutions	1,957.5	8,652.6	6,602.3
Corporate	—	38.0	(306.4)
Total	<u>\$ 2,993.0</u>	<u>\$ 24,036.6</u>	<u>\$ 35,539.4</u>

**Schedule III — Supplementary Insurance Information — (continued)**  
**As of December 31, 2015 and 2014 and for each of the years ended December 31, 2015, 2014 and 2013**

<u>Segment</u>	<u>Premiums and other considerations</u>	<u>Net investment income (1)</u>	<u>Benefits, claims and settlement expenses</u>	<u>Amortization of deferred acquisition costs</u>	<u>Other operating expenses (1)</u>
<i>(in millions)</i>					
<b>2015:</b>					
Retirement and Income Solutions	\$ 3,011.4	\$ 1,749.0	\$ 4,158.4	\$ 158.2	\$ 1,126.8
Principal Global Investors	—	8.1	—	—	943.4
Principal International	252.9	495.9	573.9	19.1	368.9
U.S. Insurance Solutions	2,045.9	717.8	1,963.5	93.5	788.1
Corporate	0.1	81.3	1.9	—	174.4
Total	<u>\$ 5,310.3</u>	<u>\$ 3,052.1</u>	<u>\$ 6,697.7</u>	<u>\$ 270.8</u>	<u>\$ 3,401.6</u>
<b>2014:</b>					
Retirement and Income Solutions	\$ 1,584.5	\$ 1,857.7	\$ 2,766.9	\$ 163.6	\$ 1,056.9
Principal Global Investors	—	10.5	—	—	895.3
Principal International	225.7	591.0	622.9	18.7	342.8
U.S. Insurance Solutions	1,913.8	714.8	1,847.9	184.9	714.7
Corporate	(1.1)	83.9	(6.7)	—	197.4
Total	<u>\$ 3,722.9</u>	<u>\$ 3,257.9</u>	<u>\$ 5,231.0</u>	<u>\$ 367.2</u>	<u>\$ 3,207.1</u>
<b>2013:</b>					
Retirement and Income Solutions	\$ 1,045.5	\$ 1,933.1	\$ 2,303.4	\$ 75.0	\$ 1,032.3
Principal Global Investors	—	17.2	—	—	884.7
Principal International	291.6	447.1	569.0	16.5	318.0
U.S. Insurance Solutions	1,816.5	686.3	1,826.0	95.6	689.0
Corporate	0.5	54.7	(14.8)	—	181.8
Total	<u>\$ 3,154.1</u>	<u>\$ 3,138.4</u>	<u>\$ 4,683.6</u>	<u>\$ 187.1</u>	<u>\$ 3,105.8</u>

- (1) Allocations of net investment income and certain operating expenses are based on a number of assumptions and estimates, and reported operating results would change by segment if different methods were applied.

**Schedule IV — Reinsurance**  
**As of December 31, 2015, 2014 and 2013 and for each of the years then ended**

	<u>Gross amount</u>	<u>Ceded to other companies</u>	<u>Assumed from other companies (\$ in millions)</u>	<u>Net amount</u>	<u>Percentage of amount assumed to net</u>
<b>2015:</b>					
Life insurance in force	\$ 390,603.3	\$ 184,588.9	\$ 1,187.1	\$ 207,201.5	0.6%
Premiums:					
Life insurance	\$ 4,208.7	\$ 255.3	\$ 1.9	\$ 3,955.3	—%
Accident and health insurance	1,502.1	147.1	—	1,355.0	—%
Total	<u>\$ 5,710.8</u>	<u>\$ 402.4</u>	<u>\$ 1.9</u>	<u>\$ 5,310.3</u>	—%
<b>2014:</b>					
Life insurance in force	\$ 354,951.9	\$ 177,418.6	\$ 1,317.7	\$ 178,851.0	0.7%
Premiums:					
Life insurance	\$ 2,725.4	\$ 228.1	\$ 2.1	\$ 2,499.4	0.1%
Accident and health insurance	1,398.3	174.8	—	1,223.5	—%
Total	<u>\$ 4,123.7</u>	<u>\$ 402.9</u>	<u>\$ 2.1</u>	<u>\$ 3,722.9</u>	0.1%
<b>2013:</b>					
Life insurance in force	\$ 317,154.5	\$ 144,024.9	\$ 1,455.4	\$ 174,585.0	0.8%
Premiums:					
Life insurance	\$ 2,216.9	\$ 205.2	\$ 2.5	\$ 2,014.2	0.1%
Accident and health insurance	1,307.9	168.0	—	1,139.9	—%
Total	<u>\$ 3,524.8</u>	<u>\$ 373.2</u>	<u>\$ 2.5</u>	<u>\$ 3,154.1</u>	0.1%

**Exhibit Index**

Exhibit Number	Description
2.1	Plan of Conversion (1)
2.2	Stock Purchase Agreement among Washington Mutual, Inc., New American Capital, Inc., Principal Financial Group, Inc., and Principal Management Corporation for the purchase and sale of the outstanding capital stock of WM Advisors, Inc., dated as of July 25, 2006 (2)
2.2.1	Amendment No. 1 and Waiver, dated as of December 29, 2006, to the Stock Purchase Agreement, dated as of July 25, 2006, by and among Washington Mutual, Inc., New American Capital, Inc., Principal Financial Group, Inc., and Principal Management Corporation for the purchase and sale of the outstanding capital stock of WM Advisors, Inc. (3)
2.2.2	Memorandum of Understanding dated as of December 29, 2006, amending and modifying the Stock Purchase Agreement by and among Washington Mutual, Inc., New American Capital, Inc., Principal Financial Group, Inc., and Principal Management Corporation for the purchase and sale of the outstanding capital stock of WM Advisors, Inc. (3)
2.3	Sale and Purchase Promise Agreement, dated October 5, 2012, among Principal Financial Services, Inc., Empresas Penta S.A. and Inversiones Banpenta Limitada (4)
3.1	Amended and Restated Certificate of Incorporation of Principal Financial Group, Inc. (included in Exhibit 2.1) (5)
3.2	Amended and Restated By-Laws of Principal Financial Group, Inc. (6)
4.1	Form of Certificate for the Common Stock of Principal Financial Group, Inc., par value \$0.01 per share (1)
4.1.1	Certificate of Designations of the Company's Series A Non-Cumulative Perpetual Preferred Stock, dated June 16, 2005 (5)
4.1.2	Certificate of Designations of the Company's Series B Non-Cumulative Perpetual Preferred Stock, dated June 16, 2005 (5)
4.1.3	Specimen Stock Certificate for the Company's Series A Non-Cumulative Perpetual Preferred Stock (5)
4.1.4	Specimen Stock Certificate for the Company's Series B Non-Cumulative Perpetual Preferred Stock (5)
4.1.5	Senior Indenture, dated as of October 11, 2006, between Principal Financial Group, Inc. and The Bank of New York, as Trustee (7)
4.1.6	First Supplemental Indenture, dated as of October 16, 2006, among Principal Financial Group, Inc., Principal Financial Services, Inc. and The Bank of New York, as Trustee (7)
4.1.7	6.05% Senior Note (\$500,000,000) due October 15, 2036 (7)
4.1.8	6.05% Senior Note (\$100,000,000) due October 15, 2036 (8)
4.1.9	Guarantee, dated as of October 16, 2006, by Principal Financial Services, Inc. (7)
4.1.10	Senior Indenture, dated as of May 21, 2009, among Principal Financial Group, Inc., Principal Financial Services, Inc., as issuer, as guarantor, and The Bank of New York, as Trustee (9)
4.1.11	First Supplemental Indenture (including the form of 2014 Notes), dated as of May 21, 2009, among Principal Financial Group, Inc., as issuer, Principal Financial Services, Inc., as guarantor, and The Bank of New York Mellon Trust Company, as trustee (9)
4.1.12	Second Supplemental Indenture (including the form of 2019 Notes), dated as of May 21, 2009, among Principal Financial Group, Inc., as issuer, Principal Financial Services, Inc., as guarantor, and The Bank of New York Mellon Trust Company, as trustee (9)
4.1.13	Third Supplemental Indenture (including the form of 2022 Notes), dated as of September 10, 2012, among Principal Financial Group, Inc., as issuer, Principal Financial Services, Inc., as guarantor, and The Bank of New York Mellon Trust Company, as trustee (10)
4.1.14	Fourth Supplemental Indenture (including the form of 2042 Notes), dated as of September 10, 2012, among Principal Financial Group, Inc., as issuer, Principal Financial Services, Inc., as guarantor, and The Bank of New York Mellon Trust Company, as trustee (10)
4.1.15	Fifth Supplemental Indenture (including the form of 2017 Notes), dated as of November 16, 2012, among Principal Financial Group, Inc., as issuer, Principal Financial Services, Inc., as guarantor, and The Bank of New York Mellon Trust Company, as trustee (11)
4.1.16	Sixth Supplemental Indenture (including the form of 2023 Notes), dated as of November 16, 2012, among Principal Financial Group, Inc., as issuer, Principal Financial Services, Inc., as guarantor, and The Bank of New York Mellon Trust Company, as trustee (11)
4.1.17	Seventh Supplemental Indenture (including the form of 2043 Notes), dated as of November 16, 2012, among Principal Financial Group, Inc., as issuer, Principal Financial Services, Inc., as guarantor, and The Bank of New York Mellon Trust Company, as trustee (11)
4.18	Eighth Supplemental Indenture (including the form of 3.400% Senior Note due 2025), dated as of May 7, 2015, among Principal Financial Group, Inc., as issuer, Principal Financial Services, Inc., as guarantor, and The Bank of New York Mellon Trust Company, as trustee, relating to the 3.400% Senior Notes due 2025 (12)
4.19	Junior Subordinated Indenture, dated as of May 7, 2015, among Principal Financial Group, Inc., as issuer, Principal Financial Services, Inc., as guarantor, and The Bank of New York Mellon Trust Company, as trustee (12)
4.20	First Supplemental Indenture (including the form of 4.700% Fixed-to-Floating Rate Junior Subordinated Note due 2055), dated as of May 7, 2015, among Principal Financial Group, Inc., as issuer, Principal Financial Services, Inc., as guarantor, and The Bank of New York Mellon Trust Company, as trustee, relating to the 4.700% Fixed-to-Floating Rate Junior Subordinated Notes due 2055 (12)
4.1.21	Guarantee from Principal Financial Services, Inc. with respect to the 7.875% Senior Notes due 2014 (9)
4.1.22	Guarantee from Principal Financial Services, Inc. with respect to the 8.875% Senior Notes due 2019 (9)
4.1.23	Guarantee from Principal Financial Services, Inc. with respect to the 3.300% Senior Notes due 2022 (10)
4.1.24	Guarantee from Principal Financial Services, Inc. with respect to the 4.625% Senior Notes due 2042 (10)
4.1.25	Guarantee from Principal Financial Services, Inc. with respect to the 1.850% Senior Notes due 2017 (11)
4.1.26	Guarantee from Principal Financial Services, Inc. with respect to the 3.125% Senior Notes due 2023 (11)
4.1.27	Guarantee from Principal Financial Services, Inc. with respect to the 4.350% Senior Notes due 2043 (11)
4.28	Guarantee from Principal Financial Services, Inc. with respect to the 3.400% Senior Notes due 2025 (12)
4.29	Guarantee from Principal Financial Services, Inc. with respect to the 4.700% Fixed-to-Floating Rate Junior Subordinated Notes due 2055 (12)
10.1	Principal Financial Group, Inc. Stock Incentive Plan (13)
10.1.1	Form of Restricted Stock Unit Award Agreement (14)
10.1.2	Form of Stock Option Award Agreement (14)

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10.1.3	Principal Financial Group, Inc. 2005 Stock Incentive Plan (15)
10.1.4	Principal Financial Group, Inc. 2010 Stock Incentive Plan (16)
10.1.5	Amended and Restated Principal Financial Group, Inc. 2010 Stock Incentive Plan (17)
10.1.6	Principal Financial Group, Inc. 2014 Stock Incentive Plan (18)
10.2	Principal Financial Group Long-Term Performance Plan (1)
10.3	Resolution of Human Resources Committee of the Board of Directors of Principal Financial Group, Inc. amending the Principal Financial Group Long-Term Performance Plan as of October 31, 2002 (19)
10.4	Principal Financial Group Incentive Pay Plan (PrinPay), amended and restated effective January 1, 2002 (20)
10.5	Principal Financial Group, Inc. Annual Incentive Plan (21)
10.6	Revised Summary of Standard Compensatory Arrangement for Non-Employee Directors of the Principal Financial Group, Inc. Board of Directors (22)
10.6.1	Revised Summary of Standard Compensatory Arrangement for Non-Employee Directors, effective March 28, 2009 (23)
10.6.2	Revised Summary of Standard Compensatory Arrangement for Non-Employee Directors of the Principal Financial Group, Inc., effective May 17, 2010 (24)
10.6.3	Revised Summary of Standard Compensatory Arrangement for Non-Employee Directors of the Principal Financial Group, Inc., effective January 1, 2012 (25)
10.6.4	Revised Summary of Standard Compensatory Arrangement for Non-Employee Directors of Principal Financial Group, Inc., effective January 1, 2015 (26)
10.7	Principal Financial Group, Inc. Directors Stock Plan (1)
10.7.1	Principal Financial Group, Inc. 2005 Directors Stock Plan (16)
10.7.2	Principal Financial Group, Inc. 2014 Directors Stock Plan (18)
10.8	Deferred Compensation Plan for Non-Employee Directors of Principal Financial Group, Inc. (27)
10.9	Principal Select Savings Excess Plan, restated as of January 1, 2004 (28)
10.9.1	Amendment No. 1 to Principal Select Savings Excess Plan (27)
10.9.2	Principal Select Savings Excess Plan for Employees, amended and restated effective January 1, 2016 (29)
10.9.3	Principal Select Savings Excess Plan for Individual Field, amended and restated effective January 1, 2016 (29)
10.9.4	Nonqualified Deferred Compensation Plan for Select Investment Professions of Principal Financial Group, Inc. and Affiliates, effective January 1, 2016 (29)
10.10	Supplemental Executive Retirement Plan for Employees, restated as of January 1, 2003 (28)
10.10.1	Amendment No. 1 to the Principal Supplemental Executive Retirement Plan for Employees (27)
10.11	Form of Principal Financial Group, Inc. and Principal Life Insurance Company Change-of-Control Employment Agreement (Tier One Executives), dated as of February 28, 2006, by and among Principal Financial Group, Inc., Principal Financial Services, Inc., Principal Life Insurance Company and an Executive (30)
10.11.1	Form of Principal Financial Group, Inc. and Principal Life Insurance Company Change-of-Control Employment Agreement (Tier One Executives) (31)
10.11.2	Form of Principal Financial Group, Inc. and Principal Life Insurance Company Change of Control Employment Agreement (Tier One Executives), effective December 31, 2010 (24)
10.12	Form of Principal Financial Group, Inc. Indemnification Agreement (31)
10.13	Compensatory Arrangement, dated as of March 14, 2002, between Principal Life Insurance Company and James P. McCaughan (32)
10.14	Employment Agreement dated as of June 1, 2006, by and between Principal Financial Group, Inc., Principal Financial Services, Inc., Principal Life Insurance Company, and Larry D. Zimpleman (3)
10.14.1	Amended and Restated Employment Agreement dated as of May 1, 2008, by and between Principal Financial Group, Inc., Principal Financial Services, Inc., Principal Life Insurance Company and Larry D. Zimpleman (33)
10.14.2	Letter dated March 16, 2009 amending the Amended and Restated Employment Agreement dated as of May 1, 2008 by and between Principal Financial Group, Inc., Principal Financial Services, Inc., Principal Life Insurance Company and Larry D. Zimpleman (23)
10.14.3	Letter dated December 1, 2009 amending the Amended and Restated Employment Agreement dated as of May 1, 2008 by and between Principal Financial Group, Inc., Principal Financial Services, Inc., Principal Life Insurance Company and Larry D. Zimpleman (34)
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21	Principal Financial Group, Inc. Member Companies as of December 31, 2015 (29)
23	Consent of Independent Registered Public Accounting Firm (29)
31.1	Certification of Daniel J. Houston (29)
31.2	Certification of Terrance J. Lillis (29)
32.1	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code — Daniel J. Houston (29)
32.2	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code — Terrance J. Lillis (29)
101	The following materials from Principal Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2015, 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, (vi) the Notes to Consolidated Financial Statements, (vii) Schedule I — Summary of Investments — Other Than Investments in Related Parties, (viii) Schedule II — Condensed Financial Information of Registrant (Parent Only), (ix) Schedule III — Supplementary Insurance Information and (x) Schedule IV — Reinsurance

- (1) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Registration Statement on Form S-1, as amended (Commission File No. 333-62558).
- (2) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (Commission File No. 1-16725).
- (3) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2006 (Commission File No. 1-16725).

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- (4) Incorporated by reference to exhibit filed with Principal Financial Group Inc.'s Current Report on Form 8-K filed on November 13, 2012 (Commission File No. 1-16725).
- (5) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Current Report on Form 8-K filed on June 17, 2005 (Commission File No. 1-16725).
- (6) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Current Report on Form 8-K filed on May 27, 2014 (Commission File No. 1-16725).
- (7) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Current Report on Form 8-K filed on October 17, 2006 (Commission File No. 1-16725).
- (8) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Current Report on Form 8-K filed on December 6, 2006 (Commission File No. 1-16725).
- (9) Incorporated herein by reference to exhibit filed with Principal Financial Group Inc.'s Current Report on Form 8-K filed on May 21, 2009 (Commission File No. 1-16725).
- (10) Incorporated by reference to exhibit filed with Principal Financial Group Inc.'s Current Report on Form 8-K filed on September 10, 2012 (Commission File No. 1-16725).
- (11) Incorporated by reference to exhibit filed with Principal Financial Group Inc.'s Current Report on Form 8-K filed on November 16, 2012 (Commission File No. 1-16725).
- (12) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Current Report on Form 8-K filed on May 7, 2015 (Commission File No. 1-16725).
- (13) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 (Commission File No. 1-16725).
- (14) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Current Report on Form 8-K filed on March 7, 2005 (Commission File No. 1-16725).
- (15) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (Commission File No. 1-16725).
- (16) Incorporated by reference to Appendix A of Principal Financial Group, Inc.'s 2010 Definitive Proxy Statement on Form DEF14A, filed on April 6, 2010 (Commission File No. 1-16725).
- (17) Incorporated by reference to exhibit filed with Principal Financial Group Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 (Commission File No. 1-16725).
- (18) Incorporated by reference to appendix filed with Principal Financial Group, Inc.'s 2014 Definitive Proxy Statement on Form DEF14Q, filed on April 7, 2014 (Commission File No. 1-16725).
- (19) Incorporated by reference to the exhibit filed with Principal Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2002 (Commission File No. 1-16725).
- (20) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (Commission File No. 1-16725).
- (21) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2004 (Commission File No. 1-16725).
- (22) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (Commission File No. 1-16725).
- (23) Incorporated by reference to the Principal Financial Group, Inc. Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (Commission File No. 1-16725).
- (24) Incorporated herein by reference to exhibit filed with Principal Financial Group Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 (Commission File No. 1-16725).
- (25) Incorporated by reference to exhibit filed with Principal Financial Group Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011 (Commission File No. 1-16725).
- (26) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2014 (Commission File No. 1-16725).
- (27) Incorporated by reference to the exhibit filed with Principal Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2005 (Commission File 1-16725).
- (28) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 (Commission File No. 1-16725).
- (29) File herewith.
- (30) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (Commission File No. 1-16725).
- (31) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Current Report on Form 8-K filed on December 2, 2008 (Commission File No. 1-16725).
- (32) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 (Commission File No. 1-16725).
- (33) Incorporated by reference to exhibit filed with Principal Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 (Commission File No. 1-16725).
- (34) Incorporated by reference to the exhibit filed with Principal Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (Commission File No. 1-16725).



**THE PRINCIPAL  
SELECT SAVINGS EXCESS PLAN  
FOR EMPLOYEES**

(Amended and Restated Effective January 1, 2016)

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## INTRODUCTION

The Company maintains **THE PRINCIPAL SELECT SAVINGS EXCESS PLAN FOR EMPLOYEES** for the benefit of a select group of management and highly compensated employees, who, due to the amount of their compensation, are unable to fully participate in the elective deferral and matching contributions available to the other eligible participants in the Associated Plan.

The Company established the Plan (then called The Principal Select Savings Excess Plan) on September 1, 1988. The Plan was amended from time to time, and was last restated on June 1, 2014. Prior to January 1, 2009, the Plan also reflected benefits for certain Field Managers and agents (field representatives working under a DD713 contract), with the benefits and liabilities being transferred to The Principal Select Savings Excess Plan for Individual Field effective January 1, 2009. Effective January 1, 2011, the Field Managers were moved to this Plan from The Principal Select Savings Excess Plan for Individual Field. This Plan covers Employees, including Field Managers. Benefits and liabilities accrued under the Principal Select Saving Excess Plan for Individual Field Plan, in regard to the Field Managers, were transferred into this Plan as of January 1, 2011.

The Plan covers common-law employees, including Field Managers, and is designed and intended to be a “top-hat” plan — that is, an unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees within the meaning of ERISA §§ 201 (2), 301 (a) (3) and 401 (a) (1), and therefore is exempt from Parts 2, 3 and 4 of Title I of ERISA. The Plan is intended to be a nonqualified plan for purposes of Code § 401. The Plan also is intended to be a nonqualified deferred compensation plan that meets the requirements of paragraphs (2), (3) and (4) of Code § 409A(a), and the terms and provisions of the Plan should be interpreted and applied in a manner consistent with such requirements, including final Treasury Regulations and other guidance issued under Code § 409A.

This amendment and restatement is effective January 1, 2016, and replaces the prior Plan document(s).

## ARTICLE I

### DEFINITIONS

#### SECTION 1.01 — FORMAT

Words and phrases defined in the DEFINITIONS SECTION of this Article will have the defined meaning when used in this Plan, unless the context clearly indicates otherwise. These words and phrases will have an initial capital letter to aid in identifying them as defined terms.

Words and phrases with an initial capital letter that are not defined in the DEFINITIONS SECTION of this Article will have the meaning assigned to such word or phrase under the Associated Plan, unless the context clearly indicates otherwise.

#### SECTION 1.02 — DEFINITIONS

Account means an account established for a Participant pursuant to the ACCOUNTS SECTION of Article III.

Active Participant means an Employee in the Eligible Group who has enrolled in this Plan.

Aggregated Plan means any other deferred compensation plan maintained by the Company or a Controlled Group Member that is subject to Code § 409A and that is aggregated with this Plan under Treasury Regulation § 1.409A-1(c) (2).

Annual Incentive Pay means an annual payment received under a plan designated by the Company. Amounts received from a long-term performance plan or stock accumulation program shall not be considered Annual Incentive Pay for purposes of the Plan.

Associated Plan means The Principal Select Savings Plan for Employees.

Beneficiary means the person or persons designated as such pursuant to the BENEFICIARIES SECTION of Article X.

Board means the Board of Directors of Principal Life Insurance Company.

Change of Control means the date of occurrence of any of the following, to the extent such occurrence constitutes a change of control event (as defined in Treasury Regulation § 1.409A-3(i) (5) (i)) with respect to Principal Financial Group:

- (a) a change in the ownership of Principal Financial Group occurs when any one person or a group of persons acquires stock in Principal Financial Group that is more than fifty percent (50%) of the total fair market value or total voting power of the stock of Principal Financial Group;
- (b) a change in the effective control of Principal Financial Group occurs when any one person or a group of persons acquires within a twelve (12)-month period, stock in Principal Financial Group possessing thirty percent (30%) or more of the total voting power of the stock of Principal Financial Group; or when a majority of the board of directors of Principal Financial Group is replaced during a twelve (12)-month period by directors whose appointment or election is not endorsed by a majority of the board of directors of Principal Financial Group; or
- (c) a change in the ownership of a substantial portion of the assets of Principal Financial Group occurs when any one person or group of persons acquires or has acquired during a twelve (12)-month period, assets from Principal Financial Group that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of Principal Financial Group immediately prior to such acquisition.

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

Common Stock means the common stock, par value \$0.01, of Principal Financial Group.

Company means Principal Life Insurance Company and any successors thereto.

Company Match Credit means a credit to an Account made in accordance with the COMPANY MATCH CREDITS SECTION of Article III.

Compensation means income as reported in the "Wages, Tips, and Other Compensation" box on Form W-2 attributable to services performed for the Company or a Participating Controlled Group Member. Compensation also includes any elective deferral (as defined in Code § 402(g) (3)) to the Associated Plan, and any amount which is deferred at the election of the Employee under this Plan or any other nonqualified plan maintained by the Company or Participating Controlled Group Member, and any amount which is contributed or deferred at the election of the Employee which is not includible in the gross income of the Employee by reason of Code §§ 125, 132(f) (4) or 457.

Compensation will exclude the following:

- (a) expense reimbursements or other expense allowances, fringe benefits (cash and non-cash), moving expenses, deferred compensation (other than elective contributions as stated above), and welfare benefits (except short-term disability);
- (b) Annual Incentive Pay earned with respect to service while classified by the Company's or Participating Controlled Group Member's payroll system as "investment" or "industry variant";
- (c) any bonus or incentive pay paid by the Company or a Controlled Group Member, other than Annual Incentive Pay not otherwise excluded by (b) above, unless otherwise designated by the Company, including (but not limited to):

- (i) any amount paid under The Principal Long Term Incentive Compensation Plan or other long-term incentive compensation plan or any stock incentive plan;
- (ii) any sign-on bonus or stay bonus;
- (iii) any bonus to share in the proceeds or any stay bonus paid to an Employee as a result of the acquisition of Old Northwest Agents Limited Partnership;
- (d) amounts earned as a result of an Employee's Separation from Service;
- (e) any lump-sum payout under the Principal Personal Time Off Policy;
- (f) any income from restricted stock or stock units or the exercise of statutory or non-statutory stock options under any plan maintained by the Company or Participating Controlled Group Member, except as specifically provided in a written agreement or other writing of the Company or Participating Controlled Group Member in effect prior to the start of the applicable Plan Year;
- (g) any amounts paid after an Employee's Separation from Service, except for amounts earned for services attributable to the final payroll period that includes the date of the Employee's Separation from Service.

Controlled Group Member means any corporation or other business entity (including Principal Financial Group) that is a member of the same controlled group as, or under common control with, the Company as determined under Code § 414(b) or (c) (and for purposes of determining whether a Separation from Service has occurred, a standard of “at least 80 percent” will be used to identify a controlled group member under Code § 414(b) and (c) notwithstanding the default standard of “at least 50 percent” found in Treasury Regulation § 1.409A-1(h)(3)).

Disability or Disabled means that a Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months.

Elective Deferral Credit means a credit to an Account made in accordance with the ELECTIVE DEFERRAL CREDITS SECTION of Article III.

Eligible Group means the group of Employees who are eligible to participate in the Plan, as determined under the ELIGIBLE GROUP SECTION of Article II.

Employee means any common-law employee of the Company or a Controlled Group Member (while it is Controlled Group Member). For purposes of this Plan, the term Employee also includes Field Managers.

Employer Credits means Company Match Credits and Employer Discretionary Credits.

Employer Discretionary Credit means a credit to the Account made in accordance with the EMPLOYER DISCRETIONARY CREDITS SECTION of Article III.

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

Field Manager means a person who holds a current manager base contract with a DD 713 addendum, or any successor full-time contract, with the Company or a Participating Controlled Group Member or is designated as such by the Company or a Participating Controlled Group Member.

Grandfathered Choice Participant means a Participant who was offered a benefit formula election under the terms of The Principal Pension Plan and who elected to continue to have his benefit calculated under the benefit formula in effect as of December 31, 2005, rather than under the new benefit formula that first became effective January 1, 2006.

Participant means any Active Participant, or any current or former Employee who is not an Active Participant but who has a balance remaining in an Account under the Plan.

Participating Controlled Group Member means any Controlled Group Member that has adopted the Plan and that employs one or more Participants, as listed in Attachment A (a Participating Controlled Group Member will automatically cease to participate if it ceases to be a Controlled Group Member).

Plan means The Principal Select Savings Excess Plan for Employees.

Plan Year means the calendar year.

Principal Financial Group means Principal Financial Group, Inc., a Delaware corporation, together with all successors thereto.

Separation from Service means a “separation from service” within the meaning of Code § 409A.

Generally this means that the Company and the Participant reasonably anticipate that no further services will be performed for the Company or any Controlled Group Member after a certain date or that the level of services the Participant will perform after such date (whether as an Employee or independent contractor) will permanently decrease to twenty percent (20%) or less of the average level of bona fide services performed over the immediately preceding thirty-six (36) month period (or the full period of services if the Participant has been providing services for less than thirty-six (36) months).

In the case of a leave of absence by a Participant where there is a reasonable expectation that the Participant will return to service with the employer after such leave of absence, a Separation from Service will be deemed to have occurred on the date that is six (6) months (or in the case of a disability leave, twenty-nine (29) months if the Participant was Disabled prior to January 1, 2010) following the start of such leave; *provided that*, if the Participant has a statutory or contractual right to return to active employment that extends beyond the end of such leave period, the Separation from Service will be deemed to have occurred upon the expiration of such statutory or contractual right; and if such Employee has a Termination of Employment during such leave period, the Separation from Service will be deemed to have occurred on such Termination of Employment. A “disability” leave for this purpose means an absence during which the individual is unable to perform the duties of his position of employment or any substantially similar position of employment due to any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than six (6) months.

In the case of a sale or other disposition of stock or substantial assets, whether a Separation from Service has occurred may be affected by the provisions of the CONTRACTUAL OBLIGATIONS SECTION of Article IX.

Specified Employee means an Employee who at any time during the twelve (12) month period ending on the identification date (defined below) was a “key employee” as defined under Code § 416(i) (applied in accordance with the regulations thereunder, but without regard to paragraph (5) thereof). Principal Financial Group or the Company may adopt a Specified Employee Identification Policy that specifies the identification date, the effective date of any change in the key employee group, compensation definition and other variables that are relevant in identifying Specified Employees, and which may include an alternative method of identifying Specified Employees consistent with the regulations under Code § 409A. In the absence of any such policy or policy provision, for purposes of the above, the “identification date” is each December 31st, and an Employee who satisfies the above conditions will be considered to be a “Specified Employee” from April 1st following the identification date to March 31st of the following year, and the compensation and other variables, and special rules for corporate events and special rules relating to nonresident aliens, that are necessary in identifying Specified Employees will be determined

and applied in accordance with the defaults specified in the regulations under Code § 409A. Any Specified Employee Identification Policy will apply uniformly to all nonqualified deferred compensation plans subject to Code § 409A that are maintained by the Company or a Controlled Group Member.

Termination of Employment means that the common-law employer-employee relationship has ended between the Employee and the Company and Controlled Group Members, as determined under the employment policies and practices of the Company (including by reason of voluntary or involuntary termination, retirement,

death, expiration of and failure to return from a recognized leave of absence, or otherwise). A Termination of Employment does not occur merely as a result of transfer of employment from one Controlled Group Member to another Controlled Group Member or from the Company to a Controlled Group Member or from a Controlled Group Member to the Company. In the case of an Employee working for a Controlled Group Member, a Termination of Employment will not occur merely because his employer no longer satisfies the definition of a Controlled Group Member by reason of a stock sale or similar corporate transaction (assuming the individual continues in the employ of that employer or a new affiliate of that employer after the sale).

Transfer Credit means a credit to an Account made in accordance with the TRANSFER CREDITS SECTION of Article III.

Valuation Date means each day on which trading occurs on the New York Stock Exchange.

## **ARTICLE II**

### **PARTICIPATION**

#### **SECTION 2.01 — ELIGIBLE GROUP**

All Employees who are in the Eligible Group will be eligible to participate in the Plan. An Employee is in the Eligible Group if:

- (a) He is employed with the Company or a Participating Controlled Group Member (while it is a Participating Controlled Group Member);
- (b) He is eligible for the Associated Plan;
- (c) His Compensation in any Plan Year is one hundred and twenty-five percent (125%) or more of the compensation level required to be a “highly compensated employee” under Code § 414(q); and
- (d) The Corporate Management Committee, which is described in the ADMINISTRATION SECTION of Article VIII, has selected the individual for participation and has directed the Company to notify the individual in writing that he is eligible to participate in the Plan.

The Corporate Management Committee (or, in the case of a Senior Vice President or above, the Human Resources Committee of the Board) in its sole and absolute discretion may determine that an Employee who satisfies the conditions of paragraph (c) above will not be eligible to participate in the Plan, or may determine that an Employee who does not satisfy the conditions of paragraph (c) above will be eligible to participate in the Plan. However, the Plan is intended to cover only those Employees who are in a select group of management or highly compensated employees within the meaning of ERISA §§ 201(2), 301(a) (3) and 401(a) (1); and, accordingly, if any interpretation is issued by the Department of Labor that would exclude any Employee from satisfying that requirement, such Employee immediately will cease to be in the Eligible Group.

An Employee will cease to be in the Eligible Group upon his Separation from Service or as of such earlier date on which he ceases to satisfy the eligibility requirements specified above.

An Employee who ceases to be in the Eligible Group will cease to be an Active Participant as of the date provided in the END OF ELIGIBILITY AND PARTICIPATION SECTION of this Article.

#### **SECTION 2.02 — NOTICE OF ELIGIBILITY**

The Company will notify an Employee in writing of his eligibility to participate in the Plan and an individual will not be eligible until he receives such notice.

#### **SECTION 2.03 — INITIAL ENROLLMENT**

An Employee in the Eligible Group who has not already been a participant in any Aggregated Plan will be allowed to enroll in and make initial deferral and distribution elections under the Plan during the thirty (30) day

period following the date he is notified of his eligibility to participate in the Plan, with enrollment to be effective as of the first day of the month that next follows the last day of such thirty (30) day period. Deferral and distribution elections will be irrevocable at the end of the thirty (30) day period. Otherwise, an Employee in the Eligible Group may enroll and make initial deferral and distribution elections for the next or any subsequent Plan Year during the annual enrollment period established by the Company for such Plan Year, which annual enrollment period will end not later than the last day of the prior Plan Year. Notwithstanding the foregoing, an Employee in the Eligible Group also shall be permitted to make an election against Annual Incentive Pay to the extent permitted by, and in accordance with, the provisions of the ELECTION APPLIED AGAINST ANNUAL INCENTIVE PAY FOR CERTAIN PARTICIPANTS SECTION of Article III.

An enrollment election is required and must be made in such manner and in accordance with such rules as may be prescribed for this purpose by the Company.

## **SECTION 2.04 — END OF ELIGIBILITY AND PARTICIPATION**

An Active Participant will continue as an Active Participant until the earliest of:

- (a) The date of his Separation from Service;
- (b) The date on which the Plan is terminated in a liquidation termination described in the AMENDMENT AND TERMINATION SECTION of Article X; or
- (c) The last day of the Plan Year in which he ceases to be in the Eligible Group (other than as a result of a Separation from Service) or in which the Plan is terminated other than in a liquidation termination described in the AMENDMENT AND TERMINATION SECTION of Article X.

A Participant will continue as a Participant until he has received a full distribution of the benefit due under the Plan.

In the event a Participant's eligibility under this Plan ceases as the result of a change in workforce classification and as a result the Participant becomes eligible and enrolls in The Principal Select Savings Excess Plan for Individual Field, his benefits and liabilities will transfer to The Principal Select Savings Excess Plan for Individual Field.

## **SECTION 2.05 — REENROLLMENT FOLLOWING A BREAK IN ELIGIBILITY**

Except as otherwise provided in the DISTRIBUTION EVENTS SECTION of Article V, in the case of an individual who ceases to be in the Eligible Group and who later reenters the Eligible Group:

- (a) If he reenters the Eligible Group twenty-four (24) months or more after he both ceases to be an Active Participant and ceases to be eligible under all Aggregated Plans, he will be eligible to reenroll in accordance with the INITIAL ENROLLMENT SECTION of this Article.
- (b) If he reenters the Eligible Group within twenty-four (24) months after he both ceases to be an Active Participant and ceases to be eligible under all Aggregated Plans, the deferral and distribution elections that were in effect when he ceased to be in the Eligible Group will be reinstated when he reenters the Eligible Group.

The deferral and distribution elections made upon rehire or subsequent changes to such elections will not affect the distribution of benefits the individual may be receiving as a result of a previous distribution event.

## **SECTION 2.06 — TRANSFER FROM THE PRINCIPAL SELECT SAVINGS EXCESS PLAN FOR INDIVIDUALFIELD**

In the case of an individual who transfers from The Principal Select Savings Excess Plan for Individual Field to the Plan:

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- (a) Any elections related to Elective Deferral Credits made in The Principal Select Savings Excess Plan for Individual Field shall remain in effect with respect to the Plan. If the election for Compensation other than Annual Incentive Pay exceeds the limitation in Section 3.01(b) (*i.e.*, 15%), it shall remain in effect for the Plan Year that includes the transfer. In the subsequent Plan Year, if such election is carried over under the "evergreen" provision of the Plan, it will be reduced to 15%.
- (b) Such individual's benefit and liability from The Principal Select Savings Excess Plan for Individual Field will transfer to the Plan. Such amounts will be transferred to the portion of the Account related to Elective Deferral Credits, Company Match Credits or Employer Discretionary Credits consistent with how such amount was maintained in The Principal Select Savings Excess Plan for Individual Field. The individual's Account under the Plan will be deemed to be invested in the same hypothetical investment options as invested in The Principal Select Savings Excess Plan for Individual Field immediately prior to the transfer. To the extent that one or more of such investment options are not available under the Plan, the respective amounts will receive earnings credits based on such "default" investment option as may be selected for this purpose by the Company. The individual will be able to direct the hypothetical investment of his Account after the transfer in accordance with Article IV.
- (c) Any distribution election made by the individual under The Principal Select Savings Excess Plan for Individual Field, or if no election was made, such default distribution form and time, shall continue to apply to his Account under the Plan, subject to additional distribution elections allowed under Section 6.04, and the other terms of the Plan.
- (d) The beneficiary designated under The Principal Select Savings Excess Plan for Individual Field shall be the Beneficiary designated for purposes of the Plan, until otherwise revised consistent with Section 10.05 and the terms of the Plan.

## **ARTICLE III**

### **CONTRIBUTION CREDITS**

#### **SECTION 3.01 — ELECTIVE DEFERRAL CREDITS**

Elective Deferral Credits will be made for each pay date on behalf of each Active Participant who has enrolled in the Plan and thereby elects to have his Compensation reduced in order to receive Elective Deferral Credits. The Elective Deferral Credits for a pay date will be added to the appropriate Account on or as soon as administratively practicable after the pay date in an amount equal to the amount of the reduction in his Compensation.

An Active Participant may elect to reduce his Compensation in accordance with the following:

- (a) Any election against Annual Incentive Pay may be made in any percentage up to two (2) decimal places not more than one-hundred percent (100%).
- (b) Any election against all other Compensation may be made in any percentage up to two (2) decimal places not to exceed fifteen percent (15%).

The elections made under (a) and (b), above, will be effective during the Plan Year.

A deferral election (or the modification or revocation of a deferral election) must be made in such manner and in accordance with such rules as may be prescribed for this purpose by the Company. A deferral election must be made as part of enrollment described in the INITIAL ENROLLMENT SECTION of Article II.

Compensation will be reduced first to provide Elective Deferral Credits under this Plan, prior to any reduction for any contribution or other amount drawn from Compensation. However, the FICA taxes due on Elective Deferral Credits, Company Match Credits and Employer Discretionary Credits, plus pyramided income taxes on such FICA amounts, will be drawn from the Plan and will first reduce the net Elective Deferral Credits, the Company Match Credits and the Employer Discretionary Credits to the extent other Compensation is not available to provide for FICA.

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Except as provided in the ELECTION APPLIED AGAINST ANNUAL INCENTIVE PAY FOR CERTAIN PARTICIPANTS SECTION of this Article, a deferral election applied against any Compensation must be made by December 31st (or such earlier date as may be established by the Company) of the year prior to the year in which the services are performed that give rise to the right to receive such Compensation. A separate deferral election will be allowed for Annual Incentive Pay and all other Compensation. The deferral of Annual Incentive Pay will apply to Annual Incentive Pay earned in the Plan Year in which the services attributable to the Annual Incentive Pay are performed, without regard to when the Annual Incentive Pay is actually paid.

For the Plan Year in which an Employee is first notified of eligibility for the Plan, an election made within the thirty (30) day period referenced in the INITIAL ENROLLMENT SECTION of Article II (if applicable to the Employee) will apply to Compensation and Annual Incentive Pay attributable to pay periods that start after the effective date of enrollment as provided in the INITIAL ENROLLMENT SECTION of Article II. The initial election will apply to a pro-rata portion of any Annual Incentive Pay payable for services performed during the period in which the election becomes irrevocable (with the percentage determined by dividing the number of days remaining in the performance or service period after the effective date of the enrollment over the total number of days in the performance or service period). Notwithstanding the foregoing, an Employee also shall be permitted to make an election against Annual Incentive Pay for the 2009 Plan Year to the extent permitted by, and in accordance with, the provisions of the ELECTION APPLIED AGAINST ANNUAL INCENTIVE PAY FOR CERTAIN PARTICIPANTS SECTION of this Article, in which case the provisions of such section shall take precedence over any contrary provision of this section.

Except as otherwise provided in the DISTRIBUTION EVENTS Section of Article V, an election applied against any Compensation will be “evergreen” — that is, it will automatically be carried over and applied to the next Plan Year unless revoked or changed by the Participant by December 31st (or such earlier date as may be established by the Company) of the prior Plan Year; *except that*, an election will not apply to a Plan Year (and a new election will be required) if the election would result in any credits inconsistent with the terms of the Plan. An election generally will be irrevocable for a Plan Year, but will be revoked if: the Participant receives a withdrawal for unforeseeable emergency from this Plan pursuant to the UNFORESEEABLE EMERGENCY WITHDRAWALS SECTION of Article V (or receives a comparable withdrawal from any Aggregated Plan).

An election in effect for a given Plan Year (or portion thereof) with respect to any Compensation that is paid as part of payroll will apply only to payroll periods ending within the Plan Year (i.e., if the final payroll period starts within a Plan Year and ends in the following Plan Year, the election in effect for the following Plan Year will apply to amounts payable for such payroll period).

The Company may, in its sole discretion, limit the minimum or maximum amount of Elective Deferral Credits that are allowed under the Plan by any Active Participant or any group of Active Participants, provided that such limit is established in writing prior to the beginning of the Plan Year or prior to enrollment of the affected Participant.

### **SECTION 3.01A — ELECTION APPLIED AGAINST ANNUAL INCENTIVE PAY FOR CERTAIN PARTICIPANTS**

A Participant classified by the Company’s payroll system as “investment” or “industry variant” may elect to reduce his Annual Incentive Pay for the 2009 Plan Year under this section instead of under the ELECTIVE DEFERRAL CREDITS SECTION of this Article, provided that:

- (a) the Annual Incentive Pay is Performance-Based Compensation as described in this section;
- (b) such Participant performed services continuously from the later of the beginning of the performance period or the date upon which the performance criteria are established through the date upon which such Participant makes such deferral election; and
- (c) such election is made no later than June 30, 2009, provided that in no event shall an election be made on or after the date on which such Annual Incentive Pay for the Plan Year has become readily ascertainable.

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The election made under this section may be in any whole percentage, not more than one-hundred percent (100%).

A deferral election (or the modification or revocation of a deferral election) must be made in such manner and in accordance with such rules as may be prescribed for this purpose by the Company.

Elective Deferral Credits will be made for any Annual Incentive Pay deferred pursuant to this section and added to the appropriate Account on or as soon as administratively practicable after the pay date in an amount equal to the amount of the reduction in his Annual Incentive Pay.

For purposes of this section, Performance-Based Compensation means compensation where the amount of, or entitlement to, the compensation is contingent on the satisfaction of pre-established organizational or individual performance criteria relating to a performance period of at least twelve (12) months. Organizational or individual performance criteria are considered pre-established if established in writing within ninety (90) days after the commencement of the period of service to which the criteria relates, provided that the outcome is substantially uncertain at the time the criteria are established. Performance-

Based Compensation may include payments based upon subjective performance criteria as provided in regulations and administrative guidance promulgated under Code § 409A.

### **SECTION 3.02 — COMPANY MATCH CREDITS**

A Company Match Credit will be added to the Account of an Active Participant for a given pay date if such Participant receives an Elective Deferral Credit for such pay date under the ELECTIVE DEFERRAL CREDITS SECTION of this Article. The amount of the Company Match Credit for a given pay date will equal:

- (a) In the case of any Active Participant who is a Grandfathered Choice Participant, an amount equal to fifty percent (50%) of the Participant's Elective Deferral Credits for such pay date; *provided that*, Elective Deferral Credits that are over six percent (6%) of Compensation will not be matched; or
- (b) In the case of any other Active Participant, an amount equal to seventy five percent (75%) of the Participant's Elective Deferral Credits for such pay date; *provided that*, Elective Deferral Credits that are over eight percent (8%) of Compensation will not be matched.

Notwithstanding the foregoing, in no event will a Grandfathered Choice Participant receive a Company Match Credit, that when combined with any company match made to the Associated Plan for the same pay period, will be more than three percent (3%) of Compensation for a given pay date (or for all other Participants, more than six percent (6%) of Compensation for a given pay date) and no Company Match Credit shall be made with respect to Elective Deferral Credits added to the Participant's Account to reflect deferrals of Annual Incentive Pay made under the ELECTION APPLIED AGAINST ANNUAL INCENTIVE PAY FOR CERTAIN PARTICIPANTS SECTION of this Article.

An additional Company Match Credit may be added to the Account of a Participant who is an Active Participant on the last day of the Plan Year or a Participant that had a Separation from Service during the Plan Year after attaining age 57. The amount of any additional Company Match Credit shall be determined under (a) or (b) above, as applicable, but based on the Participant's Elective Deferral Credits made for the Plan Year (and not by pay period) and offset by Company Match Credits already made to the Participant's Account for the Plan Year.

### **SECTION 3.03 — EMPLOYER DISCRETIONARY CREDITS**

The Company or a Participating Controlled Group Member may make Employer Discretionary Credits to the Account of an Active Participant as determined each Plan Year by the Company or a Participating Controlled Group Member.

### **SECTION 3.04 — TRANSFER CREDITS**

In the case of a Participant who also was a participant in The Principal Nonqualified Defined Contribution Plan for Designated Participants, a Transfer Credit will be added to the Account of such Participant to reflect a

transfer of any balance from such plan to this Plan made pursuant to the terms of such plan or at the direction of the Company.

### **SECTION 3.05 — ACCOUNTS**

Accounts will be maintained under the Plan on behalf of each Participant to separately reflect amounts attributable to:

- (a) Elective Deferral Credits under the ELECTIVE DEFERRAL CREDITS SECTION of this Article;
- (b) Company Match Credits under the COMPANY MATCH CREDITS SECTION of this Article;(c) Employer Discretionary Credits under the EMPLOYER DISCRETIONARY Section of this Article, and
- (d) Transfer Credits under the TRANSFER CREDITS SECTION of this Article.

Account balances will be expressed in United States Dollars.

Accounts are for bookkeeping purposes only and the maintenance of Accounts will not require any segregation of assets of the Company or any Participating Controlled Group Member. Neither the Company nor any Participating Controlled Group Member will have any obligation whatsoever to set aside funds for the Plan or for the benefit of any Participant or Beneficiary, and no Participant or Beneficiary will have any rights to any amounts that may be set aside other than the rights of an unsecured general creditor of the Company or Participating Controlled Group Member that employs (or employed) the Participant.

## **ARTICLE IV**

### **EARNINGS CREDITS**

#### **SECTION 4.01 — ADJUSTMENT TO REFLECT EARNINGS CREDITS**

Accounts will be adjusted (increased or decreased) as of each Valuation Date to reflect earnings credits as determined under the EARNINGS CREDITS SECTION of this Article.

#### **SECTION 4.02 — EARNINGS CREDITS**

Earnings credits will be determined based on the performance of one or more investment options deemed to be available under the Plan.

The Company, in its sole discretion, will determine the investment options that will be available as benchmarks for determining the earnings credit, which may include mutual funds, common or commingled investment funds, group annuity contracts or any other investment option deemed appropriate by the

Company, and will include a fund that invests (or is deemed to invest) in Common Stock. The Company may at any time and from time to time add to, remove from or substitute the investment options deemed to be available under the Plan.

A Participant (or Beneficiary following the death of the Participant) will be allowed on a hypothetical basis to direct the investment of his Account among the investment options available under the Plan. Hypothetical investment directions may be given with such frequency as is deemed appropriate by the Company, and must be made in such percentage or dollar increments, in such manner and in accordance with such rules as may be prescribed for this purpose by the Company (including by means of a voice response or other electronic system under circumstances so authorized by the Company). If an investment option has a loss, the earnings credit attributable to such investment option will serve to reduce the Account; similarly, if an investment option has a gain, the earnings credit attributable to such investment option will serve to increase the Account. If the Participant fails to elect an investment option, the earnings credit will be based on such "default" investment option as may be selected for this purpose by the Company.

Earnings credits (both increase and reductions) will be reflected through the date of payment as provided in the TIME OF DISTRIBUTION SECTION of Article VII.

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An Account is subject to any minimum guarantees applicable under a group annuity contract or other investment arrangement.

#### **SECTION 4.03 — HYPOTHETICAL INVESTMENTS**

All investment directions of a Participant or Beneficiary will be on a "hypothetical" basis for the sole purpose of establishing the earnings credit for his Account — that is, the Account will be adjusted for earnings credits as if the Account were invested pursuant to the investment directions of the Participant or Beneficiary, but actual investments need not be made pursuant to such directions. However, the Company, in its sole discretion and without any obligation, may direct that investments be made per the investment directions of Participants and Beneficiaries in order to hedge the liability of the Company and Participating Controlled Group Members.

If the Company directs that investments actually be made in Common Stock to hedge liability, any transactions costs (brokerage fees and commissions) on purchases and sales of Common Stock will be charged to the Participant's Account.

#### **SECTION 4.04 — DURATION OF INVESTMENT CONTROL**

A Participant will be allowed to direct investments on a hypothetical basis until his Account is paid as a lump-sum measured under the CALCULATION OF LUMP-SUM OR INSTALLMENT PAYMENTS SECTION of Article VI or converted to an annuity under the CALCULATION OF ANNUITY PAYMENTS SECTION of Article VI, or throughout the installment period as provided in the CALCULATION OF LUMP-SUM OR INSTALLMENT PAYMENTS SECTION of Article VI.

#### **SECTION 4.05 — EXPENSES**

The Administrator, in its sole discretion, may reduce a Participant's Account to reflect the Participant's proportional share of expenses related to administration of the Plan.

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### **ARTICLE V**

#### **DISTRIBUTION EVENTS**

##### **SECTION 5.01 — UNFORESEEABLE EMERGENCY WITHDRAWALS**

A Participant may make a withdrawal from his Account in the event of an unforeseeable emergency. Such withdrawal will be paid in a single lump-sum payment as soon as administratively practicable after the withdrawal request is received by the Company and the Company, in its sole discretion, has determined that the Participant has an unforeseeable emergency within the meaning of the Plan.

The Elective Deferral Credits of the Participant will automatically stop in the event of an unforeseeable emergency withdrawal. The Participant will be allowed to file an election to defer Compensation during the annual election period that next follows the unforeseeable emergency withdrawal. Such election will be effective for the Plan Year following the Plan Year in which the unforeseeable emergency withdrawal occurred.

A Participant will be allowed to direct the hypothetical investments from which an unforeseeable emergency withdrawal is deemed to be drawn or, in the absence of an affirmative designation, the withdrawal will be deemed to be drawn on a pro-rata basis from the various investments of the Account.

An "unforeseeable emergency" for this purpose means a severe financial hardship resulting from an illness or accident of the Participant or his spouse or dependents (which the Participant certifies as satisfying the standards of Code § 152, without regard to subsections (b) (1), (b) (2) and (d) (1) (B)), property casualty loss to the Participant, or other similar extraordinary and unforeseeable circumstances of the Participant arising as a result of events beyond the control of the Participant, which is not covered by insurance and may not be relieved by reimbursement or compensation from insurance or otherwise, by the liquidation of other assets (provided that such liquidation would not cause an unforeseeable emergency), or by cessation of deferrals under the Plan, and which is determined, based on the relevant facts and circumstances, to qualify as an unforeseeable emergency under Code § 409A. Cash needs arising from foreseeable events such as the purchase of a residence or education expenses for children will not, alone, be considered an unforeseeable emergency.

The amount available from a Participant's Accounts on account of an unforeseeable emergency is limited to the amount necessary to satisfy such hardship, plus amounts necessary to pay any taxes anticipated to result from the distribution, as determined by the Company.

##### **SECTION 5.02 — DISTRIBUTION EVENTS**

A Participant's Account will be distributed upon the first of the following distribution events to occur:

- (a) Mandatory Distribution. A Participant's Account becomes payable on the date he attains age sixty-five (65).
- (b) Separation from Service Distribution. A Participant's Account becomes payable on the date he incurs a Separation from Service.
- (c) Disability Distribution. In the event of Disability a Participant's Account will be payable twenty-nine (29) months following the date he becomes Disabled if the Participant becomes Disabled prior to January 1, 2010. Disability will not be a distribution event if a Participant becomes Disabled on or after January 1, 2010.
- (d) Death Distribution. A Participant's Account becomes payable upon death as provided in Article VI.
- (e) Change of Control Distribution. A Participant's Account becomes payable upon a Change of Control.

Unless another distribution event listed above has already occurred, a Participant will receive a Fixed Date Distribution, which means the distribution of all or a portion of his Account on a date he specifies; *provided that*, the date specified must be prior to the date on which he attains age sixty-five (65) and subject to the following:

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- (a) A Participant may elect to have a percentage of his Elective Deferral Credits and/or his Employer Credits allocated to the portion of his Account to be distributed as a Fixed Date Distribution. Such election must be made pursuant to the INITIAL ENROLLMENT SECTION of Article II and the ELECTIVE DEFERRAL CREDITS SECTION of Article III;
- (b) The percentage of a Participant's Elective Deferral Credits and/or Employer Credits not allocated to the portion of his Account to be distributed as a Fixed Date Distribution will be allocated to the portion of his Account to be distributed upon the occurrence of any other distribution event, as provided in this section;
- (c) Annually, and pursuant to the ELECTIVE DEFERRAL CREDITS SECTION of Article III, a Participant may modify the percentage of his Elective Deferral Credits and/or Employer Credits to be allocated to the portion of his Account to be distributed as a Fixed Date Distribution;
- (d) Notwithstanding any other provision in the Plan, and subject to subsection (e) below, in no event shall a Participant be permitted to allocate any percentage of his Elective Deferral Credits or Employer Credits to the portion of his Account to be distributed as a Fixed Date Distribution, to the extent such Elective Deferral Credits and/or Employer Credits are allocated to his Account in the Plan Year that contains the specified date of the Fixed Date Distribution;
- (e) Notwithstanding subsection (d) above, to the extent a Participant has elected to defer any percentage of his Elective Deferral Credits and/or Employer Credits to the portion of his Account to be distributed as a Fixed Date Distribution, either affirmatively or by operation of the REENROLLMENT FOLLOWING A BREAK IN ELIGIBILITY SECTION of Article II or the ELECTIVE DEFERRAL CREDITS SECTION of Article III, and such amount is allocated to his Account in the Plan Year that contains the specified date of the Fixed Date Distribution, any portion that would otherwise have been allocated to the portion of his Account to be distributed as a Fixed Date Distribution, will instead be allocated to the portion of his Account that will be distributed upon the occurrence of any other distribution event, as provided in this section; and
- (f) A Participant may have no more than one (1) Fixed Date Distribution outstanding at any given time.

The distribution may be delayed if the Participant is a Specified Employee as provided in Article VII.

#### **SECTION 5.03 — ACCELERATION UPON CHANGE OF CONTROL**

If a Change of Control occurs while a Participant is receiving installment or annuity payments (or is scheduled to commence such payments) and the Participant had elected a more rapid payment schedule to apply in the event of a Change of Control (for example, a lump-sum payment), the more rapid payment schedule will apply following the Change of Control. The lump-sum or annuity payable following a Change of Control will be the actuarial equivalent of the remaining payments due in the annuity payment form then being paid.

For this purpose, actuarial equivalence will be determined using the following actuarial assumptions: Interest — the long-term rate of return most recently used by the Company for purposes of calculating pension expense under Financial Accounting Standards No. 87 (or applicable successor standards issued by FASB); Mortality — UP94, Projected to 2008 with Scale AA and blended 50/50.

#### **SECTION 5.04 — CASH-OUT OF SMALL ACCOUNTS**

If the balance of the Participant's Accounts under this Plan does not exceed the applicable dollar amount then in effect under Code § 402(g)(1)(B) as of the distribution date then the Participant will be paid the full balance of his Accounts in a single-sum distribution in full settlement of all obligations under the Plan. Also, if the balance (or remaining balance) of a Participant's Accounts, together with his interest under all Aggregated Plans does not exceed the applicable dollar amount then in effect under Code § 402(g)(1)(B) as of the scheduled distribution date or any date thereafter then the Company may in its sole and absolute discretion direct that the Participant be paid the balance of his Accounts under this Plan, plus his entire interest under all Aggregated Plans, in a single-sum distribution in full settlement of all obligations under the Plan and such other plans.

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### **ARTICLE VI**

#### **DISTRIBUTION OPTIONS**

## **SECTION 6.01 — FORM OF DISTRIBUTION**

A Fixed Date Distribution will be paid as a single lump-sum payment.

A Participant may elect to receive a distribution, other than a Fixed Date Distribution, in any of the following forms (subject to the CASH-OUT OF SMALL ACCOUNTS SECTION of Article V):

- (a) A single lump-sum payment.
- (b) A series of monthly installments over a period of either sixty (60) or one-hundred and twenty (120) months, as elected by the Participant.
- (c) An annuity, the form of which will be elected at the time a distribution event occurs from among one of the following actuarially equivalent payment forms:
  - (i) A single life annuity, with an installment refund feature;
  - (ii) A single life annuity with a term-certain period of sixty (60), one-hundred and twenty (120) or one-hundred and eighty (180) months, as elected by the Participant;
  - (iii) A joint and survivor annuity, with an installment refund feature, with a survivor percentage of fifty percent (50%), sixty-six and two-thirds percent (66-2/3%) or one-hundred percent (100%), as elected by the Participant.

If an annuity is elected, and at the time a distribution event occurs, the Participant fails to elect the form of annuity, the distribution shall be paid in a form of annuity determined as follows:

- (a) If the Participant is married at the time a distribution event occurs, the form of annuity shall be a joint and survivor annuity, with an installment refund feature, with a survivor percentage of fifty percent (50%).
- (b) If the Participant is single at the time a distribution event occurs, the form of annuity shall be a single life annuity, with an installment refund feature.

## **SECTION 6.02 — CALCULATION OF LUMP-SUM OR INSTALLMENT PAYMENTS**

The amount of the single lump-sum cash payment will be determined based on the applicable portion of the Participant's Account balance as of the actual date of distribution from the Plan.

The amount of the monthly installments will be determined by dividing a Participant's Account as of the scheduled payment date by the scheduled number of installments. The number of monthly installments will be reduced as necessary if the balance of the Accounts is not sufficient to support all scheduled payments (in the event of investment losses). The final monthly payment will be enhanced as necessary to fully distribute the balance of the Participant's Accounts (in the event of investment gains).

The installment payment stream will be treated as a single payment (made at the first scheduled payment date) for purposes of Code § 409A.

## **SECTION 6.03 — CALCULATION OF ANNUITY PAYMENTS**

To determine the amount of any annuity payments to a Participant, the balance of his Account will be converted to an annuity using interest and mortality assumptions deemed reasonable by the Company (the same assumptions will apply with respect to all annuity payment forms). The annuity payments will be calculated using the Account balance on the date of such conversion.

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Each annuity option described above with an installment refund feature will provide that if the balance of the Account used to derive the annuity payments (without interest or adjustments) exceeds the aggregate amount of the payments under the annuity, monthly payments will be paid as a death benefit under the SURVIVOR BENEFITS SECTION of this Article until the aggregate payments to the Participant and Beneficiary equals such balance of the Account.

The annuity payment stream will be treated as a single payment (made at the first scheduled payment date) for purposes of Code § 409A.

## **SECTION 6.04 — DISTRIBUTION ELECTION PROCEDURES**

An election regarding the form of payment under the Plan must be made in such manner and in accordance with such rules as may be prescribed for this purpose by the Company. A distribution election will be effective only if it is received in properly completed form by the Company as part of the Participant's first enrollment in the Plan, and will be irrevocable after the expiration of the initial enrollment period; *except that*, a Participant who has elected an annuity may elect an annuity form of payment prior to the distribution date.

With respect to distribution elections made prior to January 1, 2014, a Participant was allowed a separate payment form election to apply in the case of each event specified in the DISTRIBUTION EVENTS SECTION of Article V. Further, with respect to each event specified in the DISTRIBUTION EVENTS SECTION of Article V (other than a Fixed Date Distribution), a Participant was allowed to specify a different payment form that will apply if the event occurs before or after an age specified by the Participant as part of his election.

With respect to distribution elections made after December 31, 2013, a Participant will be allowed a separate payment form election to apply in the case of each event specified in the DISTRIBUTION EVENTS SECTION of Article V. Further, with respect to a Participant's Separation from Service Distribution election, a Participant will be allowed to specify a different payment form that will apply if the Separation from Service occurs before or after an age specified by the Participant as part of his election.

In accordance with the requirements and procedures prescribed by the Company, a Participant may elect to defer payment (one time only with respect to each distribution event specified in the DISTRIBUTION EVENTS SECTION of Article V), *provided that*:

- (a) The election to defer must be received in properly completed form by the Company at least twelve (12) months prior to the distribution event; and
- (b) The deferral must be for at least five (5) years from the originally scheduled payment date provided that this requirement will not apply to an election to defer payment upon death.

Notwithstanding the timing requirements that would otherwise apply above, a Participant may change his form of payment election from any of the options specified in the FORM OF DISTRIBUTION SECTION of this Article provided that the Participant makes a new payment election by December 31, 2008. Any election made during the period from January 1, 2008, through December 31, 2008, will apply only to amounts that would not otherwise be payable in 2008, and will not apply to the extent that the election change would cause an amount to be paid in 2008 that would not otherwise be payable in 2008.

#### **SECTION 6.05 — DEFAULT ELECTIONS**

If a Participant fails to file a timely election as to the form of distribution, the distribution will be made in the form of a single lump-sum distribution of the full balance of the Account determined as of the date of actual payment from the Plan.

#### **SECTION 6.06 — SURVIVOR BENEFITS**

If a Participant dies prior to the full distribution of his Account, his Beneficiary will be entitled to the following survivor benefit under the Plan:

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- (a) If the Participant dies while receiving installment payments, such installments will continue to his Beneficiary over the same period such installments would have been paid to the Participant;
- (b) If the Participant dies while receiving annuity payments, benefits will be paid to his Beneficiary pursuant to the form of annuity payout being made under the Plan; or
- (c) Otherwise, if the Participant dies prior to payment (or commencement) of a benefit under this Article, the survivor benefit will be paid according to the method elected by the Participant or, if the Participant has not made an election, in a single lump-sum payment.

The survivor benefit will be paid (or start to be paid) to the Beneficiary on the death of the Participant consistent with Section 7.01.

### **ARTICLE VII**

#### **TIMING OF DISTRIBUTION**

#### **SECTION 7.01 — TIME OF DISTRIBUTION**

The Company, in its sole discretion, if it deems it necessary or appropriate for administrative reasons, may defer any payment to a date later than the scheduled payment date within the calendar year or, if later, to the fifteenth (15<sup>th</sup>) day of the third calendar month following the scheduled payment date, without adjustment for deferred payment of any installment or annuity. Earnings credits (both increase and reductions) will be reflected through the date of payment as provided above.

#### **SECTION 7.02 — SPECIFIED EMPLOYEE**

A distribution made due to a Separation from Service of a Participant who is a Specified Employee on the Separation from Service date will not under any circumstances be made prior to the first business day that is six (6) months and one (1) day following the Participant's Separation from Service, except in the case of an intervening death of the Participant as provided in Article VI. However, this delayed payment requirement does not apply to any distribution event other than Separation from Service. In the event of a delayed payment to a Specified Employee, the first day of the calendar month following the Participant's Separation from Service will be treated as the "scheduled payment date" or "date of determination" for purposes of calculating any benefit under this Plan, and the first payment made as of the first business day that is six (6) months and one (1) day following the Participant's Separation from Service will include any catch-up payment of all monthly payments, if applicable, that would have been made to the Participant (without any adjustment for interest or earnings) from the first day of the calendar month following the Participant's Separation from Service.

#### **SECTION 7.03 — DISTRIBUTIONS PURSUANT TO A DOMESTIC RELATIONS ORDER**

The Plan permits the benefits actually payable to a Participant to be divided with a spouse or former spouse of the Participant who meets the definition of alternate payee under ERISA § 206(d) provided that the Company determines that the domestic relations order meets the criteria of a qualified domestic relations order, as defined in ERISA § 206(d). Such domestic relations order may provide for a distribution to an alternate payee prior to payment (or commencement) of a benefit to a Participant, or while installment payments are being paid, in the form of a single lump sum payment. The Company's determination that a domestic relations order meets the requirements of ERISA § 206(d) will result in a distribution event and a lump sum payment for the alternate payee and the timing requirements of Section 7.01 will apply. However, once an annuity form of benefit has commenced, the alternate payee shall not be able to receive a separate interest, and will have a shared interest in the Participant's benefit as provided by the domestic relations order, consistent with the form of measuring life used for the annuity.

The Company will establish reasonable procedures to determine whether a domestic relations order meets the criteria of ERISA § 206(d). Upon receiving a domestic relations order, the Company promptly will notify the Participant and an alternate payee named in the order, in writing, of the receipt of the order and the Plan's procedures for determining the status of the order. Within a reasonable period of time after receiving the domestic relations order, the Company will determine the status of the order and will notify the Participant and each alternate payee, in writing, of its determination. The Company will provide notice under this paragraph by

mailing to the individual's address specified in the domestic relations order.

If any portion of the Participant's benefit under this Plan is payable during the period the Company is making its determination of the status of the domestic relations order, a separate accounting will be made of the amount payable. If the Company determines the order is a domestic relations order within the criteria of ERISA § 206(d) within the calendar year in which amounts are first payable following receipt of the order or, if later, before the fifteenth (15<sup>th</sup>) day of the third calendar month following the scheduled payment date, the payable amounts will be distributed in accordance with the order. If the Company does not make its determination of the status of the order within such period, the payable amounts will be distributed in the manner the Plan would distribute if the order did not exist and the order will apply prospectively if the Company later determines the order meets the criteria of ERISA § 206(d).

The Plan will make payments or distributions required under this section by separate benefit checks or other separate distribution to the alternate payee and report the payments accordingly, provided however, that the Company may report distributions as income to the Participant for federal income tax and/or Social Security or other withholding purposes as it determines to be consistent with the requirements of the Code.

#### **SECTION 7.04 — RIGHT OF OFFSET**

Notwithstanding any other provisions of this Plan, the Company reserves the right to withhold and setoff from any distribution or payment that is due and payable to a Participant or Beneficiary under the Plan any amount owed to the Company or any Controlled Group Member by the Participant, whether such obligation is matured or not matured and however arising, at the time of (and with priority over) any such distribution or payment to the extent that the retention or exercise of such right does not have adverse tax consequences to the Participant or Beneficiary under Code § 409A. Further, the Company reserves the right to withhold and setoff from the Participant's Account (even if a payment or distribution is not then due and payable) any amount owed to the Company or any Controlled Group Member by the Participant as satisfaction of such obligation of the Participant, where such obligation is incurred in the ordinary course of the service relationship between the Participant and the Company or Controlled Group Member, the amount of reduction in any of the Company's or Controlled Group Member's taxable years does not exceed five-thousand dollars (\$5,000), and the entire reduction is made at the same time and in the same amount as the obligation otherwise would have been due and collected from the Participant.

#### **SECTION 7.05 — DELAY OF PAYMENT UNDER CERTAIN CIRCUMSTANCES**

Any payment due under the Plan as of a distribution event specified in the DISTRIBUTION EVENTS SECTION of Article V may be delayed at the discretion of the Company to the extent that the Company reasonably anticipates that if the payment were made as scheduled:

- (a) a deduction with respect to such payment would not be permitted to Principal Financial Group due to the application of Code § 162(m). The payment will be made during the taxable year in which the Company reasonably anticipates or should reasonably anticipate that if the payment is made during such year, the deduction of such payment will be deductible under Code § 162(m); or
- (b) the making of the payment will violate federal securities laws or other applicable law. The payment will be made at the earliest date at which the Company reasonably anticipates that the making of the payment will not cause such violation.

Any payment so delayed will be deemed to have been paid in accordance with this Article (including any delay specified therein in the case of a Specified Employee).

### **ARTICLE VIII**

#### **ADMINISTRATION OF PLAN**

#### **SECTION 8.01 — ADMINISTRATION**

The Company is the administrator of the Plan with authority to control and manage the operation and

administration of the Plan and make all decisions and determinations incident thereto. Action on behalf of the Company as administrator may be taken by any of the following:

- (a) **Board or its Human Resources Committee.** The Board or its Human Resources Committee is responsible for overseeing, generally, and performing nondiscretionary functions with respect to the Plan, except to the extent such authority has been delegated to a Company committee. The Human Resources Committee is responsible for recommending to the Board the amendment of the Plan, except that appropriate officers of the Company are authorized to make amendments to the Plan on an ongoing basis as they deem advisable to facilitate the administration of the Plan without substantially altering the level of benefits provided or the cost of the Plan to the Company, or to conform the Plan to applicable laws or regulations; provided such amendments are reviewed by the Corporate Management Committee.
- (b) **Corporate Management Committee.** The Corporate Management Committee of the Company is responsible for receiving reports and reviewing the recommendations of the Human Resources Department staff and to recommend any amendment of the Plan. The Corporate Management Committee is responsible for acting as required by the Plan and reporting such actions to the Chief Executive Officer of the Company and to the Human Resources Committee, as required by either.
- (c) **Benefit Plans Investment Committee.** The Benefit Plans Investment Committee of the Company is responsible for all investment matters relating to the Plan, including the investment of assets that may (but are not required to be) set aside to hedge liabilities resulting from the Plan, and actual investment of the rabbi trust, including the selection and monitoring of investment providers (including the trustee of the rabbi trust) with respect to the Plan. Members of the Benefit Plans Investment Committee will be appointed by the Chief Executive Officer of the Company.

Day-to-day administrative duties with respect to the Plan will be performed by the Human Resources Department.

### **SECTION 8.02 — CORRECTION OF ERRORS AND DUTY TO REVIEW INFORMATION**

Errors may occur in the operation and administration of the Plan. The Company reserves the right to cause such equitable adjustments to be made to correct for such errors as it considers appropriate (including adjustments to Participant or Beneficiary Accounts), which will be final and binding on the Participant or Beneficiary.

Each Participant and Beneficiary has the duty to promptly review any information that is provided or made available to the Participant or Beneficiary and that relates in any way to the operation and administration of the Plan or his elections under the Plan (for example, to review payroll stubs to make sure a contribution election is being implemented appropriately, to review benefit statements to make sure investment elections are being implemented appropriately, to review Plan booklets, prospectuses, etc.) and to notify the Company of any error made in the operation or administration of the Plan that affects the Participant or Beneficiary within a reasonable period of time after such information is provided or made available to the Participant or Beneficiary (for example, the date the information is sent by mail or the date the information is provided or made available electronically). If the Participant or Beneficiary fails to review any information or fails to notify the Company of any error within such reasonable period of time, he will not be able to bring any claim seeking relief or damages based on the error. If the Company is notified of an alleged error within a reasonable period of time, the Company will investigate and either correct the error or notify the Participant or Beneficiary that it believes that no error occurred. If the Participant or Beneficiary is not satisfied with the correction (or the decision that no correction is necessary), he may file a formal claim under the claims procedures under the CLAIMS PROCEDURES SECTION of this Article.

### **SECTION 8.03 — CLAIMS PROCEDURES**

If a Participant or Beneficiary does not feel as if he has received full payment of the benefit due such person under the Plan, the Participant or Beneficiary may file a written claim with the Company setting forth the nature of the benefit claimed, the amount thereof, and the basis for claiming entitlement to such benefit. The Vice President of Human Resources will ordinarily determine the validity of and communicate a decision regarding

the claim within ninety (90) days after the date of the claim. If additional information is necessary to make a determination on a claim, the claimant will be advised of the need for such additional information within forty-five (45) days after the date of the claim. The claimant will have up to one hundred and eighty (180) days to supplement the claim information, and the claimant will be advised of the decision on the claim within forty-five (45) days after the earlier of the date the supplemental information is supplied or the end of the one hundred and eighty (180) day period. A claim is considered approved only if its approval is communicated in writing to the claimant.

A claim for benefits which is denied will be denied by written notice setting forth in a manner calculated to be understood by the claimant:

- (a) The specific reason or reasons for the denial, including a specific reference to any provisions of the Plan (including any internal rules, guidelines, protocols, criteria, etc.) on which the denial is based;
- (b) A description of any additional material or information that is necessary to process the claim; and
- (c) An explanation of the procedure for further reviewing the denial of the claim and applicable time limits, including a statement of the claimant's right to bring a civil action under ERISA § 502(a) following an adverse benefit determination on review.

Within sixty (60) days after the receipt of a denial on a claim, a claimant or his authorized representative may file a written request for an appeal of such denial. Such appeal will be undertaken by the most senior Human Resources Leader of the Company and will be a full and fair review. The claimant will have the right to review all pertinent documents. If the claimant fails to file an appeal within 60 days of receipt of the denial on a claim, the claim will be deemed abandoned and the claimant precluded from reasserting it.

The most senior Human Resources Leader of the Company will issue a decision not later than sixty (60) days after receipt of the appeal request from a claimant unless special circumstances, such as the need to hold a hearing, require a longer period of time, in which case a decision will be rendered as soon as possible but not later than one hundred and twenty (120) days after receipt of the claimant's appeal request. The decision on appeal will be in writing in a manner calculated to be understood by the claimant and will clearly set forth:

- (a) The specific reason or reasons for the adverse determination, including a specific reference to any provisions of the Plan (including any internal rules, guidelines, protocols, criteria, etc.) on which the denial is based;
- (b) A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits; and
- (c) A statement describing any voluntary appeal procedures offered by the Plan and the claimant's right to obtain the information about such procedures, as well as a statement of the claimant's right to bring an action under ERISA § 502(a).

Decisions reached under these claims and appeals procedures shall be binding on all parties, including any Beneficiary or other person claiming through a Participant. Any legal action for benefits under the Plan may not be brought unless and until the claimant has exhausted his remedies under these procedures. In any such legal action, the claimant may be allowed to only present evidence and theories which the claimant presented during the claims and appeals process. Any claims which the claimant does not in good faith pursue through the appeal stage of the procedure may be treated as having been irrevocably waived.

Any suit or legal action initiated by a claimant under the Plan must be brought by the claimant no later than one year following a final decision on the appeal by the most senior Human Resources Leader of the Company. The one-year limitation on suits for benefits will apply in any forum where a claimant initiates such suit or legal action.

under Code § 409A in a more timely manner than is required under this CLAIMS PROCEDURES SECTION.

Claims for benefits upon a Disability shall be determined in accordance with the rules for determining disability claims under DOL Regulation §2560.503-1, which hereby incorporated by reference.

#### **SECTION 8.04 — INDEMNIFICATION**

Each officer or employee responsible for the administration or operation of the Plan will be subject to the Company's indemnity policy for employees and officers, adopted by the Board in Resolution No. 3153, or as such shall be amended or replaced from time to time. Accordingly, and as provided in such resolution, each officer or employee will be indemnified by the Company against all damages, awards, costs and expenses, including counsel fees reasonably incurred or imposed in connection with, or resulting from, any action, suit or proceeding or the settlement thereof prior to final adjudication, to which the officer or employee is or may be made a party by reason of providing services to the Plan, whether or not the individual is an officer or employee at the time such costs or expenses are incurred or imposed. In order to receive this indemnity, the action, suit or proceeding may not be settled unless the Company's Chief Executive Officer or General Counsel determines such settlement was in the best interests of the Company; or in such action, suit or proceeding, there is a final adjudication of liability, which is not based upon acts that constitute gross negligence or willful misconduct on the officer or employee's part in the performance of his or her duties with respect to the Plan.

#### **SECTION 8.05 — EXERCISE OF AUTHORITY**

The Company, the Corporate Management Committee, the Benefit Plans Investment Committee, and any other person or body who has authority with respect to the management, administration or investment of the Plan may exercise that authority in its/his full discretion. This discretionary authority includes, but is not limited to, the authority to make any and all factual determinations and interpret all terms and provisions of this document (or any other document established for use in the administration of the Plan) relevant to the issue under consideration. The exercise of authority will be binding upon all persons; and it is intended that the exercise of authority be given deference in all courts of law to the greatest extent allowed under law, and that it not be overturned or set aside by any court of law unless found to be arbitrary and capricious.

#### **SECTION 8.06 — TELEPHONIC OR ELECTRONIC NOTICES AND TRANSACTIONS**

Any notice that is required to be given under the Plan to a Participant or Beneficiary, and any action that can be taken under the Plan by a Participant or Beneficiary (including enrollments, changes in deferral percentages, withdrawals, distributions, investment changes, consents, etc.), may be by means of voice response, Internet, or other electronic system to the extent so authorized by the Company.

#### **SECTION 8.07 — REIMBURSEMENT OF LEGAL FEES**

If a Participant's or Beneficiary's claim for benefits under this Plan is denied pursuant to the CLAIMS PROCEDURES SECTION of this Article, the Company will be required to reimburse a Participant or Beneficiary who files a suit against the Company and prevails. Any such reimbursement of legal fees shall otherwise be made no later than the March 15<sup>th</sup> immediately following the year the Participant or Beneficiary obtains the right to reimbursement which is no longer subject to a substantial risk of forfeiture.

#### **SECTION 8.08 — TRUSTEE CONTROL UPON COMMENCEMENT OF BENEFIT PAYMENTS**

Upon the commencement of benefit payments under this Plan, the Company will provide the trustee of a rabbi trust, which may be used as a funding vehicle for the benefits due under the Plan, with written directions regarding the time and form of payments due to each Participant pursuant to this Plan. Any directions provided by the Company to the trustee will be irrevocable except to the extent the Company has provided the trustee with satisfactory evidence that:

- (a) the schedule provided by the Company contains an error with respect to the amount or time of payment to the Participant (in which case the Company will correct the error);

- (b) the payment due to the Participant has been paid directly by the Company or a Controlled Group Member;
- (c) the Company has a right of setoff against a scheduled payment under the RIGHT OF OFFSET SECTION of Article VII which cannot be satisfied from any other source; or
- (d) the Participant has engaged in felony conduct detrimental to the business of the Company.

The trustee will be obligated to follow a direction on file with it only to the extent of the assets held in the trust, and the trustee will have no obligation to seek funding of the trust from the Company or any Controlled Group Member.

### **ARTICLE IX**

#### **CONTRACTUAL OBLIGATIONS AND FUNDING**

#### **SECTION 9.01 — CONTRACTUAL OBLIGATIONS**

The Plan creates a contractual obligation on the part of the Company and each Participating Controlled Group Member to provide benefits as set forth in the Plan with respect to:

- (a) Participants who are employed with the Company or that Participating Controlled Group Member;
- (b) Participants who were employed with the Company or that Participating Controlled Group Member prior to Separation from Service; and
- (c) Beneficiaries of the Participants described in (a) and (b).

A Participating Controlled Group Member is not responsible for (and has no contractual obligation with respect to) benefits payable to a Participant who is or was employed with the Company or another Participating Controlled Group Member. If a Participant is employed with two or more employers (the Company and a Participating Controlled Group Member, or two or more Participating Controlled Group Members, etc.), either concurrently or at different times, each will be responsible for the benefit attributable to Elective Deferral Credits, Employer Credits and Transfer Credits made with respect to the period while the Participant was employed with that employer, adjusted for earnings credits.

Principal Financial Group and the Company each will guarantee and assume secondary liability for the contractual commitment of each Participating Controlled Group Member under this Section.

In the event an employer ceases to be a Controlled Group Member with respect to the Company by reason of a stock sale, merger or similar corporate transaction involving an unrelated third party, the contractual obligation and liability for benefits that rested with such employer prior to the transaction will be retained by such employer (or its successor in interest) after it ceases to be a Controlled Group Member, unless the employer transfers such contractual obligation and liability with the consent of the affected Participant. For any Participant who remains employed with an employer after it ceases to be a Controlled Group Member by reason of a sale of stock of such employer or its direct or indirect parent company, or similar corporate transaction, a Separation from Service will not have occurred solely as a result of such transaction.

In the event of a sale of substantial assets (such as a location or division, or substantially all assets of a trade or business) of the Company or a Controlled Group Member to an unrelated buyer, the Company or Controlled Group Member and the buyer may, with the consent of the Participant, agree to transfer the contractual obligation and liability for benefits with respect to any Participant who becomes an employee of the buyer or an affiliate of the buyer upon the closing or in connection with such transaction. In such case, if agreed to by both the Company or Controlled Group Member and the buyer, the transaction will not be deemed to constitute a Separation from Service and benefits thereafter will be paid in accordance with the terms of the Plan or a successor plan established by the buyer or an affiliate in a manner consistent with Code § 409A.

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## **SECTION 9.02 — FUNDING**

The Company has established a “rabbi” trust to serve as a funding vehicle for benefits payable under the Plan. However, neither the Company nor any Controlled Group Member will have any obligation to fund such trust.

Neither the Company nor any Controlled Group Member will transfer or contribute any funds to any rabbi trust during any “restricted period,” as defined in Code § 409A(b)(3)(B). If any funds are transferred or contributed during a restricted period and the Company certifies in writing that such transfer or contribution was disallowed under this provision, the funds will be deemed to have been transferred or contributed under a mistake of fact and will be returned to the Company or the Controlled Group Member, along with any earnings allocable to such funds, regardless of whether the rabbi trust’s terms establish it as revocable or irrevocable. Further, the assets of any rabbi trust hereby established will not be held or transferred outside of the United States, and the trust will not have any other feature that would result in a transfer of property being deemed to have occurred under Code § 409A (for example, there will be no funding obligation or restrictions on assets in connection with a change in financial health of the Company or any Controlled Group Member).

The establishment and funding of the rabbi trust will not affect the contractual obligations of the Company and Participating Controlled Group Members under the CONTRACTUAL OBLIGATIONS SECTION of this Article, except that such obligations with respect to any Participant or Beneficiary will be offset to the extent that payments are actually made from the trust to such Participant or Beneficiary. In the case of any transfer of contractual obligations outside of the Controlled Group Members (including by sale of the stock of a Controlled Group Member such that it no longer remains such) under the CONTRACTUAL OBLIGATIONS SECTION of this Article, the parties may arrange for a transfer of assets to a rabbi trust maintained by the buyer or an affiliate of the buyer.

Any rabbi trust used to fund benefits payable under this Plan may be used to fund benefits payable under any other non-qualified deferred compensation plan maintained by the Company or a Participating Controlled Group Member, whether existing or established in the future.

## **ARTICLE X**

### **GENERAL PROVISIONS**

#### **SECTION 10.01 — AMENDMENT AND TERMINATION**

The Company has the right to amend this Plan. A Participating Controlled Group Member does not have the right to amend the Plan. The Plan can be amended or terminated at any time and for any reason by action of the following:

- (a) The Board or the Human Resources Committee of the Board can terminate the Plan or adopt any amendment to the Plan, and any amendment that has a material negative cost effect on the Company is reserved to the Board or its Human Resources Committee.
- (b) Appropriate officers of the Company are authorized to make amendments to the Plan on an ongoing basis as they deem advisable to facilitate the administration of the Plan without substantially altering the level of benefits provided or the cost of the Plan to the Company, or to conform the Plan to applicable laws or regulations; provided such amendments are reviewed by the Corporate Management Committee.

No action by any person, body or committee with amendment authority will constitute an amendment to the Plan unless it is expressly designated as an amendment to the Plan or except as provided in the MODIFICATION BY EMPLOYMENT OR SIMILAR AGREEMENT SECTION of this Article.

The Board, Human Resources Committee, or the appropriate officers generally will determine the effective date of any amendment or termination of the Plan. However, if Code § 409A requires a delayed effective date (for example, if an amendment changes a deferral rule in a way that must be delayed for twelve (12) months), then the amendment will be effective as of the later of the date determined by the Board, Human Resources

Committee, or the appropriate officers, or the earliest effective date allowed under Code § 409A. Also, a termination of the Plan will not be effective to cause a deferral election in place under the Plan for a Plan Year (including for Annual Incentive Pay or bonus for a fiscal year that starts within such Plan Year) to be modified or discontinued prior to the end of such Plan Year (or fiscal year), unless the Plan is terminated and liquidated pursuant to the liquidation termination provisions below.

The Plan may not be amended in a manner that has the effect of reducing the balance or vested percentage of any Participant's or Beneficiary's Accounts. This will not prohibit an amendment that reduces or eliminates the benefit accrued and payable under this Plan and shifts the liability for such benefit to another nonqualified retirement plan maintained by the Company or a Controlled Group Member, or any successor, or an amendment that is required by law or for which the failure to adopt the amendment would have adverse tax consequences to the Participants affected by such amendment (as determined by the Company).

The Board or the Human Resources Committee may terminate the Plan and provide for the acceleration and liquidation of all benefits remaining due under the Plan pursuant to Treas. Reg. Section 1.409A-3(j) (4) (ix). If such a termination and liquidation occurs, all deferrals and credits under the Plan will be discontinued (and all Active Participants will cease to be Active Participants) as of the termination date established by the Board or Human Resources Committee, and benefits remaining due will be paid in a lump-sum at the time specified by the Board or Human Resources Committee as part of the action terminating the Plan and consistent with Treas. Reg. § 1.409A-3(j) (4) (ix). The Board or Human Resources Committee also may terminate the Plan other than pursuant to Treas. Reg. § 1.409A-3(j) (4) (ix). In the event of such other termination, all deferral and credits under the Plan will be discontinued (and all Active Participants will cease to be Active Participants) as of the end of the Plan Year, but all benefits remaining payable under the Plan will be paid at the same time and in the same form as if the termination had not occurred — that is, the termination will not result in any acceleration of any distribution under the Plan.

#### **SECTION 10.02 — MODIFICATION BY EMPLOYMENT OR SIMILAR AGREEMENT**

The Company or a Participating Controlled Group Member may be a party to an employment or similar agreement with a Participant, the terms of which may enhance or modify in some respect the benefits provided under this Plan, including, but not necessarily limited to, an enhancement to or modification of the benefit amount, payment forms and/or other rights and features of the Plan. The Plan consists only of this document and other documents contemplated under this document, but not including such employment or similar agreement. Accordingly, any contractual rights that a Participant may have to any enhancement or modification called for under an employment or similar agreement are rights that derive from such agreement and not directly from the Plan. Nonetheless, the Plan will be applied in a manner that takes into account any enhancements or modifications called for under an enforceable employment or similar agreement as if such provisions were part of the Plan; *provided that*, no change can be made to the Plan by means of an employment or similar agreement that would not have been allowed by means of an amendment to the Plan (for example, an amendment inconsistent with Code § 409A).

#### **SECTION 10.03 — EMPLOYMENT STATUS**

Nothing contained in this Plan gives an Employee in the Eligible Group the right to be retained in the Company's or Controlled Group Member's employ or to interfere with the Company's or Controlled Group Member's right to discharge any Employee.

#### **SECTION 10.04 — RIGHTS TO PLAN ASSETS; TAX CONSEQUENCES**

Neither the Company nor any Controlled Group Member will have any obligation whatsoever to set aside funds for the Plan or for the benefit of any Participant or Beneficiary, and no Participant or Beneficiary will have any rights to any amounts that may be set aside other than the rights of an unsecured general creditor of the Company or Controlled Group Member that employs (or employed) the Participant.

Neither the Company nor any Controlled Group Member is making any representations or promises as to the tax consequences of participation in the Plan. Each Participant (and Beneficiary) shall be solely responsible for such tax consequences.

#### **SECTION 10.05 — BENEFICIARIES**

A Participant may designate any person (natural or otherwise, including a trust) as his Beneficiary to receive the survivor benefit (if any) payable when he dies, and may change or revoke a designation previously made without the consent of any Beneficiary. If a Beneficiary designation is not on file, or if no designated Beneficiary survives the Participant, the Beneficiary will be the person designated by the Participant under the Associated Plan or, in the absence of a designation, the default Beneficiary under the Associated Plan. If a primary Beneficiary becomes entitled to a survivor benefit upon the death of a Participant but dies prior to complete distribution of such benefit, the remaining benefit will be paid to any contingent Beneficiary designated by the Participant, or if there is no surviving contingent Beneficiary, the remaining benefit will be paid to the estate of the primary Beneficiary. .

A Beneficiary designation must be made on such form and in accordance with such rules as may be prescribed for this purpose by the Company. A Beneficiary designation will be effective (and will revoke all prior designations) if it is received by the Company (or if sent by mail, the post-mark of the mailing is) prior to the date of death of the Participant.

#### **SECTION 10.06 — STATEMENTS**

The Company may cause benefit statements to be issued from time to time advising Participants and Beneficiaries of the balance and/or investment of their Accounts, but it is not required to issue benefits statements.

The Company may correct errors that appear on benefit statements at any time, and the issuance of a benefit statement (and any errors that may appear on a statement) will not in any way alter or affect the rights of a Participant or Beneficiary with respect to the Plan. Each Participant or Beneficiary has a duty to promptly review each benefit statement and to notify the Company of any error that appears on such statement within a reasonable period of time after such statement is provided or made available to the Participant or Beneficiary (for example, the date the statement is sent by mail, or the date the statement is provided or made available electronically). If a Participant or Beneficiary fails to review a benefit statement or fails to notify the Company of any error that appears on such statement within a reasonable period of time, he will not be able to bring any claim seeking relief or damages based on the error.

**SECTION 10.07 — NONALIENATION OF BENEFITS**

Benefits payable under the Plan are not subject to the claims of any creditor of any Participant or Beneficiary. A Participant or Beneficiary does not have any rights to alienate, anticipate, commute, pledge, encumber or assign any of such benefits. The preceding sentences will also apply to the creation, assignment, or recognition of a right to any benefit payable with respect to a Participant according to a domestic relations order, except as provided in the DISTRIBUTIONS PURSUANT TO A DOMESTIC RELATIONS ORDER SECTION of Article VII.

**SECTION 10.08 — CONSTRUCTION**

The validity of the Plan or any of its provisions is determined under and construed according to Federal law and, to the extent permissible, according to the laws of the state in which the Company has its principal office. In case any provision of this Plan is held illegal or invalid for any reason, such determination will not affect the remaining provisions of this Plan, and the Plan will be construed and enforced as if the illegal or invalid provision had never been included.

In the event of any conflict between the provisions of the Plan and the terms of any contract or policy issued hereunder, the provisions of the Plan control the operation and administration of the Plan.

**SECTION 10.09 — WORD USAGE**

The masculine gender, where used in this Plan, will include the feminine gender and the singular words as used in this Plan may include the plural, unless the context indicates otherwise.

On behalf of the Human Resources Committee of the Board of Directors of the Company, this Amended and Restated Principal Select Savings Excess Plan for Employees has been executed this 30th day of December, 2015.

By /s/ Tammy DeHaai  
Tammy DeHaai  
Title: Vice President-HR Chief Operating Officer

**ATTACHMENT A**

**PARTICIPATING CONTROLLED GROUP MEMBERS**

Principal International, Inc.	May 25, 1990
Delaware Charter Guarantee & Trust Company	January 1, 1995

**THE PRINCIPAL  
SELECT SAVINGS EXCESS PLAN  
FOR INDIVIDUAL FIELD**

(Amended and Restated Effective January 1, 2016)

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## INTRODUCTION

The Company maintains **THE PRINCIPAL SELECT SAVINGS EXCESS PLAN FOR INDIVIDUAL FIELD** for the benefit of a select group of Agents, who, due to the amount of their compensation, are unable to fully participate in the elective deferral and matching contributions available to the other eligible participants in the Associated Plan.

The Company established The Principal Select Savings Excess Plan on September 1, 1988. That plan was amended from time to time, and was last restated on June 1, 2014. Agents and Field Managers participated in that plan until January 1, 2009, at which point that plan was divided into two plans — The Principal Select Savings Excess Plan for Employees, which covered Employees, and this Plan, which covered Agents and Field Managers through December 31, 2010. Benefits and liabilities accrued under The Principal Select Savings Excess Plan before January 1, 2009, with respect to Agents and Field Managers were transferred to this Plan effective January 1, 2009. Effective January 1, 2011, the Field Managers were moved to The Principal Select Savings Excess Plan for Employees and this Plan now covers only Agents. Benefits and liabilities accrued under this Plan before January 1, 2011, in regard to the Field Managers were transferred into the Principal Select Savings Excess Plan for Employees as of January 1, 2011.

The Plan covers only Agents. The Plan is intended to be a nonqualified plan for purposes of Code § 401. The Plan also is intended to be a nonqualified deferred compensation plan that meets the requirements of paragraphs (2), (3) and (4) of Code § 409A, and the terms and provisions of the Plan should be interpreted and applied in a manner consistent with such requirements, including final Treasury Regulations and other guidance issued under Code § 409A.

This restatement is effective January 1, 2016, and replaces the prior plan document.

## ARTICLE I

### DEFINITIONS

#### SECTION 1.01 — FORMAT

Words and phrases defined in the DEFINITIONS SECTION of this Article will have the defined meaning when used in this Plan, unless the context clearly indicates otherwise. These words and phrases will have an initial capital letter to aid in identifying them as defined terms.

Words and phrases with an initial capital letter that are not defined in the DEFINITIONS SECTION of this Article will have the meaning assigned to such word or phrase under the Associated Plan, unless the context clearly indicates otherwise.

#### SECTION 1.02 — DEFINITIONS

Account means an account established for a Participant pursuant to the ACCOUNTS SECTION of Article III.

Active Participant means an Agent in the Eligible Group who has enrolled in this Plan.

Agent means an individual who holds a current agent contract with a DD 713 addendum or any successor full-time contract with the Company or a Controlled Group Member.

For the purposes of this Plan only, Agent will also include individuals within career distribution who have been classified as “financial representatives” as identified on the Company’s payroll system, and who do not hold an agent contract with a DD 713 addendum.

If the individual is in fact eligible for an agent contract with a DD 713 addendum or a successor full-time contract, or is determined to be a full-time insurance agent for any other purpose, he will not be considered an

Agent unless he is classified by the Company or Controlled Group Member as holding a current agent contract with a DD 713 addendum or successor full-time contract, regardless of whether he is subsequently determined to be an Agent, Field Manager, or Employee for any other purpose.

Aggregated Plan means any other deferred compensation plan maintained by the Company or a Controlled Group Member that is subject to Code § 409A and that is aggregated with this Plan under Treasury Regulation § 1.409A-1(c)(2).

Annual Incentive Pay means an annual payment received under a plan designated by the Company. Amounts received from a long-term performance plan or stock accumulation program shall not be considered Annual Incentive Pay for purposes of the Plan.

Associated Plan means The Principal Select Savings Plan for Individual Field.

Beneficiary means the person or persons designated as such pursuant to the BENEFICIARIES SECTION of Article X.

Board means the Board of Directors of Principal Life Insurance Company.

Change of Control means the date of occurrence of any of the following, to the extent such occurrence constitutes a change of control event (as defined in Treasury Regulation § 1.409A-3(i)(5)(i)) with respect to Principal Financial Group:

- (a) a change in the ownership of Principal Financial Group occurs when any one person or a group of persons acquires stock in Principal Financial Group that is more than fifty percent (50%) of the total fair market value or total voting power of the stock of Principal Financial Group;
- (b) a change in the effective control of Principal Financial Group occurs when any one person or a group of persons acquires within a twelve (12)-month period, stock in Principal Financial Group possessing thirty percent (30%) or more of the total voting power of the stock of Principal Financial Group; or when a majority of the board of directors of Principal Financial Group is replaced during a twelve (12)-month period by directors whose appointment or election is not endorsed by a majority of the board of directors of Principal Financial Group; or
- (c) a change in the ownership of a substantial portion of the assets of Principal Financial Group occurs when any one person or group of persons acquires or has acquired during a twelve (12)-month period, assets from Principal Financial Group that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of Principal Financial Group immediately prior to such acquisition.

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

Common Stock means the common stock, par value \$0.01, of Principal Financial Group.

Company means Principal Life Insurance Company and any successors thereto.

Company Match Credit means a credit to an Account made in accordance with the COMPANY MATCH CREDITS SECTION of Article III.

Compensation means income as reported in the "Wages, Tips, and Other Compensation" box on Form W-2 attributable to services performed for the Company or a Participating Controlled Group Member. Compensation also includes any elective deferral (as defined in Code § 402(g)(3)) to the Associated Plan, and any amount which is deferred at the election of the Agent under this Plan or any other nonqualified plan maintained by the Company or Participating Controlled Group Member, and any amount which is contributed or deferred at the election of the Agent which is not includible in the gross income of the Agent by reason of Code §§ 125, 132(f)(4) or 457.

Compensation will exclude the following:

- (a) expense reimbursements or other expense allowances, fringe benefits (cash and non-cash), moving expenses, deferred compensation (other than elective contributions as stated above), and welfare benefits (except short-term disability);
- (b) Annual Incentive Pay earned with respect to service while classified by the Company's or Participating Controlled Group Member's payroll system as "investment" or "industry variant";
- (c) any bonus or incentive pay paid by the Company or a Controlled Group Member, unless otherwise designated by the Company including (but not limited to):
  - (i) any amount paid under any long-term incentive compensation plan or any stock incentive plan;
  - (ii) any sign-on bonus or stay bonus;
- (d) amounts earned as a result of an Agent's Separation from Service; (e) any income from restricted stock or stock units or the exercise of statutory or non-statutory stock options under any plan maintained by the Company or Participating Controlled Group Member, except as specifically provided in a written agreement or other writing of the Company or Participating Controlled Group Member in effect prior to the start of the applicable Plan Year; and

(f) any amounts paid after an Agent's Separation from Service, except for amounts earned for services attributable to the final payroll period that includes the date of the Agent's Separation from Service.

Controlled Group Member means any corporation or other business entity (including Principal Financial Group) that is a member of the same controlled group as, or under common control with, the Company as determined under Code § 414(b) or (c) (and for purposes of determining whether a Separation from Service has occurred, a standard of "at least 80 percent" will be used to identify a controlled group member under Code § 414(b) and (c) notwithstanding the default standard of "at least 50 percent" found in Treasury Regulation § 1.409A-1(h)(3)).

Disability, or Disabled means that a Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months.

Elective Deferral Credit means a credit to an Account made in accordance with the ELECTIVE DEFERRAL CREDITS SECTION of Article III.

Eligible Group means the group of Agents who are eligible to participate in the Plan, as determined under the ELIGIBLE GROUP SECTION of Article II.

Employee means any common-law employee of the Company or a Controlled Group Member (while it is Controlled Group Member) and includes a Field Manager. For purposes of this Plan, the term Employee does not include an Agent.

Employer Credits means Company Match Credits and Employer Discretionary Credits.

Employer Discretionary Credit means a credit to the Account made in accordance with the EMPLOYER DISCRETIONARY CREDITS SECTION of Article III.

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

Field Manager means a person who holds a current manager base contract with a DD 713 addendum, or any successor full-time contract, with the Company or a Participating Controlled Group Member or is designated as such by the Company or a Participating Controlled Group Member.

Grandfathered Choice Participant means a Participant who was offered a benefit formula election under the terms of The Principal Pension Plan and who elected to continue to have his benefit calculated under the benefit formula in effect as of December 31, 2005, rather than under the new benefit formula that first became effective January 1, 2006.

Participant means any Active Participant, or any current or former Agent who is not an Active Participant but who has a balance remaining in an Account under the Plan.

Participating Controlled Group Member means any Controlled Group Member that has adopted the Plan and that employs or has a contract with one or more Participants, as listed in Attachment A (a Participating Controlled Group Member will automatically cease to participate if it ceases to be a Controlled Group Member).

Plan means The Principal Select Savings Excess Plan for Individual Field.

Plan Year means the calendar year.

Principal Financial Group means Principal Financial Group, Inc., a Delaware corporation, together with all successors thereto.

Separation from Service means a "separation from service within the meaning of Code § 409A and that all agreements pursuant to which the individual provides services to the Company or any Controlled Group Member have expired, if the expiration constitutes a good-faith and complete termination of the contractual relationship; *provided that*, no Separation from Service will be deemed to have occurred if the Company or Controlled Group Member intends to contract again for the services such individual provided under the expired contract (including an intention to contract again that is conditioned upon the recipient incurring a need for the services provided under the expired contract, the availability of funds, or both) and neither the Company or Controlled Group Member, nor the individual, has eliminated the individual as a possible provider of services under any such new contract. If the individual is or becomes an Employee, a Separation from Service will occur when the Company and the Participant reasonably anticipate that no further services will be performed for the Company or any Controlled Group Member after a certain date or that the level of services the Participant will perform after such date will permanently decrease to twenty percent (20%) or less of the average level of bona fide services performed over the immediately preceding thirty-six (36) month period (or the full period of services if the Participant has been providing services for less than thirty-six (36) months); except as otherwise provided in Code § 409A, including final Treasury Regulations and other guidance issued thereunder.

In the case of a sale or other disposition of stock or substantial assets, whether a Separation from Service has occurred may be affected by the provisions of the CONTRACTUAL OBLIGATIONS SECTION of Article IX.

Specified Employee means an Employee who at any time during the twelve (12) month period ending on the identification date (defined below) was a "key employee" as defined under Code § 416(i) (applied in accordance with the regulations thereunder, but without regard to paragraph (5) thereof). Principal Financial Group or the Company may adopt a Specified Employee Identification Policy that specifies the identification date, the effective date of any change in the key employee group, compensation definition and other variables that are relevant in identifying Specified Employees, and which may include an alternative method of identifying Specified Employees consistent with the regulations under Code § 409A. In the absence of any such policy or policy provision, for purposes of the above, the "identification date" is each December 31st, and an Employee who satisfies the above conditions will be considered to be a "Specified Employee" from April 1st following the identification date to March 31st of the following year, and the compensation and other variables, and special rules for corporate events and special rules relating to nonresident aliens, that are necessary in identifying Specified Employees will be determined and applied in accordance with the defaults specified in the regulations under Code § 409A. Any Specified Employee Identification Policy will apply uniformly to all nonqualified deferred compensation plans subject to Code § 409A that are maintained by the Company or a Controlled Group Member.

Transfer Credit means a credit to an Account made in accordance with the TRANSFER CREDITS SECTION of Article III.

Valuation Date means each day on which trading occurs on the New York Stock Exchange.

## ARTICLE II

### PARTICIPATION

#### SECTION 2.01 — ELIGIBLE GROUP

All Agents who are in the Eligible Group will be eligible to participate in the Plan. An Agent is in the Eligible Group if:

- (a) He has a contract with the Company or a Participating Controlled Group Member (while it is a Participating Controlled Group Member);
- (b) He is eligible for the Associated Plan;
- (c) His Compensation in any Plan Year is one hundred and twenty-five percent (125%) or more of the compensation level required to be a “highly compensated employee” under Code § 414(q); and
- (d) The Corporate Management Committee, which is described in the ADMINISTRATION SECTION of Article VIII, has selected the individual for participation and has directed the Company to notify the individual in writing that he is eligible to participate in the Plan.

The Corporate Management Committee in its sole and absolute discretion may determine that an Agent who satisfies the conditions of paragraph (c) above will not be eligible to participate in the Plan. The Plan covers only Agents.

An Agent will cease to be in the Eligible Group upon his Separation from Service or as of such earlier date on which he ceases to satisfy the eligibility requirements specified above.

An Agent who ceases to be in the Eligible Group will cease to be an Active Participant as of the date provided in the END OF ELIGIBILITY AND PARTICIPATION SECTION of this Article.

#### SECTION 2.02 — NOTICE OF ELIGIBILITY

The Company will notify an Agent in writing of his eligibility to participate in the Plan and an individual will not be eligible until he receives such notice.

#### SECTION 2.03 — INITIAL ENROLLMENT

An Agent in the Eligible Group who has not already been a participant in any Aggregated Account Balance Plan will be allowed to enroll in and make initial deferral and distribution elections under the Plan during the thirty (30) day period following the date he is notified of his eligibility to participate in the Plan, with enrollment to be effective as of the first day of the month that next follows the last day of such thirty (30) day period. Deferral and distribution elections will be irrevocable at the end of the thirty (30) day period. Otherwise, an Agent in the Eligible Group may elect to enroll and make initial deferral and distribution elections for the next or any subsequent Plan Year during the annual enrollment period established by the Company for such Plan Year, which annual enrollment period will end not later than the last day of the prior Plan Year.

An enrollment election is required and must be made in such manner and in accordance with such rules as may be prescribed for this purpose by the Company.

#### SECTION 2.04 — END OF ELIGIBILITY AND PARTICIPATION

An Active Participant will continue as an Active Participant until the earliest of:

- (a) The date of his Separation from Service;
- (b) The date on which the Plan is terminated in a liquidation termination described in the AMENDMENT AND TERMINATION SECTION of Article X; or
- (c) The last day of the Plan Year in which he ceases to be in the Eligible Group (other than as a result of a Separation from Service) or in which the Plan is terminated other than in a liquidation termination described in the AMENDMENT AND TERMINATION SECTION of Article X.

A Participant will continue as a Participant until he has received a full distribution of the benefit due under the Plan.

In the event a Participant’s eligibility under this Plan ceases as the result of a change in workforce classification and as a result the Participant becomes eligible and enrolls in The Principal Select Savings Excess Plan for Employees, his benefits and liabilities will transfer to The Principal Select Savings Excess Plan for Employees.

## **SECTION 2.05 — REENROLLMENT FOLLOWING A BREAK IN ELIGIBILITY**

Except as otherwise provided in the DISTRIBUTION EVENTS SECTION of Article V, in the case of an individual who ceases to be in the Eligible Group and who later reenters the Eligible Group:

- (a) If he reenters the Eligible Group twenty-four (24) months or more after he both ceases to be an Active Participant and ceases to be eligible under all Aggregated Plans, he will be eligible to reenroll in accordance with the INITIAL ENROLLMENT SECTION of this Article.
- (b) If he reenters the Eligible Group within twenty-four (24) months after he both ceases to be an Active Participant and ceases to be eligible under all Aggregated Plans, the deferral and distribution elections that were in effect when he ceased to be in the Eligible Group will be reinstated when he reenters the Eligible Group.

The deferral and distribution elections made upon rehire or subsequent changes to such elections will not affect the distribution of benefits the individual may be receiving as a result of a previous distribution event.

## **SECTION 2.06 — TRANSFER FROM THE PRINCIPAL SELECT SAVINGS EXCESS PLAN FOR EMPLOYEES**

In the case of an individual who transfers from The Principal Select Savings Excess Plan for Employees to the Plan:

- (a) Any elections related to Elective Deferral Credits made in The Principal Select Savings Excess Plan for Employees shall remain in effect with respect to the Plan. If the election for Compensation other than Annual Incentive Pay exceeds the limitation in Section 3.01(b) (*i.e.*, 15%), it shall remain in effect for the Plan Year that includes the transfer. In the subsequent Plan Year, if such election is carried over under the “evergreen” provision of the Plan, it will be reduced to 15%.
- (b) Such individual’s benefit and liability from The Principal Select Savings Excess Plan for Employees will transfer to the Plan. Such amounts will be transferred to the portion of the Account related to Elective Deferral Credits, Company Match Credits or Employer Discretionary Credits consistent with how such amount was maintained in The Principal Select Savings Excess Plan for Employees. The individual’s Account under the Plan will be deemed to be invested in the same hypothetical investment options as invested in The Principal Select Savings Excess Plan for Employees immediately prior to the transfer. To the extent that one or more of such investment options are not available under the Plan, the

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respective amounts will receive earnings credits based on such “default” investment option as may be selected for this purpose by the Company. The individual will be able to direct the hypothetical investment of his Account after the transfer in accordance with Article IV.

- (c) Any distribution election made by the individual under The Principal Select Savings Excess Plan for Employees, or if no election was made, such default distribution form and time, shall continue to apply to his Account under the Plan, subject to additional distribution elections allowed under Section 6.04, and the other terms of the Plan.
- (d) The beneficiary designated under The Principal Select Savings Excess Plan for Employees shall be the Beneficiary designated for purposes of the Plan, until otherwise revised consistent with Section 10.05 and the terms of the Plan.

## **ARTICLE III**

### **CONTRIBUTION CREDITS**

#### **SECTION 3.01 — ELECTIVE DEFERRAL CREDITS**

Elective Deferral Credits will be made for each pay date on behalf of each Active Participant who has enrolled in the Plan and thereby elects to have his Compensation reduced in order to receive Elective Deferral Credits. The Elective Deferral Credits for a pay date will be added to the appropriate Account on or as soon as administratively practicable after the pay date in an amount equal to the amount of the reduction in his Compensation.

An Active Participant may elect to reduce his Compensation in any percentage up to two (2) decimal places, not more than one-hundred percent (100%). An election will be effective during a Plan Year.

A deferral election (or the modification or revocation of a deferral election) must be made in such manner and in accordance with such rules as may be prescribed for this purpose by the Company. A deferral election must be made as part of enrollment described in the INITIAL ENROLLMENT SECTION of Article II.

Compensation will be reduced first to provide Elective Deferral Credits under this Plan, prior to any reduction for any contribution or other amount drawn from Compensation. However, the FICA taxes due on Elective Deferral Credits, Company Match Credits and Employer Discretionary Credits plus pyramided income taxes on such FICA amounts, will be drawn from the Plan and will reduce the net Elective Deferral Credits, the Company Match Credits and the Employer Discretionary Credits to the extent other Compensation is not available to provide for FICA.

A deferral election applied against any Compensation must be made by December 31st (or such earlier date as may be established by the Company) of the year prior to the year in which the services are performed that give rise to the right to receive such Compensation. For this purpose, the services that give rise to commissions are treated as being performed in the Plan Year in which the customer remits payment to the Company or Participating Controlled Group Member that gives rise to the commissions payable to the Participant. A separate deferral election will be allowed for Annual Incentive Pay and all other Compensation. The deferral of Annual Incentive Pay will apply to Annual Incentive Pay earned in the Plan Year in which the services attributable to the Annual Incentive Pay are performed, without regard to when the Annual Incentive Pay is actually paid.

For the Plan Year in which an Agent is first notified of eligibility for the Plan, an election made within the thirty (30) day period referenced in the INITIAL ENROLLMENT SECTION of Article II (if applicable to the Agent) will apply to Compensation and Annual Incentive Pay attributable to pay periods that

start after the effective date of enrollment as provided in the INITIAL ENROLLMENT SECTION of Article II. The initial election will apply to a pro-rata portion of any Annual Incentive Pay payable for services performed during the period in which the election becomes irrevocable (with the percentage determined by dividing the number of days remaining in the performance or service period after the effective date of the enrollment over the total number of days in the performance or service period).

Except as otherwise provided in the DISTRIBUTION EVENTS Section of Article V, an election applied against any Compensation will be “evergreen” — that is, it will automatically be carried over and applied to the next Plan Year unless revoked or changed by the Participant by December 31st (or such earlier date as may be established by the Company) of the prior Plan Year; *except that*, an election will not apply to a Plan Year (and a new election will be required) if the election would result in any credits inconsistent with the terms of the Plan.

An election generally will be irrevocable for a Plan Year, but will be revoked if the Participant receives a withdrawal for unforeseeable emergency from this Plan pursuant to the UNFORESEEABLE EMERGENCY WITHDRAWALS SECTION of Article V (or receives a comparable withdrawal from any Aggregated Plan).

An election in effect for a given Plan Year (or portion thereof) with respect to any Compensation that is paid as part of payroll will apply only to payroll periods ending within the Plan Year (i.e., if the final payroll period starts within a Plan Year and ends in the following Plan Year, the election in effect for the following Plan Year will apply to amounts payable for such payroll period).

The Company may, in its sole discretion, limit the minimum or maximum amount of Elective Deferral Credits that are allowed under the Plan by any Active Participant or any group of Active Participants, provided that such limit is established in writing prior to the beginning of the Plan Year or prior to enrollment of the affected Participant.

### **SECTION 3.02 — COMPANY MATCH CREDITS.**

A Company Match Credit will be added to the Account of an Active Participant for a given pay date if such Participant receives an Elective Deferral Credit for such pay date under the ELECTIVE DEFERRAL CREDITS SECTION of this Article. The amount of the Company Match Credit for a given pay date will equal:

- (a) In the case of any Active Participant who is a Grandfathered Choice Participant, an amount equal to fifty percent (50%) of the Participant’s Elective Deferral Credits for such pay date; *provided that*, Elective Deferral Credits that are over six percent (6%) of Compensation will not be matched; or
- (b) In the case of any other Active Participant, an amount equal to seventy five percent (75%) of the Participant’s Elective Deferral Credits for such pay date; *provided that*, Elective Deferral Credits that are over eight percent (8%) of Compensation will not be matched.

Notwithstanding the foregoing, in no event will a Grandfathered Choice Participant receive a Company Match Credit, that when combined with any company match made to the Associated Plan for the same pay period, will be more than three percent (3%) of Compensation for a given pay date (or for all other Participants, more than six percent (6%) of Compensation for a given pay date).

An additional Company Match Credit may be added to the Account of a Participant who is an Active Participant on the last day of the Plan Year or a Participant that had a Separation from Service during the Plan Year after attaining age 57. The amount of any additional Company Match Credit shall be determined under (a) or (b) above, as applicable, but based on the Participant’s Elective Deferral Credits made for the Plan Year (and not by pay period) and offset by Company Match Credits already made to the Participant’s Account for the Plan Year.

### **SECTION 3.03 — EMPLOYER DISCRETIONARY CREDITS**

The Company or a Participating Controlled Group Member may make Employer Discretionary Credits to the Account of an Active Participant as determined each Plan Year by the Company or a Participating Controlled Group Member.

### **SECTION 3.04 — TRANSFER CREDITS.**

In the case of a Participant who also was a participant in The Principal Nonqualified Defined Contribution Plan for Designated Participants, a Transfer Credit will be added to the Account of such Participant to reflect a transfer of any balance from such plan to this Plan made pursuant to the terms of such plan or at the direction of the Company.

### **SECTION 3.05 — ACCOUNTS**

Accounts will be maintained under the Plan on behalf of each Participant to separately reflect amounts attributable to:

- (a) Elective Deferral Credits under the ELECTIVE DEFERRAL CREDITS SECTION of this Article;
- (b) Company Match Credits under the COMPANY MATCH CREDITS SECTION of this Article; (c) Employer Discretionary Credits under the EMPLOYER DISCRETIONARY Section of this Article, and
- (d) Transfer Credits under the TRANSFER CREDITS SECTION of this Article.

Account balances will be expressed in United States Dollars.

Accounts are for bookkeeping purposes only and the maintenance of Accounts will not require any segregation of assets of the Company or any Participating Controlled Group Member. Neither the Company nor any Participating Controlled Group Member will have any obligation whatsoever to set aside funds for the Plan or for the benefit of any Participant or Beneficiary, and no Participant or Beneficiary will have any rights to any amounts that may be set aside other than the rights of an unsecured general creditor of the Company or Participating Controlled Group Member that employs (or employed) the Participant.

#### **ARTICLE IV**

#### **EARNINGS CREDITS**

##### **SECTION 4.01 — ADJUSTMENT TO REFLECT EARNINGS CREDITS**

Accounts will be adjusted (increased or decreased) as of each Valuation Date to reflect earnings credits as determined under the EARNINGS CREDITS SECTION of this Article.

##### **SECTION 4.02 — EARNINGS CREDITS**

Earnings credits will be determined based on the performance of one or more investment options deemed to be available under the Plan.

The Company, in its sole discretion, will determine the investment options that will be available as benchmarks for determining the earnings credit, which may include mutual funds, common or commingled investment funds, group annuity contracts or any other investment option deemed appropriate by the Company, and will include a fund that invests (or is deemed to invest) in Common Stock. The Company may at any time and from time to time add to, remove from or substitute the investment options deemed to be available under the Plan.

A Participant (or Beneficiary following the death of the Participant) will be allowed on a hypothetical basis to direct the investment of his Account among the investment options available under the Plan. Hypothetical investment directions may be given with such frequency as is deemed appropriate by the Company, and must be made in such percentage or dollar increments, in such manner and in accordance with such rules as may be prescribed for this purpose by the Company (including by means of a voice response or other electronic system under circumstances so authorized by the Company). If an investment option has a loss, the earnings credit attributable to such investment option will serve to reduce the Account; similarly, if an investment option has a gain, the earnings credit attributable to such investment option will serve to increase the Account. If the Participant fails to elect an investment option, the earnings credit will be based on such “default” investment

option as may be selected for this purpose by the Company.

Earnings credits (both increase and reductions) will be reflected through the date of payment as provided in the TIME OF DISTRIBUTION SECTION of Article VII.

An Account is subject to any minimum guarantees applicable under a group annuity contract or other investment arrangement.

##### **SECTION 4.03 — HYPOTHETICAL INVESTMENTS**

All investment directions of a Participant or Beneficiary will be on a “hypothetical” basis for the sole purpose of establishing the earnings credit for his Account — that is, the Account will be adjusted for earnings credits as if the Account were invested pursuant to the investment directions of the Participant or Beneficiary, but actual investments need not be made pursuant to such directions. However, the Company, in its sole discretion and without any obligation, may direct that investments be made per the investment directions of Participants and Beneficiaries in order to hedge the liability of the Company and Participating Controlled Group Members.

If the Company directs that investments actually be made in Common Stock to hedge liability, any transactions costs (brokerage fees and commissions) on purchases and sales of Common Stock will be charged to the Participant’s Account.

##### **SECTION 4.04 — DURATION OF INVESTMENT CONTROL**

A Participant will be allowed to direct investments on a hypothetical basis until his Account is paid as a lump-sum measured under the CALCULATION OF LUMP-SUM OR INSTALLMENT PAYMENTS SECTION of Article VI or converted to an annuity under the CALCULATION OF ANNUITY PAYMENTS SECTION of Article VI, or throughout the installment period as provided in the CALCULATION OF LUMP-SUM OR INSTALLMENT PAYMENTS SECTION of Article VI.

##### **SECTION 4.05 — EXPENSES**

The Administrator, in its sole discretion, may reduce a Participant’s Account to reflect the Participant’s proportional share of expenses related to administration of the Plan.

#### **ARTICLE V**

#### **DISTRIBUTION EVENTS**

##### **SECTION 5.01 — UNFORESEEABLE EMERGENCY WITHDRAWALS**

A Participant may make a withdrawal from his Account in the event of an unforeseeable emergency. Such withdrawal will be paid in a single lump-sum payment as soon as administratively practicable after the withdrawal request is received by the Company and the Company, in its sole discretion, has determined that the Participant has an unforeseeable emergency within the meaning of the Plan.

The Elective Deferral Credits of the Participant will automatically stop in the event of an unforeseeable emergency withdrawal. The Participant will be allowed to file an election to defer Compensation during the annual election period that next follows the unforeseeable emergency withdrawal. Such election

will be effective for the Plan Year following the Plan Year in which the unforeseeable emergency withdrawal occurred.

A Participant will be allowed to direct the hypothetical investments from which an unforeseeable emergency withdrawal is deemed to be drawn or, in the absence of an affirmative designation, the withdrawal will be deemed to be drawn on a pro-rata basis from the various investments of the Account.

An “unforeseeable emergency” for this purpose means a severe financial hardship resulting from an illness or accident of the Participant or his spouse or dependents (which the Participant certifies as satisfying the

standards of Code § 152, without regard to subsections (b)(1), (b)(2) and (d)(1)(B)), property casualty loss to the Participant, or other similar extraordinary and unforeseeable circumstances of the Participant arising as a result of events beyond the control of the Participant, which is not covered by insurance and may not be relieved by reimbursement or compensation from insurance or otherwise, by the liquidation of other assets (provided that such liquidation would not cause an unforeseeable emergency), or by cessation of deferrals under the Plan, and which is determined, based on the relevant facts and circumstances, to qualify as an unforeseeable emergency under Code § 409A. Cash needs arising from foreseeable events such as the purchase of a residence or education expenses for children will not, alone, be considered an unforeseeable emergency.

The amount available from a Participant’s Accounts on account of an unforeseeable emergency is limited to the amount necessary to satisfy such hardship, plus amounts necessary to pay any taxes anticipated to result from the distribution, as determined by the Company.

#### **SECTION 5.02 — DISTRIBUTION EVENTS**

A Participant’s Account will be distributed upon the first of the following distribution events to occur:

- (a) **Mandatory Distribution.** A Participant’s Account becomes payable on the date he attains age sixty-five (65).
- (b) **Separation from Service Distribution.** A Participant’s Account becomes payable on the date he incurs a Separation from Service.
- (c) **Disability Distribution.** In the event of Disability a Participant’s Account will be payable twenty-nine (29) months following the date he becomes Disabled if the Participant becomes Disabled prior to January 1, 2010. Disability will not be a distribution event if a Participant becomes Disabled on or after January 1, 2010.
- (d) **Death Distribution.** A Participant’s Account becomes payable upon death as provided in Article VI.
- (e) **Change of Control Distribution.** A Participant’s Account becomes payable upon a Change of Control.

Unless another distribution event listed above has already occurred, a Participant will receive a Fixed Date Distribution, which means the distribution of all or a portion of his Account on a date he specifies; *provided that*, the date specified must be prior to the date on which he attains age sixty-five (65) and subject to the following:

- (a) A Participant may elect to have a percentage of his Elective Deferral Credits and/or his Employer Credits allocated to the portion of his Account to be distributed as a Fixed Date Distribution. Such election must be made pursuant to the INITIAL ENROLLMENT SECTION of Article II and the ELECTIVE DEFERRAL CREDITS SECTION of Article III;
- (b) The percentage of a Participant’s Elective Deferral Credits and/or Employer Credits not allocated to the portion of his Account to be distributed as a Fixed Date Distribution will be allocated to the portion of his Account to be distributed upon the occurrence of any other distribution event, as provided in this section;
- (c) Annually, and pursuant to the ELECTIVE DEFERRAL CREDITS SECTION of Article III, a Participant may modify the percentage of his Elective Deferral Credits and/or Employer Credits to be allocated to the portion of his Account to be distributed as a Fixed Date Distribution;
- (d) Notwithstanding any other provision in the Plan, and subject to subsection (e) below, in no event shall a Participant be permitted to allocate any percentage of his Elective Deferral Credits or Employer Credits to the portion of his Account to be distributed as a Fixed Date Distribution, to the extent such Elective Deferral Credits and/or Employer Credits are allocated to his Account in the Plan Year that contains the specified date of the Fixed Date Distribution;

- (e) Notwithstanding subsection (d) above, to the extent a Participant has elected to defer any percentage of his Elective Deferral Credits and/or Employer Credits to the portion of his Account to be distributed as a Fixed Date Distribution, either affirmatively or by operation of the REENROLLMENT FOLLOWING A BREAK IN ELIGIBILITY SECTION of Article II or the ELECTIVE DEFERRAL CREDITS SECTION of Article III, and such amount is allocated to his Account in the Plan Year that contains the specified date of the Fixed Date Distribution, any portion that would otherwise have been allocated to the portion of his Account to be distributed as a Fixed Date Distribution, will instead be allocated to the portion of his Account that will be distributed upon the occurrence of any other distribution event, as provided in this section; and
- (f) A Participant may have no more than one (1) Fixed Date Distribution outstanding at any given time.

The distribution may be delayed if the Participant is a Specified Employee as provided in Article VII.

#### **SECTION 5.03 — ACCELERATION UPON CHANGE OF CONTROL**

If a Change of Control occurs while a Participant is receiving installment or annuity payments (or is scheduled to commence such payments) and the Participant had elected a more rapid payment schedule to apply in the event of a Change of Control (for example, a lump-sum payment), the more rapid payment schedule will apply following the Change of Control. The lump-sum or annuity payable following a Change of Control will be the actuarial equivalent of the remaining payments due in the annuity payment form then being paid.

For this purpose, actuarial equivalence will be determined using the following actuarial assumptions: Interest — the long-term rate of return most recently used by the Company for purposes of calculating pension expense under Financial Accounting Standards No. 87 (or applicable successor standards issued by FASB); Mortality — UP94, Projected to 2008 with Scale AA and blended 50/50.

#### **SECTION 5.04 — CASH-OUT OF SMALL ACCOUNTS**

If the balance of the Participant's Accounts under this Plan does not exceed the applicable dollar amount then in effect under Code § 402(g)(1)(B) as of the distribution date then the Participant will be paid the full balance of his Accounts in a single-sum distribution in full settlement of all obligations under the Plan. Also, if the balance (or remaining balance) of a Participant's Accounts, together with his interest under all Aggregated Plans does not exceed the applicable dollar amount then in effect under Code § 402(g)(1)(B) as of the scheduled distribution date or any date thereafter then the Company may in its sole and absolute discretion direct that the Participant be paid the balance of his Accounts under this Plan, plus his entire interest under all Aggregated Plans, in a single-sum distribution in full settlement of all obligations under the Plan and such other plans.

### **ARTICLE VI**

#### **DISTRIBUTION OPTIONS**

##### **SECTION 6.01 — FORM OF DISTRIBUTION**

A Fixed Date Distribution will be paid as a single lump-sum payment.

A Participant may elect to receive a distribution, other than a Fixed Date Distribution, in any of the following forms (subject to the CASH-OUT OF SMALL ACCOUNTS SECTION of Article V):

- (a) A single lump-sum payment.
- (b) A series of monthly installments over a period of either sixty (60) or one-hundred and twenty (120) months, as elected by the Participant.
- (c) An annuity, the form of which will be elected at the time a distribution event occurs from among one of the following actuarially equivalent payment forms:
  - (i) A single life annuity, with an installment refund feature;

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- (ii) A single life annuity with a term-certain period of sixty (60), one-hundred and twenty (120) or one-hundred and eighty (180) months, as elected by the Participant; or
  - (iii) A joint and survivor annuity, with an installment refund feature, with a survivor percentage of fifty percent (50%), sixty-six and two-thirds percent (66-2/3%) or one-hundred percent (100%), as elected by the Participant.

If an annuity is elected, and at the time a distribution event occurs the Participant fails to elect the form of annuity, the distribution shall be paid in a form of annuity determined as follows:

- (a) If the Participant is married on the Benefit Commencement Date, the form of annuity shall be a joint and survivor annuity, with an installment refund feature, with a survivor percentage of fifty percent (50%).
- (b) If the Participant is single on the Benefit Commencement Date, the form of annuity shall be a single life annuity, with an installment refund feature.

##### **SECTION 6.02 — CALCULATION OF LUMP-SUM OR INSTALLMENT PAYMENTS**

The amount of the single lump-sum cash payment will be determined based on the applicable portion of the Participant's Account balance as of the actual date of distribution from the Plan.

The amount of the monthly installments will be determined by dividing a Participant's Account as of the scheduled payment date by the scheduled number of installments. The number of monthly installments will be reduced as necessary if the balance of the Accounts is not sufficient to support all scheduled payments (in the event of investment losses). The final monthly payment will be enhanced as necessary to fully distribute the balance of the Participant's Accounts (in the event of investment gains).

The installment payment stream will be treated as a single payment (made at the first scheduled payment date) for purposes of Code § 409A.

##### **SECTION 6.03 — CALCULATION OF ANNUITY PAYMENTS**

To determine the amount of any annuity payments to a Participant, the balance of his Account will be converted to an annuity using interest and mortality assumptions deemed reasonable by the Company (the same assumptions will apply with respect to all annuity payment forms). The annuity payments will be calculated using the Account balance on the date of such conversion.

Each annuity option described above with an installment refund feature will provide that if the balance of the Account used to derive the annuity payments (without interest or adjustments) exceeds the aggregate amount of the payments under the annuity, monthly payments will be paid as a death benefit under the

SURVIVOR BENEFITS SECTION of this Article until the aggregate payments to the Participant and Beneficiary equals such balance of the Account.

The annuity payment stream will be treated as a single payment (made at the first scheduled payment date) for purposes of Code § 409A.

#### **SECTION 6.04 — DISTRIBUTION ELECTION PROCEDURES**

An election regarding the form of payment under the Plan must be made in such manner and in accordance with such rules as may be prescribed for this purpose by the Company. A distribution election will be effective only if it is received in properly completed form by the Company as part of the Participant's first enrollment in the Plan, and will be irrevocable after the expiration of the initial enrollment period; *except that*, a Participant who has elected an annuity may elect an annuity form of payment prior to the distribution date.

With respect to distribution elections made prior to January 1, 2014, a Participant was allowed a separate payment form election to apply in the case of each event specified in the DISTRIBUTION EVENTS SECTION of Article V. Further, with respect to each event specified in the DISTRIBUTION EVENTS SECTION of Article V (other than a Fixed Date Distribution), a Participant was allowed to specify a different payment form that will

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apply if the event occurs before or after an age specified by the Participant as part of his election.

With respect to distribution elections made after December 31, 2013, a Participant will be allowed a separate payment form election to apply in the case of each event specified in the DISTRIBUTION EVENTS SECTION of Article V. Further, with respect to a Participant's Separation from Service Distribution election, a Participant will be allowed to specify a different payment form that will apply if the Separation from Service occurs before or after an age specified by the Participant as part of his election.

In accordance with the requirements and procedures prescribed by the Company, a Participant may elect to defer payment (one time only with respect to each distribution event specified in the DISTRIBUTION EVENTS SECTION of Article V), *provided that*:

- (a) The election to defer must be received in properly completed form by the Company at least twelve (12) months prior to the distribution event; and
- (b) The deferral must be for at least five (5) years from the originally scheduled payment date provided that this requirement will not apply to an election to defer payment upon death.

Notwithstanding the timing requirements that would otherwise apply above, a Participant may change his form of payment election from any of the options specified in the FORM OF DISTRIBUTION SECTION of this Article provided that the Participant makes a new payment election by December 31, 2008. Any election made during the period from January 1, 2008, through December 31, 2008, will apply only to amounts that would not otherwise be payable in 2008, and will not apply to the extent that the election change would cause an amount to be paid in 2008 that would not otherwise be payable in 2008.

#### **SECTION 6.05 — DEFAULT ELECTIONS**

If a Participant fails to file a timely election as to the form of distribution, the distribution will be made in the form of a single lump-sum distribution of the full balance of the Account determined as of the date of actual payment from the Plan.

#### **SECTION 6.06 — SURVIVOR BENEFITS**

If a Participant dies prior to the full distribution of his Account, his Beneficiary will be entitled to the following survivor benefit under the Plan:

- (a) If the Participant dies while receiving installment payments, such installments will continue to his Beneficiary over the same period such installments would have been paid to the Participant;
- (b) If the Participant dies while receiving annuity payments, benefits will be paid to his Beneficiary pursuant to the form of annuity payout being made under the Plan; or
- (c) Otherwise, if the Participant dies prior to payment (or commencement) of a benefit under this Article, the survivor benefit will be paid according to the method elected by the Participant or, if the Participant has not made an election, in a single lump-sum payment.

The survivor benefit will be paid (or start to be paid) to the Beneficiary on the death of the Participant consistent with Section 7.01.

### **ARTICLE VII**

#### **TIMING OF DISTRIBUTION**

##### **SECTION 7.01 — TIME OF DISTRIBUTION**

The Company, in its sole discretion, if it deems it necessary or appropriate for administrative reasons, may defer any payment to a date later than the scheduled payment date within the calendar year or, if later, to the

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fifteenth (15<sup>th</sup>) day of the third calendar month following the scheduled payment date, without adjustment for deferred payment of any installment or annuity. Earnings credits (both increase and reductions) will be reflected through the date of payment as provided above.

##### **SECTION 7.02 — SPECIFIED EMPLOYEE**

A distribution made due to a Separation from Service of a Participant who is a Specified Employee on the Separation from Service date will not under any circumstances be made prior to the first business day that is six (6) months and one (1) day following the Participant's Separation from Service, except in the case of an intervening death of the Participant as provided in Article VI. However, this delayed payment requirement does not apply to any distribution event other than Separation from Service. In the event of a delayed payment to a Specified Employee, the first day of the calendar month following the Participant's Separation from Service will be treated as the "scheduled payment date" or "date of determination" for purposes of calculating any benefit under this Plan, and the first payment made as of the first business day that is six (6) months and one (1) day following the Participant's Separation from Service will include any catch-up payment of all monthly payments, if applicable, that would have been made to the Participant (without any adjustment for interest or earnings) from the first day of the calendar month following the Participant's Separation from Service.

### **SECTION 7.03 — DISTRIBUTIONS PURSUANT TO A DOMESTIC RELATIONS ORDER**

The Plan permits the benefits actually payable to a Participant to be divided with a spouse or former spouse of the Participant who meets the definition of alternate payee under ERISA § 206(d) provided that the Company determines that the domestic relations order meets the criteria of a qualified domestic relations order, as defined in ERISA § 206(d). Such domestic relations order may provide for a distribution to an alternate payee prior to payment (or commencement) of a benefit to a Participant, or while installment payments are being paid, in a form of a single lump sum payment. The Company's determination that a domestic relations order meets the requirements of ERISA § 206(d) will result in a distribution event and a lump sum payment for the alternate payee and the timing requirements of Section 7.01 will apply. However, once an annuity form of benefit has commenced, the alternate payee shall not be able to receive a separate interest, and will have a shared interest in the Participant's benefit as provided by the domestic relations order, consistent with the form of measuring life used for the annuity.

The Company will establish reasonable procedures to determine whether a domestic relations order meets the criteria of ERISA § 206(d). Upon receiving a domestic relations order, the Company promptly will notify the Participant and an alternate payee named in the order, in writing, of the receipt of the order and the Plan's procedures for determining the status of the order. Within a reasonable period of time after receiving the domestic relations order, the Company will determine the status of the order and will notify the Participant and each alternate payee, in writing, of its determination. The Company will provide notice under this paragraph by mailing to the individual's address specified in the domestic relations order.

If any portion of the Participant's benefit under this Plan is payable during the period the Company is making its determination of the status of the domestic relations order, a separate accounting will be made of the amount payable. If the Company determines the order is a domestic relations order within the criteria of ERISA § 206(d) within the calendar year in which amounts are first payable following receipt of the order or, if later, before the fifteenth (15<sup>th</sup>) day of the third calendar month following the scheduled payment date, the payable amounts will be distributed in accordance with the order. If the Company does not make its determination of the status of the order within such period, the payable amounts will be distributed in the manner the Plan would distribute if the order did not exist and the order will apply prospectively if the Company later determines the order meets the criteria of ERISA § 206(d).

The Plan will make payments or distributions required under this section by separate benefit checks or other separate distribution to the alternate payee and report the payments accordingly, provided however, that the Company may report distributions as income to the Participant for federal income tax and/or Social Security or other withholding purposes as it determines to be consistent with the requirements of the Code.

### **SECTION 7.04 — RIGHT OF OFFSET**

Notwithstanding any other provisions of this Plan, the Company reserves the right to withhold and setoff from

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any distribution or payment that is due and payable to a Participant or Beneficiary under the Plan any amount owed to the Company or any Controlled Group Member by the Participant, whether such obligation is matured or unmatured and however arising, at the time of (and with priority over) any such distribution or payment to the extent that the retention or exercise of such right does not have adverse tax consequences to the Participant or Beneficiary under Code § 409A. Further, the Company reserves the right to withhold and setoff from the Participant's Account (even if a payment or distribution is not then due and payable) any amount owed to the Company or any Controlled Group Member by the Participant as satisfaction of such obligation of the Participant, where such obligation is incurred in the ordinary course of the service relationship between the Participant and the Company or Controlled Group Member, the amount of reduction in any of the Company's or Controlled Group Member's taxable years does not exceed five-thousand dollars (\$5,000), and the entire reduction is made at the same time and in the same amount as the obligation otherwise would have been due and collected from the Participant.

### **SECTION 7.05 — DELAY OF PAYMENT UNDER CERTAIN CIRCUMSTANCES**

Any payment due under the Plan as of a distribution event specified in the DISTRIBUTION EVENTS SECTION of Article V may be delayed at the discretion of the Company to the extent that the Company reasonably anticipates that if the payment were made as scheduled:

- (a) a deduction with respect to such payment would not be permitted to Principal Financial Group due to the application of Code § 162(m). The payment will be made during the taxable year in which the Company reasonably anticipates or should reasonably anticipate that if the payment is made during such year, the deduction of such payment will be deductible under Code § 162(m); or
- (b) the making of the payment will violate federal securities laws or other applicable law. The payment will be made at the earliest date at with the Company reasonably anticipates that the making of the payment will not cause such violation.

Any payment so delayed will be deemed to have been paid in accordance with this Article (including any delay specified therein in the case of a Specified Employee).

## **ARTICLE VIII**

### **ADMINISTRATION OF PLAN**

#### **SECTION 8.01 — ADMINISTRATION**

The Company is the administrator of the Plan with authority to control and manage the operation and administration of the Plan and make all decisions and determinations incident thereto. Action on behalf of the Company as administrator may be taken by any of the following:

- (a) Corporate Management Committee. The Corporate Management Committee of the Company is responsible for receiving reports and reviewing the recommendations of the Human Resources Department staff and amending the Plan on an ongoing basis as it deems advisable to facilitate the administration of the Plan, or to conform the Plan to applicable laws or regulations. The Corporate Management Committee is responsible for acting as required by the Plan and reporting such actions to the Chief Executive Officer, as required by the Chief Executive Officer.
- (b) Benefit Plans Investment Committee. The Benefit Plans Investment Committee of the Company is responsible for all investment matters relating to the Plan, including the investment of assets that may (but are not required to be) set aside to hedge liabilities resulting from the Plan, and actual investment of the rabbi trust, including the selection and monitoring of investment providers (including the trustee of the rabbi trust) with respect to the Plan. Members of the Benefit Plans Investment Committee will be appointed by the Chief Executive Officer of the Company.

Day-to-day administrative duties with respect to the Plan will be performed by the Human Resources Department.

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## **SECTION 8.02 — CORRECTION OF ERRORS AND DUTY TO REVIEW INFORMATION**

Errors may occur in the operation and administration of the Plan. The Company reserves the right to cause such equitable adjustments to be made to correct for such errors as it considers appropriate (including adjustments to Participant or Beneficiary Accounts), which will be final and binding on the Participant or Beneficiary.

Each Participant and Beneficiary has the duty to promptly review any information that is provided or made available to the Participant or Beneficiary and that relates in any way to the operation and administration of the Plan or his elections under the Plan (for example, to review payroll stubs to make sure a contribution election is being implemented appropriately, to review benefit statements to make sure investment elections are being implemented appropriately, to review Plan booklets, prospectuses, etc.) and to notify the Company of any error made in the operation or administration of the Plan that affects the Participant or Beneficiary within a reasonable period of time after such information is provided or made available to the Participant or Beneficiary (for example, the date the information is sent by mail or the date the information is provided or made available electronically). If the Participant or Beneficiary fails to review any information or fails to notify the Company of any error within such reasonable period of time, he will not be able to bring any claim seeking relief or damages based on the error. If the Company is notified of an alleged error within a reasonable period of time, the Company will investigate and either correct the error or notify the Participant or Beneficiary that it believes that no error occurred. If the Participant or Beneficiary is not satisfied with the correction (or the decision that no correction is necessary), he may file a formal claim under the claims procedures under the CLAIMS PROCEDURES SECTION of this Article.

## **SECTION 8.03 — CLAIMS PROCEDURES**

If a Participant or Beneficiary does not feel as if he has received full payment of the benefit due such person under the Plan, the Participant or Beneficiary may file a written claim with the Company setting forth the nature of the benefit claimed, the amount thereof, and the basis for claiming entitlement to such benefit. The Vice President of Human Resources will ordinarily determine the validity of and communicate a decision regarding the claim within ninety (90) days after the date of the claim. If additional information is necessary to make a determination on a claim, the claimant will be advised of the need for such additional information within forty-five (45) days after the date of the claim. The claimant will have up to one hundred and eighty (180) days to supplement the claim information, and the claimant will be advised of the decision on the claim within forty-five (45) days after the earlier of the date the supplemental information is supplied or the end of the one hundred and eighty (180) day period. A claim is considered approved only if its approval is communicated in writing to the claimant.

A claim for benefits which is denied will be denied by written notice setting forth in a manner calculated to be understood by the claimant:

- (a) The specific reason or reasons for the denial, including a specific reference to any provisions of the Plan (including any internal rules, guidelines, protocols, criteria, etc.) on which the denial is based;
- (b) A description of any additional material or information that is necessary to process the claim; and
- (c) An explanation of the procedure for further reviewing the denial of the claim and applicable time limits, including a statement of the claimant's right to bring a civil action under ERISA § 502(a) following an adverse benefit determination on review.

Within sixty (60) days after the receipt of a denial on a claim, a claimant or his authorized representative may file a written request for an appeal of such denial. Such appeal will be undertaken by the most senior Human Resources Leader of the Company and will be a full and fair review. The claimant will have the right to review all pertinent documents. If the claimant fails to file an appeal within 60 days of receipt of the denial on a claim, the claim will be deemed abandoned and the claimant precluded from reasserting it.

- (a) The most senior Human Resources Leader of the Company will issue a decision not later than sixty (60) days after receipt of the appeal request from a claimant unless special circumstances, such as the need to hold a hearing, require a longer period of time, in which case a decision will be rendered as

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soon as possible but not later than one hundred and twenty (120) days after receipt of the claimant's appeal request. The decision on the appeal will be in writing in a manner calculated to be understood by the claimant and will clearly set forth: The specific reason or reasons for the adverse determination, including a specific reference to any provisions of the Plan (including any internal rules, guidelines, protocols, criteria, etc.) on which the denial is based;

- (b) A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits; and
- (c) A statement describing any voluntary appeal procedures offered by the Plan and the claimant's right to obtain the information about such procedures, as well as a statement of the claimant's right to bring an action under ERISA § 502(a).

Decisions reached under these claims and appeals procedures shall be binding on all parties, including any Beneficiary or other person claiming through a Participant. Any legal action for benefits under the Plan may not be brought unless and until the claimant has exhausted his remedies under these procedures. In any such legal action, the claimant may be allowed to only present evidence and theories which the claimant presented during the claims and appeals process. Any claims which the claimant does not in good faith pursue through the appeal stage of the procedure may be treated as having been irrevocably waived.

Any suit or legal action initiated by a claimant under the Plan must be brought by the claimant no later than one year following a final decision on the appeal by the most senior Human Resources Leader of the Company. The one-year limitation on suits for benefits will apply in any forum where a claimant initiates such suit or legal action.

The Participant will be solely responsible for taking prompt actions in the event of disputed payments as necessary to avoid any adverse tax consequences under Code § 409A, even if action is required to be taken under Code § 409A in a more timely manner than is required under this CLAIMS PROCEDURES SECTION.

Claims for benefits upon a Disability shall be determined in accordance with the rules for determining disability claims under DOL Regulation §2560.503-1, which is hereby incorporated by reference.

#### **SECTION 8.04 — INDEMNIFICATION**

Each officer or employee responsible for the administration or operation of the Plan will be subject to the Company's indemnity policy for employees and officers, adopted by the Board in Resolution No. 3153, or as such shall be amended or replaced from time to time. Accordingly, and as provided in such resolution, each officer or employee will be indemnified by the Company against all damages, awards, costs and expenses, including counsel fees reasonably incurred or imposed in connection with, or resulting from, any action, suit or proceeding or the settlement thereof prior to final adjudication, to which the officer or employee is or may be made a party by reason of providing services to the Plan, whether or not the individual is an officer or employee at the time such costs or expenses are incurred or imposed. In order to receive this indemnity, the action, suit or proceeding may not be settled unless the Company's Chief Executive Officer or General Counsel determines such settlement was in the best interests of the Company; or in such action, suit or proceeding, there is a final adjudication of liability, which is not based upon acts that constitute gross negligence or willful misconduct on the officer or employee's part in the performance of his or her duties with respect to the Plan.

#### **SECTION 8.05 — EXERCISE OF AUTHORITY**

The Company, the Corporate Management Committee, the Benefit Plans Investment Committee, and any other person or body who has authority with respect to the management, administration or investment of the Plan may exercise that authority in its/his full discretion. This discretionary authority includes, but is not limited to, the authority to make any and all factual determinations and interpret all terms and provisions of this document (or any other document established for use in the administration of the Plan) relevant to the issue under consideration. The exercise of authority will be binding upon all persons; and it is intended that the exercise of authority be given deference in all courts of law to the greatest extent allowed under law, and that it not be overturned or set aside by any court of law unless found to be arbitrary and capricious.

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#### **SECTION 8.06 — TELEPHONIC OR ELECTRONIC NOTICES AND TRANSACTIONS**

Any notice that is required to be given under the Plan to a Participant or Beneficiary, and any action that can be taken under the Plan by a Participant or Beneficiary (including enrollments, changes in deferral percentages, withdrawals, distributions, investment changes, consents, etc.), may be by means of voice response, Internet, or other electronic system to the extent so authorized by the Company.

#### **SECTION 8.07 — REIMBURSEMENT OF LEGAL FEES**

If a Participant's or Beneficiary's claim for benefits under this Plan is denied pursuant to the CLAIMS PROCEDURES SECTION of this Article, the Company will be required to reimburse a Participant or Beneficiary who files a suit against the Company and prevails. Any such reimbursement of legal fees shall otherwise be made no later than the March 15<sup>th</sup> immediately following the year the Participant or Beneficiary obtains the right to reimbursement which is no longer subject to a substantial risk of forfeiture.

#### **SECTION 8.08 — TRUSTEE CONTROL UPON COMMENCEMENT OF BENEFIT PAYMENTS**

Upon the commencement of benefit payments under this Plan, the Company will provide the trustee of a rabbi trust, which may be used as a funding vehicle for the benefits due under the Plan, with written directions regarding the time and form of payments due to each Participant pursuant to this Plan. Any directions provided by the Company to the trustee will be irrevocable except to the extent the Company has provided the trustee with satisfactory evidence that:

- (a) the schedule provided by the Company contains an error with respect to the amount or time of payment to the Participant (in which case the Company will correct the error);
- (b) the payment due to the Participant has been paid directly by the Company or a Controlled Group Member;
- (c) the Company has a right of setoff against a scheduled payment under the RIGHT OF OFFSET SECTION of Article VII which cannot be satisfied from any other source; or

- (d) the Participant has engaged in felony conduct detrimental to the business of the Company.

The trustee will be obligated to follow a direction on file with it only to the extent of the assets held in the trust, and the trustee will have no obligation to seek funding of the trust from the Company or any Controlled Group Member.

## ARTICLE IX

### CONTRACTUAL OBLIGATIONS AND FUNDING

#### SECTION 9.01 — CONTRACTUAL OBLIGATIONS

The Plan creates a contractual obligation on the part of the Company and each Participating Controlled Group Member to provide benefits as set forth in the Plan with respect to:

- (a) Participants who hold a current agent contract with a DD 713 addendum or any successor full-time contract with the Company or that Participating Controlled Group Member;
- (b) Participants who held a current agent contract with a DD 713 addendum or any successor full-time contract with the Company or that Participating Controlled Group Member prior to Separation from Service; and
- (c) Beneficiaries of the Participants described in (a) and (b).

A Participating Controlled Group Member is not responsible for (and has no contractual obligation with respect to) benefits payable to a Participant who is or was employed with the Company or another Participating

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Controlled Group Member. If a Participant holds a current agent contract with a DD 713 addendum or any successor full-time contract with two or more employers (the Company and a Participating Controlled Group Member, or two or more Participating Controlled Group Members, etc.), either concurrently or at different times, each will be responsible for the benefit attributable to Elective Deferral Credits, Employer Credits and Transfer Credits made with respect to the period while the Participant was contracted with that employer, adjusted for earnings credits.

Principal Financial Group and the Company each will guarantee and assume secondary liability for the contractual commitment of each Participating Controlled Group Member under this Section.

In the event an employer ceases to be a Controlled Group Member with respect to the Company by reason of a stock sale, merger or similar corporate transaction involving an unrelated third party, the contractual obligation and liability for benefits that rested with such employer prior to the transaction will be retained by such employer (or its successor in interest) after it ceases to be a Controlled Group Member, unless the employer transfers such contractual obligation and liability with the consent of the affected Participant. For any Participant who continues to maintain a current agent contract with a DD 713 addendum or any successor full-time contract with an employer after it ceases to be a Controlled Group Member by reason of a sale of stock of such employer or its direct or indirect parent company, or similar corporate transaction, a Separation from Service will not have occurred solely as a result of such transaction.

In the event of a sale of substantial assets (such as a location or division, or substantially all assets of a trade or business) of the Company or a Controlled Group Member to an unrelated buyer, the Company or Controlled Group Member and the buyer may, with the consent of the Participant, agree to transfer the contractual obligation and liability for benefits with respect to any individual who becomes an Agent of the buyer or an affiliate of the buyer upon the closing or in connection with such transaction. In such case, if agreed to by both the Company or Controlled Group Member and the buyer, the transaction will not be deemed to constitute a Separation from Service and benefits thereafter will be paid in accordance with the terms of the Plan or a successor plan established by the buyer or an affiliate in a manner consistent with Code § 409A.

#### SECTION 9.02 — FUNDING

The Company has established a “rabbi” trust to serve as a funding vehicle for benefits payable under the Plan. However, neither the Company nor any Controlled Group Member will have any obligation to fund such trust.

Neither the Company nor any Controlled Group Member will transfer or contribute any funds to any rabbi trust during any “restricted period,” as defined in Code § 409A(b)(3)(B). If any funds are transferred or contributed during a restricted period and the Company certifies in writing that such transfer or contribution was disallowed under this provision, the funds will be deemed to have been transferred or contributed under a mistake of fact and will be returned to the Company or the Controlled Group Member, along with any earnings allocable to such funds, regardless of whether the rabbi trust’s terms establish it as revocable or irrevocable. Further, the assets of any rabbi trust hereby established will not be held or transferred outside of the United States, and the trust will not have any other feature that would result in a transfer of property being deemed to have occurred under Code § 409A (for example, there will be no funding obligation or restrictions on assets in connection with a change in financial health of the Company or any Controlled Group Member).

The establishment and funding of the rabbi trust will not affect the contractual obligations of the Company and Participating Controlled Group Members under the CONTRACTUAL OBLIGATIONS SECTION of this Article, except that such obligations with respect to any Participant or Beneficiary will be offset to the extent that payments are actually made from the trust to such Participant or Beneficiary. In the case of any transfer of contractual obligations outside of the Controlled Group Members (including by sale of the stock of a Controlled Group Member such that it no longer remains such) under the CONTRACTUAL OBLIGATIONS SECTION of this Article, the parties may arrange for a transfer of assets to a rabbi trust maintained by the buyer or an affiliate of the buyer.

Any rabbi trust used to fund benefits payable under this Plan may be used to fund benefits payable under any other non-qualified deferred compensation plan maintained by the Company or a Participating Controlled Group Member, whether existing or established in the future.

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## ARTICLE X

### GENERAL PROVISIONS

#### SECTION 10.01 — AMENDMENT AND TERMINATION

The Company has the right to amend this Plan. A Participating Controlled Group Member does not have the right to amend the Plan. The Plan can be amended or terminated at any time and for any reason by action of the following:

- (a) The Corporate Management Committee may terminate the Plan or adopt any amendment to the Plan.
- (b) Appropriate officers of the Company are authorized to make amendments to the Plan on an ongoing basis as they deem advisable to facilitate the administration of the Plan without substantially altering the level of benefits provided or the cost of the Plan to the Company, or to conform the Plan to applicable laws or regulations; provided such amendments are reviewed by the Corporate Management Committee.

No action by any person, body or committee with amendment authority will constitute an amendment to the Plan unless it is expressly designated as an amendment to the Plan or except as provided in the MODIFICATION BY EMPLOYMENT OR SIMILAR AGREEMENT SECTION of this Article.

The Corporate Management Committee or the appropriate officers generally will determine the effective date of any amendment or termination of the Plan. However, if Code § 409A requires a delayed effective date (for example, if an amendment changes a deferral rule in a way that must be delayed for twelve (12) months), then the amendment will be effective as of the later of the date determined by the Corporate Management Committee or the appropriate officers, or the earliest effective date allowed under Code § 409A. Also, a termination of the Plan will not be effective to cause a deferral election in place under the Plan for a Plan Year (including for Annual Incentive Pay or bonus for a fiscal year that starts within such Plan Year) to be modified or discontinued prior to the end of such Plan Year (or fiscal year), unless the Plan is terminated and liquidated pursuant to the liquidation termination provisions below.

The Plan may not be amended in a manner that has the effect of reducing the balance or vested percentage of any Participant's or Beneficiary's Accounts. This will not prohibit an amendment that reduces or eliminates the benefit accrued and payable under this Plan and shifts the liability for such benefit to another nonqualified retirement plan maintained by the Company or a Controlled Group Member, or any successor, or an amendment that is required by law or for which the failure to adopt the amendment would have adverse tax consequences to the Participants affected by such amendment (as determined by the Company).

The Corporate Management Committee may terminate the Plan and provide for the acceleration and liquidation of all benefits remaining due under the Plan pursuant to Treas. Reg. Section 1.409A-3(j)(4)(ix). If such a termination and liquidation occurs, all deferrals and credits under the Plan will be discontinued (and all Active Participants will cease to be Active Participants) as of the termination date established by the Corporate Management Committee, and benefits remaining due will be paid in a lump-sum at the time specified by the Corporate Management Committee as part of the action terminating the Plan and consistent with Treas. Reg. § 1.409A-3(j) (4) (ix). The Corporate Management Committee also may terminate the Plan other than pursuant to Treas. Reg. § 1.409A-3(j) (4) (ix). In the event of such other termination, all deferral and credits under the Plan will be discontinued (and all Active Participants will cease to be Active Participants) as of the end of the Plan Year, but all benefits remaining payable under the Plan will be paid at the same time and in the same form as if the termination had not occurred — that is, the termination will not result in any acceleration of any distribution under the Plan.

#### SECTION 10.02 — MODIFICATION BY EMPLOYMENT OR SIMILAR AGREEMENT

The Company or a Participating Controlled Group Member may be a party to an employment or similar agreement with a Participant, the terms of which may enhance or modify in some respect the benefits provided under this Plan, including, but not necessarily limited to, an enhancement to or modification of the benefit amount, payment forms and/or other rights and features of the Plan. The Plan consists only of this document

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and other documents contemplated under this document, but not including such employment or similar agreement. Accordingly, any contractual rights that a Participant may have to any enhancement or modification called for under an employment or similar agreement are rights that derive from such agreement and not directly from the Plan. Nonetheless, the Plan will be applied in a manner that takes into account any enhancements or modifications called for under an enforceable employment or similar agreement as if such provisions were part of the Plan; *provided that*, no change can be made to the Plan by means of an employment or similar agreement that would not have been allowed by means of an amendment to the Plan (for example, an amendment inconsistent with Code § 409A).

#### SECTION 10.03 — EMPLOYMENT/CONTRACT STATUS

Nothing contained in this Plan gives an Agent in the Eligible Group the right to continue to contract with the Company or Controlled Group Member or to interfere with the Company's or Controlled Group Member's right to discharge or terminate the contract of any Agent.

#### SECTION 10.04 — RIGHTS TO PLAN ASSETS; TAX CONSEQUENCES

Neither the Company nor any Controlled Group Member will have any obligation whatsoever to set aside funds for the Plan or for the benefit of any Participant or Beneficiary, and no Participant or Beneficiary will have any rights to any amounts that may be set aside other than the rights of an unsecured general creditor of the Company or Controlled Group Member that employs (or employed) the Participant.

Neither the Company nor any Controlled Group Member is making any representations or promises as to the tax consequences of participation in the Plan. Each Participant (and Beneficiary) shall be solely responsible for such tax consequences.

#### SECTION 10.05 — BENEFICIARIES

A Participant may designate any person (natural or otherwise, including a trust) as his Beneficiary to receive the survivor benefit (if any) payable when he dies, and may change or revoke a designation previously made without the consent of any Beneficiary. If a Beneficiary designation is not on file, or if no designated Beneficiary survives the Participant, the Beneficiary will be the person designated by the Participant under the Associated Plan or, in the absence of a designation, the default Beneficiary under the Associated Plan. If a primary Beneficiary becomes entitled to a survivor benefit upon the death of a Participant but dies prior to complete distribution of such benefit, the remaining benefit will be paid to any contingent Beneficiary designated by the Participant, or if there is no surviving contingent Beneficiary, the remaining benefit will be paid to the estate of the primary Beneficiary. A Beneficiary designation must be made on such form and in accordance with such rules as may be prescribed for this purpose by the Company. A Beneficiary designation will be effective (and will revoke all prior designations) if it is received by the Company (or if sent by mail, the post-mark of the mailing is) prior to the date of death of the Participant.

#### **SECTION 10.06 — STATEMENTS**

The Company may cause benefit statements to be issued from time to time advising Participants and Beneficiaries of the balance and/or investment of their Accounts, but it is not required to issue benefits statements.

The Company may correct errors that appear on benefit statements at any time, and the issuance of a benefit statement (and any errors that may appear on a statement) will not in any way alter or affect the rights of a Participant or Beneficiary with respect to the Plan. Each Participant or Beneficiary has a duty to promptly review each benefit statement and to notify the Company of any error that appears on such statement within a reasonable period of time after such statement is provided or made available to the Participant or Beneficiary (for example, the date the statement is sent by mail, or the date the statement is provided or made available electronically). If a Participant or Beneficiary fails to review a benefit statement or fails to notify the Company of any error that appears on such statement within a reasonable period of time, he will not be able to bring any claim seeking relief or damages based on the error.

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#### **SECTION 10.07 — NONALIENATION OF BENEFITS**

Benefits payable under the Plan are not subject to the claims of any creditor of any Participant or Beneficiary. A Participant or Beneficiary does not have any rights to alienate, anticipate, commute, pledge, encumber or assign any of such benefits. The preceding sentences will also apply to the creation, assignment, or recognition of a right to any benefit payable with respect to a Participant according to a domestic relations order, except as provided in the DISTRIBUTIONS PURSUANT TO A DOMESTIC RELATIONS ORDER SECTION of Article VII.

#### **SECTION 10.08 — CONSTRUCTION**

The validity of the Plan or any of its provisions is determined under and construed according to Federal law and, to the extent permissible, according to the laws of the state in which the Company has its principal office. In case any provision of this Plan is held illegal or invalid for any reason, such determination will not affect the remaining provisions of this Plan, and the Plan will be construed and enforced as if the illegal or invalid provision had never been included.

In the event of any conflict between the provisions of the Plan and the terms of any contract or policy issued hereunder, the provisions of the Plan control the operation and administration of the Plan.

#### **SECTION 10.09 — WORD USAGE**

The masculine gender, where used in this Plan, will include the feminine gender and the singular words as used in this Plan may include the plural, unless the context indicates otherwise.

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On behalf of the Company, this Amended and Restated Principal Select Savings Excess Plan for Individual Field, having been approved by the Corporate Management Committee of the Company, is executed this 30th day of December, 2015

By /s/ Tammy DeHaai  
Tammy DeHaai  
Title: Vice President-HR Chief Operating Officer

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### **ATTACHMENT A**

#### **PARTICIPATING CONTROLLED GROUP MEMBERS**

Principal National Life Insurance Company

January 1, 2009

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**THE NONQUALIFIED DEFERRED COMPENSATION PLAN FOR  
SELECT INVESTMENT PROFESSIONALS OF  
PRINCIPAL FINANCIAL GROUP, INC. AND AFFILIATES**  
(Effective January 1, 2016)

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**INTRODUCTION**

The Company has established the Nonqualified Deferred Compensation Plan for Select Investment Professionals of Principal Financial Group, Inc. and Affiliates for the benefit of a select group of management and highly compensated employees, who, due to the amount of their compensation, are unable to fully participate in the elective deferral contributions available to the other eligible participants in the Associated Plan.

The Plan covers common-law employees and is designed and intended to be a “top-hat” plan — that is, an unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees within the meaning of ERISA §§ 201 (2), 301 (a) (3) and 401 (a) (1), and therefore is exempt from Parts 2, 3 and 4 of Title I of ERISA. The Plan is intended to be a nonqualified plan for purposes of Code § 401. The Plan also is intended to be a nonqualified deferred compensation plan that meets the requirements of paragraphs (2), (3) and (4) of Code § 409A(a), and the terms and provisions of the Plan should be interpreted and applied in a manner consistent with such requirements, including final Treasury Regulations and other guidance issued under Code § 409A.

This plan is effective January 1, 2016.

**ARTICLE I**

**DEFINITIONS**

**SECTION 1.01 — FORMAT**

Words and phrases defined in the DEFINITIONS SECTION of this Article will have the defined meaning when used in this Plan, unless the context clearly indicates otherwise. These words and phrases will have an initial capital letter to aid in identifying them as defined terms.

Words and phrases with an initial capital letter that are not defined in the DEFINITIONS SECTION of this Article will have the meaning assigned to such word or phrase under the Associated Plan, unless the context clearly indicates otherwise.

**SECTION 1.02 — DEFINITIONS**

Account means an account established for a Participant pursuant to the ACCOUNTS SECTION of Article III.

Active Participant means an Employee in the Eligible Group who has enrolled in this Plan.

Administrator means Principal Life Insurance Company. The Administrator has authority to control and manage the operation and administration of the Plan and make all decisions and determinations incident thereto.

Aggregated Plan means any other deferred compensation plan maintained by the Company or a Controlled Group Member that is subject to Code § 409A and that is aggregated with this Plan under Treasury Regulation § 1.409A-1(c) (2).

Annual Incentive Pay means an annual payment received under a plan designated by the Company. Amounts received from a long-term performance plan or stock accumulation program shall not be considered Annual Incentive Pay for purposes of the Plan.

Associated Plan means The Principal Select Savings Plan for Employees.

Beneficiary means the person or persons designated as such pursuant to the BENEFICIARIES SECTION of Article X.

Benefit Plans Investment Committee means the Benefit Plans Investment Committee of Principal Life Insurance Company.

Board means the Board of Directors of Principal Financial Group.

Change of Control means the date of occurrence of any of the following, to the extent such occurrence constitutes a change of control event (as defined in Treasury Regulation § 1.409A-3(i) (5) (i)) with respect to Principal Financial Group:

- (a) a change in the ownership of Principal Financial Group occurs when any one person or a group of persons acquires stock in Principal Financial Group that is more than fifty percent (50%) of the total fair market value or total voting power of the stock of Principal Financial Group;
- (b) a change in the effective control of Principal Financial Group occurs when any one person or a group of persons acquires within a twelve (12)-month period, stock in Principal Financial Group possessing thirty percent (30%) or more of the total voting power of the stock of Principal Financial Group; or when a majority of the board of directors of Principal Financial Group is replaced during a twelve (12)-month period by directors whose appointment or election is not endorsed by a majority of the board of directors of Principal Financial Group; or
- (c) a change in the ownership of a substantial portion of the assets of Principal Financial Group occurs when any one person or group of persons acquires or has acquired during a twelve (12)-month period, assets from Principal Financial Group that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of Principal Financial Group immediately prior to such acquisition.

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

Common Stock means the common stock, par value \$0.01, of Principal Financial Group.

Company means Principal Financial Group and any successors thereto.

Compensation means income as reported in the "Wages, Tips, and Other Compensation" box on Form W-2 attributable to services performed for the Company or a Participating Controlled Group Member. Compensation also includes any elective deferral (as defined in Code § 402(g) (3)) to the Associated Plan, and any amount which is deferred at the election of the Employee under this Plan or any other nonqualified plan maintained by the Company or Participating Controlled Group Member, and any amount which is contributed or deferred at the election of the Employee which is not includible in the gross income of the Employee by reason of Code §§ 125, 132(f) (4) or 457.

Compensation will exclude the following:

- (a) expense reimbursements or other expense allowances, fringe benefits (cash and non-cash), moving expenses, deferred compensation (other than elective contributions as stated above), and welfare benefits (except short-term disability);
- (b) Annual Incentive Pay earned with respect to service while not classified by the Company's or Participating Controlled Group Member's payroll system as "investment" or "industry variant";
- (c) any bonus or incentive pay paid by the Company or a Controlled Group Member, other than Annual Incentive Pay not otherwise excluded by (b) above, unless otherwise designated by the Company, including (but not limited to):
  - (i) any amount paid under The Principal Long Term Incentive Compensation Plan or other long-term incentive compensation plan or any stock incentive plan;
  - (ii) any sign-on bonus or stay bonus;
  - (iii) any bonus to share in the proceeds or any stay bonus paid to an Employee as a result of the acquisition of Old Northwest Agents Limited Partnership;
- (d) amounts earned as a result of an Employee's Separation from Service;
- (e) any lump-sum payout under the Principal Personal Time Off Policy;
- (f) any income from restricted stock or stock units or the exercise of statutory or non-statutory stock options under any plan maintained by the Company or Participating Controlled Group Member, except as specifically provided in a written agreement or other writing of the Company or Participating Controlled Group Member in effect prior to the start of the applicable Plan Year;
- (g) any amounts earned after an Employee's Separation from Service, except for amounts earned for services attributable to the final payroll period that includes the date of the Employee's Separation from Service.

Controlled Group Member means any corporation or other business entity that is a member of the same controlled group as, or under common control with, the Company as determined under Code § 414(b) or (c) (and for purposes of determining whether a Separation from Service has occurred, a standard of "at least 80 percent" will be used to identify a controlled group member under Code § 414(b) and (c) notwithstanding the default standard of "at least 50 percent" found in Treasury Regulation § 1.409A-1(h)(3)).

Elective Deferral Credit means a credit to an Account made in accordance with the ELECTIVE DEFERRAL CREDITS SECTION of Article III.

Eligible Group means the group of Employees who are eligible to participate in the Plan, as determined under the ELIGIBLE GROUP SECTION of Article II.

Employee means any common-law employee of the Company or a Controlled Group Member (while it is Controlled Group Member).

Employer Discretionary Credit means a credit to the Account made in accordance with the EMPLOYER DISCRETIONARY CREDITS SECTION of Article III.

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

In-Service Account means an Account to be kept for each Participant that has elected to take an In-Service Distribution as described in the DISTRIBUTION EVENTS SECTION of Article V.

Participant means any Active Participant, or any current or former Employee who is not an Active Participant but who has a balance remaining in an Account under the Plan.

Participating Controlled Group Member means any Controlled Group Member that has adopted the Plan and that employs one or more Participants, as listed in Attachment A (a Participating Controlled Group Member will automatically cease to participate if it ceases to be a Controlled Group Member).

Plan means The Nonqualified Deferred Compensation Plan for Select Investment Professionals of Principal Financial Group, Inc. and Affiliates.

Plan Year means the calendar year.

Principal Financial Group means Principal Financial Group, Inc., a Delaware corporation, together with all successors thereto.

Retirement Account means an Account to be kept for each Participant as described in the DISTRIBUTION EVENTS SECTION of Article V.

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Separation from Service means a “separation from service” within the meaning of Code § 409A.

Generally this means that the Participating Controlled Group Member that employs the Participant and the Participant reasonably anticipate that no further services will be performed for the Company or any Controlled Group Member after a certain date or that the level of services the Participant will perform after such date (whether as an Employee or independent contractor) will permanently decrease to twenty percent (20%) or less of the average level of bona fide services performed over the immediately preceding thirty-six (36) month period (or the full period of services if the Participant has been providing services for less than thirty-six (36) months).

In the case of a leave of absence by a Participant where there is a reasonable expectation that the Participant will return to service with the employer after such leave of absence, a Separation from Service will be deemed to have occurred on the date that is six (6) months following the start of such leave; *provided that*, if the Participant has a statutory or contractual right to return to active employment that extends beyond the end of such leave period, the Separation from Service will be deemed to have occurred upon the expiration of such statutory or contractual right; and if such Employee has a Termination of Employment during such leave period, the Separation from Service will be deemed to have occurred on such Termination of Employment.

In the case of a sale or other disposition of stock or substantial assets, whether a Separation from Service has occurred may be affected by the provisions of the CONTRACTUAL OBLIGATIONS SECTION of Article IX.

Specified Employee means an Employee who at any time during the twelve (12) month period ending on the identification date (defined below) was a “key employee” as defined under Code § 416(i) (applied in accordance with the regulations thereunder, but without regard to paragraph (5) thereof). The Administrator or the Company may adopt a Specified Employee Identification Policy that specifies the identification date, the effective date of any change in the key employee group, compensation definition and other variables that are relevant in identifying Specified Employees, and which may include an alternative method of identifying Specified Employees consistent with the regulations under Code § 409A. In the absence of any such policy or policy provision, for purposes of the above, the “identification date” is each December 31st, and an Employee who satisfies the above conditions will be considered to be a “Specified Employee” from April 1st following the identification date to March 31st of the following year, and the compensation and other variables, and special rules for corporate events and special rules relating to nonresident aliens, that are necessary in identifying Specified Employees will be determined and applied in accordance with the defaults specified in the regulations under Code § 409A. Any Specified Employee Identification Policy will apply uniformly to all nonqualified deferred compensation plans subject to Code § 409A that are maintained by the Company or a Controlled Group Member.

Termination of Employment means that the common-law employer-employee relationship has ended between the Employee and the Company and Controlled Group Members, as determined under the employment policies and practices of the Company (including by reason of voluntary or involuntary termination, retirement, death, expiration of and failure to return from a recognized leave of absence, or otherwise). A Termination of Employment does not occur merely as a result of transfer of employment from one Controlled Group Member to another Controlled Group Member or from the Company to a Controlled Group Member or from a Controlled Group Member to the Company. In the case of an Employee working for a Controlled Group Member, a Termination of Employment will not occur merely because his employer no longer satisfies the definition of a Controlled Group Member by reason of a stock sale or similar corporate transaction (assuming the individual continues in the employ of that employer or a new affiliate of that employer after the sale).

Valuation Date means each day on which trading occurs on the New York Stock Exchange.

## **ARTICLE II**

### **PARTICIPATION**

#### **SECTION 2.01 — ELIGIBLE GROUP**

All Employees who are in the Eligible Group will be eligible to participate in the Plan. An Employee is in the Eligible Group if:

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- (a) He is employed with the Company or a Participating Controlled Group Member (while it is a Participating Controlled Group Member);
- (b) He is eligible for the Associated Plan;
- (c) His Compensation in any Plan Year is one hundred and twenty-five percent (125%) or more of the compensation level required to be a “highly compensated employee” under Code § 414(q); and
- (d) The Corporate Management Committee, which is described in the ADMINISTRATION SECTION of Article VIII, has selected the individual for participation and has directed the Administrator to notify the individual in writing that he is eligible to participate in the Plan.

The Corporate Management Committee (or, in the case of a Senior Vice President or above, the Human Resources Committee of the Board) in its sole and absolute discretion may determine that an Employee who satisfies the conditions of paragraph (c) above will not be eligible to participate in the Plan, or may determine that an Employee who does not satisfy the conditions of paragraph (c) above will be eligible to participate in the Plan. However, the Plan is intended to cover only those Employees who are in a select group of management or highly compensated employees within the meaning of ERISA §§ 201(2), 301(a) (3) and 401(a) (1); and, accordingly, if any interpretation is issued by the Department of Labor that would exclude any Employee from satisfying that requirement, such Employee immediately will cease to be in the Eligible Group.

An Employee will cease to be in the Eligible Group upon his Separation from Service or as of such earlier date on which he ceases to satisfy the eligibility requirements specified above.

An Employee who ceases to be in the Eligible Group will cease to be an Active Participant as of the date provided in the END OF ELIGIBILITY AND PARTICIPATION SECTION of this Article.

#### **SECTION 2.02 — NOTICE OF ELIGIBILITY**

The Administrator will notify an Employee in writing of his eligibility to participate in the Plan and an individual will not be eligible until he receives such notice.

#### **SECTION 2.03 — INITIAL ENROLLMENT**

An Employee in the Eligible Group who has not already been a participant in any Aggregated Plan will be allowed to enroll in and make initial deferral and distribution elections under the Plan during the thirty (30) day period following the date he is notified of his eligibility to participate in the Plan, with enrollment to be effective as of the first day of the month that next follows the last day of such thirty (30) day period. Deferral and distribution elections will be irrevocable at the end of the thirty (30) day period. Otherwise, an Employee in the Eligible Group may enroll and make initial deferral and distribution elections for the next or any subsequent Plan Year during the annual enrollment period established by the Company for such Plan Year, which annual enrollment period will end not later than the last day of the prior Plan Year. Notwithstanding the foregoing, an Employee in the Eligible Group also shall be permitted to make an election against Annual Incentive Pay to the extent permitted by, and in accordance with, the provisions of the ELECTION APPLIED AGAINST ANNUAL INCENTIVE PAY FOR CERTAIN PARTICIPANTS SECTION of Article III.

An enrollment election is required and must be made in such manner and in accordance with such rules as may be prescribed for this purpose by the Administrator.

#### **SECTION 2.04 — END OF ELIGIBILITY AND PARTICIPATION**

An Active Participant will continue as an Active Participant until the earliest of:

- (a) The date of his Separation from Service;
- (b) The date on which the Plan is terminated in a liquidation termination described in the AMENDMENT AND TERMINATION SECTION of Article X; or

- (c) The last day of the Plan Year in which he ceases to be in the Eligible Group (other than as a result of a Separation from Service) or in which the Plan is terminated other than in a liquidation termination described in the AMENDMENT AND TERMINATION SECTION of Article X.

A Participant will continue as a Participant until he has received a full distribution of the benefit due under the Plan.

In the event a Participant’s eligibility under this Plan ceases as the result of a change in workforce classification and as a result the Participant becomes eligible and enrolls in The Principal Select Savings Excess Plan for Employees or The Principal Select Savings Excess Plan for Individual Field, his benefits and liabilities will not transfer to such plan.

#### **SECTION 2.05 — REENROLLMENT FOLLOWING A BREAK IN ELIGIBILITY**

Except as otherwise provided in the DISTRIBUTION EVENTS SECTION of Article V, in the case of an individual who ceases to be in the Eligible Group and who later reenters the Eligible Group:

- (a) If he reenters the Eligible Group twenty-four (24) months or more after he both ceases to be an Active Participant and ceases to be eligible under all Aggregated Plans, he will be eligible to reenroll in accordance with the INITIAL ENROLLMENT SECTION of this Article.
- (b) If he reenters the Eligible Group within twenty-four (24) months after he both ceases to be an Active Participant and ceases to be eligible under all Aggregated Plans, the deferral and distribution elections that were in effect when he ceased to be in the Eligible Group will be reinstated when he

reenters the Eligible Group.

The deferral and distribution elections made upon rehire or subsequent changes to such elections will not affect the distribution of benefits the individual may be receiving as a result of a previous distribution event.

### **ARTICLE III**

#### **CONTRIBUTION CREDITS**

##### **SECTION 3.01 — ELECTIVE DEFERRAL CREDITS**

Elective Deferral Credits will be made for each pay date on behalf of each Active Participant who has enrolled in the Plan and thereby elects to have his Compensation reduced in order to receive Elective Deferral Credits. The Elective Deferral Credits for a pay date will be added to the appropriate Account on or as soon as administratively practicable after the pay date in an amount equal to the amount of the reduction in his Compensation.

An Active Participant may elect to reduce his Compensation in accordance with the following:

- (a) Any election against Annual Incentive Pay may be made in any percentage up to two (2) decimal places not more than one-hundred percent (100%).
- (b) Any election against all other Compensation may be made in any percentage up to two (2) decimal places not to exceed fifteen percent (50%).

The elections made under (a) and (b), above, will be effective during the Plan Year.

A deferral election (or the modification or revocation of a deferral election) must be made in such manner and in accordance with such rules as may be prescribed for this purpose by the Administrator. A deferral election must be made as part of enrollment described in the INITIAL ENROLLMENT SECTION of Article II.

Compensation will be reduced first to provide Elective Deferral Credits under this Plan, prior to any reduction for any contribution or other amount drawn from Compensation. However, the FICA taxes due on Elective Deferral Credits and Employer Discretionary Credits pursuant to the EMPLOYER DISCRETIONARY CREDITS

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SECTION OF Article III, plus pyramided income taxes on such FICA amounts, will be drawn from the Plan and will first reduce the net Elective Deferral Credits and the Employer Discretionary Credits to the extent other Compensation is not available to provide for FICA.

A deferral election applied against any Compensation must be made by December 31st (or such earlier date as may be established by the Company) of the year prior to the year in which the services are performed that give rise to the right to receive such Compensation. A separate deferral election will be allowed for Annual Incentive Pay and all other Compensation. The deferral of Annual Incentive Pay will apply to Annual Incentive Pay earned in the Plan Year in which the services attributable to the Annual Incentive Pay are performed, without regard to when the Annual Incentive Pay is actually paid.

For the Plan Year in which an Employee is first notified of eligibility for the Plan, an election made within the thirty (30) day period referenced in the INITIAL ENROLLMENT SECTION of Article II (if applicable to the Employee) will apply to Compensation and Annual Incentive Pay attributable to pay periods that start after the effective date of enrollment as provided in the INITIAL ENROLLMENT SECTION of Article II. The initial election will apply to a pro-rata portion of any Annual Incentive Pay payable for services performed during the period in which the election becomes irrevocable (with the percentage determined by dividing the number of days remaining in the performance or service period after the effective date of the enrollment over the total number of days in the performance or service period).

Except as otherwise provided in the DISTRIBUTION EVENTS Section of Article V, an election applied against any Compensation will be “evergreen” — that is, it will automatically be carried over and applied to the next Plan Year unless revoked or changed by the Participant by December 31st (or such earlier date as may be established by the Administrator) of the prior Plan Year; *except that*, an election will not apply to a Plan Year (and a new election will be required) if the election would result in any credits inconsistent with the terms of the Plan. An election generally will be irrevocable for a Plan Year, but will be revoked if: the Participant receives a withdrawal for unforeseeable emergency from this Plan pursuant to the UNFORESEEABLE EMERGENCY WITHDRAWALS SECTION of Article V (or receives a comparable withdrawal from any Aggregated Plan).

An election in effect for a given Plan Year (or portion thereof) with respect to any Compensation that is paid as part of payroll will apply only to payroll periods ending within the Plan Year (i.e., if the final payroll period starts within a Plan Year and ends in the following Plan Year, the election in effect for the following Plan Year will apply to amounts payable for such payroll period).

The Administrator may, in its sole discretion, limit the minimum or maximum amount of Elective Deferral Credits that are allowed under the Plan by any Active Participant or any group of Active Participants, provided that such limit is established in writing prior to the beginning of the Plan Year or prior to enrollment of the affected Participant.

##### **SECTION 3.02 — EMPLOYER DISCRETIONARY CREDITS**

The Company or a Participating Controlled Group Member may make Employer Discretionary Credits to the Account of an Active Participant as determined each Plan Year by the Company or a Participating Controlled Group Member.

##### **SECTION 3.03 — ACCOUNTS**

Accounts will be maintained under the Plan on behalf of each Participant to separately reflect amounts attributable to:

- (a) Elective Deferral Credits under the ELECTIVE DEFERRAL CREDITS SECTION of this Article and

(b) Employer Discretionary Credits under the EMPLOYER DISCRETIONARY SECTION of this Article.

A Participant's Account may consist of one or more accounts, including Retirement Accounts and In-Service Accounts. A Participant may elect a single form of distribution, as described in the FORM OF DISTRIBUTION SECTION of Article VI, for each account.

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Account balances will be expressed in United States Dollars.

Accounts are for bookkeeping purposes only and the maintenance of Accounts will not require any segregation of assets of the Company or any Participating Controlled Group Member. Neither the Company nor any Participating Controlled Group Member will have any obligation whatsoever to set aside funds for the Plan or for the benefit of any Participant or Beneficiary, and no Participant or Beneficiary will have any rights to any amounts that may be set aside other than the rights of an unsecured general creditor of the Company or Participating Controlled Group Member that employs (or employed) the Participant.

#### ARTICLE IV

#### EARNINGS CREDITS AND EXPENSES

##### SECTION 4.01 — ADJUSTMENT TO REFLECT EARNINGS CREDITS

Accounts will be adjusted (increased or decreased) as of each Valuation Date to reflect earnings credits as determined under the EARNINGS CREDITS and the EXPENSES SECTIONS of this Article.

##### SECTION 4.02 — EARNINGS CREDITS

Earnings credits will be determined based on the performance of one or more investment options deemed to be available under the Plan.

The Benefit Plans Investment Committee, in its sole discretion, will determine the investment options that will be available as benchmarks for determining the earnings credit, which may include mutual funds, common or commingled investment funds, group annuity contracts or any other investment option deemed appropriate by the Benefit Plans Investment Committee, and may include a fund that invests (or is deemed to invest) in Common Stock. The Benefit Plans Investment Committee may at any time and from time to time add to, remove from or substitute the investment options deemed to be available under the Plan.

A Participant (or Beneficiary following the death of the Participant) will be allowed on a hypothetical basis to direct the investment of his Account among the investment options available under the Plan. Hypothetical investment directions may be given with such frequency as is deemed appropriate by the Administrator, and must be made in such percentage or dollar increments, in such manner and in accordance with such rules as may be prescribed for this purpose by the Administrator (including by means of a voice response or other electronic system under circumstances so authorized by the Administrator). If an investment option has a loss, the earnings credit attributable to such investment option will serve to reduce the Account; similarly, if an investment option has a gain, the earnings credit attributable to such investment option will serve to increase the Account. If the Participant fails to elect an investment option, the earnings credit will be based on such "default" investment option as may be selected for this purpose by the Benefit Plans Investment Committee.

Earnings credits (both increase and reductions) will be reflected through the date of payment as provided in the TIME OF DISTRIBUTION SECTION of Article VII.

An Account is subject to any minimum guarantees applicable under a group annuity contract or other investment arrangement.

##### SECTION 4.03 — HYPOTHETICAL INVESTMENTS

All investment directions of a Participant or Beneficiary will be on a "hypothetical" basis for the sole purpose of establishing the earnings credit for his Account — that is, the Account will be adjusted for earnings credits as if the Account were invested pursuant to the investment directions of the Participant or Beneficiary, but actual investments need not be made pursuant to such directions. However, the Administrator, in its sole discretion and without any obligation, may direct that investments be made per the investment directions of Participants and Beneficiaries in order to hedge the liability of the Company and Participating Controlled Group Members.

If the Benefit Plans Investment Committee directs that investments actually be made in Common Stock to hedge liability, any transactions costs (brokerage fees and commissions) on purchases and sales of Common

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Stock will be charged to the Participant's Account.

##### SECTION 4.04 — DURATION OF INVESTMENT CONTROL

A Participant will be allowed to direct investments on a hypothetical basis until his Account is paid as a lump-sum measured under the CALCULATION OF LUMP-SUM OR INSTALLMENT PAYMENTS SECTION of Article VI, or throughout the installment period as provided in the CALCULATION OF LUMP-SUM OR INSTALLMENT PAYMENTS SECTION of Article VI.

##### SECTION 4.05 — EXPENSES

The Administrator, in its sole discretion, may reduce a Participant's Account to reflect the Participant's proportional share of expenses related to administration of the Plan.

**ARTICLE V**

**DISTRIBUTION EVENTS**

**SECTION 5.01 — UNFORESEEABLE EMERGENCY WITHDRAWALS**

A Participant may make a withdrawal from his Account in the event of an unforeseeable emergency. Such withdrawal will be paid in a single lump-sum payment as soon as administratively practicable after the withdrawal request is received by the Administrator, and the Administrator, in its sole discretion, has determined that the Participant has an unforeseeable emergency within the meaning of the Plan.

The Elective Deferral Credits of the Participant will automatically stop in the event of an unforeseeable emergency withdrawal. The Participant will be allowed to file an election to defer Compensation during the annual election period that next follows the unforeseeable emergency withdrawal. Such election will be effective for the Plan Year following the Plan Year in which the unforeseeable emergency withdrawal occurred.

A Participant will be allowed to direct the hypothetical investments from which an unforeseeable emergency withdrawal is deemed to be drawn or, in the absence of an affirmative designation, the withdrawal will be deemed to be drawn on a pro-rata basis from the various investments of the Account.

An “unforeseeable emergency” for this purpose means a severe financial hardship resulting from an illness or accident of the Participant or his spouse or dependents (which the Participant certifies as satisfying the standards of Code § 152, without regard to subsections (b) (1), (b) (2) and (d) (1) (B)), property casualty loss to the Participant, or other similar extraordinary and unforeseeable circumstances of the Participant arising as a result of events beyond the control of the Participant, which is not covered by insurance and may not be relieved by reimbursement or compensation from insurance or otherwise, by the liquidation of other assets (provided that such liquidation would not cause an unforeseeable emergency), or by cessation of deferrals under the Plan, and which is determined, based on the relevant facts and circumstances, to qualify as an unforeseeable emergency under Code § 409A. Cash needs arising from foreseeable events such as the purchase of a residence or education expenses for children will not, alone, be considered an unforeseeable emergency.

The amount available from a Participant’s Accounts on account of an unforeseeable emergency is limited to the amount necessary to satisfy such hardship, plus amounts necessary to pay any taxes anticipated to result from the distribution, as determined by the Administrator.

**SECTION 5.02 — DISTRIBUTION EVENTS**

A Participant’s Retirement Account will be distributed upon the first of the following distribution events to occur:

- (a) Separation from Service Distribution. A Participant’s Account becomes payable on the date he incurs a Separation from Service as provided in the FORM OF DISTRIBUTION SECTION of Article VI.
- (b) Death Distribution. A Participant’s Account becomes payable upon death as provided in the FORM OF DISTRIBUTION SECTION of Article VI.

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- (c) Change of Control Distribution. A Participant’s Account becomes payable upon a Change of Control as provided in the FORM OF DISTRIBUTION SECTION of Article VI.

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A Participant’s In-Service Account will be distributed upon the first to occur of the events listed in (a) - (c) above or the date specified by a Participant as provided in the FORM OF DISTRIBUTION SECTION of Article VI. A Participant may have unlimited numbers of In-Service Accounts. Each such In-Service Account shall be subject to the following rules:

- (i) In no event may an In-Service Account become payable on a specified date that is less than two years after the first day of the year in which any deferral election to such In-Service Account becomes effective.
- (ii) In no event shall Elective Deferral Credits or Employer Discretionary Credits be credited to an In-Service Account during the Plan Year that contains the specified date of the In-Service Distribution. To the extent Elective Deferral Credits or Employer Discretionary Credits would be credited to an In-Service Account, either affirmatively or by operation of the REENROLLMENT FOLLOWING A BREAK IN ELIGIBILITY SECTION of Article II or the ELECTIVE DEFERRAL CREDITS SECTION of Article III, in the Plan Year that contains the specified date of the In-Service Distribution, such amounts will be credited to the Participant’s Retirement Account. If the Participant only has one Retirement Account, such amount will be credited to that Account. If the Participant has multiple Retirement Accounts, and one of the Accounts has a lump sum at Separation from Service form of distribution election pursuant to the FORM OF DISTRIBUTION SECTION of Article VI, such amount will be credited to that Account. If the Participant has multiple Retirement Accounts and does not have an Account with a lump sum at Separation from Service form of distribution election, one will be established with a lump sum at Separation from Service form of distribution election and such amount will be credited to this Account.

A distribution may be delayed if the Participant is a Specified Employee as provided in the SPECIFIED EMPLOYEE SECTION of Article VII.

**SECTION 5.03 — ACCELERATION UPON CHANGE OF CONTROL**

If a Change of Control occurs while a Participant is receiving installment payments (or is scheduled to commence such payments) and the Participant had elected a more rapid payment schedule to apply in the event of a Change of Control (for example, a lump-sum payment), the more rapid payment schedule will apply following the Change of Control.

**SECTION 5.04 — CASH-OUT OF SMALL ACCOUNTS**

If the balance of the Participant's Accounts under this Plan does not exceed the applicable dollar amount then in effect under Code § 402(g)(1)(B) as of the distribution date then the Participant will be paid the full balance of his Accounts in a single-sum distribution in full settlement of all obligations under the Plan. Also, if the balance (or remaining balance) of a Participant's Accounts, together with his interest under all Aggregated Plans does not exceed the applicable dollar amount then in effect under Code § 402(g)(1)(B) as of the scheduled distribution date or any date thereafter then the Administrator may in its sole and absolute discretion direct that the Participant be paid the balance of his Accounts under this Plan, plus his entire interest under all Aggregated Plans, in a single-sum distribution in full settlement of all obligations under the Plan and such other plans.

## **ARTICLE VI**

### **DISTRIBUTION OPTIONS**

#### **SECTION 6.01 — FORM OF DISTRIBUTION**

A Death Distribution or a Change of Control Distribution will be paid as a single lump-sum payment.

A Participant may elect to receive a distribution, other than a Death Distribution or Change of Control Distribution, in any of the following forms (subject to the CASH-OUT OF SMALL ACCOUNTS SECTION of Article V):

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- (a) A single lump-sum payment.
- (b) Annual installment payments.
  - (i) In the case of a Separation from Service Distribution, a series of annual installments over a period of up to ten (10) years
  - (ii) In the case of an In-Service Distribution, a series of annual installments over a period of up to five (5) years.

A Participant may elect to establish multiple Retirement Accounts. Each Retirement Account may have a different form of distribution, as provided in this section.

A Participant may elect to establish multiple In-Service Accounts. Each In-Service Account may have a different form of distribution, as provided in this section. A Participant will also be required to elect a form of distribution in the event of a Separation from Service for each In-Service Account.

#### **SECTION 6.02 — CALCULATION OF LUMP-SUM OR INSTALLMENT PAYMENTS**

The amount of the single lump-sum cash payment will be determined based on the applicable Account balance as of the actual date of distribution from the Plan.

If the Participant elects to receive annual installments, the payment of each installment shall be made on the anniversary of the date of the first installment payment, and the amount of the installment shall be adjusted on such anniversary. Such adjustment shall be made by dividing the balance in the applicable Account on such date by the number of installments remaining to be paid; provided that the last installment due under the Plan shall be the entire amount credited to such Account on the date of payment.

The installment payment stream will be treated as a single payment (made at the first scheduled payment date) for purposes of Code § 409A.

#### **SECTION 6.03 — DISTRIBUTION ELECTION PROCEDURES**

An election regarding the form of payment under the Plan must be made in such manner and in accordance with such rules as may be prescribed for this purpose by the Administrator. A distribution election will be effective only if it is received in properly completed form by the Administrator as part of the Participant's enrollment in the Plan.

In accordance with the requirements and procedures prescribed by the Administrator, a Participant may elect to defer payment, *provided that*:

- (a) The election to defer must be received in properly completed form by the Administrator at least twelve (12) months prior to the distribution event; and
- (b) The deferral must be for at least five (5) years from the originally scheduled payment date provided that this requirement will not apply to an election to defer payment upon death.

#### **SECTION 6.05 — DEFAULT ELECTIONS**

If a Participant fails to file a timely election as to the form of distribution, the distribution will be made in the form of a single lump-sum distribution of the full balance of the Account determined as of the date of actual payment from the Plan.

#### **SECTION 6.06 — SURVIVOR BENEFITS**

If a Participant dies prior to the full distribution of his Account, his Beneficiary will be entitled to a single lump-sum payment.

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The survivor benefit will be paid to the Beneficiary on the death of the Participant consistent with the TIME OF DISTRIBUTION SECTION OF Article VII.

## ARTICLE VII

### TIMING OF DISTRIBUTION

#### SECTION 7.01 — TIME OF DISTRIBUTION

The Administrator, in its sole discretion, if it deems it necessary or appropriate for administrative reasons, may defer any payment to a date later than the scheduled payment date within the calendar year or, if later, to the fifteenth (15<sup>th</sup>) day of the third calendar month following the scheduled payment date, without adjustment for deferred payment of any installment. Earnings credits (both increase and reductions) will be reflected through the date of payment as provided above.

#### SECTION 7.02 — SPECIFIED EMPLOYEE

A distribution made due to a Separation from Service of a Participant who is a Specified Employee on the Separation from Service date will not under any circumstances be made prior to the first business day that is six (6) months and one (1) day following the Participant's Separation from Service, except in the case of an intervening death of the Participant as provided in the FORM OF DISTRIBUTION SECTION of Article VI. However, this delayed payment requirement does not apply to any distribution event other than Separation from Service.

Any payments to which such Specified Employee would be entitled during the first six months following the date of Separation from Service shall be accumulated and paid on the first day of the seventh month following the date of Separation from Service, and shall be adjusted for earnings credits pursuant to the HYPOTHETICAL INVESTMENTS SECTION of Article IV.

#### SECTION 7.03 — DISTRIBUTIONS PURSUANT TO A DOMESTIC RELATIONS ORDER

The Plan permits the benefits actually payable to a Participant to be divided with a spouse or former spouse of the Participant who meets the definition of alternate payee under ERISA § 206(d) provided that the Administrator determines that the domestic relations order meets the criteria of a qualified domestic relations order, as defined in ERISA § 206(d). Such domestic relations order may provide for a distribution to an alternate payee prior to payment (or commencement) of a benefit to a Participant, or while installment payments are being paid, in the form of a single lump sum payment. The Administrator's determination that a domestic relations order meets the requirements of ERISA § 206(d) will result in a distribution event and a lump sum payment for the alternate payee and the timing requirements of the TIME OF DISTRIBUTION SECTION of this Article will apply.

The Administrator will establish reasonable procedures to determine whether a domestic relations order meets the criteria of ERISA § 206(d). Upon receiving a domestic relations order, the Administrator promptly will notify the Participant and an alternate payee named in the order, in writing, of the receipt of the order and the Plan's procedures for determining the status of the order. Within a reasonable period of time after receiving the domestic relations order, the Administrator will determine the status of the order and will notify the Participant and each alternate payee, in writing, of its determination. The Administrator will provide notice under this paragraph by mailing to the individual's address specified in the domestic relations order.

If any portion of the Participant's benefit under this Plan is payable during the period the Administrator is making its determination of the status of the domestic relations order, a separate accounting will be made of the amount payable. If the Administrator determines the order is a domestic relations order within the criteria of ERISA § 206(d) within the calendar year in which amounts are first payable following receipt of the order or, if later, before the fifteenth (15<sup>th</sup>) day of the third calendar month following the scheduled payment date, the payable amounts will be distributed in accordance with the order. If the Administrator does not make its determination of the status of the order within such period, the payable amounts will be distributed in the manner the Plan would distribute if the order did not exist and the order will apply prospectively if the Administrator later determines the order meets the criteria of ERISA § 206(d).

The Plan will make payments or distributions required under this section by separate benefit checks or other separate distribution to the alternate payee and report the payments accordingly, provided however, that the Company may report distributions as income to the Participant for federal income tax and/or Social Security or other withholding purposes as it determines to be consistent with the requirements of the Code.

#### SECTION 7.04 — RIGHT OF OFFSET

Notwithstanding any other provisions of this Plan, the Company reserves the right to withhold and setoff from any distribution or payment that is due and payable to a Participant or Beneficiary under the Plan any amount owed to the Company or any Controlled Group Member by the Participant, whether such obligation is matured or not matured and however arising, at the time of (and with priority over) any such distribution or payment to the extent that the retention or exercise of such right does not have adverse tax consequences to the Participant or Beneficiary under Code § 409A. Further, the Company reserves the right to withhold and setoff from the Participant's Account (even if a payment or distribution is not then due and payable) any amount owed to the Company or any Controlled Group Member by the Participant as satisfaction of such obligation of the Participant, where such obligation is incurred in the ordinary course of the service relationship between the Participant and the Company or Controlled Group Member, the amount of reduction in any of the Company's or Controlled Group Member's taxable years does not exceed five-thousand dollars (\$5,000), and the entire reduction is made at the same time and in the same amount as the obligation otherwise would have been due and collected from the Participant.

#### SECTION 7.05 — DELAY OF PAYMENT UNDER CERTAIN CIRCUMSTANCES

Any payment due under the Plan as of a distribution event specified in the DISTRIBUTION EVENTS SECTION of Article V may be delayed at the discretion of the Administrator to the extent that the Administrator reasonably anticipates that if the payment were made as scheduled:

- (a) a deduction with respect to such payment would not be permitted to Principal Financial Group due to the application of Code § 162(m). The payment will be made during the taxable year in which the Administrator reasonably anticipates or should reasonably anticipate that if the payment is made during such year, the deduction of such payment will be deductible under Code § 162(m); or

- (b) the making of the payment will violate federal securities laws or other applicable law. The payment will be made at the earliest date at which the Administrator reasonably anticipates that the making of the payment will not cause such violation.

Any payment so delayed will be deemed to have been paid in accordance with this Article (including any delay specified therein in the case of a Specified Employee).

## ARTICLE VIII

### ADMINISTRATION OF PLAN

#### SECTION 8.01 — ADMINISTRATION

The Company is the administrator of the Plan with authority to control and manage the operation and administration of the Plan and make all decisions and determinations incident thereto. Action on behalf of the Company as administrator may be taken by any of the following:

- (a) Board or its Human Resources Committee. The Board or its Human Resources Committee is responsible for overseeing, generally, and performing nondiscretionary functions with respect to the Plan, except to the extent such authority has been delegated to a Company committee. The Human Resources Committee is responsible for recommending to the Board the amendment of the Plan, except that appropriate officers of the Company are authorized to make amendments to the Plan on an ongoing basis as they deem advisable to facilitate the administration of the Plan without substantially altering the level of benefits provided or the cost of the Plan to the Company, or to conform the Plan to applicable laws or regulations; provided such amendments are reviewed by the Corporate Management Committee.

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- (b) Corporate Management Committee. The Corporate Management Committee of the Company is responsible for receiving reports and reviewing the recommendations of the Human Resources Department staff and to recommend any amendment of the Plan. The Corporate Management Committee is responsible for acting as required by the Plan and reporting such actions to the Chief Executive Officer of the Company and to the Human Resources Committee, as required by either.
- (c) Benefit Plans Investment Committee. The Benefit Plans Investment Committee is responsible for all investment matters relating to the Plan, including the investment of assets that may (but are not required to be) set aside to hedge liabilities resulting from the Plan, and actual investment of the rabbi trust, including the selection and monitoring of investment providers (including the trustee of the rabbi trust) with respect to the Plan. Members of the Benefit Plans Investment Committee will be appointed by the Chief Executive Officer of Principal Life Insurance Company.

Day-to-day administrative duties with respect to the Plan will be performed by the Human Resources Department.

#### SECTION 8.02 — CORRECTION OF ERRORS AND DUTY TO REVIEW INFORMATION

Errors may occur in the operation and administration of the Plan. The Company reserves the right to cause such equitable adjustments to be made to correct for such errors as it considers appropriate (including adjustments to Participant or Beneficiary Accounts), which will be final and binding on the Participant or Beneficiary.

Each Participant and Beneficiary has the duty to promptly review any information that is provided or made available to the Participant or Beneficiary and that relates in any way to the operation and administration of the Plan or his elections under the Plan (for example, to review payroll stubs to make sure a contribution election is being implemented appropriately, to review benefit statements to make sure investment elections are being implemented appropriately, to review Plan booklets, prospectuses, etc.) and to notify the Company of any error made in the operation or administration of the Plan that affects the Participant or Beneficiary within a reasonable period of time after such information is provided or made available to the Participant or Beneficiary (for example, the date the information is sent by mail or the date the information is provided or made available electronically). If the Participant or Beneficiary fails to review any information or fails to notify the Company of any error within such reasonable period of time, he will not be able to bring any claim seeking relief or damages based on the error. If the Company is notified of an alleged error within a reasonable period of time, the Company will investigate and either correct the error or notify the Participant or Beneficiary that it believes that no error occurred. If the Participant or Beneficiary is not satisfied with the correction (or the decision that no correction is necessary), he may file a formal claim under the claims procedures under the CLAIMS PROCEDURES SECTION of this Article.

#### SECTION 8.03 — CLAIMS PROCEDURES

If a Participant or Beneficiary does not feel as if he has received full payment of the benefit due such person under the Plan, the Participant or Beneficiary may file a written claim with the Company setting forth the nature of the benefit claimed, the amount thereof, and the basis for claiming entitlement to such benefit. The Vice President of Human Resources will ordinarily determine the validity of and communicate a decision regarding the claim within ninety (90) days after the date of the claim. If additional information is necessary to make a determination on a claim, the claimant will be advised of the need for such additional information within forty-five (45) days after the date of the claim. The claimant will have up to one hundred and eighty (180) days to supplement the claim information, and the claimant will be advised of the decision on the claim within forty-five (45) days after the earlier of the date the supplemental information is supplied or the end of the one hundred and eighty (180) day period. A claim is considered approved only if its approval is communicated in writing to the claimant.

A claim for benefits which is denied will be denied by written notice setting forth in a manner calculated to be understood by the claimant:

- (a) The specific reason or reasons for the denial, including a specific reference to any provisions of the Plan (including any internal rules, guidelines, protocols, criteria, etc.) on which the denial is based;

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- (b) A description of any additional material or information that is necessary to process the claim; and
- (c) An explanation of the procedure for further reviewing the denial of the claim and applicable time limits, including a statement of the claimant's right to bring a civil action under ERISA § 502(a) following an adverse benefit determination on review.

Within sixty (60) days after the receipt of a denial on a claim, a claimant or his authorized representative may file a written request for an appeal of such denial. Such appeal will be undertaken by the most senior Human Resources Leader of the Company and will be a full and fair review. The claimant will have the right to review all pertinent documents. If the claimant fails to file an appeal within 60 days of receipt of the denial on a claim, the claim will be deemed abandoned and the claimant precluded from reasserting it.

The most senior Human Resources Leader of the Company will issue a decision not later than sixty (60) days after receipt of the appeal request from a claimant unless special circumstances, such as the need to hold a hearing, require a longer period of time, in which case a decision will be rendered as soon as possible but not later than one hundred and twenty (120) days after receipt of the claimant's appeal request. The decision on appeal will be in writing in a manner calculated to be understood by the claimant and will clearly set forth:

- (a) The specific reason or reasons for the adverse determination, including a specific reference to any provisions of the Plan (including any internal rules, guidelines, protocols, criteria, etc.) on which the denial is based;
- (b) A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits; and
- (c) A statement describing any voluntary appeal procedures offered by the Plan and the claimant's right to obtain the information about such procedures, as well as a statement of the claimant's right to bring an action under ERISA § 502(a).

Decisions reached under these claims and appeals procedures shall be binding on all parties, including any Beneficiary or other person claiming through a Participant. Any legal action for benefits under the Plan may not be brought unless and until the claimant has exhausted his remedies under these procedures. In any such legal action, the claimant may be allowed to only present evidence and theories which the claimant presented during the claims and appeals process. Any claims which the claimant does not in good faith pursue through the appeal stage of the procedure may be treated as having been irrevocably waived.

Any suit or legal action initiated by a claimant under the Plan must be brought by the claimant no later than one year following a final decision on the appeal by the most senior Human Resources Leader of the Company. The one-year limitation on suits for benefits will apply in any forum where a claimant initiates such suit or legal action.

The Participant will be solely responsible for taking prompt actions in the event of disputed payments as necessary to avoid any adverse tax consequences under Code § 409A, even if action is required to be taken under Code § 409A in a more timely manner than is required under this CLAIMS PROCEDURES SECTION.

#### **SECTION 8.04 — INDEMNIFICATION**

Each officer or employee responsible for the administration or operation of the Plan will be subject to the Company's indemnity policy for employees and officers, adopted by the Board in Resolution No. 3153, or as such shall be amended or replaced from time to time. Accordingly, and as provided in such resolution, each officer or employee will be indemnified by the Company against all damages, awards, costs and expenses, including counsel fees reasonably incurred or imposed in connection with, or resulting from, any action, suit or proceeding or the settlement thereof prior to final adjudication, to which the officer or employee is or may be made a party by reason of providing services to the Plan, whether or not the individual is an officer or employee at the time such costs or expenses are incurred or imposed. In order to receive this indemnity, the action, suit or proceeding may not be settled unless the Company's Chief Executive Officer or General Counsel determines such settlement was in the best interests of the Company; or in such action, suit or proceeding,

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there is a final adjudication of liability, which is not based upon acts that constitute gross negligence or willful misconduct on the officer or employee's part in the performance of his or her duties with respect to the Plan.

#### **SECTION 8.05 — EXERCISE OF AUTHORITY**

The Company, the Corporate Management Committee, the Benefit Plans Investment Committee, and any other person or body who has authority with respect to the management, administration or investment of the Plan may exercise that authority in its/his full discretion. This discretionary authority includes, but is not limited to, the authority to make any and all factual determinations and interpret all terms and provisions of this document (or any other document established for use in the administration of the Plan) relevant to the issue under consideration. The exercise of authority will be binding upon all persons; and it is intended that the exercise of authority be given deference in all courts of law to the greatest extent allowed under law, and that it not be overturned or set aside by any court of law unless found to be arbitrary and capricious.

#### **SECTION 8.06 — TELEPHONIC OR ELECTRONIC NOTICES AND TRANSACTIONS**

Any notice that is required to be given under the Plan to a Participant or Beneficiary, and any action that can be taken under the Plan by a Participant or Beneficiary (including enrollments, changes in deferral percentages, withdrawals, distributions, investment changes, consents, etc.), may be by means of voice response, Internet, or other electronic system to the extent so authorized by the Company.

#### **SECTION 8.08 — TRUSTEE CONTROL UPON COMMENCEMENT OF BENEFIT PAYMENTS**

Upon the commencement of benefit payments under this Plan, the Company will provide the trustee of a rabbi trust, which may be used as a funding vehicle for the benefits due under the Plan, with written directions regarding the time and form of payments due to each Participant pursuant to this Plan. Any directions provided by the Company to the trustee will be irrevocable except to the extent the Company has provided the trustee with satisfactory evidence that:

- (a) the schedule provided by the Company contains an error with respect to the amount or time of payment to the Participant (in which case the Company will correct the error);
- (b) the payment due to the Participant has been paid directly by the Company or a Controlled Group Member;
- (c) the Company has a right of setoff against a scheduled payment under the RIGHT OF OFFSET SECTION of Article VII which cannot be satisfied from any other source; or
- (d) the Participant has engaged in felony conduct detrimental to the business of the Company.

The trustee will be obligated to follow a direction on file with it only to the extent of the assets held in the trust, and the trustee will have no obligation to seek funding of the trust from the Company or any Controlled Group Member.

## ARTICLE IX

### CONTRACTUAL OBLIGATIONS AND FUNDING

#### SECTION 9.01 — CONTRACTUAL OBLIGATIONS

The Plan creates a contractual obligation on the part of the Company and each Participating Controlled Group Member to provide benefits as set forth in the Plan with respect to:

- (a) Participants who are employed with the Company or that Participating Controlled Group Member;
- (b) Participants who were employed with the Company or that Participating Controlled Group Member prior to Separation from Service; and
- (c) Beneficiaries of the Participants described in (a) and (b).

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A Participating Controlled Group Member is not responsible for (and has no contractual obligation with respect to) benefits payable to a Participant who is or was employed with the Company or another Participating Controlled Group Member. If a Participant is employed with two or more employers (the Company and a Participating Controlled Group Member, or two or more Participating Controlled Group Members, etc.), either concurrently or at different times, each will be responsible for the benefit attributable to Elective Deferral Credits, and Employer Discretionary Credits made with respect to the period while the Participant was employed with that employer, adjusted for earnings credits.

Principal Financial Group will guarantee and assume secondary liability for the contractual commitment of each Participating Controlled Group Member under this Section.

In the event an employer ceases to be a Controlled Group Member with respect to the Company by reason of a stock sale, merger or similar corporate transaction involving an unrelated third party, the contractual obligation and liability for benefits that rested with such employer prior to the transaction will be retained by such employer (or its successor in interest) after it ceases to be a Controlled Group Member, unless the employer transfers such contractual obligation and liability with the consent of the affected Participant. For any Participant who remains employed with an employer after it ceases to be a Controlled Group Member by reason of a sale of stock of such employer or its direct or indirect parent company, or similar corporate transaction, a Separation from Service will not have occurred solely as a result of such transaction.

In the event of a sale of substantial assets (such as a location or division, or substantially all assets of a trade or business) of the Company or a Controlled Group Member to an unrelated buyer, the Company or Controlled Group Member and the buyer may, with the consent of the Participant, agree to transfer the contractual obligation and liability for benefits with respect to any Participant who becomes an employee of the buyer or an affiliate of the buyer upon the closing or in connection with such transaction. In such case, if agreed to by both the Company or Controlled Group Member and the buyer, the transaction will not be deemed to constitute a Separation from Service and benefits thereafter will be paid in accordance with the terms of the Plan or a successor plan established by the buyer or an affiliate in a manner consistent with Code § 409A.

#### SECTION 9.02 — FUNDING

The Company has established a “rabbi” trust to serve as a funding vehicle for benefits payable under the Plan. However, neither the Company nor any Controlled Group Member will have any obligation to fund such trust.

Neither the Company nor any Controlled Group Member will transfer or contribute any funds to any rabbi trust during any “restricted period,” as defined in Code § 409A(b)(3)(B). If any funds are transferred or contributed during a restricted period and the Company certifies in writing that such transfer or contribution was disallowed under this provision, the funds will be deemed to have been transferred or contributed under a mistake of fact and will be returned to the Company or the Controlled Group Member, along with any earnings allocable to such funds, regardless of whether the rabbi trust’s terms establish it as revocable or irrevocable. Further, the assets of any rabbi trust hereby established will not be held or transferred outside of the United States, and the trust will not have any other feature that would result in a transfer of property being deemed to have occurred under Code § 409A (for example, there will be no funding obligation or restrictions on assets in connection with a change in financial health of the Company or any Controlled Group Member).

The establishment and funding of the rabbi trust will not affect the contractual obligations of the Company and Participating Controlled Group Members under the CONTRACTUAL OBLIGATIONS SECTION of this Article, except that such obligations with respect to any Participant or Beneficiary will be offset to the extent that payments are actually made from the trust to such Participant or Beneficiary. In the case of any transfer of contractual obligations outside of the Controlled Group Members (including by sale of the stock of a Controlled Group Member such that it no longer remains such) under the CONTRACTUAL OBLIGATIONS SECTION of this Article, the parties may arrange for a transfer of assets to a rabbi trust maintained by the buyer or an affiliate of the buyer.

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**ARTICLE X**

**GENERAL PROVISIONS**

**SECTION 10.01 — AMENDMENT AND TERMINATION**

The Company has the right to amend this Plan. A Participating Controlled Group Member does not have the right to amend the Plan. The Plan can be amended or terminated at any time and for any reason by action of the following:

- (a) The Board or the Human Resources Committee of the Board can terminate the Plan or adopt any amendment to the Plan, and any amendment that has a material negative cost effect on the Company is reserved to the Board or its Human Resources Committee.
- (b) Appropriate officers of the Company are authorized to make amendments to the Plan on an ongoing basis as they deem advisable to facilitate the administration of the Plan without substantially altering the level of benefits provided or the cost of the Plan to the Company, or to conform the Plan to applicable laws or regulations; provided such amendments are reviewed by the Corporate Management Committee.

No action by any person, body or committee with amendment authority will constitute an amendment to the Plan unless it is expressly designated as an amendment to the Plan or except as provided in the MODIFICATION BY EMPLOYMENT OR SIMILAR AGREEMENT SECTION of this Article.

The Board, Human Resources Committee, or the appropriate officers generally will determine the effective date of any amendment or termination of the Plan. However, if Code § 409A requires a delayed effective date (for example, if an amendment changes a deferral rule in a way that must be delayed for twelve (12) months), then the amendment will be effective as of the later of the date determined by the Board, Human Resources Committee, or the appropriate officers, or the earliest effective date allowed under Code § 409A. Also, a termination of the Plan will not be effective to cause a deferral election in place under the Plan for a Plan Year (including for Annual Incentive Pay or bonus for a fiscal year that starts within such Plan Year) to be modified or discontinued prior to the end of such Plan Year (or fiscal year), unless the Plan is terminated and liquidated pursuant to the liquidation termination provisions below.

The Plan may not be amended in a manner that has the effect of reducing the balance or vested percentage of any Participant's or Beneficiary's Accounts. This will not prohibit an amendment that reduces or eliminates the benefit accrued and payable under this Plan and shifts the liability for such benefit to another nonqualified retirement plan maintained by the Company or a Controlled Group Member, or any successor, or an amendment that is required by law or for which the failure to adopt the amendment would have adverse tax consequences to the Participants affected by such amendment (as determined by the Company).

The Board or the Human Resources Committee may terminate the Plan and provide for the acceleration and liquidation of all benefits remaining due under the Plan pursuant to Treas. Reg. Section 1.409A-3(j) (4) (ix). If such a termination and liquidation occurs, all deferrals and credits under the Plan will be discontinued (and all Active Participants will cease to be Active Participants) as of the termination date established by the Board or Human Resources Committee, and benefits remaining due will be paid in a lump-sum at the time specified by the Board or Human Resources Committee as part of the action terminating the Plan and consistent with Treas. Reg. § 1.409A-3(j) (4) (ix). The Board or Human Resources Committee also may terminate the Plan other than pursuant to Treas. Reg. § 1.409A-3(j) (4) (ix). In the event of such other termination, all deferral and credits under the Plan will be discontinued (and all Active Participants will cease to be Active Participants) as of the end of the Plan Year, but all benefits remaining payable under the Plan will be paid at the same time and in the same form as if the termination had not occurred — that is, the termination will not result in any acceleration of any distribution under the Plan.

**SECTION 10.02 — MODIFICATION BY EMPLOYMENT OR SIMILAR AGREEMENT**

The Company or a Participating Controlled Group Member may be a party to an employment or similar agreement with a Participant, the terms of which may enhance or modify in some respect the benefits provided under this Plan, including, but not necessarily limited to, an enhancement to or modification of the benefit

amount, payment forms and/or other rights and features of the Plan. The Plan consists only of this document and other documents contemplated under this document, but not including such employment or similar agreement. Accordingly, any contractual rights that a Participant may have to any enhancement or modification called for under an employment or similar agreement are rights that derive from such agreement and not directly from the Plan. Nonetheless, the Plan will be applied in a manner that takes into account any enhancements or modifications called for under an enforceable employment or similar agreement as if such provisions were part of the Plan; *provided that*, no change can be made to the Plan by means of an employment or similar agreement that would not have been allowed by means of an amendment to the Plan (for example, an amendment inconsistent with Code § 409A).

**SECTION 10.03 — EMPLOYMENT STATUS**

Nothing contained in this Plan gives an Employee in the Eligible Group the right to be retained in the Company's or Controlled Group Member's employ or to interfere with the Company's or Controlled Group Member's right to discharge any Employee.

**SECTION 10.04 — RIGHTS TO PLAN ASSETS; TAX CONSEQUENCES**

Neither the Company nor any Controlled Group Member will have any obligation whatsoever to set aside funds for the Plan or for the benefit of any Participant or Beneficiary, and no Participant or Beneficiary will have any rights to any amounts that may be set aside other than the rights of an unsecured

general creditor of the Company or Controlled Group Member that employs (or employed) the Participant.

Neither the Company nor any Controlled Group Member is making any representations or promises as to the tax consequences of participation in the Plan. Each Participant (and Beneficiary) shall be solely responsible for such tax consequences.

#### **SECTION 10.05 — BENEFICIARIES**

A Participant may designate any person (natural or otherwise, including a trust) as his Beneficiary to receive the survivor benefit (if any) payable when he dies, and may change or revoke a designation previously made without the consent of any Beneficiary. If a Beneficiary designation is not on file, or if no designated Beneficiary survives the Participant, the Beneficiary will be the person designated by the Participant under the Associated Plan or, in the absence of a designation, the default Beneficiary under the Associated Plan. If a primary Beneficiary becomes entitled to a survivor benefit upon the death of a Participant but dies prior to complete distribution of such benefit, the remaining benefit will be paid to any contingent Beneficiary designated by the Participant, or if there is no surviving contingent Beneficiary, the remaining benefit will be paid to the estate of the primary Beneficiary. .

A Beneficiary designation must be made on such form and in accordance with such rules as may be prescribed for this purpose by the Company. A Beneficiary designation will be effective (and will revoke all prior designations) if it is received by the Company (or if sent by mail, the post-mark of the mailing is) prior to the date of death of the Participant.

#### **SECTION 10.06 — STATEMENTS**

The Company may cause benefit statements to be issued from time to time advising Participants and Beneficiaries of the balance and/or investment of their Accounts, but it is not required to issue benefits statements.

The Company may correct errors that appear on benefit statements at any time, and the issuance of a benefit statement (and any errors that may appear on a statement) will not in any way alter or affect the rights of a Participant or Beneficiary with respect to the Plan. Each Participant or Beneficiary has a duty to promptly review each benefit statement and to notify the Company of any error that appears on such statement within a reasonable period of time after such statement is provided or made available to the Participant or Beneficiary (for example, the date the statement is sent by mail, or the date the statement is provided or made available electronically). If a Participant or Beneficiary fails to review a benefit statement or fails to notify the Company of any error that appears on such statement within a reasonable period of time, he will not be able to bring any

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claim seeking relief or damages based on the error.

#### **SECTION 10.07 — NONALIENATION OF BENEFITS**

Benefits payable under the Plan are not subject to the claims of any creditor of any Participant or Beneficiary. A Participant or Beneficiary does not have any rights to alienate, anticipate, commute, pledge, encumber or assign any of such benefits. The preceding sentences will also apply to the creation, assignment, or recognition of a right to any benefit payable with respect to a Participant according to a domestic relations order, except as provided in the DISTRIBUTIONS PURSUANT TO A DOMESTIC RELATIONS ORDER SECTION of Article VII.

#### **SECTION 10.08 — CONSTRUCTION**

The validity of the Plan or any of its provisions is determined under and construed according to Federal law and, to the extent permissible, according to the laws of the state in which the Company has its principal office. In case any provision of this Plan is held illegal or invalid for any reason, such determination will not affect the remaining provisions of this Plan, and the Plan will be construed and enforced as if the illegal or invalid provision had never been included.

In the event of any conflict between the provisions of the Plan and the terms of any contract or policy issued hereunder, the provisions of the Plan control the operation and administration of the Plan.

#### **SECTION 10.09 — WORD USAGE**

The masculine gender, where used in this Plan, will include the feminine gender and the singular words as used in this Plan may include the plural, unless the context indicates otherwise.

On behalf of the Human Resources Committee of the Board of Directors of the Company, this Nonqualified Deferred Compensation Plan for Select Investment Professionals of Principal Financial Group, Inc. and Affiliates has been executed this 10th day of December, 2015.

By: /s/ Tammy DeHaai

Tammy DeHaai

Title: Vice President-HR Chief Operating Officer

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#### **ATTACHMENT A**

#### **PARTICIPATING CONTROLLED GROUP MEMBERS**

Date of Participation

Spectrum Asset Management, Inc.	January 1, 2016
Morley Financial Services, Inc.	January 1, 2016
Post Advisory Group	January 1, 2016
Columbus Circle Investors	January 1, 2016

**Principal Financial Group, Inc.**  
**Computation of Earnings to Fixed Charges Ratio**

The ratio of earnings to fixed charges is a measure of our ability to cover fixed costs with current period earnings. A high ratio indicates that earnings are sufficiently covering committed expenses. The following table sets forth, for the periods indicated, our ratios of: (1) earnings to fixed charges before interest credited on investment products and (2) earnings to fixed charges.

	For the year ended December 31,				
	2015	2014	2013	2012	2011
1. Income from continuing operations before income taxes	\$ 1,430.8	\$ 1,494.9	\$ 1,124.0	\$ 960.0	\$ 872.8
2. Interest expense	178.5	135.5	143.4	127.1	140.5
3. Interest factor of rental expense	4.9	5.9	5.7	6.1	6.1
4. Undistributed income from equity investees	(106.3)	(113.9)	(107.3)	(99.9)	(98.5)
5. Earnings before interest credited on investment products	1,507.9	1,522.4	1,165.8	993.3	920.9
6. Interest credited on investment products	152.0	189.6	256.6	366.3	442.4
7. Earnings	<u>\$ 1,659.9</u>	<u>\$ 1,712.0</u>	<u>\$ 1,422.4</u>	<u>\$ 1,359.6</u>	<u>\$ 1,363.3</u>
8. Interest expense	\$ 178.5	\$ 135.5	\$ 143.4	\$ 127.1	\$ 140.5
9. Interest factor of rental expense	4.9	5.9	5.7	6.1	6.1
10. Preferred stock dividends by registrant	16.5	33.0	33.0	33.0	33.0
11. Excess of redemption value over carrying value of preferred shares redeemed	8.2	—	—	—	—
12. Fixed charges before interest credited on investment products	208.1	174.4	182.1	166.2	179.6
13. Interest credited on investment products	152.0	189.6	256.6	366.3	442.4
14. Fixed charges	<u>\$ 360.1</u>	<u>\$ 364.0</u>	<u>\$ 438.7</u>	<u>\$ 532.5</u>	<u>\$ 622.0</u>
15. Ratio of earnings to fixed charges before interest credited on investment products (Line item 5/Line item 12)	7.2	8.7	6.4	6.0	5.1
16. Ratio of earnings to fixed charges (Line item 7/Line item 14)	4.6	4.7	3.2	2.6	2.2

QuickLinks

[Exhibit 12](#)

[Principal Financial Group, Inc. Computation of Earnings to Fixed Charges Ratio](#)

**Principal Financial Group, Inc. Member Companies**  
December 31, 2015

Corporation	State or Country of Domicile
Administradora de Fondos de Pensiones Cuprum S.A.	Chile
Brasilprev Seguros e Previdencia S.A.	Brazil
CCB Principal Asset Management Co., Ltd.	China
CCI Capital Partners, LLC	Delaware
CCIP, LLC	Delaware
CIMB Principal Islamic Asset Management Sdn. Bhd.	Malaysia
CIMB Wealth Advisors Berhad	Malaysia
CIMB-Principal Asset Management (S) Pte. Ltd.	Singapore
CIMB-Principal Asset Management Berhad	Malaysia
CIMB-Principal Asset Management Company Limited	Thailand
Claritas Administração de Recursos Ltda.	Brazil
Claritas Investments Ltd.	Cayman Islands
Claritas Participações S.A.	Brazil
Columbus Circle Investors	Delaware
Delaware Charter Guarantee & Trust Company	Delaware
Distribuidora Principal Mexico, S.A. De C.V.	Mexico
Diversified Dental Services, Inc.	Nevada
Edge Asset Management, Inc.	Washington
Employers Dental Services, Inc.	Arizona
Equity FC, Ltd.	Iowa
Finansa Asset Management Limited	Thailand
Finisterre Capital LLP	United Kingdom
Finisterre Capital UK Limited	United Kingdom
Finisterre Holdings Limited	Malta
Finisterre Hong Kong Limited	Hong Kong
Finisterre Malta Limited	Malta
Finisterre USA, Inc.	Delaware
First Dental Health	California
GAVI PREHC HC, LLC	Delaware
GAVI PREPI HC, LLC	Delaware
Hipotecaria Security Principal, S.A.	Chile
Inversiones Cuprum Internacional S.A.	Chile
Liongate Capital Management (Cayman) Limited	Cayman Islands
Liongate Capital Management (India) Private Limited	India
Liongate Capital Management (UK) Limited	United Kingdom
Liongate Capital Management (US) LP	Delaware
Liongate Capital Management Inc.	Delaware
Liongate Capital Management Limited	Malta
Liongate Capital Management LLP	United Kingdom
Liongate Limited	Malta
Liongate Multi-Strategy GP Limited	Cayman Islands
Morley Capital Management, Inc.	Oregon
Morley Financial Services, Inc.	Oregon
Origin Asset Management LLP	United Kingdom
Petula Associates, LLC	Iowa
Petula Prolix Development Company	Iowa
PFG DO Brasil LTDA	Brazil
PGI Finisterre Holding Company Ltd.	United Kingdom
PGI Origin Holding Company Ltd.	United Kingdom
Post Advisory Europe Limited	United Kingdom
Post Advisory Group, LLC	Delaware
Preferred Product Network, Inc.	Delaware
Principal Administradora General de Fondos S.A.	Chile
Principal Afore, S.A. de C.V., Principal Grupo Financiero	Mexico
Principal Asset Management Chile S.A.	Chile
Principal Asset Management Company (Asia) Limited	Hong Kong
Principal Bank	Iowa
Principal Chile Limitada	Chile
Principal Commercial Acceptance, LLC	Delaware
Principal Commercial Funding, LLC	Delaware
Principal Compañía de Seguros de Vida Chile S.A.	Chile
Principal Consulting (India) Private Limited	India
Principal Dental Services, Inc.	Arizona
Principal Development Investors, L.L.C.	Delaware
Principal Enterprise Capital, LLC	Delaware
Principal Financial Advisors, Inc.	Iowa
Principal Financial Group (Mauritius) Ltd.	Mauritius
Principal Financial Group, Inc.	Delaware
Principal Financial Group, S.A. de C.V., Grupo Financiero	Mexico
Principal Financial Services (Australia), Inc.	Iowa
Principal Financial Services I (UK) LLP	United Kingdom
Principal Financial Services I (US), LLC	Delaware

Corporation	State or Country of Domicile
Principal Financial Services II (UK) Ltd.	United Kingdom
Principal Financial Services II (US), LLC	Delaware
Principal Financial Services III (UK) Ltd.	United Kingdom
Principal Financial Services IV (UK) LLP	United Kingdom
Principal Financial Services Latin America Ltd.	United Kingdom
Principal Financial Services V (UK) Ltd.	United Kingdom
Principal Financial Services VI (UK) Ltd	United Kingdom
Principal Financial Services, Inc.	Iowa
Principal Fondos de Inversión, S.A. de C.V., Operadora de Fondos de Inversión, Principal Grupo Financiero	Mexico
Principal Funds Distributor, Inc.	Washington
Principal Generation Plant, LLC	Delaware
Principal Global Columbus Circle, LLC	Delaware
Principal Global Financial Services (Europe) II Ltd	United Kingdom
Principal Global Financial Services (Europe) Ltd	United Kingdom
Principal Global Investors (Asia) Limited	Hong Kong
Principal Global Investors (Australia) Limited	Australia
Principal Global Investors (Australia) Service Company Pty Ltd	Australia
Principal Global Investors (Europe) Limited	United Kingdom
Principal Global Investors (Hong Kong) Limited	Hong Kong
Principal Global Investors (Ireland) Limited	Ireland
Principal Global Investors (Japan) Ltd.	Japan
Principal Global Investors (Singapore) Limited	Singapore
Principal Global Investors Holding Company, Inc.	Delaware
Principal Global Investors Participacoes LTDA	Brazil
Principal Global Investors Trust	Delaware
Principal Global Investors, LLC	Delaware
Principal Global Services Private Limited	India
Principal Holding Company Chile S.A.	Chile
Principal Holding Company, LLC	Iowa
Principal Insurance Company (Hong Kong) Limited	Hong Kong
Principal International (Asia) Limited	Hong Kong
Principal International (South Asia) Snd. Bhd	Malaysia
Principal International de Chile S.A.	Chile
Principal International Holding Company, LLC	Delaware
Principal International Latin America Ltd.	United Kingdom
Principal International Mexico, LLC	Delaware
Principal International South America I Ltd.	United Kingdom
Principal International South America II Ltd.	United Kingdom
Principal International South America II Ltd., Agencia en Chile	Chile
Principal International, Inc.	Iowa
Principal Investment & Retirement Services Limited	Hong Kong
Principal Investors Corporation	New Jersey
Principal Life Insurance Company	Iowa
Principal Life Insurance Company of Iowa	Iowa
Principal Management Corporation	Iowa
Principal Mexico Servicios, S.A. de C.V.	Mexico
Principal National Life Insurance Company	Iowa
Principal Nominee Company (Hong Kong) Limited	Hong Kong
Principal Pensiones, S.A. De C.V., Principal Grupo Financiero	Mexico
Principal Pnb Asset Management Company Private Limited	India
Principal Real Estate Fund Investors, LLC	Delaware
Principal Real Estate Holding Company, LLC	Delaware
Principal Real Estate Investors, LLC	Delaware
Principal Real Estate Portfolio, Inc.	Delaware
Principal Reinsurance Company of Delaware	Delaware
Principal Reinsurance Company of Vermont	Vermont
Principal Retirement Advisors Private Limited	India
Principal Seguros, S.A. De C.V., Principal Grupo Financiero	Mexico
Principal Servicios Corporativos Chile Ltda.	Chile
Principal Servicios de Administración S.A.	Chile
Principal Shareholder Services, Inc.	Washington
Principal Trust Company (Asia) Limited	Hong Kong
Principal Trust Company (Bermuda) Limited	Bermuda
Principal Trust Company (Hong Kong) Limited	Hong Kong
Principal Trustee Company Private Limited	India
Princor Financial Services Corporation	Iowa
PT CIMB-Principal Asset Management	Indonesia
Spectrum Asset Management, Inc.	Connecticut
Union Bond & Trust Company	Oregon

QuickLinks

[Exhibit 21](#)

[Principal Financial Group, Inc. Member Companies December 31, 2015](#)

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the following registration statements:

- 1) Universal shelf Registration Statement (Form S-3, File No. 333-195749) and related Prospectus of Principal Financial Group, Inc., Principal Capital I, Principal Capital II and Principal Capital III for the registration of an unspecified amount of various securities,
- 2) Registration Statement (Form S-8, File No. 333-143070) pertaining to Principal Financial Group, Inc. 2005 Stock Incentive Plan and Principal Financial Group, Inc. 2005 Directors Stock Plan,
- 3) Registration Statement (Form S-8, File No. 333-201505) pertaining to Principal Financial Group, Inc. 2014 Stock Incentive Plan and Principal Financial Group, Inc. 2014 Directors Stock Plan
- 4) Registration Statement (Form S-8, File No. 333-178510) pertaining to The Principal Select Savings Plan for Individual Field and The Principal Select Savings Plan for Employees, and
- 5) Registration Statement (Form S-8, File No. 333-160232) pertaining to Principal Financial Group, Inc. Employee Stock Purchase Plan;

of our reports dated February 10, 2016, with respect to the consolidated financial statements and schedules of Principal Financial Group, Inc., and the effectiveness of internal control over financial reporting of Principal Financial Group, Inc., included in this Annual Report (Form 10-K) of Principal Financial Group, Inc. for the year ended December 31, 2015.

/s/ Ernst & Young LLP

Des Moines, Iowa  
February 10, 2016

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## CERTIFICATIONS

I, Daniel J. Houston, certify that:

1. I have reviewed this annual report on Form 10-K 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: February 10, 2016

/s/ Daniel J. Houston  
Daniel J. Houston  
President and Chief Executive Officer

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## CERTIFICATIONS

I, Terrance J. Lillis, certify that:

1. I have reviewed this annual report on Form 10-K 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: February 10, 2016

/s/ Terrance J. Lillis

Terrance J. Lillis

Executive Vice President and Chief Financial Officer

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**Certification Pursuant to Section 1350 of Chapter 63  
of Title 18 of the United States Code**

I, Daniel J. Houston, President and Chief Executive Officer of Principal Financial Group, Inc., certify that (i) the Form 10-K for the period ended December 31, 2015, 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-K for the period ended December 31, 2015, 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

President and Chief Executive Officer

Date: February 10, 2016

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**Certification Pursuant to Section 1350 of Chapter 63  
of Title 18 of the United States Code**

I, Terrance J. Lillis, Executive Vice President and Chief Financial Officer of Principal Financial Group, Inc., certify that (i) the Form 10-K for the period ended December 31, 2015, 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-K for the period ended December 31, 2015, fairly presents, in all material respects, the financial condition and results of operations of Principal Financial Group, Inc.

/s/ Terrance J. Lillis

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Terrance J. Lillis

Executive Vice President and Chief Financial Officer

Date: February 10, 2016

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