

PRINCIPAL FINANCIAL GROUP INC

Form 10-Q

October 31, 2018

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

1-16725

(Commission file number)

PRINCIPAL FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

42-1520346

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(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

711 High Street, Des Moines, Iowa 50392

(Address of principal executive offices)

(515) 247-5111

(Registrant's telephone number, including area code)

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

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

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

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

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

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

The total number of shares of the registrant's Common Stock, \$0.01 par value, outstanding as of October 24, 2018, was 283,048,481.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Principal Financial Group, Inc.****Consolidated Statements of Financial Position**

	September 30, 2018		December 31, 2017
	(Unaudited)		
	<i>(in millions)</i>		
Assets			
Fixed maturities, available-for-sale (2018 and 2017 include \$241.6 million and \$268.0 million related to consolidated variable interest entities)	\$ 60,447.2	\$	59,388.4
Fixed maturities, trading	642.1		566.0
Equity securities (2018 and 2017 include \$795.5 million and \$811.4 million related to consolidated variable interest entities)	1,885.8		1,866.6
Mortgage loans	14,919.7		14,150.5
Real estate (2018 and 2017 include \$347.4 million and \$370.3 million related to consolidated variable interest entities)	1,699.7		1,736.7
Policy loans	804.4		808.3
Other investments (2018 and 2017 include \$208.6 million and \$139.8 million related to consolidated variable interest entities and \$24.1 million and \$61.0 million measured at fair value under the fair value option)	3,608.3		3,586.2
Total investments	84,007.2		82,102.7
Cash and cash equivalents	2,926.7		2,470.8
Accrued investment income	660.7		610.6
Premiums due and other receivables	1,514.4		1,469.8
Deferred acquisition costs	3,671.9		3,540.7
Property and equipment	770.6		759.5
Goodwill	1,128.7		1,068.8
Other intangibles	1,353.9		1,314.7
Separate account assets (2018 and 2017 include \$39,636.3 million and \$41,540.8 million related to consolidated variable interest entities)	161,302.9		159,272.7
Other assets	1,421.3		1,330.9
Total assets	\$ 258,758.3	\$	253,941.2
Liabilities			
Contractholder funds (2018 and 2017 include \$392.3 million and \$380.6 million related to consolidated variable interest entities)	\$ 39,813.2	\$	38,082.5
Future policy benefits and claims	34,818.3		33,019.3
Other policyholder funds	849.4		922.3
Short-term debt	36.1		39.5
Long-term debt (2018 and 2017 include \$49.1 million and \$2.8 million related to consolidated variable interest entities)	3,245.5		3,178.4
Income taxes currently payable	29.3		16.7
Deferred income taxes	911.4		1,092.5
Separate account liabilities (2018 and 2017 include \$39,636.3 million and \$41,540.8 million related to consolidated variable interest entities)	161,302.9		159,272.7
Other liabilities (2018 and 2017 include \$245.9 million and \$270.2 million related to consolidated variable interest entities)	5,835.0		5,294.1
Total liabilities	246,841.1		240,918.0
Redeemable noncontrolling interest (2018 and 2017 include \$75.4 million and \$52.4 million related to consolidated variable interest entities)	148.5		101.3
Stockholders equity	4.8		4.7

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Common stock, par value \$.01 per share	2,500.0 million shares authorized, 476.4 million and 474.1 million shares issued, and 283.6 million and 289.0 million shares outstanding in 2018 and 2017		
Additional paid-in capital	10,026.2		9,925.2
Retained earnings	10,207.9		9,482.9
Accumulated other comprehensive income (loss)	(1,347.6)		165.5
Treasury stock, at cost (192.8 million and 185.1 million shares in 2018 and 2017)	(7,190.5)		(6,729.0)
Total stockholders' equity attributable to Principal Financial Group, Inc.	11,700.8		12,849.3
Noncontrolling interest	67.9		72.6
Total stockholders' equity	11,768.7		12,921.9
Total liabilities and stockholders' equity	\$ 258,758.3	\$	253,941.2

See accompanying notes.

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Principal Financial Group, Inc.

Consolidated Statements of Operations

(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
	<i>(in millions, except per share data)</i>			
Revenues				
Premiums and other considerations	\$ 2,172.4	\$ 2,126.1	\$ 4,433.4	\$ 4,826.8
Fees and other revenues	1,261.8	987.1	3,285.7	2,882.8
Net investment income	919.4	838.0	2,710.7	2,581.8
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	(1.9)	693.2	59.3	623.7
Net other-than-temporary impairment (losses) recoveries on available-for-sale securities	(1.4)	2.6	(8.3)	(27.1)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified from other comprehensive income	(2.2)	(19.2)	(14.2)	(32.5)
Net impairment losses on available-for-sale securities	(3.6)	(16.6)	(22.5)	(59.6)
Net realized capital gains (losses)	(5.5)	676.6	36.8	564.1
Total revenues	4,348.1	4,627.8	10,466.6	10,855.5
Expenses				
Benefits, claims and settlement expenses	2,642.1	2,504.6	5,752.4	6,020.7
Dividends to policyholders	31.9	32.6	92.6	92.7
Operating expenses	1,105.0	932.8	3,080.1	2,804.7
Total expenses	3,779.0	3,470.0	8,925.1	8,918.1
Income before income taxes	569.1	1,157.8	1,541.5	1,937.4
Income taxes	109.1	344.6	219.5	455.8
Net income	460.0	813.2	1,322.0	1,481.6
Net income attributable to noncontrolling interest	3.7	3.0	12.0	13.0
Net income attributable to Principal Financial Group, Inc.	\$ 456.3	\$ 810.2	\$ 1,310.0	\$ 1,468.6
Earnings per common share				
Basic earnings per common share	\$ 1.60	\$ 2.80	\$ 4.57	\$ 5.08
Diluted earnings per common share	\$ 1.59	\$ 2.76	\$ 4.52	\$ 5.02
Dividends declared per common share	\$ 0.53	\$ 0.47	\$ 1.56	\$ 1.38

See accompanying notes.

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

	For the three months ended		For the nine months ended	
	2018	2017	2018	2017
			<i>(in millions)</i>	
Net income	\$ 460.0	\$ 813.2	\$ 1,322.0	\$ 1,481.6
Other comprehensive income (loss), net:				
Net unrealized gains (losses) on available-for-sale securities	(199.2)	70.1	(1,470.8)	569.1
Noncredit component of impairment losses on fixed maturities, available-for-sale	2.0	13.3	12.1	21.0
Net unrealized gains (losses) on derivative instruments	2.7	(11.1)	8.6	(29.3)
Foreign currency translation adjustment	(22.9)	88.6	(193.2)	151.3
Net unrecognized postretirement benefit obligation	8.7	4.2	26.2	12.8
Other comprehensive income (loss)	(208.7)	165.1	(1,617.1)	724.9
Comprehensive income (loss)	251.3	978.3	(295.1)	2,206.5
Comprehensive income attributable to noncontrolling interest	3.1	5.0	8.6	15.7
Comprehensive income attributable to Principal Financial Group, Inc.	\$ 248.2	\$ 973.3	\$ (303.7)	\$ 2,190.8

See accompanying notes.

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Principal Financial Group, Inc.

Consolidated Statements of Stockholders' Equity

(Unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss) <i>(in millions)</i>	Treasury stock	Noncontrolling interest	Total stockholders equity
Balances as of January 1, 2017	\$ 4.7	\$ 9,686.0	\$ 7,720.4	\$ (675.2)	\$ (6,508.6)	\$ 66.5	\$ 10,293.8
Common stock issued		143.1					143.1
Stock-based compensation		68.1	(5.9)			0.2	62.4
Treasury stock acquired, common					(218.1)		(218.1)
Dividends to common stockholders			(398.5)				(398.5)
Distributions to noncontrolling interest						(6.1)	(6.1)
Contributions from noncontrolling interest						4.2	4.2
Purchase of subsidiary shares from noncontrolling interest (1)		(7.6)				(1.3)	(8.9)
Adjustments to redemption amount of redeemable noncontrolling interest		(2.8)					(2.8)
Net income (1)			1,468.6			6.1	1,474.7
Other comprehensive income (1)				722.2		1.3	723.5
Balances as of September 30, 2017	\$ 4.7	\$ 9,886.8	\$ 8,784.6	\$ 47.0	\$ (6,726.7)	\$ 70.9	\$ 12,067.3
Balances as of January 1, 2018	\$ 4.7	\$ 9,925.2	\$ 9,482.9	\$ 165.5	\$ (6,729.0)	\$ 72.6	\$ 12,921.9
Common stock issued	0.1	52.3					52.4
Stock-based compensation		65.7	(5.6)			(0.4)	59.7
Treasury stock acquired, common					(461.5)		(461.5)
Dividends to common stockholders			(446.5)				(446.5)
Distributions to noncontrolling interest						(10.5)	(10.5)
Contributions from noncontrolling interest						2.2	2.2
Purchase of subsidiary shares from noncontrolling interest (1)		(20.0)		(1.6)		(1.6)	(23.2)
Adjustments to redemption amount of redeemable noncontrolling interest		3.0				(0.3)	2.7
Effects of implementation of accounting change related to equity investments, net			1.0	(1.0)			
Effects of implementation of accounting change related to revenue recognition, net			(65.0)	25.6		(0.3)	(39.7)
Effects of implementation of accounting change related to intra-entity asset transfer taxes, net			8.7				8.7
Effects of implementation of accounting change related to the reclassification of certain tax effects, net			(77.6)	77.6			
Net income (1)			1,310.0			7.9	1,317.9
Other comprehensive loss (1)				(1,613.7)		(1.7)	(1,615.4)
Balances as of September 30, 2018	\$ 4.8	\$ 10,026.2	\$ 10,207.9	\$ (1,347.6)	\$ (7,190.5)	\$ 67.9	\$ 11,768.7

(1) Excludes amounts attributable to redeemable noncontrolling interest. See Note 10, Stockholders' Equity, for further details.

See accompanying notes.

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

	For the nine months ended September 30,	
	2018	2017
	<i>(in millions)</i>	
Operating activities		
Net income	\$ 1,322.0	\$ 1,481.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized capital gains	(36.8)	(564.1)
Depreciation and amortization expense	151.9	144.8
Amortization of deferred acquisition costs and contract costs	160.1	173.8
Additions to deferred acquisition costs and contract costs	(331.1)	(307.2)
Stock-based compensation	60.3	62.2
Income from equity method investments, net of dividends received	(54.6)	(73.1)
Changes in:		
Accrued investment income	(49.8)	(54.0)
Net cash flows for trading securities and equity securities with operating intent	(137.9)	55.3
Premiums due and other receivables	(33.7)	(158.2)
Contractholder and policyholder liabilities and dividends	2,458.9	2,693.5
Current and deferred income taxes	182.3	456.0
Real estate acquired through operating activities	(79.5)	(55.2)
Real estate sold through operating activities	133.6	1.3
Other assets and liabilities	13.1	(242.1)
Other	(44.9)	14.1
Net adjustments	2,391.9	2,147.1
Net cash provided by operating activities	3,713.9	3,628.7
Investing activities		
Fixed maturities available-for-sale and equity securities with intent to hold:		
Purchases	(10,992.3)	(10,425.7)
Sales	2,900.4	1,011.2
Maturities	4,703.5	6,577.2
Mortgage loans acquired or originated	(2,347.4)	(2,036.5)
Mortgage loans sold or repaid	1,567.6	1,297.4
Real estate acquired	(53.7)	(113.6)
Real estate sold	63.5	457.1
Net purchases of property and equipment	(73.4)	(133.3)
Purchase of interests in subsidiaries, net of cash acquired	(184.7)	
Net change in other investments	7.8	48.5
Net cash used in investing activities	(4,408.7)	(3,317.7)
Financing activities		
Issuance of common stock	52.4	143.1
Acquisition of treasury stock	(461.5)	(218.1)
Proceeds from financing element derivatives		0.1
Payments for financing element derivatives	(53.7)	(59.5)
Purchase of subsidiary shares from noncontrolling interest	(30.3)	(13.3)
Dividends to common stockholders	(446.5)	(398.5)
Issuance of long-term debt	66.8	
Principal repayments of long-term debt	(1.0)	(56.2)
Net proceeds from (repayments of) short-term borrowings	(0.8)	4.9
Investment contract deposits	6,228.5	8,244.4
Investment contract withdrawals	(4,361.6)	(7,963.1)
Net increase in banking operation deposits	159.5	79.8
Other	(1.1)	0.8
Net cash provided by (used in) financing activities	1,150.7	(235.6)
Net increase in cash and cash equivalents	455.9	75.4
Cash and cash equivalents at beginning of period	2,470.8	2,719.6
Cash and cash equivalents at end of period	\$ 2,926.7	\$ 2,795.0
Supplemental disclosure of non-cash activities:		

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Assets and liability changes resulting from exchange agreement to exit real estate joint ventures:			
Real estate properties received	\$	\$	743.2
Long-term debt assumed on real estate properties received	\$	\$	269.0
Increase in other investments due to discontinuing equity method accounting	\$	\$	222.4

See accompanying notes.

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements

September 30, 2018

(Unaudited)

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of Principal Financial Group, Inc. (PFG) have been prepared in conformity with accounting principles generally accepted in the U.S. (U.S. GAAP) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2018, are not necessarily indicative of the results that may be expected for the year ended December 31, 2018. These interim unaudited consolidated financial statements should be read in conjunction with our annual audited financial statements as of December 31, 2017, included in our Form 10-K for the year ended December 31, 2017, filed with the United States Securities and Exchange Commission (SEC). The accompanying consolidated statement of financial position as of December 31, 2017, has been derived from the audited consolidated statement of financial position but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

Certain reclassifications have been made to the prior period consolidated statements of cash flows to conform to the current period presentation.

Consolidation

We have relationships with various special purpose entities and other legal entities that must be evaluated to determine if the entities meet the criteria of a variable interest entity (VIE) or a voting interest entity (VOE). This assessment is performed by reviewing contractual, ownership and other rights, including involvement of related parties, and requires use of judgment. First, we determine if we hold a variable interest in an entity by assessing if we have the right to receive expected losses and expected residual returns of the entity. If we hold a variable interest, then the entity is assessed to determine if it is a VIE. An entity is a VIE if the equity at risk is not sufficient to support its activities, if the equity holders lack a controlling financial interest or if the entity is structured with non-substantive voting rights. In addition to the previous criteria, if the entity is a limited partnership or similar entity, it is a VIE if the limited partners do not have the power to direct the entity's most significant activities through substantive kick-out rights or participating rights. A VIE is evaluated to determine the primary beneficiary. The primary beneficiary of a VIE is the enterprise with (1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. When we are the primary beneficiary, we are required to consolidate the entity in our financial statements. We reassess our involvement with VIEs on a quarterly basis. For further information about VIEs, refer to Note 2, Variable Interest Entities.

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

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
September 30, 2018
(Unaudited)

Recent Accounting Pronouncements

Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
<i>Standards not yet adopted:</i>		
<p>Targeted improvements to the accounting for long-duration insurance contracts</p> <p>This authoritative guidance updates certain requirements in the accounting for long-duration insurance and annuity contracts. The assumptions used to calculate the liability for future policy benefits on traditional and limited-payment contracts will be reviewed and updated periodically. Cash flow assumptions will be reviewed and updated at least annually with the change recognized in net income. Discount rate assumptions will be updated quarterly with the change recognized in other comprehensive income. Market risk benefits, which are certain market-based options or guarantees associated with deposit or account balance contracts, will be measured at fair value. The periodic change in fair value related to instrument-specific credit risk will be recognized in other comprehensive income while the remaining change in fair value will be recognized in net income. Deferred acquisition costs for all insurance and annuity contracts will be amortized on a constant basis over the expected term of the related contracts. Additional disclosures, including rollforwards of significant insurance and account balances and disclosures about significant inputs, judgments, assumptions and methods used in measurement, are required. The guidance for the liability for future policy benefits for traditional and limited-payment contracts and deferred acquisition costs will be applied on a modified retrospective basis; that is, to contracts in force as of the beginning of the earliest period presented based on their existing carrying amounts. An entity may elect to apply the changes retrospectively. The guidance for market risk benefits will be applied retrospectively. Early adoption is permitted.</p>	January 1, 2021	We are currently evaluating the impact this guidance will have on our consolidated financial statements. We expect this guidance to significantly change how we account for many of our insurance and annuity products.
<p>Goodwill impairment testing</p> <p>This authoritative guidance simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 (which measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill to the carrying amount of that goodwill) from the goodwill impairment test. A goodwill impairment loss will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. Early adoption is permitted.</p>	January 1, 2020	We are currently evaluating the impact this guidance will have on our consolidated financial statements.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
September 30, 2018
(Unaudited)

Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
<p>Credit losses</p> <p>This authoritative guidance requires entities to use a current expected credit loss (CECL) model to measure impairment for most financial assets that are not recorded at fair value through net income. Under the CECL model, an entity will estimate lifetime expected credit losses considering available relevant information about historical events, current conditions and reasonable and supportable forecasts. The CECL model does not apply to available-for-sale debt securities. This guidance also expands the required credit loss disclosures and will be applied using a modified retrospective approach by recording a cumulative effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. Early adoption is permitted.</p>	January 1, 2020	We are currently evaluating the impact this guidance will have on our consolidated financial statements. We believe estimated credit losses under the CECL model will generally result in earlier loss recognition for loans and other receivables.
<p>Implementation costs in a cloud computing arrangement that is a service contract</p> <p>This authoritative guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This guidance can be applied either retrospectively or prospectively and early adoption is permitted.</p>	January 1, 2020	We are currently evaluating the impact this guidance will have on our consolidated financial statements.
<p>Targeted improvements to accounting for hedging activities</p> <p>This authoritative guidance updates certain recognition and measurement requirements for hedge accounting. The objective of the guidance is to more closely align the economics of a company's risk management activities in its financial results and reduce the complexity of applying hedge accounting. The updates include the expansion of hedging strategies that are eligible for hedge accounting, elimination of the separate measurement and reporting of hedge ineffectiveness, presentation of the changes in the fair value of the hedging instrument in the same consolidated statement of operations line as the earnings effect of the hedged item and simplification of hedge effectiveness assessments. This guidance also includes new disclosures and will be applied using a modified retrospective approach by recording a cumulative effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. Early adoption is permitted.</p>	January 1, 2019	We have nearly completed our evaluation of this guidance and do not expect it to have a material impact on our consolidated financial statements.
<p>Premium amortization on purchased callable debt securities</p> <p>This authoritative guidance applies to entities that hold certain non-contingently callable debt securities, where the amortized cost basis is at a premium to the price repayable by the issuer at the earliest call date. Under the guidance the premium will be amortized to the first call date. This guidance requires adoption through a cumulative effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. Early adoption is permitted.</p>	January 1, 2019	We have nearly completed our evaluation of this guidance and do not expect it to have a material impact on our consolidated financial statements.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
September 30, 2018
(Unaudited)

Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
<p>Nonemployee share-based payment accounting</p> <p>This authoritative guidance simplifies the accounting for share-based payments to nonemployees by generally aligning it with the accounting for share-based payments to employees. Under the guidance, the measurement of equity-classified nonemployee awards will be fixed at the grant date, where today the measurement is fixed at performance completion date. The guidance will be applied to equity-classified nonemployee awards for which a measurement date has not been established as of the date of adoption. Early adoption is permitted.</p>	January 1, 2019	We have nearly completed our evaluation of this guidance and do not expect it to have a material impact on our consolidated financial statements.
<p>Leases</p> <p>This authoritative guidance requires lessee recognition of lease assets and lease liabilities on the balance sheet. The concept of an operating lease, where the lease assets and liabilities are off balance sheet, is eliminated under the new guidance. For lessors, the guidance modifies lease classification criteria and accounting for certain types of leases. Other key aspects of the guidance relate to the removal of the current real estate-specific guidance and new presentation and disclosure requirements. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes certain optional practical expedients that may be elected. An alternative transition method allows entities to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.</p>	January 1, 2019	<p>Our evaluation process includes, but is not limited to, identifying leases that are within the scope of the guidance, reviewing and documenting our accounting for these contracts, implementing system and process changes and determining disclosure impacts.</p> <p>The guidance requires us to establish a lease asset and liability for our operating leases. As we continue to progress with our implementation process, we believe the impact will not be significant to our consolidated financial statements.</p>
Standards adopted:		
<p>Reclassification of certain tax effects from accumulated other comprehensive income</p> <p>This authoritative guidance permits a reclassification from accumulated other comprehensive income (AOCI) to retained earnings for the stranded tax effects resulting from U.S. tax legislation enacted on December 22, 2017, which is referred to as the Tax Cuts and Jobs Act (U.S. tax reform). The amount of that reclassification includes the change in corporate income tax rate, as well as an election to include other income tax effects related to the application of U.S. tax reform. The guidance also requires disclosures about stranded tax effects.</p>	January 1, 2018	We elected to early adopt the guidance. The guidance was applied at the beginning of the period of adoption and comparative periods were not restated. We reclassified the stranded tax effects in AOCI resulting from U.S. tax reform, which includes the change in corporate income tax rate and an election to reclassify the tax effects of the one-time deemed repatriation tax. A reclassification of \$77.6 million was recorded as an increase to AOCI and a decrease to

		retained earnings.
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Principal Financial Group, Inc.
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(Unaudited)

Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
<p>Revenue recognition</p> <p>This authoritative guidance replaces all general and most industry specific revenue recognition guidance currently prescribed by U.S. GAAP. The core principle is that an entity recognizes revenue to reflect the transfer of a promised good or service to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for that good or service. This guidance also provides clarification on when an entity is a principal or an agent in a transaction. In addition, the guidance updates the accounting for certain costs associated with obtaining and fulfilling a customer contract. The guidance may be applied using one of the following two methods: (1) retrospectively to each prior reporting period presented, or (2) retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.</p>	January 1, 2018	We adopted the guidance using the modified retrospective approach. The guidance did not have a material impact on our consolidated financial statements. Further details are included under the caption Adoption of Revenue Recognition Guidance and in Note 13, Revenues from Contracts with Customers.
<p>Income tax - intra-entity transfers of assets</p> <p>This authoritative guidance requires entities to recognize current and deferred income tax resulting from an intra-entity asset transfer when the transfer occurs. Prior to issuance of this guidance, U.S. GAAP did not allow recognition of income tax consequences until the asset had been sold to a third party. This guidance requires adoption through a cumulative effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption with early adoption permitted.</p>	January 1, 2018	We adopted the guidance using the modified retrospective approach. A cumulative effect adjustment of \$8.7 million was recorded as an increase to retained earnings. In addition, other assets and deferred income taxes decreased \$21.1 million and \$29.8 million, respectively, due to the adoption of this guidance.
<p>Financial instruments - recognition and measurement</p> <p>This authoritative guidance addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The guidance eliminated the classification of equity securities into different categories (trading or available-for-sale) and requires equity investments to be measured at fair value with changes in the fair value recognized through net income. The guidance also updated certain financial instrument disclosures and eliminated the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments that are measured at amortized cost on the balance sheet.</p>	January 1, 2018	We adopted this guidance using the modified retrospective approach. A cumulative effect adjustment of \$1.0 million was recorded as a decrease to AOCI and a corresponding increase to retained earnings. The guidance did not have a material impact on our consolidated financial statements. As of December 31, 2017, we had \$96.0 million of equity securities classified as available-for-sale and \$1,770.6 million classified as trading. The consolidated statements of financial position have been updated to eliminate these classifications and present only equity securities. See Note 3, Investments, for further details.

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Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
<p>Nonfinancial asset derecognition and partial sales of nonfinancial assets</p> <p>This authoritative guidance clarifies the scope of the recently established guidance on nonfinancial asset derecognition and the accounting for partial sales of nonfinancial assets. The guidance conforms the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue recognition standard.</p>	January 1, 2018	The guidance was adopted and did not have a material impact on our consolidated financial statements.
<p>Presentation of net periodic pension cost and net periodic postretirement benefit cost</p> <p>This authoritative guidance requires that an employer disaggregate the service cost component from the other components of net benefit cost. The guidance also provides explicit guidance on the presentation of the service cost component and the other components of net benefit cost in the consolidated statement of operations and allows only the service cost component of net benefit cost to be eligible for capitalization.</p>	January 1, 2018	The guidance was adopted and did not have a material impact on our consolidated financial statements.
<p>Definition of a business</p> <p>This authoritative guidance clarifies the definition of a business to assist with evaluating when transactions involving an integrated set of assets and activities (a set) should be accounted for as acquisitions or disposals of assets or businesses. The guidance requires that when substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. The guidance also requires a set to include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output to be considered a business. Lastly, the guidance removes the evaluation of whether a market participant could replace missing elements and narrows the definition of outputs by more closely aligning it with how outputs are described in the revenue recognition guidance. The guidance will be applied prospectively. Early application is permitted in certain circumstances.</p>	January 1, 2018	The guidance was adopted and did not have a material impact on our consolidated financial statements.
<p>Employee share-based payment accounting</p> <p>This authoritative guidance changes certain aspects of accounting for and reporting share-based payments to employees including changes related to the income tax effects of share-based payments, tax withholding requirements and accounting for forfeitures. Various transition methods will apply depending on the situation being addressed.</p>	January 1, 2017	The guidance was adopted prospectively as indicated by the guidance for each area of change and did not have a material impact on our consolidated financial statements.

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

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(Unaudited)

Adoption of Revenue Recognition Guidance

On January 1, 2018, we adopted the guidance using the modified retrospective approach. A cumulative effect adjustment of \$39.7 million was recorded as a decrease to total stockholders' equity. The impact of the guidance to our consolidated financial statements primarily relates to a change to the amortization pattern, or a write-off, of existing capitalized costs transferred from deferred acquisition costs (DAC) to a contract cost asset, where authoritative guidance was superseded. This was offset in part by deferring certain sales compensation related to obtaining customer contracts that was not previously capitalized.

Results of reporting periods beginning January 1, 2018, are presented under the new guidance, while prior period amounts are not adjusted and continue to be reported in accordance with our legacy accounting. The guidance did not have a material impact on our consolidated statements of operations and did not impact earnings per common share. The impacts to the consolidated statements of financial position were as follows:

Consolidated Statements of Financial Position

	September 30, 2018		
	As reported	As adjusted (1)	Impact of adopting revenue recognition accounting guidance
		<i>(in millions)</i>	
Assets			
Deferred acquisition costs (2)	\$ 3,671.9	\$ 3,873.3	\$ (201.4)
Other assets (3)	1,421.3	1,279.9	141.4
Liabilities			
Deferred income taxes	911.4	933.3	(21.9)
Stockholders' equity			
Total stockholders' equity	11,768.7	11,806.8	(38.1)

(1) Excludes the impact of adopting revenue recognition accounting guidance.

(2) Certain costs to obtain a contract previously recorded as DAC are now recorded as a contract cost asset or are no longer deferrable under revenue recognition guidance.

(3) Includes the contract cost asset.

Separate Accounts

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

Separate account assets and separate account liabilities include certain 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.

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Principal Financial Group, Inc.
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(Unaudited)

As of September 30, 2018 and December 31, 2017, the separate accounts included a separate account valued at \$131.7 million and \$170.5 million, respectively, which primarily included shares of our stock that were allocated and issued to eligible participants of qualified employee benefit plans administered by us as part of the policy credits issued under our 2001 demutualization. These shares are included in both basic and diluted earnings per share calculations. In the consolidated statements of financial position, the separate account shares are recorded at fair value and are reported as separate account assets with a corresponding separate account liability to eligible participants of the qualified plan. Changes in fair value of the separate account shares are reflected in both the separate account assets and separate account liabilities and do not impact our results of operations.

2. Variable Interest Entities

We have relationships with various types of entities which may be VIEs. Certain VIEs are consolidated in our financial results. See Note 1, Nature of Operations and Significant Accounting Policies, under the caption Consolidation for further details of our consolidation accounting policies. We did not provide financial or other support to investees designated as VIEs for the periods ended September 30, 2018 and December 31, 2017.

Consolidated Variable Interest Entities

Grantor Trusts

We contributed undated subordinated floating rate notes to two grantor trusts. The trusts separated their cash flows by issuing an interest-only certificate and a residual certificate related to each note contributed. Each interest-only certificate entitles the holder to interest on the stated note for a specified term, while the residual certificate entitles the holder to interest payments subsequent to the term of the interest-only certificate and to all principal payments. We retained the interest-only certificates and the residual certificates were subsequently sold to third parties. We determined 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 significant continuing interest in the trusts.

Commercial Mortgage-Backed Securities

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

Mandatory Retirement Savings Funds

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

Principal International Hong Kong offers retirement pension schemes in which we provide trustee, administration and asset management services to employers and employees under the Hong Kong Mandatory Provident Fund (MPF) and Occupational Retirement Schemes Ordinance (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 determined the guaranteed funds are VIEs due to the fact the equity holders, as a group, lack the obligation to absorb expected losses due to the guarantee we provide. We concluded we are the primary beneficiary because we have the

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
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power to make decisions and to receive benefits and the obligation to absorb losses that could be potentially significant to the VIE. Therefore, we consolidate the underlying assets and liabilities of the funds and present as separate accounts or within the general account, depending on the terms of the guarantee.

Real Estate

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

Sponsored Investment Funds

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

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

Assets and Liabilities of Consolidated Variable Interest Entities

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

September 30, 2018

December 31, 2017

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	Total assets	Total liabilities	Total assets	Total liabilities
	<i>(in millions)</i>			
Grantor trusts (1)	\$ 243.1	\$ 230.0	\$ 268.8	\$ 253.1
CMBS	6.9		9.4	
Mandatory retirement savings funds (2)	40,390.3	40,028.6	42,311.4	41,921.4
Real estate (3)	368.5	64.3	387.1	19.5
Sponsored investment funds (4)	257.8	1.6	178.1	1.0
Total	\$ 41,266.6	\$ 40,324.5	\$ 43,154.8	\$ 42,195.0

- (1) The assets of grantor trusts are primarily fixed maturities, available-for-sale. The liabilities are primarily other liabilities that reflect an embedded derivative of the forecasted transaction to deliver the underlying securities.
- (2) The assets of the mandatory retirement savings funds include separate account assets and equity securities. The liabilities include separate account liabilities and contractholder funds.
- (3) The assets of the real estate VIEs primarily include real estate, other investments and cash. Liabilities primarily include long-term debt and other liabilities.
- (4) The assets of sponsored investment funds are primarily fixed maturities and equity securities, which are reported with other investments, and cash. The consolidated statements of financial position included a \$75.4 million and \$52.4 million redeemable noncontrolling interest for sponsored investment funds as of September 30, 2018 and December 31, 2017, respectively.

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Principal Financial Group, Inc.
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Unconsolidated Variable Interest Entities

We hold a variable interest in a number of VIEs where we are not the primary beneficiary. Our investments in these VIEs are reported in fixed maturities, available-for-sale; fixed maturities, trading; equity securities (equity securities, trading as of December 31, 2017) and other investments in the consolidated statements of financial position and are described below.

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

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

We have invested in various VIE trusts and similar entities as a debt holder. Most of these entities are classified as VIEs due to insufficient equity to sustain them. In addition, we have an entity classified as a VIE based on the combination of our significant economic interest and lack of voting rights. We have determined we are not the primary beneficiary primarily because we do not control the economic performance of the entities and were not involved with the design of the entities.

We have invested in partnerships and other funds, which are classified as VIEs. The entities are VIEs as equity holders lack the power to control the most significant activities of the entities because the equity holders do not have either the ability by a simple majority to exercise substantive kick-out rights or substantive participating rights. We have determined we are not the primary beneficiary because we do not have the power to direct the most significant activities of the entities.

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

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

have the power to direct the activities of the VIEs, we do not have a potentially significant variable interest in the funds.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
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(Unaudited)

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

	Asset carrying value	Maximum exposure to loss (1)
	<i>(in millions)</i>	
September 30, 2018		
Fixed maturities, available-for-sale:		
Corporate	\$ 234.2	\$ 221.2
Residential mortgage-backed pass-through securities	2,363.1	2,421.7
Commercial mortgage-backed securities	3,850.2	3,950.5
Collateralized debt obligations	2,368.6	2,376.6
Other debt obligations	6,685.0	6,790.8
Fixed maturities, trading:		
Residential mortgage-backed pass-through securities	328.7	328.7
Commercial mortgage-backed securities	14.1	14.1
Collateralized debt obligations	12.0	12.0
Other debt obligations	8.7	8.7
Equity securities	113.5	113.5
Other investments:		
Other limited partnership and fund interests (2)	731.9	1,445.1
December 31, 2017		
Fixed maturities, available-for-sale:		
Corporate	\$ 244.2	\$ 224.5
Residential mortgage-backed pass-through securities	2,523.3	2,493.8
Commercial mortgage-backed securities	3,708.3	3,734.0
Collateralized debt obligations	1,359.3	1,372.1
Other debt obligations	5,646.2	5,645.1
Fixed maturities, trading:		
Residential mortgage-backed pass-through securities	366.5	366.5
Commercial mortgage-backed securities	0.7	0.7
Equity securities	77.1	77.1
Other investments:		
Other limited partnership and fund interests	797.4	1,438.0

(1) Our risk of loss is limited to our initial investment measured at amortized cost for fixed maturities, available-for-sale. Our risk of loss is limited to our investment measured at fair value for our fixed maturities, trading and equity securities. Our risk of loss is limited to our carrying value plus any unfunded commitments and/or guarantees and similar provisions for our other investments. Unfunded commitments are not liabilities on our consolidated statements of financial position because we are only required to fund additional equity when called upon to do so by the general partner or investment manager.

(2) As of September 30, 2018, the maximum exposure to loss for other limited partnership and fund interests includes \$144.5 million of debt within certain of our managed international real estate funds that is fully secured by

assets whose value exceeds the amount of the debt, but also includes recourse to the investment manager.

Money Market Funds

We are the investment manager for certain money market mutual funds. These types of funds are exempt from assessment under any consolidation model due to a scope exception for money market funds registered under Rule 2a-7 of the Investment Company Act of 1940 or similar funds. As of both September 30, 2018 and December 31, 2017, money market mutual funds we manage held \$4.4 billion in total assets. We have no contractual obligation to contribute to these funds; however, we provide support through the waiver of fees and through expense reimbursements. The amount of fees waived and expenses reimbursed was insignificant.

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(Unaudited)

3. Investments

Fixed Maturities and Equity Securities

Fixed maturities include bonds, ABS, redeemable preferred stock and certain non-redeemable preferred securities. Equity securities include mutual funds, common stock, non-redeemable preferred stock and required regulatory investments. We classify fixed maturities as either available-for-sale or trading at the time of the purchase and, accordingly, carry them at fair value. Equity securities are also carried at fair value. See Note 11, Fair Value Measurements, for methodologies related to the determination of fair value. Unrealized gains and losses related to fixed maturities, available-for-sale, excluding those in fair value hedging relationships, are reflected in stockholders equity, net of adjustments associated with DAC and related actuarial balances, derivatives in cash flow hedge relationships and applicable income taxes. Mark-to-market adjustments on equity securities, unrealized gains and losses related to hedged portions of fixed maturities, available-for-sale in fair value hedging relationships and mark-to-market adjustments on certain fixed maturities, trading 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, available-for-sale is adjusted for declines in value that are other than temporary. Impairments in value deemed to be other than temporary are primarily reported in net income as a component of net realized capital gains (losses), with noncredit impairment losses for certain fixed maturities, available-for-sale reported in other comprehensive income (OCI). For loan-backed and structured securities, we recognize income using a constant effective yield based on currently anticipated cash flows.

The recognition and measurement of equity investments was changed under authoritative guidance effective January 1, 2018. The guidance eliminated the classification of equity securities into different categories (trading or available-for-sale) and requires equity investments to be measured at fair value with changes in the fair value recognized through net income. See Note 1, Nature of Operations and Significant Accounting Policies, under the caption Recent Accounting Pronouncements for details of the adoption.

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses <i>(in millions)</i>	Fair value	Other-than- temporary impairments in AOCI (1)
September 30, 2018					
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ 1,342.4	\$ 5.8	\$ 38.0	\$ 1,310.2	\$
Non-U.S. governments	1,111.1	73.5	12.3	1,172.3	
States and political subdivisions	6,414.7	160.9	127.4	6,448.2	
Corporate	35,484.0	1,353.4	633.3	36,204.1	0.4
Residential mortgage-backed pass-through securities	2,421.7	19.9	78.5	2,363.1	
Commercial mortgage-backed securities	3,950.5	12.4	112.7	3,850.2	39.8
Collateralized debt obligations	2,376.6	0.2	8.2	2,368.6	1.0
Other debt obligations	6,836.6	23.1	129.2	6,730.5	37.9
Total fixed maturities, available-for-sale	\$ 59,937.6	\$ 1,649.2	\$ 1,139.6	\$ 60,447.2	\$ 79.1
December 31, 2017					
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ 1,314.5	\$ 44.9	\$ 7.7	\$ 1,351.7	\$
Non-U.S. governments	820.5	84.6	3.6	901.5	
States and political subdivisions	6,446.1	371.4	15.9	6,801.6	
Corporate	34,673.0	2,464.2	104.1	37,033.1	0.5
Residential mortgage-backed pass-through securities	2,493.8	50.8	21.3	2,523.3	
Commercial mortgage-backed securities	3,734.0	32.7	58.4	3,708.3	50.6
Collateralized debt obligations	1,372.1	2.7	15.5	1,359.3	0.3
Other debt obligations	5,708.1	42.0	40.5	5,709.6	41.9
Total fixed maturities, available-for-sale	\$ 56,562.1	\$ 3,093.3	\$ 267.0	\$ 59,388.4	\$ 93.3
Total equity securities, available-for-sale	\$ 94.0	\$ 7.4	\$ 5.4	\$ 96.0	

(1) Excludes \$86.2 million and \$103.0 million as of September 30, 2018 and December 31, 2017, 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.

The amortized cost and fair value of fixed maturities, available-for-sale as of September 30, 2018, by expected maturity, were as follows:

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	Amortized cost		Fair value
	<i>(in millions)</i>		
Due in one year or less	\$	2,548.9	\$ 2,555.2
Due after one year through five years		11,181.4	11,244.3
Due after five years through ten years		10,316.3	10,251.3
Due after ten years		20,305.6	21,084.0
Subtotal		44,352.2	45,134.8
Mortgage-backed and other asset-backed securities		15,585.4	15,312.4
Total	\$	59,937.6	\$ 60,447.2

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

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Net Realized Capital Gains and Losses

Net realized capital gains and losses on sales of investments are determined on the basis of specific identification. In general, in addition to realized capital gains and losses on investment sales and periodic settlements on derivatives not designated as hedges, we report gains and losses related to the following in net realized capital gains (losses): other-than-temporary impairments of securities and subsequent realized recoveries, mark-to-market adjustments on equity securities, mark-to-market adjustments on certain fixed maturities, trading, mark-to-market adjustments on sponsored investment funds, 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). The major components of net realized capital gains (losses) on investments were as follows:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	<i>(in millions)</i>			
Fixed maturities, available-for-sale:				
Gross gains	\$ 32.9	\$ 2.1	\$ 37.9	\$ 12.3
Gross losses	(9.5)	(1.6)	(54.7)	(17.1)
Net impairment losses	(3.6)	(16.6)	(22.5)	(59.6)
Hedging, net	(4.7)	(1.2)	(12.7)	(17.2)
Fixed maturities, trading (1)	(0.3)	(3.0)	(13.7)	(1.2)
Equity securities, trading (2)		14.8		51.2
Equity securities (3)	13.5		17.1	
Mortgage loans	1.3	1.2	4.2	0.9
Derivatives	41.7	(38.1)	13.7	(148.4)
Other (4)	(76.8)	719.0	67.5	743.2
Net realized capital gains (losses)	\$ (5.5)	\$ 676.6	\$ 36.8	\$ 564.1

(1) Unrealized gains (losses) on fixed maturities, trading still held at the reporting date were \$(3.4) million and \$(3.0) million for the three months ended September 30, 2018 and 2017, respectively, and \$(16.7) million and \$(0.4) million for the nine months ended September 30, 2018 and 2017, respectively.

(2) Unrealized gains (losses) on equity securities, trading still held at the reporting date were \$9.1 million and \$36.6 million for the three and nine months ended September 30, 2017, respectively. This excludes \$4.9 million and \$32.2 million of unrealized gains (losses) on equity securities, trading still held at the reporting date for the three and nine months ended September 30, 2017, respectively, that were reported in net investment income.

- (3) Unrealized gains (losses) on equity securities still held at the reporting date were \$8.8 million and \$(5.2) million for the three and nine months ended September 30, 2018, respectively. This excludes \$9.6 million and \$12.8 million of unrealized gains (losses) on equity securities still held at the reporting date for the three and nine months ended September 30, 2018, respectively, that were reported in net investment income.
- (4) See Real Estate Transactions, for further details relating to other gains in 2017.

Proceeds from sales of investments (excluding call and maturity proceeds) in fixed maturities, available-for-sale were \$613.3 million and \$163.2 million for the three months ended September 30, 2018 and 2017, and \$2,351.0 million and \$968.6 million for the nine months ended September 30, 2018 and 2017, respectively.

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Other-Than-Temporary Impairments

We have a process in place to identify fixed maturity securities that could potentially have an impairment that is other than temporary. Prior to 2018, we also used this process to assess equity securities for impairment. 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 a security is deemed to be other than temporarily impaired, an impairment loss is recognized.

The way in which impairment losses on fixed maturities are recognized in the financial statements is dependent on the facts and circumstances related to the specific security. If we intend to sell a security or it is more likely than not that we would be required to sell a security before the recovery of its amortized cost, we recognize an other-than-temporary impairment in net income for the difference between amortized cost and fair value. If we do not expect to recover the amortized cost basis, we do not plan to sell the security and if it is not more likely than not that we would be required to sell a security before the recovery of its amortized cost, the recognition of the other-than-temporary impairment is bifurcated. We recognize the credit loss portion in net income and the noncredit loss portion in OCI (bifurcated OTTI). Prior to 2018, impairment losses on equity securities were recognized in net income and were measured as the difference between amortized cost and fair value.

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

	For the three months ended			For the nine months ended		
	September 30,			September 30,		
	2018	2017	(in millions)	2018	2017	
Fixed maturities, available-for-sale	\$ (1.4)	\$ 2.6	\$	\$ (8.3)	\$ (27.1)	
Total other-than-temporary impairment losses, net of recoveries from the sale of previously impaired securities	(1.4)	2.6		(8.3)	(27.1)	
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified from	(2.2)	(19.2)		(14.2)	(32.5)	

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OCI (1)

Net impairment losses on available-for-sale securities	\$	(3.6)	\$	(16.6)	\$	(22.5)	\$	(59.6)
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(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

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

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
		<i>(in millions)</i>		
Beginning balance	\$ (131.1)	\$ (154.8)	\$ (124.3)	\$ (139.9)
Credit losses for which an other-than-temporary impairment was not previously recognized	(1.2)		(11.3)	(14.4)
Credit losses for which an other-than-temporary impairment was previously recognized	(1.2)	(6.5)	(12.9)	(28.7)
Reduction for credit losses previously recognized on fixed maturities now sold, paid down or intended to be sold	12.5	33.6	22.5	50.9
Net reduction for positive changes in cash flows expected to be collected and amortization (1)	2.5	3.3	7.5	7.8
Foreign currency translation adjustment				(0.1)
Ending balance	\$ (118.5)	\$ (124.4)	\$ (118.5)	\$ (124.4)

(1) Amounts are recognized in net investment income.

Gross Unrealized Losses for Available-for-Sale Securities

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

Less than	September 30, 2018
	Greater than or

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	twelve months		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	\$ 734.8	\$ 20.9	\$ 343.3	\$ 17.1	\$ 1,078.1	\$ 38.0
Non-U.S. governments	314.1	9.2	80.2	3.1	394.3	12.3
States and political subdivisions	2,947.7	85.0	688.4	42.4	3,636.1	127.4
Corporate	16,519.7	471.4	2,470.9	161.9	18,990.6	633.3
Residential mortgage-backed pass-through securities	997.9	24.5	842.1	54.0	1,840.0	78.5
Commercial mortgage-backed securities	1,741.5	32.6	1,461.2	80.1	3,202.7	112.7
Collateralized debt obligations	1,818.1	3.9	47.1	4.3	1,865.2	8.2
Other debt obligations	3,779.1	54.7	2,097.6	74.5	5,876.7	129.2
Total fixed maturities, available-for-sale	\$ 28,852.9	\$ 702.2	\$ 8,030.8	\$ 437.4	\$ 36,883.7	\$ 1,139.6

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Of the total amounts, Principal Life Insurance Company's (Principal Life's) consolidated portfolio represented \$35,846.3 million in available-for-sale fixed maturities with gross unrealized losses of \$1,106.5 million. Of the available-for-sale fixed maturities within Principal Life's consolidated portfolio in a gross unrealized loss position, 97% were investment grade (rated AAA through BBB-) with an average price of 97 (carrying value/amortized cost) as of September 30, 2018. Gross unrealized losses in our fixed maturities portfolio increased during the nine months ended September 30, 2018, primarily due to an increase in interest rates.

For those securities that had been in a continuous unrealized loss position for less than twelve months, Principal Life's consolidated portfolio held 3,276 securities with a carrying value of \$28,160.0 million and unrealized losses of \$684.2 million reflecting an average price of 98 as of September 30, 2018. Of this portfolio, 97% was investment grade (rated AAA through BBB-) as of September 30, 2018, with associated unrealized losses of \$660.2 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 1,215 securities with a carrying value of \$7,686.3 million and unrealized losses of \$422.3 million. The average credit rating of this portfolio was AA with an average price of 95 as of September 30, 2018. Of the \$422.3 million in unrealized losses, the corporate sector accounts for \$148.5 million in unrealized losses with an average price of 94 and an average credit rating of A-. The remaining unrealized losses also include \$79.2 million within the commercial mortgage-backed securities sector with an average price of 95 and an average credit rating of AA+. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

Because we expected to recover our amortized cost, it was not our intent to sell the fixed maturity available-for-sale securities with unrealized losses and it was not more likely than not that we would be required to sell these securities before recovery of the amortized cost, which may be at maturity, we did not consider these investments to be other-than-temporarily impaired as of September 30, 2018.

	Less than twelve months		December 31, 2017 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	\$ 294.2	\$ 2.2	\$ 180.9	\$ 5.5	\$ 475.1	\$ 7.7
Non-U.S. governments	111.0	1.7	22.1	1.9	133.1	3.6
States and political subdivisions	720.0	5.0	437.7	10.9	1,157.7	15.9
Corporate	3,871.5	43.4	1,644.3	60.7	5,515.8	104.1

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Residential mortgage-backed pass-through securities	354.4	2.0	734.5	19.3	1,088.9	21.3
Commercial mortgage-backed securities	1,342.7	19.9	820.3	38.5	2,163.0	58.4
Collateralized debt obligations	460.9	2.1	38.3	13.4	499.2	15.5
Other debt obligations	2,667.6	16.0	956.8	24.5	3,624.4	40.5
Total fixed maturities, available-for-sale	\$ 9,822.3	\$ 92.3	\$ 4,834.9	\$ 174.7	\$ 14,657.2	\$ 267.0
Total equity securities, available-for-sale	\$	\$	\$ 40.4	\$ 5.4	\$ 40.4	\$ 5.4

Of the total amounts, Principal Life Insurance Company's (Principal Life's) consolidated portfolio represented \$14,059.5 million in available-for-sale fixed maturities with gross unrealized losses of \$239.7 million. Of the available-for-sale fixed maturities within Principal Life's consolidated portfolio in a gross unrealized loss position, 97% were investment grade (rated AAA through BBB-) with an average price of 98 (carrying value/amortized cost) as of December 31, 2017. Gross unrealized losses in our fixed maturities portfolio decreased during the year ended December 31, 2017, primarily due to tightening of credit spreads.

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For those securities that had been in a continuous unrealized loss position for less than twelve months, Principal Life's consolidated portfolio held 1,209 securities with a carrying value of \$9,360.9 million and unrealized losses of \$75.4 million reflecting an average price of 99 as of December 31, 2017. Of this portfolio, 98% was investment grade (rated AAA through BBB-) as of December 31, 2017, with associated unrealized losses of \$71.5 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 775 securities with a carrying value of \$4,698.6 million and unrealized losses of \$164.3 million. The average credit rating of this portfolio was AA- with an average price of 97 as of December 31, 2017. Of the \$164.3 million in unrealized losses, the corporate sector accounts for \$52.2 million in unrealized losses with an average price of 97 and an average credit rating of BBB+. The remaining unrealized losses also include \$38.1 million within the commercial mortgage-backed securities sector with an average price of 96 and an average credit rating of AA+. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

Because we expected to recover our amortized cost, it was not our intent to sell the fixed maturity available-for-sale securities with unrealized losses and it was not more likely than not that we would be required to sell these securities before recovery of the amortized cost, which may be at maturity, we did not consider these investments to be other-than-temporarily impaired as of December 31, 2017.

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

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

	September 30, 2018		December 31, 2017
	<i>(in millions)</i>		
Net unrealized gains on fixed maturities, available-for-sale (1)	\$	553.9	\$ 2,898.5
Noncredit component of impairment losses on fixed maturities, available-for-sale		(79.1)	(93.3)
Net unrealized gains on equity securities, available-for-sale			2.0
Adjustments for assumed changes in amortization patterns		3.4	(150.6)
Adjustments for assumed changes in policyholder liabilities		(318.1)	(645.5)

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Net unrealized gains on derivative instruments		109.8		108.2
Net unrealized gains on equity method subsidiaries and noncontrolling interest adjustments		39.8		31.3
Provision for deferred income taxes		(65.4)		(695.5)
Net unrealized gains on available-for-sale securities and derivative instruments	\$	244.3	\$	1,455.1

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

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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:

	September 30, 2018		December 31, 2017
	<i>(in millions)</i>		
Commercial mortgage loans	\$	13,595.3	\$ 12,897.3
Residential mortgage loans		1,353.5	1,285.9
Total amortized cost		14,948.8	14,183.2
Valuation allowance		(29.1)	(32.7)
Total carrying value	\$	14,919.7	\$ 14,150.5

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

	For the three months ended			For the nine months ended		
	September 30,			September 30,		
	2018		2017	2018		2017
	<i>(in millions)</i>					
Commercial mortgage loans:						
Purchased	\$	34.1	\$ 41.2	\$	34.1	\$ 97.2
Sold				1.6		
Residential mortgage loans:						
Purchased		87.4	68.4	292.2		222.8
Sold		9.6	17.5	60.9		47.9

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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:

	September 30, 2018		December 31, 2017	
	Amortized cost	Percent of total	Amortized cost	Percent of total
		<i>(\$ in millions)</i>		
Geographic distribution				
New England	\$ 644.4	4.7 %		