PRINCIPAL FINANCIAL GROUP INC
Form 10-Q
May 02, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

---

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

For the quarterly period ended March 31, 2012

OR

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

1-16725

(Commission file number)

PRINCIPAL FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

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

711 High Street, Des Moines, Iowa 50392

(Address of principal executive offices)

(515) 247-5111

(Registrant s telephone number, including area code)

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

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

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

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

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

The total number of shares of the registrant s Common Stock, $0.01 par value, outstanding as of April 25, 2012, was 300,139,250.

Table of Contents

PRINCIPAL FINANCIAL GROUP, INC.

TABLE OF CONTENTS

		Page
Part I - FINANCIAL INFORMATION		
Item 1.	Financial Statements	3
	Consolidated Statements of Financial Position at March 31, 2012 (Unaudited) and December 31, 2011	3
	Unaudited Consolidated Statements of Operations for the three months ended March 31, 2012 and 2011	4
	Unaudited Consolidated Statements of Comprehensive Income for the three months ended March 31, 2012 and 2011	5
	Unaudited Consolidated Statements of Stockholders Equity for the three months ended March 31, 2012 and 2011	6
	Unaudited Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011	7
	Notes to Unaudited Consolidated Financial Statements March 31, 2012	8
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	79
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	114
Item 4.	Controls and Procedures	118
Part II OTHER INFORMATION		
Item 1.	Legal Proceedings	119
Item 1A.	Risk Factors	119
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	119
Item 6.	Exhibits	120
Signature		121

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Principal Financial Group, Inc.

Consolidated Statements of Financial Position

	March 31, 2012 (Unaudited)		December 31, 2011 (As adjusted)
	(in millions)		
Assets			
Fixed maturities, available-for-sale (2012 and 2011 include $194.9 million and $214.2 million related to consolidated variable interest entities)	$	**49,501.3**	$ 49,006.7
Fixed maturities, trading (2012 and 2011 both include $132.4 million related to consolidated variable interest entities)		**868.7**	971.7
Equity securities, available-for-sale		**138.4**	77.1
Equity securities, trading (2012 and 2011 include $321.4 million and $207.6 million related to consolidated variable interest entities)		**536.4**	404.8
Mortgage loans		**11,308.9**	10,727.2
Real estate		**1,111.9**	1,092.9
Policy loans		**873.9**	885.1
Other investments (2012 and 2011 include $90.5 million and $97.8 million related to consolidated variable interest entities, of which $89.8 million and $97.5 million are measured at fair value under the fair value option)		**2,952.5**	2,985.8
Total investments		**67,292.0**	66,151.3
Cash and cash equivalents (2012 and 2011 include $209.1 million and $317.7 million related to consolidated variable interest entities)		**1,651.9**	2,833.9
Accrued investment income		**622.5**	615.2
Premiums due and other receivables		**1,118.8**	1,196.5
Deferred policy acquisition costs		**2,665.6**	2,428.0
Property and equipment		**476.7**	457.2
Goodwill		**490.7**	482.3
Other intangibles		**893.9**	890.6
Separate account assets		**77,566.5**	71,364.4
Other assets		**959.6**	942.3
Total assets	$	**153,738.2**	$ 147,361.7
Liabilities			
Contractholder funds	$	**36,922.5**	$ 37,676.4
Future policy benefits and claims		**20,604.0**	20,210.4
Other policyholder funds		**639.1**	548.6
Short-term debt		**101.2**	105.2
Long-term debt		**1,570.8**	1,564.8
Income taxes currently payable		**2.9**	3.1
Deferred income taxes		**492.8**	208.7
Separate account liabilities		**77,566.5**	71,364.4
Other liabilities (2012 and 2011 include $555.4 million and $565.2 million related to consolidated variable interest entities, of which $97.8 million and $88.4 million are measured at fair value under the fair value option)		**6,086.5**	6,286.2
Total liabilities		**143,986.3**	137,967.8
Stockholders equity			
Series A preferred stock, par value $.01 per share with liquidation preference of $100 per share 3.0 million shares authorized, issued and outstanding in 2012 and 2011			

Series B preferred stock, par value $.01 per share with liquidation preference of $25 per share 10.0 million shares authorized, issued and outstanding in 2012 and 2011		**0.1**	0.1
Common stock, par value $.01 per share 2,500.0 million shares authorized, 452.4 million and 450.3 million shares issued, and 300.9 million and 301.1 million shares outstanding in 2012 and 2011		**4.5**	4.5
Additional paid-in capital		**9,669.6**	9,634.7
Retained earnings		**4,548.5**	4,402.3
Accumulated other comprehensive income		**488.1**	258.0
Treasury stock, at cost (151.5 million and 149.2 million shares in 2012 and 2011)		**(5,345.9)**	(5,281.7)
Total stockholders equity attributable to Principal Financial Group, Inc.		**9,364.9**	9,017.9
Noncontrolling interest		**387.0**	376.0
Total stockholders equity		**9,751.9**	9,393.9
Total liabilities and stockholders equity	**$**	**153,738.2**	$ 147,361.7

See accompanying notes.

Table of Contents

Principal Financial Group, Inc.

Consolidated Statements of Operations

(Unaudited)

	For the three months ended March 31,	
	2012	**2011**
	(in millions, except per share data)	
Revenues		
Premiums and other considerations	**$ 679.8**	$ 797.1
Fees and other revenues	**598.0**	623.0
Net investment income	**824.8**	859.8
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	**22.1**	(5.6)
Total other-than-temporary impairment losses on available-for-sale securities	**(33.7)**	(14.0)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from) other comprehensive income	**4.9**	(38.4)
Net impairment losses on available-for-sale securities	**(28.8)**	(52.4)
Net realized capital losses	**(6.7)**	(58.0)
Total revenues	**2,095.9**	2,221.9
Expenses		
Benefits, claims and settlement expenses	**1,212.5**	1,188.9
Dividends to policyholders	**50.3**	53.6
Operating expenses	**556.0**	717.9
Total expenses	**1,818.8**	1,960.4
Income before income taxes	**277.1**	261.5
Income taxes	**58.2**	52.7
Net income	**218.9**	208.8
Net income attributable to noncontrolling interest	**9.2**	18.6
Net income attributable to Principal Financial Group, Inc.	**209.7**	190.2
Preferred stock dividends	**8.2**	8.2
Net income available to common stockholders	**$ 201.5**	$ 182.0
Earnings per common share		
Basic earnings per common share	**$ 0.67**	$ 0.57
Diluted earnings per common share	**$ 0.66**	$ 0.56

See accompanying notes.

Table of Contents

Principal Financial Group, Inc.

Consolidated Statements of Comprehensive Income

(Unaudited)

	For the three months ended March 31,	
	2012	**2011**
	(in millions)	
Net income	**$ 218.9**	$ 208.8
Other comprehensive income, net:		
Net unrealized gains on available-for-sale securities	**161.3**	175.4
Noncredit component of impairment losses on fixed maturities, available-for-sale	**(0.9)**	17.3
Net unrealized losses on derivative instruments	**(3.5)**	(4.4)
Foreign currency translation adjustment	**65.3**	21.8
Net unrecognized postretirement benefit obligation	**8.7**	49.2
Other comprehensive income	**230.9**	259.3
Comprehensive income	**449.8**	468.1
Comprehensive income attributable to noncontrolling interest	**10.0**	18.6
Comprehensive income attributable to Principal Financial Group, Inc.	**$ 439.8**	$ 449.5

See accompanying notes.

Table of Contents

Principal Financial Group, Inc.

Consolidated Statements of Shareholders Equity

(Unaudited)

	Series A preferred stock	Series B preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock	Noncontrolling interest	Total stockholders equity
					(in millions)				
Balances at January 1, 2011 (as adjusted)	$	$ 0.1	$ 4.5	$ 9,563.8	$ 3,999.4	$ 306.7	$ (4,725.3)	$ 157.2	$ 9,306.4
Common stock issued				9.1					9.1
Stock-based compensation and additional related tax benefits				9.2					9.2
Treasury stock acquired, common							(5.9)		(5.9)
Dividends to preferred stockholders					(8.2)				(8.2)
Distributions to noncontrolling interest								(2.4)	(2.4)
Contributions from noncontrolling interest								14.3	14.3
Purchase of subsidiary shares from noncontrolling interest				(2.0)				(2.5)	(4.5)
Net income					190.2			18.6	208.8
Other comprehensive income						259.3			259.3
Balances at March 31, 2011	$	$ 0.1	$ 4.5	$ 9,580.1	$ 4,181.4	$ 566.0	$ (4,731.2)	$ 185.2	$ 9,786.1
Balances at January 1, 2012	**$**	**$ 0.1**	**$ 4.5**	**$ 9,634.7**	**$ 4,402.3**	**$ 258.0**	**$ (5,281.7)**	**$ 376.0**	**$ 9,393.9**
Common stock issued				**9.1**					**9.1**
Stock-based compensation and additional related tax benefits				**25.8**	**(1.0)**				**24.8**
Treasury stock acquired, common							**(64.2)**		**(64.2)**
Dividends to common stockholders					**(54.3)**				**(54.3)**

Dividends to preferred stockholders					**(8.2)**				**(8.2)**
Distributions to noncontrolling interest								**(3.2)**	**(3.2)**
Contributions from noncontrolling interest								**4.2**	**4.2**
Net income					**209.7**			**9.2**	**218.9**
Other comprehensive income						**230.1**		**0.8**	**230.9**
Balances at March 31, 2012	**$**	**$ 0.1**	**$ 4.5**	**$ 9,669.6**	**$ 4,548.5**	**$ 488.1**	**$ (5,345.9)**	**$ 387.0**	**$ 9,751.9**

See accompanying notes.

Table of Contents

Principal Financial Group, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	For the three months ended March 31,	
	2012	2011
	(in millions)	
Operating activities		
Net income	$ **218.9**	$ 208.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred policy acquisition costs	**(131.1)**	37.8
Additions to deferred policy acquisition costs	**(101.0)**	(82.7)
Accrued investment income	**(7.3)**	(9.5)
Net cash flows for trading securities	**7.0**	65.3
Premiums due and other receivables	**97.3**	(42.2)
Contractholder and policyholder liabilities and dividends	**521.9**	309.1
Current and deferred income taxes (benefits)	**(31.1)**	41.0
Net realized capital losses	**6.7**	58.0
Depreciation and amortization expense	**36.8**	31.4
Mortgage loans held for sale, acquired or originated	**(22.0)**	(25.9)
Mortgage loans held for sale, sold or repaid, net of gain	**24.0**	15.9
Real estate acquired through operating activities	**(2.9)**	
Real estate sold through operating activities	**1.2**	76.9
Stock-based compensation	**25.1**	9.2
Other	**258.2**	502.4
Net adjustments	**682.8**	986.7
Net cash provided by operating activities	**901.7**	1,195.5
Investing activities		
Available-for-sale securities:		
Purchases	**(2,060.5)**	(1,666.4)
Sales	**428.5**	536.4
Maturities	**1,612.1**	1,725.6
Mortgage loans acquired or originated	**(919.6)**	(123.9)
Mortgage loans sold or repaid	**361.4**	323.7
Real estate acquired	**(21.3)**	(7.0)
Net purchases of property and equipment	**(17.3)**	(4.1)
Net change in other investments	**(73.8)**	(68.4)
Net cash provided by (used in) investing activities	**(690.5)**	715.9
Financing activities		
Issuance of common stock	**9.1**	9.1
Acquisition of treasury stock	**(64.2)**	(5.9)
Proceeds from financing element derivatives	**20.4**	19.4
Payments for financing element derivatives	**(16.2)**	(12.1)
Excess tax benefits from share-based payment arrangements	**9.9**	1.6
Dividends to common stockholders	**(54.3)**	
Dividends to preferred stockholders	**(8.2)**	(8.2)
Issuance of long-term debt	**1.0**	0.6
Principal repayments of long-term debt	**(0.8)**	(1.7)
Net proceeds from (repayments of) short-term borrowings	**(7.5)**	0.2
Investment contract deposits	**1,618.6**	893.3
Investment contract withdrawals	**(2,885.9)**	(2,674.2)

Net decrease in banking operation deposits		**(13.4)**		(25.8)
Other		**(1.7)**		(0.9)
Net cash used in financing activities		**(1,393.2)**		(1,804.6)
Net increase (decrease) in cash and cash equivalents		**(1,182.0)**		106.8
Cash and cash equivalents at beginning of period		**2,833.9**		1,877.4
Cash and cash equivalents at end of period	**$**	**1,651.9**	$	1,984.2

See accompanying notes.

Table of Contents

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements

March 31, 2012
(Unaudited)

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of Principal Financial Group, Inc. (PFG), its majority-owned subsidiaries and its consolidated variable interest entities (VIEs), have been prepared in conformity with accounting principles generally accepted in the U.S. (U.S. GAAP) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2012, are not necessarily indicative of the results that may be expected for the year ended December 31, 2012. These interim unaudited consolidated financial statements should be read in conjunction with our annual audited financial statements as of December 31, 2011, included in our Form 10-K for the year ended December 31, 2011, filed with the United States Securities and Exchange Commission (SEC). The accompanying consolidated statement of financial position as of December 31, 2011, 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.

Accounting Changes

In October 2010, the Financial Accounting Standards Board (FASB) issued authoritative guidance that modifies the definition of the types of costs incurred by insurance entities that can be capitalized in the successful acquisition of new or renewal insurance contracts. Capitalized costs should include incremental direct costs of contract acquisition, as well as certain costs related directly to acquisition activities such as underwriting, policy issuance and processing, medical and inspection and sales force contract selling. This guidance was effective for us on January 1, 2012, and we adopted the guidance retrospectively.

Effective January 1, 2012, we voluntarily changed our method of accounting for the cost of long duration universal life and variable universal life reinsurance contracts. In conjunction with this change, we also changed our accounting policy for estimated gross profits (EGPs). These changes are collectively referred to as the Reinsurance Accounting Change . Under our previous method, we recognized all reinsurance cash flows as part of the net cost of reinsurance and amortized this balance over the estimated lives of the underlying policies in proportion to the pattern of EGPs on the underlying policies. Under the new method, any difference between actual and expected reinsurance cash flows are recognized in earnings immediately instead of being deferred and amortized over the life of the underlying policies. In conjunction with this change, we also changed our policy for determining EGPs relating to these contracts to include the difference between actual and expected reinsurance cash flows, where previously these effects had not been included. We adopted the new policies because we believe that they better reflect the economics of our reinsurance transactions by accounting for direct claims and related reinsurance recoveries in the same period. In addition, the new policies are consistent with management s intent in purchasing reinsurance to protect us against large and unexpected claims.

Comparative amounts from prior periods have been adjusted to apply the new deferred policy acquisition cost (DPAC) guidance (DPAC Guidance) and the Reinsurance Accounting Change retrospectively in these financial statements.

Our retrospective adoption of the DPAC Guidance and the Reinsurance Accounting Change resulted in reductions to the opening balances of retained earnings and accumulated other comprehensive income (AOCI) as of January 1, 2011, as shown in the following table.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

	Impact on opening balance as of January 1, 2011	Attributed to DPAC Guidance	Attributed to Reinsurance Accounting Change
		(in millions)	
Retained earnings	$ (612.9)	$ (631.7)	$ 18.8
Accumulated other comprehensive income	34.3	29.5	4.8

The following tables show the prior period financial statement line items that were affected by the DPAC Guidance and the Reinsurance Accounting Change.

Consolidated Statements of Financial Position

	December 31, 2011				
				Change attributed to	
	As adjusted	As originally reported	Effect of change	DPAC Guidance	Reinsurance Accounting Change
			(in millions)		
Assets					
Other investments	$ 2,985.8	$ 2,988.0	$ (2.2)	$ (2.2)	$
Premiums due and other receivables	1,196.5	1,245.2	(48.7)		(48.7)
Deferred policy acquisition costs	2,428.0	3,313.5	(885.5)	(884.4)	(1.1)
Liabilities					
Future policy benefits and claims	20,210.4	20,207.9	2.5		2.5
Other policyholder funds	548.6	543.7	4.9	7.0	(2.1)
Deferred income taxes	208.7	533.4	(324.7)	(307.1)	(17.6)
Stockholders equity					
Retained earnings	4,402.3	5,077.5	(675.2)	(642.0)	(33.2)
Accumulated other comprehensive income	258.0	201.9	56.1	55.5	0.6

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Consolidated Statements of Operations

	For the three months ended March 31, 2011				
				Change attributed to	
	As adjusted	As originally reported	Effect of change	DPAC Guidance	Reinsurance Accounting Change
	(in millions, except per share data)				
Revenue					
Fees and other revenues	$ 623.0	$ 620.8	$ 2.2	$ 0.1	$ 2.1
Net investment income	859.8	859.9	(0.1)	(0.1)	
Expenses					
Benefits, claims and settlement expenses	1,188.9	1,191.5	(2.6)		(2.6)
Operating expenses	717.9	691.2	26.7	20.1	6.6
Income before income taxes	261.5	283.5	(22.0)	(20.1)	(1.9)
Income taxes	52.7	60.4	(7.7)	(7.0)	(0.7)
Net income	$ 208.8	$ 223.1	$ (14.3)	$ (13.1)	$ (1.2)
Net income available to common stockholders	$ 182.0	$ 196.3	$ (14.3)	$ (13.1)	$ (1.2)
Earnings per common share					
Basic earnings per common share	$ 0.57	$ 0.61	$ (0.04)	$ (0.04)	$
Diluted earnings per common share	$ 0.56	$ 0.60	$ (0.04)	$ (0.04)	$

The following tables show the impact of the Reinsurance Accounting Change on the current period financial statements.

Consolidated Statements of Financial Position

	March 31, 2012		
	New reinsurance accounting method	Former reinsurance accounting method	Effect of Reinsurance Accounting Change
	(in millions)		
Assets			
Premiums due and other receivables	**$ 1,118.8**	**$ 1,182.6**	**$ (63.8)**

Deferred policy acquisition costs	**2,665.6**	**2,648.7**	**16.9**
Liabilities			
Future policy benefits and claims	**20,604.0**	**20,603.9**	**0.1**
Other policyholder funds	**639.1**	**632.6**	**6.5**
Deferred income taxes	**492.8**	**511.5**	**(18.7)**
Stockholders equity			
Retained earnings	**4,548.5**	**4,581.9**	**(33.4)**
Accumulated other comprehensive income	**488.1**	**489.5**	**(1.4)**

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Consolidated Statements of Operations

	For the three months ended March 31, 2012		
	New reinsurance accounting method	Former reinsurance accounting method	Effect of Reinsurance Accounting Change
	(in millions, except per share data)		
Revenue			
Fees and other revenues	$ 598.0	$ 606.5	$ (8.5)
Expenses			
Benefits, claims and settlement expenses	1,212.5	1,199.8	12.7
Operating expenses	556.0	576.9	(20.9)
Income before income taxes	277.1	277.4	(0.3)
Income taxes	58.2	58.3	(0.1)
Net income	$ 218.9	$ 219.1	$ (0.2)
Net income available to common stockholders	$ 201.5	$ 201.7	$ (0.2)
Earnings per common share			
Basic earnings per common share	$ 0.67	$ 0.67	$
Diluted earnings per common share	$ 0.66	$ 0.66	$

Certain of the current and prior period line items in the consolidated statements of cash flows and consolidated statements of stockholders equity were affected by the DPAC Guidance and the Reinsurance Accounting Change. All of the line item changes in the consolidated statements of cash flows were included in the operating activities section and the changes in the consolidated statements of stockholders equity have largely been addressed through the preceding disclosures.

Our accounting policy for DPAC follows, which has been updated from our Form 10-K for the year ended December 31, 2011, to reflect this change.

Deferred Policy 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. Maintenance costs and acquisition costs that are not deferrable are charged

to operations as incurred.

DPAC for universal life-type insurance contracts, participating life insurance policies 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 life insurance, individual variable annuities and group annuities that have separate account 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 DPAC. The DPAC of 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.

DPAC 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, DPAC 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.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Recent Accounting Pronouncements

In December 2011, the FASB issued authoritative guidance related to balance sheet offsetting. The new guidance requires disclosures about assets and liabilities that are offset or have the potential to be offset. These disclosures are intended to address differences in the asset and liability offsetting requirements under U.S. GAAP and International Financial Reporting Standards. This new guidance will be effective for us for interim and annual reporting periods beginning January 1, 2013, with retrospective application required and is not expected to have a material impact on our consolidated financial statements.

Also in December 2011, the FASB issued authoritative guidance that requires a reporting entity to follow the real estate sales guidance when the reporting entity ceases to have a controlling financial interest in a subsidiary that is in-substance real estate as a result of a default on the subsidiary s nonrecourse debt. This guidance will be effective for us on January 1, 2013, and is not expected to have a material impact on our consolidated financial statements.

In September 2011, the FASB issued authoritative guidance that amends how goodwill is tested for impairment. The amendments provide an option to perform a qualitative assessment to determine whether it is necessary to perform the annual two-step quantitative goodwill impairment test. This guidance will be effective for our 2012 goodwill impairment test and is not expected to have a material impact on our consolidated financial statements.

In June 2011, the FASB issued authoritative guidance that changes the presentation of comprehensive income in the financial statements. The new guidance eliminates the presentation options contained in current guidance and instead requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements that show the components of net income and other comprehensive income (OCI), including adjustments for items that are reclassified from OCI to net income. The guidance does not change the items that must be reported in OCI or when an item of OCI must be reclassified to net income. In December 2011, the FASB issued a final standard to defer the new requirement to present classification adjustments out of OCI to net income on the face of the financial statements. All other requirements contained in the original statement on comprehensive income are still effective. This guidance was effective for us on January 1, 2012, and did not have a material impact on our consolidated financial statements. The required disclosures are included in our consolidated financial statements. See Note 8, Stockholders Equity, for further details.

In May 2011, the FASB issued authoritative guidance that clarifies and changes fair value measurement and disclosure requirements. This guidance expands existing disclosure requirements for fair value measurements and makes other amendments but does not require additional fair value measurements. This guidance was effective for us on January 1, 2012, and did not have a material impact on our consolidated financial statements. See Note 9, Fair Value Measurements, for further details.

In April 2011, the FASB issued authoritative guidance that modifies the criteria for determining when repurchase agreements would be accounted for as secured borrowings as opposed to sales. The guidance was effective for us on January 1, 2012, for new transfers and modifications to existing transactions and did not have a material impact on our consolidated financial statements.

Also in April 2011, the FASB issued authoritative guidance which clarifies when creditors should classify a loan modification as a troubled debt restructuring (TDR). A TDR occurs when a creditor grants a concession to a debtor experiencing financial difficulties. Loans denoted as a TDR are considered impaired and are specifically reserved for when calculating the allowance for credit losses. This guidance also ends the indefinite deferral issued in January 2011 surrounding new disclosures on loans classified as a TDR required as part of the credit quality disclosures guidance issued in July 2010. This guidance was effective for us on July 1, 2011, and was applied retrospectively to restructurings occurring on or after January 1, 2011. This guidance did not have a material impact on our consolidated financial statements. See Note 3, Investments, for further detail.

In July 2010, the FASB issued authoritative guidance that requires new and expanded disclosures related to the credit quality of financing receivables and the allowance for credit losses. Reporting entities are required to provide qualitative and quantitative disclosures on the allowance for credit losses, credit quality, impaired loans, modifications and nonaccrual and past due financing receivables. The disclosures are required to be presented on a disaggregated basis by portfolio segment and class of financing receivable. Disclosures required by the guidance that relate to the end of a reporting period were effective for us in our December 31, 2010, consolidated financial statements. Disclosures required by the guidance that relate to an activity that occurs during a reporting period were effective for us on January 1, 2011, and did not have a material impact on our consolidated financial statements. See Note 3, Investments, for further details.

In April 2010, the FASB issued authoritative guidance addressing how investments held through the separate accounts of an

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

insurance entity affect the entity s consolidation analysis. This guidance clarifies that an insurance entity should not consider any separate account interests held for the benefit of policyholders in an investment to be the insurer s interests and should not combine those interests with its general account interest in the same investment when assessing the investment for consolidation. This guidance was effective for us on January 1, 2011, and did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued authoritative guidance that requires new disclosures related to fair value measurements and clarifies existing disclosure requirements about the level of disaggregation, inputs and valuation techniques. Specifically, reporting entities now must disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. In addition, in the reconciliation for Level 3 fair value measurements, a reporting entity should present separately information about purchases, sales, issuances and settlements. The guidance clarifies that a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities for disclosure of fair value measurement, considering the level of disaggregated information required by other applicable U.S. GAAP guidance and should also provide disclosures about the valuation techniques and inputs used to measure fair value for each class of assets and liabilities. This guidance was effective for us on January 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the reconciliation for Level 3 fair value measurements, which were effective for us on January 1, 2011. This guidance did not have a material impact on our consolidated financial statements. See Note 9, Fair Value Measurements, for further details.

Separate Accounts

At March 31, 2012 and December 31, 2011, the separate accounts include a separate account valued at $168.9 million and $146.5 million, respectively, which primarily includes shares of our stock that were allocated and issued to eligible participants of qualified employee benefit plans administered by us as part of the policy credits issued under our 2001 demutualization. These shares are included in both basic and diluted earnings per share calculations. In the consolidated statements of financial position, the separate account shares are recorded at fair value and are reported as separate account assets with a corresponding separate account liability to eligible participants of the qualified plan. Changes in fair value of the separate account shares are reflected in both the separate account assets and separate account liabilities and do not impact our results of operations.

2. Variable Interest Entities

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

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

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

certain of these entities because we act as the investment manager of the underlying portfolio and we have an ownership interest.

Commercial Mortgage-Backed Securities

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

Hedge Funds

We are a general partner with an insignificant equity ownership in various hedge funds. These entities are deemed VIEs due to the equity owners not having decision-making ability. We have determined we are the primary beneficiary of these entities due to our control through our management relationship, related party ownership and our fee structure in certain of these funds.

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	Hedge funds (2)	Total
			(in millions)		
March 31, 2012					
Fixed maturities, available-for-sale	$ 187.4	$ 7.5	$	$	$ 194.9
Fixed maturities, trading		132.4			132.4
Equity securities, trading				321.4	321.4
Other investments			89.9	0.6	90.5
Cash and cash equivalents				209.1	209.1
Accrued investment income	0.6	0.1	0.5		1.2
Premiums due and other receivables				56.1	56.1
Total assets	$ 188.0	$ 140.0	$ 90.4	$ 587.2	$ 1,005.6
Deferred income taxes	$ 2.1	$	$	$	$ 2.1

Other liabilities (1)		**130.4**		**134.6**		**57.5**		**232.9**		**555.4**
Total liabilities	**$**	**132.5**	**$**	**134.6**	**$**	**57.5**	**$**	**232.9**	**$**	**557.5**
December 31, 2011										
Fixed maturities, available-for-sale	$	199.2	$	15.0	$		$		$	214.2
Fixed maturities, trading				132.4						132.4
Equity securities, trading								207.6		207.6
Other investments						97.5		0.3		97.8
Cash and cash equivalents								317.7		317.7
Accrued investment income		1.2		0.1		0.6				1.9
Premiums due and other receivables								39.1		39.1
Total assets	$	200.4	$	147.5	$	98.1	$	564.7	$	1,010.7
Deferred income taxes	$	2.2	$		$		$		$	2.2
Other liabilities (1)		136.9		143.8		64.5		220.0		565.2
Total liabilities	$	139.1	$	143.8	$	64.5	$	220.0	$	567.4

---

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

(2) The consolidated statements of financial position included a $353.2 million and $343.6 million noncontrolling interest for hedge funds as of March 31, 2012 and December 31, 2011, respectively.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

We did not provide financial or other support to investees designated as VIEs for the three months ended March 31, 2012 and 2011.

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.

VIEs include CMBS, residential mortgage-backed pass-through securities (RMBS) and other asset-backed securities (ABS). All of these entities were deemed VIEs because the equity within these entities is insufficient to sustain them. We determined we are not the primary beneficiary in any of 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, some of which are classified as VIEs. The partnership returns are primarily in the form of income tax credits. These entities are classified as VIEs as the general partner does not have an equity investment at risk in the entity. We have determined we are not the primary beneficiary because we are not the general partner, who makes all the significant decisions for the entity.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

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

	Asset carrying value	Maximum exposure to loss (1)
	(in millions)	
March 31, 2012		
Fixed maturities, available-for-sale:		
Corporate	**$ 494.2**	**$ 393.5**
Residential mortgage-backed pass-through securities	**3,337.1**	**3,151.3**
Commercial mortgage-backed securities	**3,499.2**	**3,894.8**
Collateralized debt obligations	**346.9**	**412.4**
Other debt obligations	**3,411.9**	**3,465.7**
Fixed maturities, trading:		
Residential mortgage-backed pass-through securities	**112.5**	**112.5**
Commercial mortgage-backed securities	**4.2**	**4.2**
Collateralized debt obligations	**56.7**	**56.7**
Other debt obligations	**42.9**	**42.9**
Other investments:		
Other limited partnership interests	**78.8**	**78.8**
December 31, 2011		
Fixed maturities, available-for-sale:		
Corporate	$ 544.0	$ 392.6
Residential mortgage-backed pass-through securities	3,343.0	3,155.8
Commercial mortgage-backed securities	3,413.7	3,894.3
Collateralized debt obligations	338.8	399.7
Other debt obligations	3,570.2	3,606.9
Fixed maturities, trading:		
Residential mortgage-backed pass-through securities	105.6	105.6
Commercial mortgage-backed securities	12.0	12.0
Collateralized debt obligations	51.4	51.4
Other debt obligations	64.9	64.9
Other investments:		
Other limited partnership interests	76.3	76.3

(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 initial investment measured at fair value for our fixed maturities, trading.

Sponsored Investment Funds

We are the investment manager for certain money market mutual funds that are deemed to be VIEs. We are not the primary beneficiary of these VIEs since our involvement is limited primarily to being a service provider, and our variable interest does not absorb the majority of the variability of the entities net assets. As of March 31, 2012 and December 31, 2011, these VIEs held $1.5 billion and $1.7 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 that are considered VIEs as we generally earn management fees and in some instances performance-based fees. 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.

3. Investments

Fixed Maturities and Equity Securities

Fixed maturities include bonds, ABS, redeemable preferred stock and certain nonredeemable preferred stock. Equity securities include mutual funds, common stock and nonredeemable preferred stock. We classify fixed maturities and equity securities as either

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

available-for-sale or trading at the time of the purchase and, accordingly, carry them at fair value. See Note 9, 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 related to DPAC, sales inducements, unearned revenue reserves, policyholder liabilities, 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). We also have a minimal amount of assets within trading securities portfolios that support investment strategies that involve the active and frequent purchase and sale of fixed maturities. Mark-to-market adjustments related to these trading securities 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 OCI. For loan-backed and structured securities, we recognize income using a constant effective yield based on currently anticipated cash flows.

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses (in millions)	Other-than-temporary impairments in AOCI (1)	Fair value
March 31, 2012					
Fixed maturities, available-for-sale:					
U.S. government and agencies	$ 771.2	$ 31.2	$ 1.3	$	$ 801.1
Non-U.S. government and agencies	861.1	175.0	0.4		1,035.7
States and political subdivisions	2,692.6	228.2	3.7		2,917.1
Corporate	32,350.0	2,342.9	521.0	19.6	34,152.3
Residential mortgage-backed pass-through securities	3,151.3	186.6	0.8		3,337.1
Commercial mortgage-backed securities	3,894.8	154.4	372.3	177.7	3,499.2
Collateralized debt obligations	412.4	3.0	65.3	3.2	346.9
Other debt obligations	3,465.7	55.9	20.5	89.2	3,411.9
Total fixed maturities, available-for-sale	$ 47,599.1	$ 3,177.2	$ 985.3	$ 289.7	$ 49,501.3
Total equity securities, available-for-sale	$ 140.3	$ 11.3	$ 13.2		$ 138.4
December 31, 2011					

Fixed maturities, available-for-sale:					
U.S. government and agencies	$ 772.3	$ 32.8	$	$	$ 805.1
Non-U.S. government and agencies	917.6	180.5	1.4		1,096.7
States and political subdivisions	2,670.0	218.2	5.5		2,882.7
Corporate	31,954.2	2,321.3	699.5	19.5	33,556.5
Residential mortgage-backed pass-through securities	3,155.8	187.9	0.7		3,343.0
Commercial mortgage-backed securities	3,894.3	117.0	429.4	168.2	3,413.7
Collateralized debt obligations	399.7	1.9	55.8	7.0	338.8
Other debt obligations	3,606.9	100.3	47.0	90.0	3,570.2
Total fixed maturities, available-for-sale	$ 47,370.8	$ 3,159.9	$ 1,239.3	$ 284.7	$ 49,006.7
Total equity securities, available-for-sale	$ 75.2	$ 8.4	$ 6.5		$ 77.1

(1) Excludes $47.4 million and $28.9 million as of March 31, 2012 and December 31, 2011, respectively, of net unrealized gains on impaired fixed maturities, available-for-sale related to changes in fair value subsequent to the impairment date.

Table of Contents

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements

March 31, 2012

(Unaudited)

The amortized cost and fair value of fixed maturities available-for-sale at March 31, 2012, by expected maturity, were as follows:

	Amortized cost	Fair value
	(in millions)	
Due in one year or less	**$ 3,183.1**	**$ 3,230.1**
Due after one year through five years	**13,155.6**	**13,717.2**
Due after five years through ten years	**9,199.5**	**9,994.5**
Due after ten years	**11,136.7**	**11,964.4**
Subtotal	**36,674.9**	**38,906.2**
Mortgage-backed and other asset-backed securities	**10,924.2**	**10,595.1**
Total	**$ 47,599.1**	**$ 49,501.3**

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

Net Realized Capital Gains and Losses

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

	For the three months ended March 31,	
	2012	2011
	(in millions)	
Fixed maturities, available-for-sale:		
Gross gains	**$ 15.3**	$ 12.5
Gross losses	**(36.1)**	(23.3)
Other-than-temporary impairment losses reclassified to (from) OCI	**4.9**	(38.4)

Hedging, net		**(16.7)**		(30.2)
Fixed maturities, trading		**3.0**		(4.6)
Equity securities, available-for-sale:				
Gross gains		**0.1**		2.2
Equity securities, trading		**34.2**		30.1
Mortgage loans		**(11.1)**		(9.9)
Derivatives		**27.6**		8.9
Other		**(27.9)**		(5.3)
Net realized capital losses	**$**	**(6.7)**	$	(58.0)

Proceeds from sales of investments (excluding call and maturity proceeds) in fixed maturities, available-for-sale were $0.4 billion and $0.5 billion for the three months ended March 31, 2012 and 2011, respectively.

Other-Than-Temporary Impairments

We have a process in place to identify fixed maturity and equity securities that could potentially have a credit or interest-related 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

Table of Contents

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements

March 31, 2012

(Unaudited)

late payments, pricing levels, downgrades by rating agencies, key financial ratios, financial statements, revenue forecasts and cash flow projections as indicators of credit issues.

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

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

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

	For the three months ended March 31, 2012	2011
	(in millions)	
Fixed maturities, available-for-sale	**$ (33.7)**	$ (16.2)
Equity securities, available-for-sale		2.2
Total other-than-temporary impairment losses, net of recoveries from the sale of previously impaired securities	**(33.7)**	(14.0)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from) OCI (1)	**4.9**	(38.4)
Net impairment losses on available-for-sale securities	**$ (28.8)**	**$** (52.4)

(1) Represents the net impact of (1) gains resulting from reclassification of noncredit impairment losses for fixed maturities with bifurcated OTTI from net realized capital gains (losses) to OCI and (2) 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.

Table of Contents

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements

March 31, 2012

(Unaudited)

	For the three months ended March 31, 2012	2011
	(in millions)	
Beginning balance	**$ (434.9)**	$ (325.7)
Credit losses for which an other-than-temporary impairment was not previously recognized	**(7.4)**	(2.2)
Credit losses for which an other-than-temporary impairment was previously recognized	**(20.8)**	(34.5)
Reduction for credit losses previously recognized on fixed maturities now sold or intended to be sold	**57.4**	51.2
Net reduction (increase) for positive changes in cash flows expected to be collected and amortization (1)	**1.0**	(0.9)
Ending balance	**$ (404.7)**	**$** (312.1)

(1) Amounts are recognized in net investment income.

Gross Unrealized Losses for Fixed Maturities and Equity Securities

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

Fixed maturities, available-for-sale:						
U.S. government and agencies	**$ 64.7**	**$ 1.3**	**$**	**$**	**$ 64.7**	**$ 1.3**
Non-U.S. governments	**40.1**	**0.4**	**7.3**		**47.4**	**0.4**
States and political subdivisions	**55.7**	**0.7**	**38.6**	**3.0**	**94.3**	**3.7**
Corporate	**2,589.5**	**90.7**	**2,364.7**	**449.9**	**4,954.2**	**540.6**

Residential mortgage-backed pass-through securities	**140.6**	**0.7**	**2.8**	**0.1**	**143.4**	**0.8**
Commercial mortgage-backed securities	**337.3**	**28.6**	**840.8**	**521.4**	**1,178.1**	**550.0**
Collateralized debt obligations	**132.9**	**2.8**	**152.8**	**65.7**	**285.7**	**68.5**
Other debt obligations	**415.3**	**5.9**	**496.8**	**103.8**	**912.1**	**109.7**
Total fixed maturities, available-for-sale	**$ 3,776.1**	**$ 131.1**	**$ 3,903.8**	**$ 1,143.9**	**$ 7,679.9**	**$ 1,275.0**
Total equity securities, available-for-sale	**$ 18.3**	**$ 3.7**	**$ 54.3**	**$ 9.5**	**$ 72.6**	**$ 13.2**

Of the total amounts, Principal Life s consolidated portfolio represented $7,031.0 million in available-for-sale fixed maturities with gross unrealized losses of $1,200.2 million. Principal Life s consolidated portfolio consists of fixed maturities where 74% were investment grade (rated AAA through BBB-) with an average price of 85 (carrying value/amortized cost) at March 31, 2012. Gross unrealized losses in our fixed maturities portfolio decreased during the three months ended March 31, 2012, due to a tightening of credit spreads, primarily in the corporate and commercial mortgage-backed securities sectors.

For those securities that had been in a continuous unrealized loss position for less than twelve months, Principal Life s consolidated portfolio held 355 securities with a carrying value of $3,206.3 million and unrealized losses of $99.3 million reflecting an average price of 97 at March 31, 2012. Of this portfolio, 87% was investment grade (rated AAA through BBB-) at March 31, 2012, with associated unrealized losses of $69.1 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.

Table of Contents

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements

March 31, 2012

(Unaudited)

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 587 securities with a carrying value of $3,824.7 million and unrealized losses of $1,100.9 million. The average rating of this portfolio was BBB- with an average price of 78 at March 31, 2012. Of the $1,100.9 million in unrealized losses, the commercial mortgage-backed securities sector accounts for $521.4 million in unrealized losses with an average price of 62 and an average credit rating of BB+. The remaining unrealized losses consist primarily of $406.9 million within the corporate sector at March 31, 2012. The average price of the corporate sector was 85 and the average credit rating was BBB. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

Because we expected to recover our amortized cost, it was not our intent to sell the fixed maturity available-for-sale securities with unrealized losses and it was not more likely than not that we would be required to sell these securities before recovery of the amortized cost, which may be maturity, we did not consider these investments to be other-than-temporarily impaired at March 31, 2012.

	December 31, 2011					
	Less than twelve months		Greater than or equal to twelve months		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
	(in millions)					
Fixed maturities, available-for-sale:						
Non-U.S. governments	$ 68.5	$ 1.4	$ 0.3	$	$ 68.8	$ 1.4
States and political subdivisions	5.7	0.1	51.7	5.4	57.4	5.5
Corporate	3,445.6	140.9	2,403.9	578.1	5,849.5	719.0
Residential mortgage-backed pass-through securities	77.8	0.5	3.7	0.2	81.5	0.7
Commercial mortgage-backed securities	608.4	57.3	858.9	540.3	1,467.3	597.6
Collateralized debt obligations	107.2	2.5	204.4	60.3	311.6	62.8
Other debt obligations	708.1	13.0	508.1	124.0	1,216.2	137.0
Total fixed maturities, available-for-sale	$ 5,021.3	$ 215.7	$ 4,031.0	$ 1,308.3	$ 9,052.3	$ 1,524.0
Total equity securities, available-for-sale	$ 14.3	$ 3.2	$ 15.6	$ 3.3	$ 29.9	$ 6.5

Of the total amounts, Principal Life s consolidated portfolio represented $8,540.7 million in available-for-sale fixed maturities with gross unrealized losses of $1,470.3 million. Principal Life s consolidated portfolio consists of fixed maturities where 76% were investment grade (rated AAA through BBB-) with an average price of 85 (carrying value/amortized cost) at December 31, 2011. Gross unrealized losses in our fixed maturities portfolio increased slightly during the year ended December 31, 2011, due to a widening of credit spreads primarily in the corporate and commercial mortgage-backed securities sectors.

For those securities that had been in a continuous unrealized loss position for less than twelve months, Principal Life s consolidated portfolio held 477 securities with a carrying value of $4,573.6 million and unrealized losses of $198.7 million reflecting an average price of 96 at December 31, 2011. Of this portfolio, 86% was investment grade (rated AAA through BBB-) at December 31, 2011, with associated unrealized losses of $128.5 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 628 securities with a carrying value of $3,967.1 million and unrealized losses of $1,271.6 million. The average rating of this portfolio was BBB with an average price of 76 at December 31, 2011. Of the $1,271.6 million in unrealized losses, the commercial mortgage-backed securities sector accounts for $540.3 million in unrealized losses with an average price of 61 and an average credit rating of BBB-. The remaining unrealized losses consist primarily of $541.4 million within the corporate sector at December 31, 2011. The average price of the corporate sector was 81 and the average credit rating was BBB. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

Because we expected to recover our amortized cost, it was not our intent to sell the fixed maturity available-for-sale securities with unrealized losses and it was not more likely than not that we would be required to sell these securities before recovery of the

Table of Contents

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements

March 31, 2012

(Unaudited)

amortized cost, which may be maturity, we did not consider these investments to be other-than-temporarily impaired at December 31, 2011.

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 are reported as a separate component of stockholders equity. The cumulative amount of net unrealized gains and losses on available-for-sale securities and derivative instruments net of adjustments related to DPAC, sales inducements, unearned revenue reserves, changes in policyholder liabilities and applicable income taxes was as follows:

	March 31, 2012	December 31, 2011
	(in millions)	
Net unrealized gains on fixed maturities, available-for-sale (1)	**$ 2,234.4**	$ 1,920.6
Noncredit component of impairment losses on fixed maturities, available-for-sale	**(289.7)**	(284.7)
Net unrealized gains (losses) on equity securities, available-for-sale	**(1.9)**	1.9
Adjustments for assumed changes in amortization patterns	**(399.0)**	(376.1)
Adjustments for assumed changes in policyholder liabilities	**(494.7)**	(442.7)
Net unrealized gains on derivative instruments	**79.1**	113.2
Net unrealized gains on equity method subsidiaries and noncontrolling interest adjustments	**183.9**	150.3
Provision for deferred income taxes	**(426.8)**	(354.1)
Net unrealized gains on available-for-sale securities and derivative instruments	**$ 885.3**	$ 728.4

(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, 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:

	March 31, 2012	December 31, 2011
	(in millions)	
Commercial mortgage loans	**$ 10,016.8**	$ 9,461.4
Residential mortgage loans	**1,381.4**	1,367.9
Total amortized cost	**11,398.2**	10,829.3
Valuation allowance	**(89.3)**	(102.1)
Total carrying value	**$ 11,308.9**	**$** 10,727.2

We periodically purchase mortgage loans as well as sell mortgage loans we have originated. We purchased $47.0 million and $42.1 million of residential mortgage loans during the three months ended March 31, 2012 and 2011, respectively. We sold $20.6 million and $16.0 million of residential mortgage loans during the three months ended March 31, 2012 and 2011, respectively.

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

Table of Contents

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements

March 31, 2012

(Unaudited)

Geographic distribution				
New England	**$ 480.5**	**4.8%**	$ 454.0	4.8%
Middle Atlantic	**1,995.8**	**19.9**	1,744.4	18.4
East North Central	**768.4**	**7.7**	774.8	8.2
West North Central	**389.2**	**3.9**	407.8	4.3
South Atlantic	**2,213.1**	**22.1**	2,099.8	22.2
East South Central	**232.1**	**2.3**	231.8	2.4
West South Central	**710.0**	**7.1**	648.6	6.9
Mountain	**725.7**	**7.2**	643.2	6.8
Pacific	**2,490.8**	**24.9**	2,446.4	25.9
International	**11.2**	**0.1**	10.6	0.1
Total	**$ 10,016.8**	**100.0%**	$ 9,461.4	100.0%
Property type distribution				
Office	**$ 2,913.2**	**29.2%**	$ 2,753.8	29.1%
Retail	**2,845.1**	**28.4**	2,580.2	27.3
Industrial	**2,057.1**	**20.5**	2,070.7	21.9
Apartments	**1,357.0**	**13.5**	1,242.9	13.1
Hotel	**515.8**	**5.1**	467.7	4.9
Mixed use/other	**328.6**	**3.3**	346.1	3.7
Total	**$ 10,016.8**	**100.0%**	$ 9,461.4	100.0%

Our residential mortgage loan portfolio is composed of home equity mortgages with an amortized cost of $583.1 million and $611.0 million and first lien mortgages with an amortized cost of $798.3 million and $756.9 million as of March 31, 2012 and December 31, 2011, respectively. Most of 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 downwards 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 imbalances in ratios of loan to value or contract rents to debt service, major tenant vacancies or bankruptcies, borrower sponsorship problems, late payments, delinquent taxes and loan relief/restructuring requests.

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

Table of Contents

Principal Financial Group, Inc.

Notes to Consolidated Financial Statements

March 31, 2012

(Unaudited)

	March 31, 2012		
	Brick and mortar	**CTL**	**Total**
		(in millions)	
A- and above	**$ 6,366.7**	**$ 337.9**	**$ 6,704.6**
BBB+ thru BBB-	**2,154.8**	**216.1**	**2,370.9**
BB+ thru BB-	**360.5**	**15.5**	**376.0**
B+ and below	**559.4**	**5.9**	**565.3**
Total	**$ 9,441.4**	**$ 575.4**	**$ 10,016.8**

	December 31, 2011		
	Brick and mortar	**CTL**	**Total**
		(in millions)	
A- and above	$ 5,682.5	$ 308.6	$ 5,991.1
BBB+ thru BBB-	2,112.3	238.8	2,351.1
BB+ thru BB-	403.7	16.4	420.1
B+ and below	693.3	5.8	699.1
Total	$ 8,891.8	$ 569.6	$ 9,461.4

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 were as follows:

	March 31, 2012		
	Home equity	**First liens**	**Total**
		(in millions)	
Performing	**$ 570.9**	**$ 773.9**	**$ 1,344.8**
Nonperforming	**12.2**	**24.4**	**36.6**
Total	**$ 583.1**	**$ 798.3**	**$ 1,381.4**

	December 31, 2011		
	Home equity	**First liens**	**Total**

	(in millions)		
Performing	$ 597.8	$ 733.7	$ 1,331.5
Nonperforming	13.2	23.2	36.4
Total	$ 611.0	$ 756.9	$ 1,367.9

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 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.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

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

	March 31, 2012	December 31, 2011
	(in millions)	
Commercial:		
Brick and mortar	**$ 53.5**	$ 46.8
Residential:		
Home equity	**12.2**	13.2
First liens	**15.9**	15.7
Total	**$ 81.6**	$ 75.7

The aging of mortgage loans and mortgage loans, based on amortized cost, that were 90 days or more past due and still accruing interest were as follows:

	March 31, 2012						
	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	Recorded investment 90 days or more and accruing
				(in millions)			
Commercial-brick and mortar	**$ 4.4**	**$**	**$ 4.0**	**$ 8.4**	**$ 9,433.0**	**$ 9,441.4**	**$**
Commercial-CTL					**575.4**	**575.4**	
Residential-home equity	**5.8**	**2.2**	**4.9**	**12.9**	**570.2**	**583.1**	
Residential-first liens	**23.4**	**5.6**	**23.1**	**52.1**	**746.2**	**798.3**	**8.5**
Total	**$ 33.6**	**$ 7.8**	**$ 32.0**	**$ 73.4**	**$ 11,324.8**	**$ 11,398.2**	**$ 8.5**

	December 31, 2011						
	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	Recorded investment 90 days or more and accruing
				(in millions)			
Commercial-brick and mortar	$ 61.4	$ 4.4	$ 22.5	$ 88.3	$ 8,803.5	$ 8,891.8	$
Commercial-CTL					569.6	569.6	
Residential-home equity	7.8	2.6	6.2	16.6	594.4	611.0	
	15.8	6.0	22.2	44.0	712.9	756.9	7.5

Residential-first liens							
Total	$ 85.0	$ 13.0	$ 50.9	$ 148.9	$ 10,680.4	$ 10,829.3	$ 7.5

Mortgage Loan Valuation Allowance

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

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

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 major product type and/or risk level with an estimated loss ratio applied against each product type and/or risk level. The loss ratio is generally based upon historic loss experience for each loan type as adjusted for certain environmental factors management believes to be relevant.

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

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

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

	Commercial	Residential (in millions)	Total
For the three months ended March 31, 2012			
Beginning balance	**$ 64.8**	**$ 37.3**	**$ 102.1**
Provision	**7.0**	**6.6**	**13.6**
Charge-offs	**(19.4)**	**(8.3)**	**(27.7)**
Recoveries		**1.2**	**1.2**
Effect of exchange rates		**0.1**	**0.1**
Ending balance	**$ 52.4**	**$ 36.9**	**$ 89.3**
Allowance ending balance by basis of impairment method:			
Individually evaluated for impairment	**$ 6.2**	**$ 4.6**	**$ 10.8**
Collectively evaluated for impairment	**46.2**	**32.3**	**78.5**
Allowance ending balance	**$ 52.4**	**$ 36.9**	**$ 89.3**
Loan balance by basis of impairment method:			
Individually evaluated for impairment	**$ 40.3**	**$ 31.4**	**$ 71.7**
Collectively evaluated for impairment	**9,976.5**	**1,350.0**	**11,326.5**
Loan ending balance	**$ 10,016.8**	**$ 1,381.4**	**$ 11,398.2**
For the three months ended March 31, 2011			
Beginning balance	$ 80.6	$ 40.5	$ 121.1
Provision	6.9	6.3	13.2
Charge-offs	(2.4)	(8.0)	(10.4)
Recoveries		0.9	0.9
Effect of exchange rates		(0.1)	(0.1)
Ending balance	$ 85.1	$ 39.6	$ 124.7
Allowance ending balance by basis of impairment method:			
Individually evaluated for impairment	$ 9.3	$ 4.1	$ 13.4
Collectively evaluated for impairment	75.8	35.5	111.3
Allowance ending balance	$ 85.1	$ 39.6	$ 124.7
Loan balance by basis of impairment method:			
Individually evaluated for impairment	$ 40.1	$ 21.9	$ 62.0
Collectively evaluated for impairment	9,475.4	1,487.3	10,962.7
Loan ending balance	$ 9,515.5	$ 1,509.2	$ 11,024.7

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 TDR. Based on an assessment as to the collectability of the principal, a determination is made to apply any payments received either against the principal or

according to the contractual terms of the loan. Our recorded investment in and unpaid principal balance of impaired loans along with the related loan specific allowance for losses, if any, and the average recorded investment and interest income recognized during the time the loans were impaired were as follows:

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

	March 31, 2012		
	Recorded investment	Unpaid principal balance (in millions)	Related allowance
With no related allowance recorded:			
Commercial-brick and mortar	**$ 95.3**	**$ 108.3**	**$**
Residential-first liens	**6.2**	**6.1**	
With an allowance recorded:			
Commercial-brick and mortar	**40.3**	**42.2**	**6.2**
Residential-home equity	**16.4**	**16.1**	**3.1**
Residential-first liens	**8.8**	**8.7**	**1.5**
Total:			
Commercial	**$ 135.6**	**$ 150.5**	**$ 6.2**
Residential	**$ 31.4**	**$ 30.9**	**$ 4.6**

	December 31, 2011		
	Recorded investment	Unpaid principal balance (in millions)	Related allowance
With no related allowance recorded:			
Commercial-brick and mortar	$	$ 0.3	$
Residential-first liens	4.4	4.2	
With an allowance recorded:			
Commercial-brick and mortar	114.0	114.0	16.3
Residential-home equity	14.5	14.2	1.9
Residential-first liens	8.5	8.5	1.3
Total:			
Commercial	$ 114.0	$ 114.3	$ 16.3
Residential	$ 27.4	$ 26.9	$ 3.2

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

	Average recorded investment	Interest income recognized
	(in millions)	
For the three months ended March 31, 2012		
With no related allowance recorded:		
Commercial-brick and mortar	**$ 47.7**	**$ 1.1**
Residential-first liens	**5.3**	
With an allowance recorded:		
Commercial-brick and mortar	**77.1**	
Residential-home equity	**15.4**	**0.3**
Residential-first liens	**8.8**	
Total:		
Commercial	**$ 124.8**	**$ 1.1**
Residential	**$ 29.5**	**$ 0.3**
For the three months ended March 31, 2011		
With no related allowance recorded:		
Commercial-brick and mortar	$ 23.2	$ 0.3
Residential-first liens	4.6	
With an allowance recorded:		
Commercial-brick and mortar	35.0	0.2
Residential-home equity	11.7	0.1
Residential-first liens	9.9	0.1
Total:		
Commercial	$ 58.2	$ 0.5
Residential	$ 26.2	$ 0.2

Mortgage Loan Modifications

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

The following table includes information about outstanding loans that were modified and met the criteria of a TDR during the period. 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 period:

	For the three months ended March 31, 2012			
	TDRs		TDRs in payment default	
	Number of contracts	Recorded investment (in millions)	Number of contracts	Recorded investment (in millions)
Commercial-brick and mortar	4	$ 63.2		$
Residential-home equity	49	2.2	2	
Total	53	$ 65.4	2	$

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

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

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 are reduced to the expected collectible amount.

Securities Posted as Collateral

We posted $1,738.0 million in fixed maturities, available-for-sale securities at March 31, 2012, to satisfy collateral requirements primarily associated with a reinsurance arrangement, our derivative credit support annex (collateral) agreements and our obligation under funding agreements with the Federal Home Loan Bank of Des Moines (FHLB Des Moines). In addition, we posted $1,810.1 million in commercial mortgage loans as of March 31, 2012, to satisfy collateral requirements associated with our obligation under funding agreements with the FHLB Des Moines. Since we did not relinquish ownership rights on these instruments, they are reported as fixed maturities, available-for-sale and mortgage loans, respectively, on our consolidated statements of financial position.

4. Derivative Financial Instruments

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

Types of Derivative Instruments

Interest Rate Contracts

Interest rate risk is the risk that 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 either party. Cash is paid or received based on the terms of the swap. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by one counterparty at each due date. 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 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 have entered into interest rate collars whereby we receive amounts if a specified market rate falls below a floor strike interest rate, and we pay if a specified market rate exceeds a cap strike interest rate. We use interest rate collars to manage interest rate risk related to guaranteed minimum interest rate liabilities in our individual annuities contracts.

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.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Foreign Exchange Contracts

Foreign currency risk is the risk that we will incur economic losses due to adverse fluctuations in foreign currency exchange rates. This risk arises from foreign currency-denominated funding agreements we issue, foreign currency-denominated fixed maturities we invest in and our investment in and net income of our international operations. We may use currency swaps and currency forwards to hedge foreign currency risk.

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 a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. We use currency forwards to reduce market risks from changes in currency exchange rates with respect to investments or liabilities denominated in foreign currencies that we either hold or intend to acquire or sell. We have also used currency forwards to hedge the currency risk associated with net investments in foreign operations. We did not use any currency forwards during 2012 or 2011 to hedge our net investment in foreign operations.

Equity Contracts

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

We may sell an investment-type insurance contract with attributes tied to market indices (an embedded derivative as noted below), in which case we write an equity call option to convert the overall contract into a fixed-rate liability, essentially eliminating the equity component altogether. We purchase equity call spreads to hedge the equity participation rates promised to contractholders in conjunction with our fixed deferred annuity 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, at the same time we enter into these synthetic transactions, we buy a quality cash bond to match against the credit default swap. 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 total return swaps referencing equity indices to hedge our portfolio from potential credit losses related to systemic events.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Other Contracts

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

We sell investment-type insurance contracts in which the return is tied to an external equity index, a leveraged inflation index or leveraged reference swap. We economically hedge the risk associated with these investment-type insurance contracts.

We offer group benefit plan contracts that have guaranteed separate accounts as an investment option. We also offer a guaranteed fund as an investment option 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 that credit interest based on changes in an external equity index. We also have certain variable annuity products with a GMWB rider, which provides that the contractholder will receive at least their principal deposit back through withdrawals of up to a specified annual amount, even if the account value is reduced to zero. Declines in the equity markets may increase our exposure to benefits under contracts with the GMWB. We economically hedge the exposure in these annuity 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.

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 $485.0 million and $502.4 million in cash and securities under collateral arrangements as of March 31, 2012 and December 31, 2011, respectively, to satisfy collateral requirements associated with our derivative credit support agreements.

Certain of our derivative instruments contain provisions that require us to maintain an investment grade rating from each of the major credit rating agencies on our debt. If the rating on our debt were to fall below investment grade, it would be in violation of these provisions and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value, inclusive of accrued interest, of all derivative instruments with credit-risk-related contingent features that were in a liability position without regard to netting under derivative credit support annex agreements as of March 31, 2012 and December 31, 2011, was $1,387.9 million and $1,484.0 million, respectively. With respect to these derivatives, we posted collateral of $485.0 million and $502.4 million as of March 31, 2012 and December 31, 2011, respectively, in the normal course of business, which reflects netting under derivative credit support annex agreements. If the credit-risk-related contingent features underlying these agreements were triggered on March 31, 2012, we would be required to post an additional $56.4 million of collateral to our counterparties.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

As of March 31, 2012 and December 31, 2011, we had received $146.8 million and $237.0 million, respectively, of cash collateral associated with our derivative credit support annex agreements, for which we recorded a corresponding liability reflecting our obligation to return the collateral.

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

	March 31, 2012	December 31, 2011
	(in millions)	
Notional amounts of derivative instruments		
Interest rate contracts:		
Interest rate swaps	**$ 19,923.7**	$ 19,498.3
Interest rate collars	**500.0**	500.0
Swaptions	**325.0**	68.5
Futures	**30.5**	522.0
Foreign exchange contracts:		
Foreign currency swaps	**3,684.9**	3,919.8
Currency forwards	**176.5**	147.3
Equity contracts:		
Options	**1,625.0**	1,608.4
Futures	**301.6**	270.3
Credit contracts:		
Credit default swaps	**1,281.4**	1,530.3
Total return swaps	**100.0**	15.0
Other contracts:		
Embedded derivative financial instruments	**4,914.0**	4,921.7
Total notional amounts at end of period	**$ 32,862.6**	$ 33,001.6
Credit exposure of derivative instruments		
Interest rate contracts:		
Interest rate swaps	**$ 664.1**	$ 752.2
Interest rate collars	**25.6**	38.5
Swaptions	**2.2**	
Foreign exchange contracts:		
Foreign currency swaps	**254.3**	318.6
Currency forwards	**9.9**	1.5
Equity contracts:		
Options	**78.3**	120.3
Credit contracts:		
Credit default swaps	**7.3**	14.0
Total gross credit exposure	**1,041.7**	1,245.1
Less: collateral received	**146.8**	237.0

Net credit exposure	**$**	**894.9**	$	1,008.1

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

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

	Derivative assets (1)		Derivative liabilities (2)	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
	(in millions)			
Derivatives designated as hedging instruments				
Interest rate contracts	**$**	$ 0.2	**$ 476.8**	$ 500.9
Foreign exchange contracts	**206.6**	267.2	**131.7**	158.4
Total derivatives designated as hedging instruments	**$ 206.6**	$ 267.4	**$ 608.5**	$ 659.3
Derivatives not designated as hedging instruments				
Interest rate contracts	**$ 624.0**	$ 730.9	**$ 593.6**	$ 651.5
Foreign exchange contracts	**55.1**	38.5	**34.5**	42.7
Equity contracts	**78.3**	120.3	**27.2**	0.8
Credit contracts	**7.3**	14.0	**140.6**	169.7
Other contracts			**263.9**	336.0
Total derivatives not designated as hedging instruments	**764.7**	903.7	**1,059.8**	1,200.7
Total derivative instruments	**$ 971.3**	$ 1,171.1	**$ 1,668.3**	$ 1,860.0

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

(2) The fair value of derivative liabilities is reported with other liabilities on the consolidated statement of financial position, with the exception of certain embedded derivative liabilities. Embedded derivative liabilities with a fair value of $129.0 million and $195.8 million as of March 31, 2012 and December 31, 2011, 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 $10.0 million as of March 31, 2012 and $20.0 million as of December 31, 2011. These purchased credit derivative transactions had a net asset (liability) fair value of $0.4 million as of March 31, 2012 and zero as of December 31, 2011. 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 certain investment structures with embedded credit features that are 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 a single name or 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 are undiscounted and have not been

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

reduced by the effect of any offsetting transactions, collateral or recourse features described above.

	March 31, 2012			
	Notional amount	Fair value	Maximum future payments	Weighted average expected life (in years)
		(in millions)		
Single name credit default swaps				
Corporate debt				
AA	**$ 80.0**	**$ (0.4)**	**$ 80.0**	**3.6**
A	**498.0**	**1.0**	**498.0**	**2.3**
BBB	**115.0**	**(0.2)**	**115.0**	**2.4**
Structured finance				
C	**10.0**	**(8.9)**	**10.0**	**9.9**
Near default	**12.6**	**(12.4)**	**12.6**	**0.9**
Total single name credit default swaps	**715.6**	**(20.9)**	**715.6**	**2.6**
Basket and index credit default swaps				
Corporate debt				
Near default	**140.0**	**(94.0)**	**140.0**	**4.7**
Government/municipalities				
AA	**30.0**	**(8.7)**	**30.0**	**5.5**
Structured finance				
BBB	**25.0**	**(7.5)**	**25.0**	**5.3**
Total basket and index credit default swaps	**195.0**	**(110.2)**	**195.0**	**4.9**
Total credit default swap protection sold	**$ 910.6**	**$ (131.1)**	**$ 910.6**	**3.1**

	December 31, 2011			
	Notional amount	Fair value	Maximum future payments	Weighted average expected life (in years)
		(in millions)		
Single name credit default swaps				
Corporate debt				
AA	$ 85.0	$ (1.0)	$ 85.0	4.0
A	483.0	(1.4)	483.0	2.5
BBB	110.0	(0.3)	110.0	1.7
CCC	10.0	(0.1)	10.0	0.2
Structured finance				
C	10.0	(8.9)	10.0	10.1
Near default	12.9	(12.8)	12.9	1.2
Total single name credit default swaps	710.9	(24.5)	710.9	2.6
Basket and index credit default swaps				

Corporate debt							
CCC		132.4		(104.7)		132.4	5.2
CC		15.0		(14.8)		15.0	1.0
Government/municipalities							
A		40.0		(10.5)		40.0	4.4
Structured finance							
BBB		25.0		(11.0)		25.0	5.5
Total basket and index credit default		212.4		(141.0)		212.4	4.8
Total credit default swap protection sold	$	923.3	$	(165.5)	$	923.3	3.1

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

We also have invested in fixed maturities classified as available-for-sale that contain credit default swaps that do not require bifurcation and 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.

	March 31, 2012		
	Amortized cost	Carrying value (in millions)	Weighted average expected life (in years)
Corporate debt			
BBB	$ 18.6	$ 18.7	4.6
B	25.0	23.5	1.2
CC	3.8	1.0	3.8
Total corporate debt	47.4	43.2	2.8
Structured finance			
AA	9.5	9.5	6.7
BBB	24.7	22.2	4.3
BB	18.2	16.4	2.7
B	8.3	8.3	5.3
CCC	7.6	7.9	7.0
CC	0.4	0.4	7.8
C		0.1	2.7
Total structured finance	68.7	64.8	4.6
Total fixed maturities with credit derivatives	$ 116.1	$ 108.0	3.9

	December 31, 2011		
	Amortized cost	Carrying value (in millions)	Weighted average expected life (in years)
Corporate debt			
BB	$ 14.7	$ 14.7	5.0
CCC	25.0	20.8	1.5
CC	3.7	0.7	4.0
Total corporate debt	43.4	36.2	2.9
Structured finance			
AA	9.3	9.3	6.4
BBB	27.4	24.5	4.5

BB		15.0		13.9	2.5
B		11.2		11.2	5.4
CCC		3.5		3.6	4.8
CC		0.7		0.7	5.3
C		0.2		0.1	8.2
Near default		0.2		0.2	4.7
Total structured finance		67.5		63.5	4.5
Total fixed maturities with credit derivatives	$	110.9	$	99.7	3.9

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

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.

We have sold callable investment-type insurance contracts and used cancellable interest rate swaps to hedge the changes in fair value of the callable feature.

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 three months ended March 31, (1)**		**Hedging items in fair value hedging relationships**	**Amount of gain (loss) recognized in net income on related hedged item for the three months ended March 31, (1)**	
	2012	**2011**		**2012**	**2011**
	(in millions)			**(in millions)**	
Interest rate contracts	**$ 31.7**	$ 39.7	Fixed maturities, available-for-sale	**$ (28.2)**	$ (38.0)

Interest rate contracts			(1.0)	Investment-type insurance contracts			1.4
Foreign exchange contracts		**(0.8)**	(1.7)	Fixed maturities, available-for-sale		**1.3**	2.0
Foreign exchange contracts		**16.2**	7.3	Investment-type insurance contracts		**(14.8)**	(8.2)
Total	**$**	**47.1**	$ 44.3	Total	**$**	**(41.7)**	$ (42.8)

(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.

The following table shows the periodic settlements on interest rate contracts and foreign exchange contracts in fair value hedging relationships.

Hedged item	**Amount of gain (loss) for the three months ended March 31, 2012**	**2011**
	(in millions)	
Fixed maturities, available-for-sale (1)	**$ (35.5)**	$ (39.8)
Investment-type insurance contracts (2)	**8.8**	11.5

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

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

(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 that 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 8.2 years. At March 31, 2012, we had $114.9 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 OCI into net income. No amounts were reclassified 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 three months ended March 31, 2012 and 2011.

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.

Derivatives in cash flow hedging relationships	Related hedged item	Amount of gain (loss) recognized in AOCI on derivatives (effective portion) for the three months ended March 31,		Location of gain (loss) reclassified from AOCI into net income (effective portion)	Amount of gain (loss) reclassified from AOCI on derivatives (effective portion) for the three months ended March 31,	
		2012	2011		2012	2011
		(in millions)			(in millions)	

Interest rate contracts	Fixed maturities, available-for-sale	**$**	**(2.1)**	$	(3.3)	Net investment income	**$**	**1.9**	$ 1.8
Interest rate contracts	Investment-type insurance contracts		**1.7**		3.0	Benefits, claims and settlement expenses			(0.2)
Interest rate contracts	Debt					Operating expense		**(1.4)**	(1.3)
Foreign exchange contracts	Fixed maturities, available-for-sale		**(19.5)**		(42.8)	Net realized capital losses		**(10.2)**	(7.7)
Foreign exchange contracts	Investment-type insurance contract		**(3.9)**		(19.5)	Benefits, claims and settlement expenses			(1.5)
Total		**$**	**(23.8)**	$	(62.6)	Total	**$**	**(9.7)**	$ (8.9)

The following table shows the periodic settlements on interest rate contracts and foreign exchange contracts in cash flow hedging relationships.

Hedged item	**Amount of gain (loss) for the three months ended March 31, 2012**		**2011**
	(in millions)		
Fixed maturities, available-for-sale (1)	**$**	**2.0**	$ 3.0
Investment-type insurance contracts (2)		**(3.3)**	(2.6)

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

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

(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 (loss) resulting from the ineffective portion of foreign currency contracts in cash flow hedging relationships was $0.1 million and $0.1 million for the three months ended March 31, 2012 and 2011, respectively.

We expect to reclassify net losses of $2.2 million from AOCI into net income in the next 12 months, which includes both net deferred losses on discontinued hedges and on periodic settlements of active hedges. Actual amounts may vary from this amount as a result of market conditions.

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. Gains and losses on certain derivatives used in relation to certain trading portfolios are reported in net investment income on the consolidated statements of operations.

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

Derivatives not designated as hedging instruments	Amount of gain (loss) recognized in net income on derivatives for the three months ended March 31, 2012	2011
	(in millions)	
Interest rate contracts	**$ (34.8)**	$ 4.3
Foreign exchange contracts	**27.6**	19.0
Equity contracts	**(63.9)**	(22.6)
Credit contracts	**18.6**	(2.4)
Other contracts	**68.2**	(5.0)
Total	**$ 15.7**	$ (6.7)

5. Income Taxes

The effective income tax rate for the three months ended March 31, 2012, was lower than the U.S. corporate income tax rate of 35% (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 and lower tax rates of foreign jurisdictions.

The effective income tax rate for the three months ended March 31, 2011, 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 and the inclusion of income attributable to noncontrolling interest in income before income taxes with no corresponding change in income taxes reported by us as the controlling interest.

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. A temporary exception (the active financing exception) was applicable for tax years beginning before January 1, 2012, to avoid the current recognition of Subpart F income derived in the active conduct of a banking, financing, insurance or similar business. The U.S. Congress and the President have yet to enact extenders legislation for 2012 as of March 31, 2012. Therefore, current tax expense has increased by an immaterial amount associated with the U.S. recognition of Subpart F income from our foreign operations. We will reverse any tax expense subject to the active financing exception during the quarter of enactment should extenders legislation be enacted during 2012, assuming the legislation is retroactive to January 1, 2012.

The Internal Revenue Service (IRS) has completed examination of our consolidated federal income tax returns for years prior to 2004. We are contesting certain issues and have filed suit in the Court of Federal Claims, requesting refunds for the years

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

1995-2003. We do not expect the litigation to be resolved within the next twelve months. The IRS also completed its examinations of tax years 2004 through 2005 and 2006 through 2008 resulting in receipt of notices of deficiency, which were paid in 2011. We will file claims for refund for 2004 and 2005 relating to disputed adjustments during the second quarter of 2012. The IRS commenced audit of our federal income tax return for 2009 and 2010 in 2011 and during the first quarter of 2012, respectively. 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.

The U.S. District Court for the Southern District of Iowa issued a decision in the case of Pritired 1, LLC (Pritired), and Principal Life Insurance Co. v. United States on September 30, 2011. The court ruled that the securities Pritired held should be characterized as debt, not equity, and thus Principal Life was not entitled to foreign tax credits for the years 2002 and 2003. Pritired and Principal Life are seeking clarification from the court but have not yet decided whether to appeal this ruling.

6. Employee and Agent Benefits

Components of Net Periodic Benefit Cost

	Pension benefits For the three months ended March 31,		Other postretirement benefits For the three months ended March 31,	
	2012	**2011**	**2012**	**2011**
	(in millions)			
Service cost	**$ 11.7**	$ 10.9	**$ 0.3**	$ 0.3
Interest cost	**27.3**	26.8	**2.1**	2.2
Expected return on plan assets	**(28.6)**	(28.2)	**(8.4)**	(8.5)
Amortization of prior service benefit	**(2.4)**	(2.5)	**(7.1)**	(7.4)
Recognized net actuarial loss	**22.7**	15.7	**0.2**	0.1
Amounts recognized due to special events		(0.3)		(1.2)
Net periodic benefit cost (income)	**$ 30.7**	$ 22.4	**$ (12.9)**	$ (14.5)

Contributions

Our funding policy for our qualified pension plan is to fund the plan annually in an amount at least equal to the minimum annual contribution required under the Employee Retirement Income Security Act (ERISA) and, generally, not greater than the maximum amount that can be deducted for federal income tax purposes. The minimum annual contribution for 2012 will be zero so we will not be required to fund our qualified pension plan during 2012. However, it is possible that we may fund the qualified and nonqualified pension plans in 2012 for a

combined total of $60.0 million to $110.0 million. During the three months ended March 31, 2012, we contributed $23.0 million to these plans.

7. 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, life, health and disability insurance. 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, the Federal Reserve Board and other regulatory agencies regularly make inquiries and conduct examinations or

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

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 November 8, 2006, a trustee of Fairmount Park Inc. Retirement Savings Plan filed a putative class action lawsuit in the United States District Court for the Southern District of Illinois against Principal Life. Principal Life s motion to transfer venue was granted and the case is now pending in the Southern District of Iowa. The complaint alleged, among other things, that Principal Life breached its alleged fiduciary duties while performing services to 401(k) plans by failing to disclose, or adequately disclose, to employers or plan participants the fact that Principal Life receives revenue sharing fees from mutual funds that are included in its pre-packaged 401(k) plans and allegedly failed to use the revenue to defray the expenses of the services provided to the plans. Plaintiff further alleged that these acts constitute prohibited transactions under ERISA. Plaintiff sought to certify a class of all retirement plans to which Principal Life was a service provider and for which Principal Life received and retained revenue sharing fees from mutual funds. On August 27, 2008, the plaintiff s motion for class certification was denied. On June 13, 2011, the court entered a consent judgment resolving the claims of the plaintiff. On July 12, 2011, plaintiff filed a notice of appeal related to the issue of the denial of class certification. Principal Life continues to aggressively defend the lawsuit.

On October 28, 2009, Judith Curran filed a derivative action lawsuit on behalf of Principal Funds, Inc. Strategic Asset Management Portfolios in the United States District Court for the Southern District of Iowa against Principal Management Corporation, Principal Global Investors, LLC, and Principal Funds Distributor, Inc. (the Curran Defendants). The lawsuit alleges the Curran Defendants breached their fiduciary duty under Section 36(b) of the Investment Company Act by charging advisory fees and distribution fees that were excessive. The Curran Defendants filed a motion to dismiss the case on January 29, 2010. That motion was granted in part and overruled in part. Principal Global Investors, LLC was dismissed from the suit. The remaining Curran Defendants are aggressively defending the lawsuit.

On December 2, 2009 and December 4, 2009, two plaintiffs, Cruise and Mullaney, each filed putative class action lawsuits in the United States District Court for the Southern District of New York against us, Principal Life, Principal Global Investors, LLC, and Principal Real Estate Investors, LLC (the Cruise/Mullaney Defendants). The lawsuits alleged the Cruise/Mullaney Defendants failed to manage the Principal U.S. Property Separate Account (PUSPSA) in the best interests of investors, improperly imposed a withdrawal freeze on September 26, 2008, and instituted a withdrawal queue to honor withdrawal requests as sufficient liquidity became available. Plaintiffs allege these actions constitute a breach of fiduciary duties under ERISA. Plaintiffs seek to certify a class including all qualified ERISA plans and the participants of those plans that invested in PUSPSA between September 26, 2008, and the present that have suffered losses caused by the queue. The two lawsuits, as well as two subsequently filed complaints asserting similar claims, have been consolidated and are now known as In re Principal U.S. Property Account Litigation. On April 22, 2010, an order was entered granting the motion made by the Cruise/Mullaney Defendants for change of venue to the United States District Court for the Southern District of Iowa. Plaintiffs filed an Amended Consolidated Complaint adding five new plaintiffs on November 22, 2010, and the Cruise/Mullaney Defendants moved to dismiss the amended complaint. The court denied the Cruise/Mullaney Defendants motion to dismiss on May 17, 2011. The Cruise/Mullaney Defendants are aggressively defending the lawsuit.

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 March 31, 2012, 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. 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 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 March 31, 2012.

Guarantees and Indemnifications

In the normal course of business, we have provided guarantees to third parties primarily related to a former subsidiary. These agreements generally expire through 2019. The maximum exposure under these agreements as of March 31, 2012, was approximately $141.0 million. At inception, the fair value of such guarantees was insignificant. In addition, we believe the likelihood is remote that

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

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 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.

8. Stockholders Equity

Common Stock

On March 30, 2012, we paid a quarterly dividend of $54.3 million, equal to $0.18 per share, to stockholders of record as of March 12, 2012.

Reconciliation of Outstanding Shares

	Series A preferred stock	Series B preferred stock (in millions)	Common stock
Outstanding shares at January 1, 2011	3.0	10.0	320.4
Shares issued			1.1
Treasury stock acquired			(0.2)
Outstanding shares at March 31, 2011	3.0	10.0	321.3
Outstanding shares at January 1, 2012	**3.0**	**10.0**	**301.1**
Shares issued			**2.1**

Treasury stock acquired			**(2.3)**
Outstanding shares at March 31, 2012	**3.0**	**10.0**	**300.9**

In May 2011, our Board of Directors reinstated the November 2007 share repurchase program. In July 2011, we completed this program. During August 2011, our Board of Directors authorized a share repurchase program of up to $200.0 million of our outstanding common stock. We completed this program in September 2011. During November 2011, our Board of Directors authorized a share repurchase program of up to $100.0 million of our outstanding common stock. We completed this program in December 2011. In February 2012, our Board of Directors authorized a share repurchase program of up to $100.0 million of our outstanding common stock.

Our Board of Directors has authorized various repurchase programs under which we are allowed to purchase shares 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.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Other Comprehensive Income

	For the three months ended March 31, 2012		
	Pre-Tax	Tax	After-Tax
		(in millions)	
Net unrealized gains on available-for-sale securities during the period	$ 333.1	$ (112.2)	$ 220.9
Reclassification adjustment for losses included in net income	10.5	(3.9)	6.6
Adjustments for assumed changes in amortization patterns	(55.5)	19.4	(36.1)
Adjustments for assumed changes in policyholder liabilities	(52.0)	21.9	(30.1)
Net unrealized gains on available-for-sale securities	236.1	(74.8)	161.3
Noncredit component of impairment losses on fixed maturities, available-for-sale during the period	(5.0)	1.7	(3.3)
Adjustments for assumed changes in amortization patterns	3.8	(1.4)	2.4
Noncredit component of impairment losses on fixed maturities, available-for-sale (1)	(1.2)	0.3	(0.9)
Net unrealized losses on derivative instruments during the period	(43.8)	15.3	(28.5)
Reclassification adjustment for losses included in net income	9.7	(3.4)	6.3
Adjustments for assumed changes in amortization patterns	28.8	(10.1)	18.7
Net unrealized losses on derivative instruments	(5.3)	1.8	(3.5)
Foreign currency translation adjustment	61.4	3.9	65.3
Unrecognized postretirement benefit obligation during the period			
Amortization of prior service cost and actuarial loss included in net periodic benefit cost	13.4	(4.7)	8.7
Net unrecognized postretirement benefit obligation	13.4	(4.7)	8.7
Other comprehensive income	$ 304.4	$ (73.5)	$ 230.9

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

	For the three months ended March 31, 2011		
	Pre-Tax	Tax (in millions)	After-Tax
Net unrealized gains on available-for-sale securities during the period	$ 281.1	$ (100.7)	$ 180.4
Reclassification adjustment for gains included in net income	(0.2)	0.1	(0.1)
Adjustments for assumed changes in amortization patterns	(47.1)	16.5	(30.6)
Adjustments for assumed changes in policyholder liabilities	25.7		25.7
Net unrealized gains on available-for-sale securities	259.5	(84.1)	175.4
Noncredit component of impairment losses on fixed maturities, available-for-sale during the period	38.4	(16.0)	22.4
Adjustments for assumed changes in amortization patterns	(7.8)	2.7	(5.1)
Noncredit component of impairment losses on fixed maturities, available-for-sale (1)	30.6	(13.3)	17.3
Net unrealized losses on derivative instruments during the period	(17.4)	6.1	(11.3)
Reclassification adjustment for losses included in net income	8.8	(3.1)	5.7
Adjustments for assumed changes in amortization patterns	1.9	(0.7)	1.2
Net unrealized losses on derivative instruments	(6.7)	2.3	(4.4)
Foreign currency translation adjustment	27.0	(5.2)	21.8
Unrecognized postretirement benefit obligation during the period (2)	71.3	(25.0)	46.3
Amortization of prior service cost and actuarial loss included in net periodic benefit cost	4.4	(1.5)	2.9
Net unrecognized postretirement benefit obligation	75.7	(26.5)	49.2
Other comprehensive income	$ 386.1	$ (126.8)	$ 259.3

(1) 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.

(2) Includes the impact of the quarterly remeasurement of plan assets and liabilities in 2011 resulting from curtailment accounting associated with our exited group medical insurance business.

Accumulated Other Comprehensive Income

	Net unrealized gains on	Noncredit component of impairment losses	Net unrealized gains on	Foreign currency	Unrecognized postretirement	Accumulated other

	available-for-sale securities	on fixed maturities available-for-sale	derivative instruments	translation adjustment	benefit obligation	comprehensive income
			(in millions)			
Balances at January 1, 2011	$ 652.1	$ (198.2)	$ 11.3	$ 29.7	$ (188.2)	$ 306.7
Other comprehensive income	175.4	17.3	(4.4)	21.8	49.2	259.3
Balances at March 31, 2011	$ 827.5	$ (180.9)	$ 6.9	$ 51.5	$ (139.0)	$ 566.0
Balances at January 1, 2012	**$ 860.7**	**$ (167.2)**	**$ 34.9**	**$ (109.3)**	**$ (361.1)**	**$ 258.0**
Other comprehensive income	**161.3**	**(0.9)**	**(3.5)**	**64.5**	**8.7**	**230.1**
Balances at March 31, 2012	**$ 1,022.0**	**$ (168.1)**	**$ 31.4**	**$ (44.8)**	**$ (352.4)**	**$ 488.1**

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

9. 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-type insurance contracts, are excluded from these fair value disclosure requirements.

Valuation Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels.

- **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, over-the-counter 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.
- **Level 3** Fair values are based on significant unobservable inputs for the asset or liability. Our Level 3 assets and liabilities include certain fixed maturities, private equity securities, real estate and commercial mortgage loan investments of our separate accounts, commercial mortgage loan investments and obligations of consolidated VIEs for which the fair value option was elected, complex derivatives and embedded derivatives that must be priced using broker quotes or other valuation methods that utilize at least one significant unobservable input.

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. We did not make any significant changes to our valuation processes during 2012.

Fixed Maturities

Fixed maturities include bonds, redeemable preferred stock, asset-backed securities and certain nonredeemable preferred stock. 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 security are then discounted back at the current Treasury curve plus the appropriate risk spread. Although the matrix

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

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 March 31, 2012, 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.

State 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 U.S. 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 and nonredeemable preferred stock. 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, 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 interest rate and equity futures that are settled daily such that their fair value is not reflected in the consolidated statements of financial position. The fair values of over-the-counter derivative instruments are determined using either pricing valuation models that utilize market observable inputs or broker quotes. The majority of our over-the-counter 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 over-the-counter 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 derivative contracts are generally documented under ISDA Master Agreements, which provide for legally enforceable set-off and close-out netting of exposures to specific counterparties. Collateral arrangements are bilateral and based on current ratings of each entity. We utilize the LIBOR interest rate curve to value our positions, which includes a credit spread. This credit spread incorporates an appropriate level of nonperformance risk into our valuations given the current ratings of our counterparties, as well as the collateral agreements in place. Counterparty credit risk is routinely monitored to ensure our adjustment for non-performance risk is appropriate.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Interest Rate 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. In addition, we have a limited number of complex inflation-linked interest rate swaps and interest rate collars that are valued using broker quotes. These are reflected in Level 3. Swaptions 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. In addition, we have a limited number of non-standard currency swaps that are valued using broker quotes. These are reflected within Level 3. Currency forwards are valued using observable market inputs, including forward currency exchange rates. These are reflected in Level 2.

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 primarily include seed money investments, for which the fair value is determined using the net asset value of the fund. The net asset value 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 net asset value is published are reflected in Level 1. Seed money investments in mutual funds or other investment funds in markets that do not have a published net asset value are reflected in Level 2.

Other investments reported at fair value also include commercial mortgage loans of consolidated VIEs for which the fair value option was elected, which are reflected in Level 3. Fair value of these commercial mortgage loans is computed utilizing a discount rate based on the current market. The market discount rate is then adjusted based on various factors that differentiate it from our pool of loans.

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 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 public real estate market data inputs such as transaction prices, market rents, vacancy levels, leasing absorption, market cap rates and discount rates. In addition, each property is appraised annually by an independent appraiser. The real estate within the separate accounts is reflected in Level 3.

Investment-Type Insurance Contracts

Certain annuity contracts and other investment-type insurance 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). They are valued using a combination of historical data and actuarial judgment. Stochastic models are used to value the embedded derivatives that incorporate a spread reflecting our own creditworthiness and risk margins.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

The assumption for our own non-performance risk for investment-type insurance contracts and any embedded derivatives bifurcated from certain annuity and investment-type insurance 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. These obligations are valued either 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, or broker quotes, which are reflected in Level 3.

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.

	As of March 31, 2012			
	Assets/ (liabilities) measured at fair value	Fair value hierarchy level		
		Level 1	Level 2	Level 3
	(in millions)			
Assets				
Fixed maturities, available-for-sale:				
U.S. government and agencies	$ 801.1	$ 66.3	$ 734.8	$
Non-U.S. governments	1,035.7		998.9	36.8
States and political subdivisions	2,917.1		2,917.1	
Corporate	34,152.3	96.4	33,853.2	202.7
Residential mortgage-backed securities	3,337.1		3,337.1	
Commercial mortgage-backed securities	3,499.2		3,499.2	
Collateralized debt obligations	346.9		267.9	79.0
Other debt obligations	3,411.9		3,405.8	6.1

Total fixed maturities, available-for-sale	**49,501.3**	**162.7**	**49,014.0**	**324.6**
Fixed maturities, trading	**868.7**	**175.1**	**487.4**	**206.2**
Equity securities, available-for-sale	**138.4**	**60.6**	**60.3**	**17.5**
Equity securities, trading	**536.4**	**411.3**	**125.1**	
Derivative assets (1)	**971.3**		**924.0**	**47.3**
Other investments (2)	**199.1**	**21.6**	**87.7**	**89.8**
Cash equivalents (3)	**692.3**	**7.3**	**685.0**	
Sub-total excluding separate account assets	**52,907.5**	**838.6**	**51,383.5**	**685.4**
Separate account assets	**77,566.5**	**54,975.5**	**18,303.8**	**4,287.2**
Total assets	**$ 130,474.0**	**$ 55,814.1**	**$ 69,687.3**	**$ 4,972.6**
Liabilities				
Investments-type insurance contracts (4)	**$ (129.0)**	**$**	**$**	**$ (129.0)**
Derivative liabilities (1)	**(1,408.9)**		**(1,266.6)**	**(142.3)**
Other liabilities (4)	**(228.2)**		**(187.5)**	**(40.7)**
Total liabilities	**$ (1,766.1)**	**$**	**$ (1,454.1)**	**$ (312.0)**
Net assets (liabilities)	**$ 128,707.9**	**$ 55,814.1**	**$ 68,233.2**	**$ 4,660.6**

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

	As of December 31, 2011			
	Assets/ (liabilities) measured at fair value	Fair value hierarchy level		
		Level 1	Level 2	Level 3
	(in millions)			
Assets				
Fixed maturities, available-for-sale:				
U.S. government and agencies	$ 805.1	$ 57.5	$ 747.6	$
Non-U.S. governments	1,096.7		1,073.8	22.9
States and political subdivisions	2,882.7		2,882.7	
Corporate	33,556.5	87.5	33,172.0	297.0
Residential mortgage-backed securities	3,343.0		3,343.0	
Commercial mortgage-backed securities	3,413.7		3,413.7	
Collateralized debt obligations	338.8		236.3	102.5
Other debt obligations	3,570.2		3,542.9	27.3
Total fixed maturities, available-for-sale	49,006.7	145.0	48,412.0	449.7
Fixed maturities, trading	971.7	199.6	551.3	220.8
Equity securities, available-for-sale	77.1	56.5	2.6	18.0
Equity securities, trading	404.8	291.6	113.2	
Derivative assets (1)	1,171.1		1,110.9	60.2
Other investments (2)	213.3	17.6	98.2	97.5
Cash equivalents (3)	1,659.8	677.3	982.5	
Sub-total excluding separate account assets	53,504.5	1,387.6	51,270.7	846.2
Separate account assets	71,364.4	49,477.1	17,689.1	4,198.2
Total assets	$ 124,868.9	$ 50,864.7	$ 68,959.8	$ 5,044.4
Liabilities				
Investments-type insurance contracts (4)	$ (195.8)	$	$	$ (195.8)
Derivative liabilities (1)	(1,527.3)		(1,350.2)	(177.1)
Other liabilities (4)	(225.3)		(201.1)	(24.2)
Total liabilities	$ (1,948.4)	$	$ (1,551.3)	$ (397.1)
Net assets (liabilities)	$ 122,920.5	$ 50,864.7	$ 67,408.5	$ 4,647.3

(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 4, 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 and commercial mortgage loans of consolidated VIEs 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.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

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 three months ended March 31, 2012							
		Total realized/unrealized gains (losses)						
	Beginning asset/ (liability) balance as of December 31, 2011	Included in net income (1)	Included in other comprehensive income	Net purchases, sales, issuances and settlements (4)	Transfers into Level 3	Transfers out of Level 3	Ending asset/ (liability) balance as of March 31, 2012	Changes in unrealized gains (losses) included in net income relating to positions still held (1)
	(in millions)							
Assets								
Fixed maturities, available-for-sale:								
Non-U.S. governments	$ 22.9	$ (2.2)	$ 0.1	$ 1.5	$ 14.5	$	$ 36.8	$ (2.2)
Corporate	297.0	(2.6)	2.0	(16.6)	3.4	(80.5)	202.7	(2.7)
Collateralized debt obligations	102.5	(0.1)	3.1	0.5		(27.0)	79.0	(0.1)
Other debt obligations	27.3	(0.7)	(1.3)	(25.2)	6.0		6.1	(0.7)
Total fixed maturities, available-for-sale	449.7	(5.6)	3.9	(39.8)	23.9	(107.5)	324.6	(5.7)
Fixed maturities, trading	220.8	(1.7)	5.3	(18.2)			206.2	(2.4)
Equity securities, available-for-sale	18.0		(0.5)				17.5	
Derivative assets	60.2	(14.6)		1.7			47.3	(13.6)
Other investments	97.5	(0.9)		(6.8)			89.8	(0.8)
Separate account assets (2)	4,198.2	86.9	0.1	3.4	0.3	(1.7)	4,287.2	77.7
Liabilities								
Investments-type insurance contracts	(195.8)	68.8		(2.0)			(129.0)	68.1
Derivative liabilities	(177.1)	25.4	1.3	8.1			(142.3)	26.4
Other liabilities (3)	(24.2)	(16.5)					(40.7)	(16.5)

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

	For the three months ended March 31, 2011							
	Beginning asset/ (liability) balance as of December 31, 2010	Total realized/unrealized gains (losses) Included in net income (1)	Total realized/unrealized gains (losses) Included in other comprehensive income	Net purchases, sales, issuances and settlements (4)	Transfers into Level 3	Transfers out of Level 3	Ending asset/ (liability) balance as of March 31, 2011	Changes in unrealized gains (losses) included in net income relating to positions still held (1)
	(in millions)							
Assets								
Fixed maturities, available-for-sale:								
Non-U.S. governments	$ 24.5	$	$	$	$	$	$ 24.5	$
Corporate	552.1	(7.9)	4.7	(11.2)	27.5	(20.0)	545.2	(7.9)
Commercial mortgage-backed securities	16.2		2.6	0.2			19.0	
Collateralized debt obligations	109.3	(10.3)	14.7	(1.3)		(1.3)	111.1	(10.3)
Other debt obligations	88.8		0.5	(1.2)	0.4		88.5	
Total fixed maturities, available-for-sale	790.9	(18.2)	22.5	(13.5)	27.9	(21.3)	788.3	(18.2)
Fixed maturities, trading	269.1	(4.1)		4.6			269.6	(3.1)
Equity securities, available-for-sale	43.2		5.0				48.2	
Derivative assets	33.3	6.3	(0.1)	(0.1)			39.4	6.2
Other investments	128.3	(2.1)		(4.0)			122.2	(2.1)
Separate account assets (2)	3,771.5	73.7	(0.3)	(17.3)	3.1	(31.2)	3,799.5	71.8
Liabilities								
Investment-type insurance contracts	(6.6)	(4.5)		6.9			(4.2)	(4.3)
Derivative liabilities	(181.5)	1.4	2.0	(6.9)			(185.0)	2.5
Other liabilities (3)	(156.8)	4.4	0.2	(6.7)			(158.9)	4.4

(1) Both realized gains (losses) and mark-to-market unrealized gains (losses) are generally reported in net realized capital gains (losses) within the consolidated statements of operations. Realized and unrealized gains (losses) on certain fixed maturities, trading and certain derivatives used in relation to certain trading portfolios are reported in net investment income within the consolidated statements of operation.

(2) Gains and losses for separate account assets do not impact net income as the change in value of separate account assets is offset by a change in value of separate account liabilities. Foreign currency translation adjustments related to the Principal International segment separate account assets are recorded in AOCI and are offset by foreign currency translation adjustments of the corresponding separate account liabilities.

(3) 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.

(4) Gross purchases, sales, issuances and settlements were:

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

	For the three months ended March 31, 2012				
	Purchases	Sales	Issuances (in millions)	Settlements	Net purchases, sales, issuances and settlements
Assets					
Fixed maturities, available-for-sale:					
Non-U.S. governments	$ **71.1**	$ **(69.3)**	$	$ **(0.3)**	$ **1.5**
Corporate	**12.3**	**(26.6)**		**(2.3)**	**(16.6)**
Collateralized debt obligations				**0.5**	**0.5**
Other debt obligations				**(25.2)**	**(25.2)**
Total fixed maturities, available-for-sale	**83.4**	**(95.9)**		**(27.3)**	**(39.8)**
Fixed maturities, trading		**(0.9)**		**(17.3)**	**(18.2)**
Derivative assets	**2.5**	**(0.8)**			**1.7**
Other investments				**(6.8)**	**(6.8)**
Separate account assets	**174.0**	**(130.7)**	**(134.9)**	**95.0**	**3.4**
Liabilities					
Investment-type insurance contracts			**(3.3)**	**1.3**	**(2.0)**
Derivative liabilities	**(0.7)**	**8.8**			**8.1**

	For the three months ended March 31, 2011				
	Purchases	Sales	Issuances (in millions)	Settlements	Net purchases, sales, issuances and settlements
Assets					
Fixed maturities, available-for-sale:					
Corporate	$ 7.6	$ (16.5)	$	$ (2.3)	$ (11.2)
Commercial mortgage-backed securities				0.2	0.2
Collateralized debt obligations	0.3	(0.4)		(1.2)	(1.3)
Other debt obligations				(1.2)	(1.2)
Total fixed maturities, available-for-sale	7.9	(16.9)		(4.5)	(13.5)
Fixed maturities, trading	10.0	(5.3)		(0.1)	4.6
Derivative assets		(0.1)			(0.1)
Other investments				(4.0)	(4.0)
Separate account assets	35.2	(44.7)		(7.8)	(17.3)
Liabilities					
Investment-type insurance contracts			6.3	0.6	6.9
Derivative liabilities	(9.4)	2.5			(6.9)
Other liabilities	(2.1)			(4.6)	(6.7)

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Transfers

Transfers of assets and liabilities measured at fair value on a recurring basis between fair value hierarchy levels are summarized below.

	For the three months ended March 31, 2012					
	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
	(in millions)					
Assets						
Fixed maturities, available-for- sale:						
Non-U.S. governments	$	$	$	$ 14.5	$	$
Corporate				3.4		80.5
Collateralized debt obligations						27.0
Other debt obligations				6.0		
Total fixed maturities, available-for-sale				23.9		107.5
Separate account assets		0.3				1.7

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

We did not have significant transfers between Level 1 and Level 2 during the three months ended March 31, 2012 and March 31, 2011.

Assets transferred into Level 3 during the three months ended March 31, 2012 and 2011, primarily included assets that were previously priced using a matrix pricing valuation approach that may no longer be relevant when applied to asset-specific situations.

Assets transferred out of Level 3 during the three months ended March 31, 2012 and 2011, 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.

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. Refer to Assets and liabilities measured at fair value on a recurring basis for a complete valuation hierarchy summary.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

	As of March 31, 2012			
	Assets / (liabilities) measured at fair value (in millions)	**Valuation technique(s)**	**Unobservable input description**	**Input/range of inputs [weighted average]**
Assets				
Fixed maturities, available-for-sale:				
Non-U.S. governments	$ **13.9**	Discounted cash flow	Discount rate (1)	2.3% [2.3%]
			Illiquidity premium	25 basis points (bps) [25bps]
Corporate	**69.5**	Discounted cash flow	Discount rate (1)	0.3%-41.0% [13.0%]
			Illiquidity premium	0bps-200bps [83bps]
			Comparability adjustment	0bps-130bps [12bps]
			Earnings before interest, taxes, depreciation and amortization multiple	4.5x [4.5x]
		Recovery value	Discount rate (1)	6.2% [6.2%]
			Illiquidity premium	600bps [600bps]
			Probability of default	50.0% [50.0%]
			Potential loss severity	47.0% [47.0%]
Collateralized debt obligations	**41.2**	Discounted cash flow	Discount rate (1)	2.1%-11.5% [8.0%]
			Illiquidity premium	400bps-1,000bps [815bps]
Other debt obligations	**6.1**	Discounted cash flow	Discount rate (1)	20.0% [20.0%]
Fixed maturities, trading	**31.2**	Discounted cash flow	Discount rate (1)	2.3%-61.0% [8.0%]
			Illiquidity premium	0bps-1,400bps [440bps]
	132.4	See note (2)		
Other investments	**89.8**	Discounted cash flow	Discount rate (1)	4.3% [4.3%]
			Illiquidity premium	345bps [345bps]

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

	As of March 31, 2012			
	Assets / (liabilities) measured at fair value (in millions)	**Valuation technique(s)**	**Unobservable input description**	**Input/range of inputs [weighted average]**
Separate account assets	**4,123.8**	Discounted cash flow - mortgage loans	Discount rate (1)	0.9%-9.3% [4.1%]
			Illiquidity premium	0bps-50bps
			Credit spread rate	60bps-885bps [332bps]
		Discounted cash flow - real estate	Discount rate (1)	6.5%-10.5% [8.2%]
			Terminal capitalization rate	5.5%-9.5% [7.3%]
			Average market rent growth rate	2.2%-6.1% [3.4%]
Liabilities				
Derivative liabilities	**(86.5)**	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.

(2) Relates to a consolidated collateralized private investment vehicle that is a VIE. Fixed maturity, 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 other liabilities represent obligations to third party note holders due at maturity or termination of the trust. The value of the obligations 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 observable 20 and 30-year 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 asset to significantly decrease or increase, respectively. Additionally, we may adjust the base discount rate or the modeled price by applying an illiquidity

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

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-type insurance 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-type insurance 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 the three months ended March 31, 2012, certain mortgage loans had been marked to fair value of $126.5 million. The net impact of impairments and improvements in estimated fair value of previously impaired loans resulted in a net loss of $7.9 million for the three months ended March 31, 2012, that was recorded in net realized capital gains (losses) as part of the mortgage loan valuation allowance. 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 the three months ended March 31, 2012, were:

Discount rate = 8.0% - 13.0%

Terminal capitalization rate = 6.3% - 10.3%

Average market rent growth = 8.0% - 13.0%

During the three months ended March 31, 2012, certain mortgage servicing rights had been marked to fair value of $4.4 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 $0.1 million for the three months ended March 31, 2012, 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 3.3% for the three months ended March 31, 2012.

During the three months ended March 31, 2011, certain mortgage loans had been marked to fair value of $49.7 million. The net impact of impairments and improvements in estimated fair value of previously impaired loans resulted in a net gain of $0.8 million for the three months ended March 31, 2011, that was recorded in net realized capital gains (losses) as part of the mortgage loan valuation allowance. 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 the three months ended March 31, 2011, certain mortgage servicing rights had been written down to fair value of $1.1 million. The net impact of impairments and improvements in estimated fair value of previously impaired mortgage servicing rights

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

resulted in a net gain of $0.1 million for the three months ended March 31, 2011, 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.

Fair Value Option

As a result of our implementation of new authoritative guidance related to the accounting for VIEs effective January 1, 2010, we elected fair value accounting for certain assets and liabilities of newly 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 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 $89.8 million and $89.3 million as of March 31, 2012, and $97.5 million and $96.1 million as of December 31, 2011, respectively. The change in fair value of the loans resulted in a $0.8 million and $2.1 million pre-tax loss for the three months ended March 31, 2012 and 2011, 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 $1.8 million and $2.5 million for the three months ended March 31, 2012 and 2011, respectively.

The fair value and aggregate unpaid principal amounts of obligations for which the fair value option has been elected were $97.8 million and $221.7 million as of March 31, 2012, and $88.4 million and $169.8 million as of December 31, 2011, respectively. For the three months ended March 31, 2012 and 2011, the change in fair value of the obligations resulted in a pre-tax gain (loss) of ($15.9) million and $6.3 million, which includes a pre-tax gain (loss) of ($16.5) million and $4.4 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 $1.4 million and $1.9 million for the three months ended March 31, 2012 and 2011, respectively.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Financial Instruments Not Reported at Fair Value

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

	March 31, 2012				
			Fair value hierarchy level		
	Carrying amount	Fair value	Level 1	Level 2	Level 3
			(in millions)		
Assets (liabilities)					
Mortgage loans	**$ 11,308.9**	**$ 11,757.7**	**$**	**$**	**$ 11,757.7**
Policy loans	**873.9**	**1,032.7**			**1,032.7**
Other investments	**242.7**	**243.7**		**165.0**	**78.7**
Cash and cash equivalents	**959.6**	**959.6**	**959.6**		
Investments-type insurance contracts	**(31,583.4)**	**(31,611.6)**		**(6,662.5)**	**(24,949.1)**
Short-term debt	**(101.2)**	**(101.2)**		**(101.2)**	
Long-term debt	**(1,570.8)**	**(1,773.0)**		**(1,752.6)**	**(20.4)**
Separate account liabilities	**(69,517.8)**	**(68,372.3)**			**(68,372.3)**
Bank deposits	**(2,129.4)**	**(2,137.4)**	**(1,318.6)**	**(818.8)**	
Cash collateral payable	**(144.1)**	**(144.1)**	**(144.1)**		

	December 31, 2011	
	Carrying amount	Fair value
	(in millions)	
Assets (liabilities)		
Mortgage loans	$ 10,727.2	$ 11,223.4
Policy loans	885.1	1,114.2
Other investments	165.6	165.6
Cash and cash equivalents	1,174.1	1,174.1
Investments-type insurance contracts	(32,408.5)	(32,234.0)
Short-term debt	(105.2)	(105.2)
Long-term debt	(1,564.8)	(1,750.7)
Separate account liabilities	(64,016.2)	(62,906.9)
Bank deposits	(2,142.8)	(2,150.2)
Cash collateral payable	(234.0)	(234.0)

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 U.S. 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 scheduled 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 carrying value of the remaining investments reported in this line item approximate their fair value and are of a short-term nature. These are reflected in Level 2.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Cash and Cash Equivalents

The carrying amounts of 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-Type Insurance Contracts

The fair values of our reserves and liabilities for investment-type insurance 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-type contracts being valued. These are reflected in Level 3. Investment-type insurance 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 insurance, annuity and other policy contracts that do involve significant mortality or morbidity risk. The fair values for our insurance contracts, other than investment-type 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 U.S. 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, such as demand deposits, savings, and interest-bearing demand accounts, 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.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

10. Segment Information

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

The Retirement and Investor Services 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.

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 individual life insurance and specialty benefits, which consists of group dental and vision insurance, individual and group disability insurance, group life insurance, wellness services and non-medical fee-for-service claims administration, 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 after-tax adjustments not allocated to the segments based on the nature of such items.

Management uses segment operating earnings in goal setting, as a basis for determining employee compensation and in evaluating performance on a basis comparable to that used by securities analysts. We determine segment operating earnings by adjusting U.S. GAAP net income for net realized capital gains (losses), as adjusted, and other after-tax adjustments which management believes are not indicative of overall operating trends. Net realized capital gains (losses), as adjusted, are net of income taxes, related changes in the amortization pattern of DPAC and sales inducements, 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 and certain market value adjustments to fee revenues. 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 and amortization of hedge accounting book value adjustments for certain discontinued hedges, and revenue from our exited group medical insurance business. Segment operating revenues include operating revenues from real estate properties that qualify for discontinued operations. While these items may be significant components in understanding and assessing the consolidated financial performance, management believes the presentation of segment operating earnings enhances the understanding of our results of operations by highlighting earnings attributable to the normal, ongoing operations of the business.

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. 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.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

The following tables summarize select financial information by segment and reconcile segment totals to those reported in the consolidated financial statements:

	March 31, 2012	December 31, 2011
	(in millions)	
Assets:		
Retirement and Investor Services	**$ 113,266.7**	$ 108,998.0
Principal Global Investors	**1,795.8**	1,833.3
Principal International	**17,248.2**	15,612.1
U.S. Insurance Solutions	**17,669.9**	17,389.1
Corporate	**3,757.6**	3,529.2
Total consolidated assets	**$ 153,738.2**	$ 147,361.7

	For the three months ended March 31,	
	2012	2011
	(in millions)	
Operating revenues by segment:		
Retirement and Investor Services	**$ 1,055.1**	$ 1,017.9
Principal Global Investors	**138.1**	125.3
Principal International	**262.5**	206.1
U.S. Insurance Solutions	**697.0**	732.0
Corporate	**(45.3)**	(33.8)
Total segment operating revenues	**2,107.4**	2,047.5
Net realized capital losses, net of related revenue adjustments	**(30.4)**	(80.5)
Exited group medical insurance business	**18.9**	254.9
Total revenues per consolidated statements of operations	**$ 2,095.9**	$ 2,221.9
Operating earnings (loss) by segment, net of related income taxes:		
Retirement and Investor Services	**$ 143.6**	$ 154.1
Principal Global Investors	**16.2**	16.6
Principal International	**41.8**	27.8
U.S. Insurance Solutions	**50.2**	53.4
Corporate	**(38.8)**	(32.1)
Total segment operating earnings, net of related income taxes	**213.0**	219.8
Net realized capital losses, as adjusted (1)	**(10.0)**	(54.9)
Other after-tax adjustments (2)	**(1.5)**	17.1
Net income available to common stockholders per consolidated statements of operations	**$ 201.5**	$ 182.0

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

---

(1) Net realized capital gains (losses), as adjusted, is derived as follows:

	For the three months ended March 31, 2012	2011
	(in millions)	
Net realized capital losses:		
Net realized capital losses	**$ (6.7)**	$ (58.0)
Certain derivative and hedging-related adjustments	**(23.3)**	(22.3)
Recognition of front-end fee revenue	**(0.4)**	(0.2)
Net realized capital losses, net of related revenue adjustments	**(30.4)**	(80.5)
Amortization of deferred policy acquisition and sales inducement costs	**32.9**	20.6
Capital gains distributed	**(7.5)**	(8.7)
Certain market value adjustments of embedded derivatives	**(1.9)**	3.8
Net realized capital (gains) losses associated with exited group medical insurance business	**0.1**	(0.1)
Noncontrolling interest capital gains	**(8.1)**	(17.5)
Income tax effect	**4.9**	27.5
Net realized capital losses, as adjusted	**$ (10.0)**	$ (54.9)

(2) For the three months ended March 31, 2012, other after-tax adjustments included the negative effect of losses associated with our exited group medical insurance business that does not yet qualify for discontinued operations accounting treatment under U.S. GAAP.

For the three months ended March 31, 2011, other after-tax adjustments included the positive effect of gains associated with our exited group medical insurance business that does not yet qualify for discontinued operations accounting treatment under U.S. GAAP.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

The following table summarizes operating revenues for our products and services:

	For the three months ended March 31, 2012	2011
	(in millions)	
Retirement and Investor Services:		
Full-service accumulation	**$ 332.7**	$ 343.4
Principal Funds	**147.1**	141.6
Individual annuities	**272.3**	274.2
Bank and trust services	**24.5**	23.8
Eliminations	**(29.2)**	(28.9)
Total Accumulation	**747.4**	754.1
Investment only	**115.3**	135.6
Full-service payout	**192.4**	128.2
Total Guaranteed	**307.7**	263.8
Total Retirement and Investor Services	**1,055.1**	1,017.9
Principal Global Investors (1)	**138.1**	125.3
Principal International	**262.5**	206.1
U.S. Insurance Solutions:		
Individual life insurance	**313.5**	358.3
Specialty benefits insurance	**383.5**	373.7
Total U.S. Insurance Solutions	**697.0**	732.0
Corporate	**(45.3)**	(33.8)
Total operating revenues	**$ 2,107.4**	$ 2,047.5
Total operating revenues	**$ 2,107.4**	$ 2,047.5
Net realized capital losses (except periodic settlements and accruals on non-hedge derivatives), including recognition of front-end fee revenues and certain market value adjustments to fee revenues	**(30.4)**	(80.5)
Exited group medical insurance business	**18.9**	254.9
Total revenues per consolidated statements of operations	**$ 2,095.9**	$ 2,221.9

(1) Reflects inter-segment revenues of $52.6 million and $51.7 million for the three months ended March 31, 2012 and 2011, respectively. These revenues are eliminated within the Corporate segment.

11. Stock-Based Compensation Plans

As of March 31, 2012, we have the Amended and Restated 2010 Stock Incentive Plan, the Employee Stock Purchase Plan, the 2005 Directors Stock Plan, the Stock Incentive Plan, the Directors Stock Plan and the Long-Term Performance Plan (Stock-Based Compensation Plans). As of May 17, 2005, no new grants will be made under the Stock Incentive Plan, the Directors Stock Plan or the Long-Term Performance Plan. Under the terms of the Amended and Restated 2010 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 2005 Directors Stock Plan provides for the grant of nonqualified stock options, restricted stock, restricted stock units or other stock-based awards to our nonemployee directors. To date, we have not granted any incentive stock options, restricted stock or performance units.

As of March 31, 2012, the maximum number of new shares of common stock that were available for grant under the Amended and Restated 2010 Stock Incentive Plan and the 2005 Directors Stock Plan was 8.3 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:

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

	For the three months ended March 31, 2012	2011
	(in millions)	
Compensation cost	**$ 15.2**	$ 11.8
Related income tax benefit	**4.6**	4.0
Capitalized as part of an asset	**0.7**	0.6

Nonqualified Stock Options

Nonqualified stock options were granted to certain employees under the Amended and Restated 2010 Stock Incentive Plan. Total options granted were 0.8 million for the three months ended March 31, 2012. The fair value of these options was determined using the Black-Scholes option valuation model assuming a weighted-average dividend yield of 2.6 percent, a weighted-average expected volatility of 70.0 percent, a weighted-average risk-free interest rate of 1.1 percent and a weighted-average expected term of 6 years. The weighted-average estimated fair value of stock options granted during the three months ended March 31, 2012, was $13.95 per share.

As of March 31, 2012, there were $10.1 million of total unrecognized compensation costs related to nonvested stock options. The costs are expected to be recognized over a weighted-average service period of approximately 1.8 years.

Performance Share Awards

Performance share awards were granted to certain employees under the Amended and Restated 2010 Stock Incentive Plan. Total performance share awards granted were 0.4 million for the three months ended March 31, 2012. The performance share awards granted represent initial target awards and do not reflect potential increases or decreases resulting from the final performance objective to be determined at the end of the 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 these performance share awards granted was $27.46 per common share.

As of March 31, 2012, there were $12.6 million of total unrecognized compensation costs related to nonvested performance share awards granted. The costs are expected to be recognized over a weighted-average service period of approximately 1.7 years.

Restricted Stock Units

Restricted stock units were issued to certain employees and agents pursuant to the Amended and Restated 2010 Stock Incentive Plan. Total restricted stock units granted were 1.1 million for the three months ended March 31, 2012. The fair value of restricted stock units is determined based on the closing stock price of our common shares on the grant date. The weighted-average grant date fair value of these restricted stock units granted was $27.47 per common share.

As of March 31, 2012, there were $53.2 million of total unrecognized compensation costs related to nonvested restricted stock unit awards granted. The costs are expected to be recognized over a weighted-average period of approximately 2.2 years.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

12. Earnings Per Common Share

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

	For the three months ended March 31,	
	2012	**2011**
	(in millions, except per share data)	
Net income	**$ 218.9**	$ 208.8
Subtract:		
Net income attributable to noncontrolling interest	**9.2**	18.6
Preferred stock dividends	**8.2**	8.2
Net income available to common stockholders	**$ 201.5**	$ 182.0
Weighted-average shares outstanding:		
Basic	**301.8**	321.3
Dilutive effects:		
Stock options	**1.0**	1.4
Restricted stock units	**1.6**	1.7
Performance share awards	**0.3**	0.3
Diluted	**304.7**	324.7
Net income per common share:		
Basic	**$ 0.67**	$ 0.57
Diluted	**$ 0.66**	$ 0.56

The calculation of diluted earnings per share for the three months ended March 31, 2012 and 2011, excludes the incremental effect related to certain outstanding stock-based compensation grants due to their anti-dilutive effect.

13. Condensed Consolidating Financial Information

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

The following tables set forth condensed consolidating financial information of (i) PFG, (ii) Principal Life, (iii) Principal Financial Services, Inc. (PFS) and all other direct and indirect subsidiaries of PFG on a combined basis and (iv) the eliminations necessary to arrive at the information for PFG on a consolidated basis as of March 31, 2012 and December 31, 2011, and for the three months ended March 31, 2012 and 2011.

In presenting the condensed consolidating financial statements, the equity method of accounting has been applied to (i) PFG s interest in PFS, (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.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Condensed Consolidating Statements of Financial Position

March 31, 2012

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined (in millions)	Eliminations	Principal Financial Group, Inc. Consolidated
Assets					
Fixed maturities, available-for-sale	$	$ 43,471.8	$ 6,389.7	$ (360.2)	$ 49,501.3
Fixed maturities, trading	202.5	335.7	330.5		868.7
Equity securities, available-for-sale		135.3	3.1		138.4
Equity securities, trading		0.3	536.1		536.4
Mortgage loans		9,762.1	1,921.9	(375.1)	11,308.9
Real estate		9.1	1,103.8	(1.0)	1,111.9
Policy loans		845.8	28.1		873.9
Investment in unconsolidated entities	10,119.1	3,102.6	4,735.7	(17,094.5)	862.9
Other investments	5.8	2,252.5	998.4	(1,167.1)	2,089.6
Cash and cash equivalents	378.3	346.6	941.7	(14.7)	1,651.9
Accrued investment income	0.3	557.5	68.7	(4.0)	622.5
Premiums due and other receivables		886.8	935.3	(703.3)	1,118.8
Deferred policy acquisition costs		2,409.9	255.7		2,665.6
Property and equipment		410.5	66.2		476.7
Goodwill		54.3	436.4		490.7
Other intangibles		28.9	865.0		893.9
Separate account assets		66,708.9	10,857.6		77,566.5
Other assets	14.0	464.8	1,001.7	(520.9)	959.6
Total assets	$ 10,720.0	$ 131,783.4	$ 31,475.6	$ (20,240.8)	$ 153,738.2
Liabilities					
Contractholder funds	$	$ 36,528.2	$ 664.7	$ (270.4)	$ 36,922.5
Future policy benefits and claims		16,437.2	4,281.1	(114.3)	20,604.0
Other policyholder funds		607.6	31.7	(0.2)	639.1
Short-term debt			101.2		101.2
Long-term debt	1,351.7	99.4	502.4	(382.7)	1,570.8
Income taxes currently payable	(21.7)	(400.1)	(14.4)	439.1	2.9
Deferred income taxes	(17.6)	190.8	337.1	(17.5)	492.8
Separate account liabilities		66,708.9	10,857.6		77,566.5
Other liabilities	42.7	4,240.0	4,203.6	(2,399.8)	6,086.5
Total liabilities	1,355.1	124,412.0	20,965.0	(2,745.8)	143,986.3
Stockholders equity					
Series A preferred stock					
Series B preferred stock	0.1				0.1
Common stock	4.5	2.5		(2.5)	4.5
Additional paid-in capital	9,669.6	5,721.7	7,881.0	(13,602.7)	9,669.6
Retained earnings	4,548.5	1,178.1	1,711.6	(2,889.7)	4,548.5
	488.1	469.1	526.5	(995.6)	488.1

Accumulated other comprehensive income					
Treasury stock, at cost	**(5,345.9)**				**(5,345.9)**
Total stockholders equity attributable to PFG	**9,364.9**	**7,371.4**	**10,119.1**	**(17,490.5)**	**9,364.9**
Noncontrolling interest			**391.5**	**(4.5)**	**387.0**
Total stockholders equity	**9,364.9**	**7,371.4**	**10,510.6**	**(17,495.0)**	**9,751.9**
Total liabilities and stockholders equity	**$ 10,720.0**	**$ 131,783.4**	**$ 31,475.6**	**$ (20,240.8)**	**$ 153,738.2**

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Condensed Consolidating Statements of Financial Position

December 31, 2011

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined (in millions)	Eliminations	Principal Financial Group, Inc. Consolidated
Assets					
Fixed maturities, available-for-sale	$	$ 43,285.3	$ 6,082.4	$ (361.0)	$ 49,006.7
Fixed maturities, trading	268.7	374.8	328.2		971.7
Equity securities, available-for-sale		73.4	3.7		77.1
Equity securities, trading		0.3	404.5		404.8
Mortgage loans		9,271.5	1,831.8	(376.1)	10,727.2
Real estate		9.2	1,084.9	(1.2)	1,092.9
Policy loans		859.3	25.8		885.1
Investment in unconsolidated entities	9,828.0	3,115.7	4,718.4	(16,834.8)	827.3
Other investments	7.0	2,559.0	925.3	(1,332.8)	2,158.5
Cash and cash equivalents	226.7	1,344.5	1,277.6	(14.9)	2,833.9
Accrued investment income	1.8	551.1	66.6	(4.3)	615.2
Premiums due and other receivables		969.1	827.7	(600.3)	1,196.5
Deferred policy acquisition costs		2,197.4	230.6		2,428.0
Property and equipment		395.9	61.3		457.2
Goodwill		54.3	428.0		482.3
Other intangibles		29.2	861.4		890.6
Separate account assets		61,615.1	9,749.3		71,364.4
Other assets	14.8	668.9	994.7	(736.1)	942.3
Total assets	$ 10,347.0	$ 127,374.0	$ 29,902.2	$ (20,261.5)	$ 147,361.7
Liabilities					
Contractholder funds	$	$ 37,356.8	$ 586.7	$ (267.1)	$ 37,676.4
Future policy benefits and claims		16,373.3	3,937.9	(100.8)	20,210.4
Other policyholder funds		519.7	29.0	(0.1)	548.6
Short-term debt			105.2		105.2
Long-term debt	1,351.7	99.4	504.8	(391.1)	1,564.8
Income taxes currently payable	(18.6)	(218.4)	34.3	205.8	3.1
Deferred income taxes	(22.5)	90.6	155.2	(14.6)	208.7
Separate account liabilities		61,615.1	9,749.3		71,364.4
Other liabilities	18.5	4,293.3	4,591.5	(2,617.1)	6,286.2
Total liabilities	1,329.1	120,129.8	19,693.9	(3,185.0)	137,967.8
Stockholders equity					
Series A preferred stock					
Series B preferred stock	0.1				0.1
Common stock	4.5	2.5		(2.5)	4.5
Additional paid-in capital	9,634.7	5,718.1	7,870.2	(13,588.3)	9,634.7
Retained earnings	4,402.3	1,195.0	1,660.3	(2,855.3)	4,402.3

Accumulated other comprehensive income	258.0	328.6	297.5	(626.1)	258.0
Treasury stock, at cost	(5,281.7)				(5,281.7)
Total stockholders equity attributable to PFG	9,017.9	7,244.2	9,828.0	(17,072.2)	9,017.9
Noncontrolling interest			380.3	(4.3)	376.0
Total stockholders equity	9,017.9	7,244.2	10,208.3	(17,076.5)	9,393.9
Total liabilities and stockholders equity	$ 10,347.0	$ 127,374.0	$ 29,902.2	$ (20,261.5)	$ 147,361.7

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Condensed Consolidating Statements of Operations

For the three months ended March 31, 2012

	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
			(in millions)		
Revenues					
Premiums and other considerations	$	$ 583.4	$ 96.4	$	$ 679.8
Fees and other revenues	0.1	343.8	329.7	(75.6)	598.0
Net investment income	1.0	626.8	195.4	1.6	824.8
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities		(350.5)	389.3	(16.7)	22.1
Total other-than-temporary impairment losses on available-for-sale securities		(33.0)	(0.7)		(33.7)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to other comprehensive income		4.5	0.4		4.9
Net impairment losses on available-for-sale securities		(28.5)	(0.3)		(28.8)
Net realized capital gains (losses)		(379.0)	389.0	(16.7)	(6.7)
Total revenues	1.1	1,175.0	1,010.5	(90.7)	2,095.9
Expenses					
Benefits, claims and settlement expenses		1,034.5	181.2	(3.2)	1,212.5
Dividends to policyholders		50.3			50.3
Operating expenses	30.0	282.0	309.9	(65.9)	556.0
Total expenses	30.0	1,366.8	491.1	(69.1)	1,818.8
Income (loss) before income taxes	(28.9)	(191.8)	519.4	(21.6)	277.1
Income taxes (benefits)	(11.2)	(84.9)	154.5	(0.2)	58.2
Equity in the net income (loss) of subsidiaries	227.4	275.1	(128.3)	(374.2)	
Net income	209.7	168.2	236.6	(395.6)	218.9
Net income attributable to noncontrolling interest			9.2		9.2
Net income attributable to PFG	209.7	168.2	227.4	(395.6)	209.7
Preferred stock dividends	8.2				8.2
Net income available to common stockholders	$ 201.5	$ 168.2	$ 227.4	$ (395.6)	$ 201.5
Net income	$ 209.7	$ 168.2	$ 236.6	$ (395.6)	$ 218.9
Other comprehensive income	186.3	141.5	96.9	(193.8)	230.9
Comprehensive income	$ 396.0	$ 309.7	$ 333.5	$ (589.4)	$ 449.8

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Condensed Consolidating Statements of Operations

For the three months ended March 31, 2011

	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
			(in millions)		
Revenues					
Premiums and other considerations	$	$ 719.0	$ 78.1	$	$ 797.1
Fees and other revenues		397.8	300.1	(74.9)	623.0
Net investment income	10.8	643.8	183.5	21.7	859.8
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities		(25.9)	21.9	(1.6)	(5.6)
Total other-than-temporary impairment losses on available-for-sale securities		(11.8)	(2.2)		(14.0)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from) other comprehensive income		(39.2)	0.8		(38.4)
Net impairment losses on available-for-sale securities		(51.0)	(1.4)		(52.4)
Net realized capital gains (losses)		(76.9)	20.5	(1.6)	(58.0)
Total revenues	10.8	1,683.7	582.2	(54.8)	2,221.9
Expenses					
Benefits, claims and settlement expenses		1,052.6	139.7	(3.4)	1,188.9
Dividends to policyholders		53.6			53.6
Operating expenses	29.2	467.3	286.5	(65.1)	717.9
Total expenses	29.2	1,573.5	426.2	(68.5)	1,960.4
Income (loss) before income taxes	(18.4)	110.2	156.0	13.7	261.5
Income taxes (benefits)	(7.0)	24.6	35.1		52.7
Equity in the net income of subsidiaries	201.6	78.1	99.3	(379.0)	
Net income	190.2	163.7	220.2	(365.3)	208.8
Net income attributable to noncontrolling interest			18.6		18.6
Net income attributable to PFG	190.2	163.7	201.6	(365.3)	190.2
Preferred stock dividends	8.2				8.2
Net income available to common stockholders	$ 182.0	$ 163.7	$ 201.6	$ (365.3)	$ 182.0
Net income	$ 190.2	$ 163.7	$ 220.2	$ (365.3)	$ 208.8
Other comprehensive income	279.0	229.8	48.8	(298.3)	259.3
Comprehensive income	$ 469.2	$ 393.5	$ 269.0	$ (663.6)	$ 468.1

69

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Condensed Consolidating Statements of Cash Flows

For the three months ended March 31, 2012

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined (in millions)	Eliminations	Principal Financial Group, Inc. Consolidated
Operating activities					
Net cash provided by (used in) operating activities	$ 79.9	$ 930.6	$ (217.8)	$ 109.0	$ 901.7
Investing activities					
Available-for-sale securities:					
Purchases		(1,749.5)	(329.5)	18.5	(2,060.5)
Sales		412.3	23.6	(7.4)	428.5
Maturities		1,352.1	260.0		1,612.1
Mortgage loans acquired or originated		(887.1)	(32.5)		(919.6)
Mortgage loans sold or repaid		389.7	81.5	(109.8)	361.4
Real estate acquired			(21.3)		(21.3)
Net purchases of property and equipment		(11.8)	(5.5)		(17.3)
Dividends and returns of capital received from unconsolidated entities	189.3	140.0	189.2	(518.5)	
Net change in other investments		(29.6)	(25.9)	(18.3)	(73.8)
Net cash provided by (used in) investing activities	189.3	(383.9)	139.6	(635.5)	(690.5)
Financing activities					
Issuance of common stock	9.1				9.1
Acquisition of treasury stock	(64.2)				(64.2)
Proceeds from financing element derivatives		20.4			20.4
Payments for financing element derivatives		(16.2)			(16.2)
Excess tax benefits from share-based payment arrangements		4.8	5.1		9.9
Dividends to common stockholders	(54.3)				(54.3)
Dividends to preferred stockholders	(8.2)				(8.2)
Issuance of long-term debt			1.0		1.0
Principal repayments of long-term debt			(9.0)	8.2	(0.8)
Net repayments of short-term borrowings			(7.5)		(7.5)
Dividends and capital paid to parent		(189.2)	(329.3)	518.5	
Investment contract deposits		1,522.7	95.9		1,618.6
Investment contract withdrawals		(2,885.4)	(0.5)		(2,885.9)
Net decrease in banking operation deposits			(13.4)		(13.4)
Other		(1.7)			(1.7)
Net cash used in financing activities	(117.6)	(1,544.6)	(257.7)	526.7	(1,393.2)

Net increase (decrease) in cash and cash equivalents		**151.6**		**(997.9)**		**(335.9)**		**0.2**	**(1,182.0)**
Cash and cash equivalents at beginning of period		**226.7**		**1,344.5**		**1,277.6**		**(14.9)**	**2,833.9**
Cash and cash equivalents at end of period	$	**378.3**	$	**346.6**	$	**941.7**	$	**(14.7)**	$ **1,651.9**

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Condensed Consolidating Statements of Cash Flows

For the three months ended March 31, 2011

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined (in millions)	Eliminations	Principal Financial Group, Inc. Consolidated
Operating activities					
Net cash provided by operating activities	$ 99.9	$ 1,034.6	$ 206.0	$ (145.0)	$ 1,195.5
Investing activities					
Available-for-sale securities:					
Purchases	(4.4)	(1,426.9)	(230.3)	(4.8)	(1,666.4)
Sales	200.0	278.3	58.1		536.4
Maturities	4.4	1,510.9	210.3		1,725.6
Mortgage loans acquired or originated		(100.5)	(41.2)	17.8	(123.9)
Mortgage loans sold or repaid		301.4	67.5	(45.2)	323.7
Real estate acquired			(7.0)		(7.0)
Net purchases of property and equipment		(3.7)	(0.4)		(4.1)
Dividends and returns of capital received from unconsolidated entities	206.0	138.9	206.0	(550.9)	
Net change in other investments		(3.6)	(64.2)	(0.6)	(68.4)
Net cash provided by investing activities	406.0	694.8	198.8	(583.7)	715.9
Financing activities					
Issuance of common stock	9.1				9.1
Acquisition of treasury stock	(5.9)				(5.9)
Proceeds from financing element derivatives		19.4			19.4
Payments for financing element derivatives		(12.1)			(12.1)
Excess tax benefits from share-based payment arrangements		0.6	1.0		1.6
Dividends to preferred stockholders	(8.2)				(8.2)
Issuance of long-term debt			0.6		0.6
Principal repayments of long-term debt			(30.9)	29.2	(1.7)
Net proceeds from short-term borrowings			0.2		0.2
Dividends and capital paid to parent		(206.0)	(344.9)	550.9	
Investment contract deposits		798.6	94.7		893.3
Investment contract withdrawals		(2,674.2)			(2,674.2)
Net decrease in banking operation deposits			(25.8)		(25.8)
Other		(0.9)			(0.9)
Net cash used in financing activities	(5.0)	(2,074.6)	(305.1)	580.1	(1,804.6)
Net increase (decrease) in cash and cash equivalents	500.9	(345.2)	99.7	(148.6)	106.8
	370.9	699.8	719.9	86.8	1,877.4

Cash and cash equivalents at beginning of period										
Cash and cash equivalents at end of period	$	871.8	$	354.6	$	819.6	$	(61.8)	$	1,984.2

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

On May 24, 2011, 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 June 2008, as it was scheduled to expire in June 2011. Under our current shelf registration, we have the ability to issue 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 statement.

The following tables set forth condensed consolidating financial information of (i) PFG, (ii) PFS, (iii) Principal Life and all other direct and indirect subsidiaries of PFG on a combined basis and (iv) the eliminations necessary to arrive at the information for PFG on a consolidated basis as of March 31, 2012 and December 31, 2011, and for the three months ended March 31, 2012 and 2011.

In presenting the condensed consolidating financial statements, the equity method of accounting has been applied to (i) PFG s interest in PFS 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.

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Condensed Consolidating Statements of Financial Position

March 31, 2012

Assets					
Fixed maturities, available-for-sale	$	$	$ 49,501.3	$	$ 49,501.3
Fixed maturities, trading	202.5		666.2		868.7
Equity securities, available-for-sale			138.4		138.4
Equity securities, trading			536.4		536.4
Mortgage loans			11,308.9		11,308.9
Real estate			1,111.9		1,111.9
Policy loans			873.9		873.9
Investment in unconsolidated entities	10,119.1	10,078.2	862.8	(20,197.2)	862.9
Other investments	5.8	3.0	2,080.8		2,089.6
Cash and cash equivalents	378.3	621.9	1,587.0	(935.3)	1,651.9
Accrued investment income	0.3		622.2		622.5
Premiums due and other receivables			1,118.8		1,118.8
Deferred policy acquisition costs			2,665.6		2,665.6
Property and equipment			476.7		476.7
Goodwill			490.7		490.7
Other intangibles			893.9		893.9
Separate account assets			77,566.5		77,566.5
Other assets	14.0	11.5	933.2	0.9	959.6
Total assets	$ 10,720.0	$ 10,714.6	$ 153,435.2	$ (21,131.6)	$ 153,738.2
Liabilities					
Contractholder funds	$	$	$ 36,922.5	$	$ 36,922.5
Future policy benefits and claims			20,604.0		20,604.0
Other policyholder funds			639.1		639.1
Short-term debt		50.0	421.3	(370.1)	101.2
Long-term debt	1,351.7		219.1		1,570.8
Income taxes currently payable	(21.7)	0.3	1.5	22.8	2.9
Deferred income taxes	(17.6)	(22.6)	552.5	(19.5)	492.8
Separate account liabilities			77,566.5		77,566.5
Other liabilities	42.7	567.8	6,043.5	(567.5)	6,086.5
Total liabilities	1,355.1	595.5	142,970.0	(934.3)	143,986.3
Stockholders equity					
Series A preferred stock					
Series B preferred stock	0.1				0.1
Common stock	4.5		17.8	(17.8)	4.5
Additional paid-in capital	9,669.6	7,881.0	7,596.1	(15,477.1)	9,669.6
Retained earnings	4,548.5	1,711.6	1,940.3	(3,651.9)	4,548.5

Accumulated other comprehensive income		**488.1**		**526.5**		**526.0**		**(1,052.5)**		**488.1**
Treasury stock, at cost		**(5,345.9)**				**(2.0)**		**2.0**		**(5,345.9)**
Total stockholders equity attributable to PFG		**9,364.9**		**10,119.1**		**10,078.2**		**(20,197.3)**		**9,364.9**
Noncontrolling interest						**387.0**				**387.0**
Total stockholders equity		**9,364.9**		**10,119.1**		**10,465.2**		**(20,197.3)**		**9,751.9**
Total liabilities and stockholders equity	**$**	**10,720.0**	**$**	**10,714.6**	**$**	**153,435.2**	**$**	**(21,131.6)**	**$**	**153,738.2**

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Condensed Consolidating Statements of Financial Position

December 31, 2011

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined (in millions)	Eliminations	Principal Financial Group, Inc. Consolidated
Assets					
Fixed maturities, available-for-sale	$	$	$ 49,006.7	$	$ 49,006.7
Fixed maturities, trading	268.7		703.0		971.7
Equity securities, available-for-sale			77.1		77.1
Equity securities, trading			404.8		404.8
Mortgage loans			10,727.2		10,727.2
Real estate			1,092.9		1,092.9
Policy loans			885.1		885.1
Investment in unconsolidated entities	9,828.0	9,762.9	827.2	(19,590.8)	827.3
Other investments	7.0	3.0	2,148.5		2,158.5
Cash and cash equivalents	226.7	702.4	2,787.9	(883.1)	2,833.9
Accrued investment income	1.8		613.4		615.2
Premiums due and other receivables			1,195.2	1.3	1,196.5
Deferred policy acquisition costs			2,428.0		2,428.0
Property and equipment			457.2		457.2
Goodwill			482.3		482.3
Other intangibles			890.6		890.6
Separate account assets			71,364.4		71,364.4
Other assets	14.8	10.4	926.1	(9.0)	942.3
Total assets	$ 10,347.0	$ 10,478.7	$ 147,017.6	$ (20,481.6)	$ 147,361.7
Liabilities					
Contractholder funds	$	$	$ 37,676.4	$	$ 37,676.4
Future policy benefits and claims			20,210.4		20,210.4
Other policyholder funds			548.6		548.6
Short-term debt		50.0	318.9	(263.7)	105.2
Long-term debt	1,351.7		213.1		1,564.8
Income taxes currently payable	(18.6)	(0.9)	12.0	10.6	3.1
Deferred income taxes	(22.5)	(22.9)	270.8	(16.7)	208.7
Separate account liabilities			71,364.4		71,364.4
Other liabilities	18.5	624.5	6,264.1	(620.9)	6,286.2
Total liabilities	1,329.1	650.7	136,878.7	(890.7)	137,967.8
Stockholders equity					
Series A preferred stock					
Series B preferred stock	0.1				0.1
Common stock	4.5		17.8	(17.8)	4.5
Additional paid-in capital	9,634.7	7,870.2	7,543.4	(15,413.6)	9,634.7
Retained earnings	4,402.3	1,660.3	1,907.5	(3,567.8)	4,402.3

Accumulated other comprehensive income	258.0	297.5	296.2	(593.7)	258.0
Treasury stock, at cost	(5,281.7)		(2.0)	2.0	(5,281.7)
Total stockholders equity attributable to PFG	9,017.9	9,828.0	9,762.9	(19,590.9)	9,017.9
Noncontrolling interest			376.0		376.0
Total stockholders equity	9,017.9	9,828.0	10,138.9	(19,590.9)	9,393.9
Total liabilities and stockholders equity	$ 10,347.0	$ 10,478.7	$ 147,017.6	$ (20,481.6)	$ 147,361.7

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Condensed Consolidating Statements of Operations

For the three months ended March 31, 2012

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined (in millions)	Eliminations	Principal Financial Group, Inc. Consolidated
Revenues					
Premiums and other considerations	$	$	$ 679.8	$	$ 679.8
Fees and other revenues	0.1		598.2	(0.3)	598.0
Net investment income	1.0		823.5	0.3	824.8
Net realized capital gains, excluding impairment losses on available-for-sale securities			22.1		22.1
Total other-than-temporary impairment losses on available-for-sale securities			(33.7)		(33.7)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to other comprehensive income			4.9		4.9
Net impairment losses on available-for-sale securities			(28.8)		(28.8)
Net realized capital losses			(6.7)		(6.7)
Total revenues	1.1		2,094.8		2,095.9
Expenses					
Benefits, claims and settlement expenses			1,212.5		1,212.5
Dividends to policyholders			50.3		50.3
Operating expenses	30.0	0.3	525.7		556.0
Total expenses	30.0	0.3	1,788.5		1,818.8
Income (loss) before income taxes	(28.9)	(0.3)	306.3		277.1
Income taxes (benefits)	(11.2)	(1.7)	71.1		58.2
Equity in the net income of subsidiaries	227.4	226.0		(453.4)	
Net income	209.7	227.4	235.2	(453.4)	218.9
Net income attributable to noncontrolling interest			9.2		9.2
Net income attributable to PFG	209.7	227.4	226.0	(453.4)	209.7
Preferred stock dividends	8.2				8.2
Net income available to common stockholders	$ 201.5	$ 227.4	$ 226.0	$ (453.4)	$ 201.5
Net income	$ 209.7	$ 227.4	$ 235.2	$ (453.4)	$ 218.9
Other comprehensive income	186.3	230.0	230.5	(415.9)	230.9
Comprehensive income	$ 396.0	$ 457.4	$ 465.7	$ (869.3)	$ 449.8

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Condensed Consolidating Statements of Operations

For the three months ended March 31, 2011

Revenues					
Premiums and other considerations	$	$	$ 797.1	$	$ 797.1
Fees and other revenues			623.2	(0.2)	623.0
Net investment income (loss)	10.8	(1.3)	850.1	0.2	859.8
Net realized capital losses, excluding impairment losses on available-for-sale securities		(0.1)	(5.5)		(5.6)
Total other-than-temporary impairment losses on available-for-sale securities			(14.0)		(14.0)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified from other comprehensive income			(38.4)		(38.4)
Net impairment losses on available-for-sale securities			(52.4)		(52.4)
Net realized capital losses		(0.1)	(57.9)		(58.0)
Total revenues	10.8	(1.4)	2,212.5		2,221.9
Expenses					
Benefits, claims and settlement expenses			1,188.9		1,188.9
Dividends to policyholders			53.6		53.6
Operating expenses	29.2	0.3	688.4		717.9
Total expenses	29.2	0.3	1,930.9		1,960.4
Income (loss) before income taxes	(18.4)	(1.7)	281.6		261.5
Income taxes (benefits)	(7.0)	(2.7)	62.4		52.7
Equity in the net income of subsidiaries	201.6	200.6		(402.2)	
Net income	190.2	201.6	219.2	(402.2)	208.8
Net income attributable to noncontrolling interest			18.6		18.6
Net income attributable to PFG	190.2	201.6	200.6	(402.2)	190.2
Preferred stock dividends	8.2				8.2
Net income available to common stockholders	$ 182.0	$ 201.6	$ 200.6	$ (402.2)	$ 182.0
Net income	$ 190.2	$ 201.6	$ 219.2	$ (402.2)	$ 208.8
Other comprehensive income	279.0	258.5	262.6	(540.8)	259.3
Comprehensive income	$ 469.2	$ 460.1	$ 481.8	$ (943.0)	$ 468.1

76

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Condensed Consolidating Statements of Cash Flows

For the three months ended March 31, 2012

Operating activities					
Net cash provided by (used in) operating activities	$ 79.9	$ (56.7)	$ 824.3	$ 54.2	$ 901.7
Investing activities					
Available-for-sale securities:					
Purchases			(2,060.5)		(2,060.5)
Sales			428.5		428.5
Maturities			1,612.1		1,612.1
Mortgage loans acquired or originated			(919.6)		(919.6)
Mortgage loans sold or repaid			361.4		361.4
Real estate acquired			(21.3)		(21.3)
Net purchases of property and equipment			(17.3)		(17.3)
Dividends and returns of capital received from unconsolidated entities	189.3	165.5		(354.8)	
Net change in other investments			(73.8)		(73.8)
Net cash provided by (used in) investing activities	189.3	165.5	(690.5)	(354.8)	(690.5)
Financing activities					
Issuance of common stock	9.1				9.1
Acquisition of treasury stock	(64.2)				(64.2)
Proceeds from financing element derivatives			20.4		20.4
Payments for financing element derivatives			(16.2)		(16.2)
Excess tax benefits from share-based payment arrangements			9.9		9.9
Dividends to common stockholders	(54.3)				(54.3)
Dividends to preferred stockholders	(8.2)				(8.2)
Issuance of long-term debt			1.0		1.0
Principal repayments of long-term debt			(0.8)		(0.8)
Net proceeds from (repayments of) short-term borrowings			98.9	(106.4)	(7.5)
Dividends and capital paid to parent		(189.3)	(165.5)	354.8	
Investment contract deposits			1,618.6		1,618.6
Investment contract withdrawals			(2,885.9)		(2,885.9)
			(13.4)		(13.4)

Net decrease in banking operation deposits					
Other			**(1.7)**		**(1.7)**
Net cash used in financing activities	**(117.6)**	**(189.3)**	**(1,334.7)**	**248.4**	**(1,393.2)**
Net increase (decrease) in cash and cash equivalents	**151.6**	**(80.5)**	**(1,200.9)**	**(52.2)**	**(1,182.0)**
Cash and cash equivalents at beginning of period	**226.7**	**702.4**	**2,787.9**	**(883.1)**	**2,833.9**
Cash and cash equivalents at end of period	$ **378.3**	$ **621.9**	$ **1,587.0**	$ **(935.3)**	$ **1,651.9**

Table of Contents

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2012
(Unaudited)

Condensed Consolidating Statements of Cash Flows

For the three months ended March 31, 2011

Operating activities					
Net cash provided by operating activities	$ 99.9	$ 114.0	$ 1,098.7	$ (117.1)	$ 1,195.5
Investing activities					
Available-for-sale securities:					
Purchases	(4.4)		(1,662.0)		(1,666.4)
Sales	200.0		336.4		536.4
Maturities	4.4		1,721.2		1,725.6
Mortgage loans acquired or originated			(123.9)		(123.9)
Mortgage loans sold or repaid			323.7		323.7
Real estate acquired			(7.0)		(7.0)
Net purchases of property and equipment			(4.1)		(4.1)
Dividends and returns of capital received from unconsolidated entities	206.0	209.4		(415.4)	
Net change in other investments		1.4	(69.8)		(68.4)
Net cash provided by investing activities	406.0	210.8	514.5	(415.4)	715.9
Financing activities					
Issuance of common stock	9.1				9.1
Acquisition of treasury stock	(5.9)				(5.9)
Proceeds from financing element derivatives			19.4		19.4
Payments for financing element derivatives			(12.1)		(12.1)
Excess tax benefits from share-based payment arrangements			1.6		1.6
Dividends to preferred stockholders	(8.2)				(8.2)
Issuance of long-term debt			0.6		0.6
Principal repayments of long-term debt			(1.7)		(1.7)
Net proceeds from (repayments of) short-term borrowings		(0.5)	13.3	(12.6)	0.2
Dividends and capital paid to parent		(206.0)	(209.4)	415.4	
Investment contract deposits			893.3		893.3
Investment contract withdrawals			(2,674.2)		(2,674.2)
Net decrease in banking operation deposits			(25.8)		(25.8)

Other			(0.9)		(0.9)
Net cash used in financing activities	(5.0)	(206.5)	(1,995.9)	402.8	(1,804.6)
Net increase (decrease) in cash and cash equivalents	500.9	118.3	(382.7)	(129.7)	106.8
Cash and cash equivalents at beginning of period	370.9	519.7	1,821.7	(834.9)	1,877.4
Cash and cash equivalents at end of period	$ 871.8	$ 638.0	$ 1,439.0	$ (964.6)	$ 1,984.2

Table of Contents

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

The following analysis discusses our financial condition as of March 31, 2012, compared with December 31, 2011, and our consolidated results of operations for the three months ended March 31, 2012 and 2011, prepared in conformity with U.S. GAAP. The discussion and analysis includes, where appropriate, factors that may affect our future financial performance. The discussion should be read in conjunction with our Form 10-K, for the year ended December 31, 2011, filed with the SEC and the unaudited consolidated financial statements and the related notes to the financial statements and the other financial information included elsewhere in this Form 10-Q.

Forward-Looking Information

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

Actual results may differ materially from those included in the forward-looking statements as a result of risks and uncertainties including, but not limited to, the following: (1) adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs, as well as our access to capital and cost of capital; (2) continued difficult conditions in the global capital markets and the economy generally may materially and adversely affect our business and results of operations; (3) continued volatility or further declines in the equity markets could reduce our assets under management (AUM) and may result in investors withdrawing from the markets or decreasing their rates of investment, all of which could reduce our revenues and net income; (4) changes in interest rates or credit spreads may adversely affect our results of operations, financial condition and liquidity, and our net income can vary from period-to-period; (5) our investment portfolio is subject to several risks that may diminish the value of our invested assets and the investment returns credited to customers, which could reduce our sales, revenues, AUM and net income; (6) our valuation of fixed maturities and equity securities may include methodologies, estimations and assumptions which are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our results of operations or financial condition; (7) the determination of the amount of allowances and impairments taken on our investments requires estimations and assumptions which are subject to differing interpretations and could materially impact our results of operations or financial position; (8) gross unrealized losses may be realized or result in future impairments, resulting in a reduction in our net income; (9) 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; (10) 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; (11) our efforts to reduce the impact of interest rate changes on our profitability and retained earnings may not be effective; (12) if we are unable to attract and retain sales representatives and develop new distribution sources, sales of our products and services may be reduced; (13) our international businesses face political, legal, operational and other risks that could reduce our profitability in those businesses; (14) we may face losses if our actual experience differs significantly from our pricing and reserving assumptions; (15) our ability to pay stockholder dividends and meet our obligations may be constrained by the limitations on dividends or distributions Iowa insurance laws impose on Principal Life; (16) the pattern of amortizing our DPAC 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 asset and the timing of our net income; (17) we may need to fund deficiencies in our Closed Block assets that support participating ordinary life insurance policies that had a dividend scale in force at the time of Principal Life s 1998 conversion into a stock life insurance company; (18) a pandemic, terrorist attack or other catastrophic event could adversely affect our net income; (19) our reinsurers could default on their obligations or increase their rates, which could adversely impact our net income and profitability; (20) we face risks arising from acquisitions of businesses; (21) changes in laws, regulations or accounting standards may reduce our profitability; (22) we may be unable to mitigate the impact of Regulation XXX and Actuarial Guideline 38, potentially resulting in a negative impact to our capital position and/or a reduction in sales of term and universal life

insurance products; (23) a computer system failure or security breach could disrupt our business, damage our reputation and adversely impact our profitability; (24) results of litigation and regulatory investigations may affect our financial strength or reduce our profitability; (25) 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; (26) fluctuations in foreign currency exchange rates could reduce our profitability; (27) 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 and (28) our financial results may be adversely impacted by global climate changes.

Table of Contents

Overview

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

- Retirement and Investor Services, which consists of our asset accumulation operations that provide retirement savings and related investment products and services. We provide a comprehensive portfolio of asset accumulation products and services to businesses and individuals in the U.S., with a concentration on small and medium-sized businesses. We offer to businesses products and services for defined contribution pension plans, including 401(k) and 403(b) plans, defined benefit pension plans, nonqualified executive benefit plans and employee stock ownership plan consulting services. We also offer annuities, mutual funds and bank products and services to the employees of our business customers and other individuals.

- Principal Global Investors, which consists of our asset management operations, manages assets for sophisticated investors around the world, using a multi-boutique strategy that enables the segment to provide an expanded range of diverse investment capabilities including equity, fixed income and real estate investments. Principal Global Investors also has experience in currency management, asset allocation, stable value management and other structured investment strategies.

- Principal International, which offers retirement products and services, annuities, mutual funds, institutional asset management and life insurance accumulation products through operations in Brazil, Chile, China, Hong Kong SAR, India, Mexico and Southeast Asia.

- U.S. Insurance Solutions, which provides individual life insurance as well as specialty benefits in the U.S. Our individual life insurance products include universal and variable universal life insurance and traditional life insurance. Our specialty benefit products include group dental and vision insurance, individual and group disability insurance, group life insurance, wellness services and non-medical fee-for-service claims administration.

- Corporate, which manages the assets representing capital that has not been allocated to any other segment. Financial results of the Corporate segment primarily reflect our financing activities (including 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 after-tax adjustments not allocated to the segments based on the nature of such items.

Critical Accounting Policies and Estimates

Deferred Policy 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. Maintenance costs and acquisition costs that are not deferrable are charged to net income as incurred.

Amortization Based on Estimated Gross Profits. DPAC for universal life-type insurance contracts, participating life insurance policies and certain investment contracts are amortized over the expected lifetime of the policies in relation to EGPs. In addition to DPAC, 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 DPAC, 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.

- Present value of future profits (PVFP) This is an intangible asset that arises in connection with the acquisition of a life insurance company or a block of insurance business. PVFP for universal life-type insurance contracts, participating life insurance policies and certain investment contracts is amortized over the expected life of the contracts acquired, in proportion to EGPs.

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.

We define EGPs to include assumptions relating to 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. Both actions, reflecting actual experience and changing future estimates, can change both the current amount and the future amortization pattern of the DPAC 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 mean 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. The 12% cap was reached during the third quarter of 2008, and the mean reversion rate has remained at the 12% cap since then. Therefore, until the mean reversion rate falls below the 12% cap, we will not adjust the equity return assumption by the amount needed to result in a mean return equal to the long-term assumption.

In limited circumstances, DPAC and certain of the actuarial balances noted above are amortized in proportion to estimated gross revenues rather than EGPs. Estimated gross revenues include similar assumptions as EGPs and the changes of future estimates and reflection of actual experience is done in the same manner as EGPs discussed above.

Amortization Based on Premium-Paying Period. DPAC 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 March 31, 2012, these policies accounted for 13% of our total DPAC 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 DPAC 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, we continue to amortize the existing DPAC and related actuarial balances.

Recoverability. DPAC 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. Likewise, PVFP is subject to impairment testing on an annual basis, or when an event occurs that may warrant impairment. 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 March 31, 2012, the net balance of DPAC and related actuarial balances, excluding balances affected by changes in other comprehensive income, was a $2,508.2 million asset. We perform sensitivity analyses to assess the impact that certain assumptions have on our DPAC and related actuarial balances. The following table shows the estimated immediate impact of various assumption changes on our DPAC and related actuarial balances.

		Estimated impact to net income (1) (in millions)
Reducing the future equity return assumption by 1%	$	5
Reducing the long-term general account net investment returns assumption by 0.5% (2)		45
A one-time, 10% drop in equity market values		13

(1) Reflects the net impact of changes to the DPAC asset, sales inducement asset, unearned revenue liability, reinsurance asset or liability, PVFP and additional benefit reserves. Includes the impact on net income of changes in DPAC and related balances for our equity method subsidiaries. The DPAC and related balances of the equity method subsidiaries are not included in the total DPAC balance listed above as they are not fully consolidated.

(2) Net investment return represents net investment income plus net realized capital gains (losses).

Table of Contents

Transactions Affecting Comparability of Results of Operations

Acquisitions

We entered into acquisition agreements for the following businesses during 2012 and 2011.

Claritas Administração de Recursos Ltda./Claritas Investments, Ltd. On March 1, 2012, we announced the signing of a definitive agreement to acquire a 60% indirect ownership of Claritas Administração de Recursos Ltda./Claritas Investments, Ltd. (Claritas). Claritas is a leading Brazilian mutual fund and asset management company with approximately $1.8 billion in AUM. The Sao Paulo-based company manages equity funds, balanced funds, managed accounts and other strategies for affluent clients and institutions through its multi-channel distribution network. Claritas will be consolidated within the Principal International segment. The transaction closed on April 2, 2012.

Origin Asset Management LLP. On October 3, 2011, we finalized the purchase of a 74% interest in Origin Asset Management LLP (Origin), a global equity specialist based in London. The initial payment was $63.6 million. Origin had $2.6 billion in AUM in global and international equities at the time of the acquisition and is consolidated within the Principal Global Investors segment.

HSBC AFORE, S.A. de C.V. On August 8, 2011, we finalized the purchase of our 100% interest in HSBC AFORE, S.A. de C.V. (HSBC AFORE), a Mexican pension business, from HSBC Bank for $206.1 million. In addition, we and HSBC Bank have established a distribution arrangement for the distribution of Principal AFORE s products through HSBC Bank s extensive network in Mexico. HSBC AFORE was merged into our Principal AFORE pension company, which is consolidated within the Principal International segment.

Finisterre Capital LLP and Finisterre Holdings Limited. On July 1, 2011, we finalized the purchase of a 51% interest in Finisterre Capital LLP and Finisterre Holdings Limited, (together Finisterre Capital), an emerging markets debt investor based in London. The initial payment was $84.6 million, with a possible additional contingent payment of up to $30.0 million in 2013, dependent upon performance targets. Finisterre Capital had $1.7 billion in AUM at the time of acquisition and is accounted for on the equity method within the Principal Global Investors segment.

Other

Individual Life Insurance Amortization. During the first quarter of 2012, our individual life insurance business changed its basis for amortizing DPAC and other actuarial balances on a portion of our universal life insurance products. The actuarial balances for these products are now amortized based on estimated gross revenues instead of EGPs. This change requires an unlocking of the actuarial balances to reflect the pattern of estimated gross revenues, which resulted in volatility within certain income statement line items. Specifically, fee revenues decreased $46.6 million; benefits, claims and settlement expenses increased $87.9 million; and operating expenses decreased $139.6 million. However, on a net basis the impact was a net gain of $3.3 million after-tax, which is not material.

Group Medical Insurance Business. On September 30, 2010, we announced our decision to exit the group medical insurance business (insured and administrative services only) and entered into an agreement with United Healthcare Services, Inc. to renew group medical insurance coverage for our customers as the business transitions. The exiting of the group medical insurance business does not yet qualify for discontinued operations treatment under U.S. GAAP. Therefore, the results of operations for the group medical insurance business are still included in our consolidated income from continuing operations.

With the exception of corporate overhead, amounts related to our group medical insurance business previously included in segment operating earnings have been removed from operating earnings for all periods presented and are reported as other after-tax adjustments. The operating revenues associated with our exited group medical insurance business were $18.9 million and $254.9 million for the three months ended March 31, 2012 and 2011, respectively. The other after-tax adjustments associated with the after-tax earnings (loss) of our exited group medical insurance business were $(1.5) million and $17.1 million for the three months ended March 31, 2012 and 2011, respectively.

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.

Table of Contents

Foreign currency exchange rate fluctuations create variances in our financial statement line items but have not had a material impact on our consolidated financial results. Principal International segment operating earnings were negatively impacted by $2.0 million for the three months ended March 31, 2012, 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 3. 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 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 11, Stock-Based Compensation Plans.

Employee and Agent Benefits Expense

The 2012 annual defined benefit pension expense for substantially all of our employees and certain agents is expected to be $122.1 million pre-tax, which is a $29.4 million increase from the 2011 pre-tax pension expense of $92.7 million. This increase is primarily due to a decrease in the discount rates as of December 31, 2011, increasing the service cost, interest cost, and gain/loss amortization. Pre-tax pension expense of $30.7 million and $22.4 million was reflected in the determination of net income for the three months ended March 31, 2012 and 2011, respectively. The expected long-term return on plan assets used to develop the 2012 expense remained at the same 8.00% used to develop the 2011 expense. The discount rate used to develop the 2012 expense decreased to 5.15%, down from the 5.80% as of March 31, 2011, 5.70% as of June 30, 2011, and 5.25% as of September 30, 2011.

The 2012 annual other postretirement employee benefit (OPEB) plan expense (income) for retired employees is expected to be $(55.9) million pre-tax, which is a $2.1 million decrease from the 2011 pre-tax OPEB plan income of $(58.0) million. This decrease in income is primarily due to a reduction in the prior service credit to be recognized. The 2011 expense included $(5.1) million in one-time credits due to the curtailment from the group medical insurance business exit. Pre-tax expense (income) of $(12.9) million and $(14.5) million was reflected in the determination of net income for the three months ended March 31, 2012 and 2011, respectively. The expected long-term return on plan assets used to develop the expense (income) in 2012 remained at the same 7.30% used to develop the 2011 expense. The discount rate used to develop the 2012 expense (income) decreased to 5.15%, down from the 5.80% as of March 31, 2011, 5.70% as of June 30, 2011 and 5.25% as of September 30, 2011.

Recent Accounting Changes

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

Table of Contents

Results of Operations

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

	For the three months ended March 31,		
	2012	2011	Increase (decrease)
		(in millions)	
Revenues:			
Premiums and other considerations	**$ 679.8**	$ 797.1	$ (117.3)
Fees and other revenues	**598.0**	623.0	(25.0)
Net investment income	**824.8**	859.8	(35.0)
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	**22.1**	(5.6)	27.7
Total other-than-temporary impairment losses on available-for-sale securities	**(33.7)**	(14.0)	(19.7)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from) other comprehensive income	**4.9**	(38.4)	43.3
Net impairment losses on available-for-sale securities	**(28.8)**	(52.4)	23.6
Net realized capital losses	**(6.7)**	(58.0)	51.3
Total revenues	**2,095.9**	2,221.9	(126.0)
Expenses:			
Benefits, claims and settlement expenses	**1,212.5**	1,188.9	23.6
Dividends to policyholders	**50.3**	53.6	(3.3)
Operating expenses	**556.0**	717.9	(161.9)
Total expenses	**1,818.8**	1,960.4	(141.6)
Income before income taxes	**277.1**	261.5	15.6
Income taxes	**58.2**	52.7	5.5
Net income	**218.9**	208.8	10.1
Net income attributable to noncontrolling interest	**9.2**	18.6	(9.4)
Net income attributable to Principal Financial Group, Inc.	**209.7**	190.2	19.5
Preferred stock dividends	**8.2**	8.2	
Net income attributable to common stockholders	**$ 201.5**	$ 182.0	$ 19.5

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Net Income Available to Common Stockholders

Net income available to common stockholders increased primarily due to a $34.3 million after-tax decrease in net realized capital losses. The change in net realized capital losses was primarily driven by lower net impairment losses on available-for-sale securities and lower mark-to-market losses on derivatives and related hedge activities. Partially offsetting the increase was lower earnings for the Corporate segment due to losses versus gains associated with our exited group medical insurance business.

Total Revenues

Premiums decreased $225.2 million for the Corporate segment primarily due to a reduction in average covered medical members in our exited group medical insurance business. Partially offsetting this decrease was a $79.7 million increase in Retirement and Investor Services segment premiums primarily due to an increase in sales of single premium group annuities with life contingencies in our full service payout business. The single premium product, which is typically used to fund defined benefit plan terminations, can generate large premiums from very few customers and therefore tends to vary from period to period.

Fees decreased $42.3 million for our U.S. Insurance Solutions segment primarily due to the unlocking of unearned revenue associated with the change in basis for amortizing DPAC and other actuarial balances in our individual life insurance business. In addition, fees decreased $15.8 million for our Corporate segment due to a reduction in average fee-for-service members in our exited group medical insurance business. Partially offsetting these decreases was a $12.9 million increase in the Principal International segment

due to higher investment management fees driven by higher average AUM. Fees in our Principal Global Investors segment also increased $12.6 million primarily due to higher fee income stemming from an increase in average AUM, as well as increased real estate transaction fees resulting from higher transaction volumes.

Net investment income decreased primarily due to lower yields on average invested assets and cash. This decrease was partially offset by higher inflation-based investment returns on average invested assets and cash as a result of higher inflation in Chile. 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 losses decreased primarily due to lower net impairment losses on available-for-sale securities, lower mark-to-market losses on derivatives and related hedge activities due to gains versus losses on currency swaps and forwards not designated as hedging instruments and higher gains on sales of fixed maturities, available-for-sale. For additional information, see Investments Investment Results.

Total Expenses

Benefits, claims and settlement expenses increased $116.1 million in the U.S. Insurance Solutions segment primarily due to unlocking of reserves associated with the change in basis for amortizing DPAC and other actuarial balances in our individual life insurance business. In addition, benefits, claims and settlement expenses increased $42.5 million in the Retirement and Investor Services segment due to an increase in change in reserves resulting from an increase in sales of single premium group annuities with life contingencies in our full service payout business. Benefits, claims and settlement expenses also increased $38.5 million for our Principal International segment due to an increase in the change in reserves related to higher sales of single premium annuities with life contingencies and higher inflation-based interest crediting rates to customers. Partially offsetting these increases was a $173.5 million decrease for the Corporate segment primarily due to a reduction in average covered medical members in our exited group medical insurance business.

U.S. Insurance Solutions operating expenses decreased $144.4 million primarily due to lower DPAC amortization from the unlocking associated with the change in basis for amortizing DPAC and other actuarial balances in our individual life insurance business.

Income Taxes

The effective income tax rates were 21% and 20% for the three months ended March 31, 2012 and 2011, respectively. The effective income tax rate for the three months ended March 31, 2012, 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 lower tax rates of foreign jurisdictions. The effective income tax rate for the three months ended March 31, 2011, 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 the inclusion of income attributable to noncontrolling interest in income before income taxes with no corresponding change in income taxes reported by us as the controlling interest.

Results of Operations by Segment

For results of operations by segment see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 10, Segment Information.

Retirement and Investor Services Segment

Retirement and Investor Services Segment Summary Financial Data

Account values are a key indicator of earnings growth for the segment, as account values are the base by which the segment generates its fee and spread-based profits. Net cash flow and market performance are the two main drivers of account value growth. Net cash flow reflects the segment s ability to attract and retain client deposits. Market performance reflects not only the equity market performance, but also the investment performance of fixed income investments supporting our spread business. The percentage growth in earnings of the segment should generally track with, yet will typically be less than, the percentage growth in account values. This trend may vary due to changes in business and/or product mix.

Table of Contents

The following table presents the Retirement and Investor Services account value rollforward for the periods indicated:

	For the three months ended March 31, 2012	2011
	(in billions)	
Account values, beginning of period	**$ 183.3**	$ 178.3
Net cash flow	**2.5**	0.3
Credited investment performance	**12.3**	6.0
Other	**(0.2)**	
Account values, end of period	**$ 197.9**	$ 184.6

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

	For the three months ended March 31, 2012	2011	Increase (decrease)
		(in millions)	
Operating revenues:			
Premiums and other considerations	**$ 153.5**	$ 73.8	$ 79.7
Fees and other revenues	**370.7**	363.1	7.6
Net investment income	**530.9**	581.0	(50.1)
Total operating revenues	**1,055.1**	1,017.9	37.2
Expenses:			
Benefits, claims and settlement expenses, including dividends to policyholders	**520.4**	481.8	38.6
Operating expenses	**347.6**	333.1	14.5
Total expenses	**868.0**	814.9	53.1
Operating earnings before income taxes	**187.1**	203.0	(15.9)
Income taxes	**43.5**	48.9	(5.4)
Operating earnings	**$ 143.6**	$ 154.1	$ (10.5)

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Operating Earnings

Operating earnings decreased $2.9 million in our individual annuities business primarily due to a favorable separate account dividend received deduction true-up in the first quarter of 2011 compared to a negative separate account dividend received deduction true-up in the first quarter of 2012. In addition, operating earnings decreased $2.7 million in our bank and trust services business primarily due to an estimated expense for a legal settlement accrual in the first quarter of 2012. Furthermore, operating earnings decreased $2.6 million in our full service accumulation business primarily due to higher staff related costs, including pension and other postretirement benefits, and lower investment yields.

Operating Revenues

Premiums increased $70.1 million in our full service payout business primarily due to an increase in sales of single premium group annuities with life contingencies. The single premium product, which is typically used to fund defined benefit plan terminations, can generate large premiums from very few customers and therefore tends to vary from period to period.

Fees increased $5.5 million and $2.7 million in our Principal Funds and individual annuities businesses, respectively, primarily due to higher fee income stemming from an increase in average account values as a result of continuing improvement in the equity markets and growth in the businesses.

Net investment income decreased primarily due to lower investment yields as well as a decrease in average invested assets, excluding the fair value adjustment associated with fixed maturities and equity securities.

Total Expenses

Benefits, claims and settlement expenses increased $65.3 million in our full service payout business primarily due to an

Table of Contents

increase in change in reserves resulting from an increase in sales of single premium group annuities with life contingencies. Partially offsetting the increase in benefits, claims and settlement expenses was a $17.2 million decrease in our investment only business primarily due to a decline in average account values, which primarily resulted from maturities of several large medium-term notes in the first quarter of 2012, and a decrease in cost of interest credited stemming from lower variable crediting rates.

Operating expenses increased $6.5 million in our Principal Funds business primarily due to higher distribution and commission expenses resulting from an increase in sales and average account values. In addition, operating expenses increased $4.7 million in our bank and trust services business primarily due to an estimated expense for a legal settlement accrual in the first quarter of 2012. Furthermore, operating expenses increased $3.3 million in our individual annuities business primarily due to higher staff related costs, including pension and other postretirement benefits.

Income Taxes

The effective income tax rates for the segment were 23% and 24% for the three months ended March 31, 2012 and 2011, respectively. The effective income tax rates were lower than the U.S. statutory rate primarily as a result of income tax deductions allowed for corporate dividends received and the interest exclusion from taxable income.

Principal Global Investors Segment

Principal Global Investors Segment Summary Financial Data

AUM is a key indicator of earnings growth for our 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 and real estate market performance. The percentage growth in earnings 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 three months ended March 31,	
	2012	**2011**
	(in billions)	
AUM, beginning of period	**$ 227.8**	$ 220.1
Net cash flow	**3.7**	(3.9)
Investment performance	**12.2**	7.1
Other	**(1.5)**	(0.4)
AUM, end of period	**$ 242.2**	$ 222.9

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

	For the three months ended March 31,		
	2012	**2011**	**Increase (decrease)**
		(in millions)	
Operating revenues:			
Fees and other revenues	**$ 134.1**	$ 121.5	$ 12.6
Net investment income	**4.0**	3.8	0.2
Total operating revenues	**138.1**	125.3	12.8
Expenses:			
Total expenses	**110.7**	99.0	11.7
Operating earnings before income taxes and noncontrolling interest	**27.4**	26.3	1.1
Income taxes	**10.0**	8.6	1.4
Operating earnings attributable to noncontrolling interest	**1.2**	1.1	0.1
Operating earnings	**$ 16.2**	$ 16.6	$ (0.4)

Table of Contents

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Operating Earnings

Operating earnings decreased due to higher compensation and operating costs resulting from continued investment in the global business model and increased tax expense. This increase in expenses was partially offset by higher fee revenues driven by an increase in average AUM, as well as increased real estate transaction fees resulting from higher transaction volumes.

Income Taxes

The effective income tax rates for the segment were 36% and 33 % for the three months ended March 31, 2012 and 2011, respectively. The effective income tax rate for the three months ended March 31, 2011, was lower than the U.S. statutory rate, primarily due to the inclusion of income attributable to noncontrolling interest in operating earnings before income taxes with no corresponding change in income taxes reported by us as the controlling interest.

Principal International Segment

Principal International Segment Summary Financial Data

AUM is a key indicator of earnings growth for the segment, as AUM is the base by which we can generate local currency profits. 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. The percentage growth or decline in the earnings of our Principal International segment will generally track with the percentage growth or decline in AUM. This trend may vary due to changes in business and/or product mix. Our financial results are also impacted by fluctuations of the foreign currency to U.S. dollar exchange rates for the countries in which we have business. AUM of our foreign subsidiaries is translated into U.S. dollar equivalents at the end of the reporting period using the spot foreign exchange rates. Revenue and expenses for our foreign subsidiaries are translated into U.S. dollar equivalents at the average foreign exchange rates for the reporting period.

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

	For the three months ended March 31,			
	2012		**2011**	
	(in billions)			
AUM, beginning of period	**$**	**52.8**	$	45.8
Net cash flow		**2.3**		1.3

Investment performance		**2.2**		0.6
Effect of exchange rates		**2.0**		1.0
Other		**(0.1)**		(0.2)
AUM, end of period	**$**	**59.2**	$	48.5

Table of Contents

The following table presents certain summary financial data of the Principal International segment for the periods indicated.

	For the three months ended March 31,		
	2012	**2011** (in millions)	**Increase (decrease)**
Operating revenues:			
Premiums and other considerations	**$ 83.8**	$ 66.8	$ 17.0
Fees and other revenues	**50.2**	37.3	12.9
Net investment income	**128.5**	102.0	26.5
Total operating revenues	**262.5**	206.1	56.4
Expenses:			
Benefits, claims, and settlement expenses	**170.3**	132.5	37.8
Operating expenses	**50.3**	44.6	5.7
Total expenses	**220.6**	177.1	43.5
Operating earnings before income taxes and noncontrolling interest	**41.9**	29.0	12.9
Income taxes	**0.2**	1.2	(1.0)
Operating losses attributable to noncontrolling interest	**(0.1)**		(0.1)
Operating earnings	**$ 41.8**	$ 27.8	$ 14.0

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Operating Earnings

Operating earnings increased primarily due to higher fees driven by higher average AUM as a result of the HSBC AFORE acquisition, market performance and net customer cash flows and higher earnings in our equity method investment in Brazil.

Operating Revenues

Premiums increased $17.0 million in Chile primarily due to higher sales of single premium annuities with life contingencies.

Fees and other revenues increased primarily due to higher investment management fees driven by higher average AUM in Mexico as a result of the HSBC AFORE acquisition.

Net investment income increased primarily due to higher inflation-based investment returns on average invested assets and cash as a result of higher inflation in Chile and higher earnings in our equity method investment in Brazil.

Total Expenses

Benefits, claims and settlement expenses increased $37.4 million in Chile primarily due to an increase in the change in reserves related to higher sales of single premium annuities with life contingencies and higher inflation-based interest crediting rates to customers.

Operating expenses increased primarily due to higher PVFP amortization resulting from net unlocking and true-up adjustments in Mexico and higher compensation expenses across the segment.

Income Taxes

The effective income tax rates for the segment were 0% and 4% for the three months ended March 31, 2012 and 2011, respectively. The effective income tax rates were lower than the U.S. statutory rate primarily due to the presentation of taxes on our share of earnings generated from our equity method investments. Specifically, our share of earnings generated from equity method investments, net of foreign taxes incurred, are reported within net investment income whereas any residual U.S. tax expense or benefit related to equity method investments is reported in income taxes. Lower tax rates of foreign jurisdictions also contributed to the lower effective income tax rates.

Table of Contents

U.S. Insurance Solutions Segment

Individual Life Insurance Trends

Our life insurance premiums are influenced by both economic and industry trends. We have been primarily focused on marketing our universal and variable universal life insurance products. As such, premiums related to our traditional life insurance products continued to decline. To address recent economic and industry trends, we introduced new term products in 2011. Growth in fee revenues in 2012 was reduced by the unlocking of unearned revenue associated with the change in basis for amortizing DPAC and other actuarial balances.

The following table provides a summary of our individual universal and variable universal life insurance fee revenues and our individual traditional life insurance premiums for the periods indicated:

	For the three months ended March 31, 2012	2011
	(in millions)	
Universal and variable universal life insurance fee revenues (1)	**$ 72.7**	$ 115.5
Traditional life insurance premiums	**123.2**	124.7

(1) Fee revenues reflects a $46.6 million reduction due to unlocking of unearned revenue associated with the change in basis for amortizing DPAC and other actuarial balances in 2012.

Specialty Benefits Insurance Trends

Premium and fees in our specialty benefits insurance business increased in 2012 due to improved retention and continued recovery in employment and salary trends.

The following table provides a summary of our specialty benefits insurance premium and fees for the periods indicated:

	For the three months ended March 31, 2012	2011
	(in millions)	
Premium and fees:		
Group dental and vision insurance	**$ 143.6**	$ 135.2
Group life insurance	**80.9**	80.1
Group disability insurance	**69.3**	68.3
Individual disability insurance	**57.1**	52.2

Wellness	**2.8**	2.6

U.S. Insurance Solutions Segment Summary Financial Data

There are several key indicators for earnings growth in our U.S. Insurance Solutions segment. The ability of our distribution channels to generate new sales and retain existing business drives growth in our block of business, premium revenue and fee revenues. 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, persistency, our ability to assess and manage trends in mortality and morbidity and our ability to manage operating expenses.

Table of Contents

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

	For the three months ended March 31,		
	2012	**2011**	**Increase (decrease)**
		(in millions)	
Operating revenues:			
Premiums and other considerations	**$ 439.8**	$ 428.6	$ 11.2
Fees and other revenues	**87.3**	129.4	(42.1)
Net investment income	**169.9**	174.0	(4.1)
Total operating revenues	**697.0**	732.0	(35.0)
Expenses:			
Benefits, claims and settlement expenses	**527.2**	410.0	117.2
Dividends to policyholders	**49.8**	53.1	(3.3)
Operating expenses	**45.8**	191.0	(145.2)
Total expenses	**622.8**	654.1	(31.3)
Operating earnings before income taxes	**74.2**	77.9	(3.7)
Income taxes	**24.0**	24.5	(0.5)
Operating earnings	**$ 50.2**	$ 53.4	$ (3.2)

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Operating Earnings

Operating earnings decreased $4.0 million in our specialty benefits insurance business primarily due to lower investment yields and higher operating expenses, slightly offset by improved loss ratios. Operating earnings in our individual life insurance business were relatively flat compared to the prior period. However, in first quarter 2012 operating earnings were favorably impacted $3.3 million due to the net impact of the unlocking associated with the change in basis for amortizing DPAC and other actuarial balances, which was offset by the negative impact of the low interest environment.

Operating Revenues

Premiums increased $14.7 million in our specialty benefits insurance business due to continued recovery in employment and salary trends and growth in our individual disability line of business. Premiums decreased $3.5 million in our individual life insurance business primarily due to the expected continued decline from our traditional life insurance business.

Fees and other revenues decreased $42.7 million in our individual life insurance business primarily due to the unlocking of unearned revenue associated with the change in basis for amortizing DPAC and other actuarial balances.

Total Expenses

Total expenses decreased $47.0 million in our individual life insurance business primarily due to unlocking associated with the change in basis for amortizing DPAC and other actuarial balances. Total expenses increased $15.7 million in our specialty benefits insurance business due to higher variable costs associated with the growth in premiums as well as higher staff related costs.

Income Taxes

The effective income tax rates for the segment were 32% and 31% for three months ended March 31, 2012 and 2011. The effective income tax rates were lower than the U.S. statutory rate as a result of the interest exclusion from taxable income and income tax deductions allowed for corporate dividends received.

Table of Contents

Corporate Segment

Corporate Segment Summary Financial Data

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

	For the three months ended March 31,		
	2012	2011	Increase (decrease)
		(in millions)	
Operating revenues:			
Total operating revenues	**$ (45.3)**	$ (33.8)	$ (11.5)
Expenses:			
Total expenses	**(0.9)**	2.1	(3.0)
Operating losses before income taxes and preferred stock dividends	**(44.4)**	(35.9)	(8.5)
Income tax benefits	**(13.8)**	(12.0)	(1.8)
Preferred stock dividends	**8.2**	8.2	
Operating losses	**$ (38.8)**	$ (32.1)	$ (6.7)

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Operating Losses

Operating losses increased due to a decrease in earnings on average invested assets for the segment, representing capital that has not been allocated to any other segment. In addition, operating losses increased due to a change in income tax reserves established for IRS tax matters which was partially offset by a reduction in corporate overhead expenses needed to support the exited group medical insurance business.

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.

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.

Our liquidity is supported by a portfolio of U.S. government and agency and residential pass-through government-backed securities, of which we held $4.4 billion as of March 31, 2012, that may be utilized to bolster our liquidity position, as collateral for secured borrowing transactions with various third parties or by disposing of the securities in the open market, if needed. As of March 31,

Table of Contents

2012, approximately $10.4 billion, or 98%, of our institutional guaranteed investment contracts and funding agreements cannot be redeemed by contractholders prior to maturity. Our life insurance and annuity liabilities contain provisions limiting early surrenders.

As of March 31, 2012 and December 31, 2011, we had short-term credit facilities with various financial institutions in an aggregate amount of $946.0 million and $725.0 million, respectively. As of March 31, 2012 and December 31, 2011, we had $101.2 million and $105.2 million, respectively, of outstanding borrowings related to our credit facilities, with $23.5 million of assets pledged as support as of March 31, 2012. None of these credit arrangements, other than our commercial paper back-stop facility, are committed facilities. Due to the financial strength and the strong relationships we have with these providers, as well as the small size of these facilities, we are comfortable that there is a very low risk that the financial institutions would not be able to fund these facilities. During the first quarter of 2012, we refinanced our $579.0 million revolving credit agreement that serves as a back-stop to our commercial paper program. The new facility, effective March 30, 2012, was increased to $800.0 million. This facility provides 100% back-stop support for our commercial paper program. The credit agreement is broken into two tranches, a $500.0 million four year facility that matures in March 2016, and a $300 million 364 day facility. The four year facility is set up with PFG, PFS and Principal Life as co-borrowers, the 364 day facility is for Principal Life only. The facility is supported by eighteen banks, most if not all of which have other relationships with us. We have no reason to believe that our current providers would be unable or unwilling to fund the facility if necessary. As of both March 31, 2012 and December 31, 2011, commercial paper outstanding was $50.0 million.

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. Dividends from Principal Life, our primary subsidiary, are limited by Iowa law. Under Iowa laws, 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. In general, the current statutory limitations are 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 these limitations, Principal Life could distribute approximately $507.7 million in 2012. Total stockholder dividends paid by Principal Life to its parent as of March 31, 2012, were $175.0 million.

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 expense 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 3. 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.

Net cash provided by operating activities was $901.7 million and $1,195.5 million for the three months ended March 31, 2012, and 2011, respectively. From our insurance business, we typically generate positive cash flows from operating activities, as premiums collected from our insurance products and income received from our investments exceed policy 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 decrease in cash provided by operating activities in 2012 compared to 2011 was primarily due to fluctuations in receivables and payables associated with the timing of settlement as well as a decrease in sales of development real estate properties in the current year compared to 2011.

Net cash used in investing activities was $690.5 million for the three months ended March 31, 2012, compared to net cash provided by investing activities of $715.9 million for the three months ended March 31, 2011. The increase in cash used in investing activities in 2012 compared to 2011 was primarily the result of an increase in net purchases of investments in 2012 compared to net sales and maturities of investments in 2011.

Net cash used in financing activities was $1,393.2 million and $1,804.6 million for the three months ended March 31, 2012 and 2011, respectively. The decrease in cash used in financing activities was primarily due to a decrease in net withdrawals of investment contracts, for which we have had net withdrawals in both 2012 and 2011 primarily due to our decision to scale back our investment only business, partially offset by an increase in the acquisition of treasury stock and common stock dividends in 2012.

Table of Contents

Shelf Registration. On May 24, 2011, 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 June 2008. 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.

Preferred Stock Dividend Restrictions and Payments. The certificates of designation for the Series A and B Preferred Stock restrict the declaration of preferred dividends if we fail to meet specified capital adequacy, net income or stockholders equity levels. As of March 31, 2012, we have no preferred dividend restrictions. The dividend payments on our preferred stock are not mandatory or cumulative, as our Board of Directors approves each quarterly dividend payment.

Short-Term Debt. The components of short-term debt as of March 31, 2012 and December 31, 2011, were as follows:

	March 31, 2012		December 31, 2011	
Commercial paper	**$**	**50.0**	$	50.0
Other recourse short-term debt		**51.2**		55.2
Total short-term debt	**$**	**101.2**	$	105.2

Long-Term Debt. As of March 31, 2012, there have been no significant changes to long-term debt since December 31, 2011.

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

	March 31, 2012		December 31, 2011	
		(in millions)		
Dividends to stockholders	**$**	**(54.3)**	$	(213.7)
Repurchase of common stock		**(64.2)**		(556.4)
Total cash returned to stockholders	**$**	**(118.5)**	**$**	(770.1)

For additional stockholders equity information, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 8, Stockholders Equity.

Capitalization

Our capital structure as of March 31, 2012 and December 31, 2011, consisted of debt and equity summarized as follows:

	March 31, 2012	December 31, 2011
	(in millions)	
Debt:		
Short-term debt	**$ 101.2**	$ 105.2
Long-term debt	**1,570.8**	1,564.8
Total debt	**1,672.0**	1,670.0
Stockholders equity:		
Equity excluding AOCI	**8,876.8**	8,759.9
Total capitalization excluding AOCI	**$ 10,548.8**	$ 10,429.9
Debt to equity excluding AOCI	**19%**	19%
Debt to capitalization excluding AOCI	**16%**	16%

As of March 31, 2012, we had $633.2 million of excess capital in the holding companies, consisting of cash and highly liquid assets available for debt maturities, interest, preferred stock dividends and other holding company obligations. In addition, we continue to maintain sufficient capital levels in Principal Life based on our current financial strength ratings.

Contractual Obligations and Contractual Commitments

As of March 31, 2012, there have been no significant changes to contractual obligations and contractual commitments since

Table of Contents

December 31, 2011.

Off-Balance Sheet Arrangements

Variable Interest Entities. We have relationships with various types of special purpose entities and other entities where we have a variable interest as described in Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 2, Variable Interest Entities.

Guarantees and Indemnifications. As of March 31, 2012, there have been no significant changes to guarantees and indemnifications since December 31, 2011. For guarantee and indemnification information, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 7, Contingencies, Guarantees and Indemnifications under the caption, Guarantees and Indemnifications.

Financial Strength Rating 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.

A.M. Best Company, Inc., Fitch Rating Ltd., Moody s Investors Service and S&P publish financial strength ratings on U.S. life insurance companies that 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 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. Such ratings are not a recommendation to buy, sell or hold securities. Ratings are subject to revision or withdrawal at any time by the assigning rating agency.

A.M. Best, Fitch, Moody s and S&P maintain a stable outlook on the U.S. life insurance sector. However, these rating agencies note that current challenges for the industry such as global sovereign uncertainty, equity market volatility, impact of sustained low interest rates, weakness in the real estate market, lingering unemployment and weak consumer confidence are putting pressure on the stable outlook.

The financial strength ratings of Principal Life and Principal National Life Insurance Company were affirmed with no change in outlook by Fitch in January 2012, by Moody s in August 2011 and by A.M. Best and S&P in December 2011.

The following table summarizes our significant financial strength and debt ratings from the major independent rating organizations. The debt ratings shown are indicative ratings. Outstanding issuances are rated the same as indicative ratings unless otherwise noted. Actual ratings can differ from indicative ratings based on contractual terms.

	A.M. Best	Fitch	Standard & Poor s	Moody s
Principal Financial Group				
Senior Unsecured Debt (1)			BBB	Baa1
Preferred Stock (2)			BB+	Baa3
Principal Financial Services				
Senior Unsecured Debt			BBB	
Commercial Paper			A-2	P-2
Principal Life Insurance Company				
Insurer Financial Strength	A+	AA-	A	Aa3
Enterprise Risk Management Rating			Strong	
Principal National Life Insurance Company				
Insurer Financial Strength	A+	AA-	A	Aa3

(1) Moody s has rated Principal Financial Group s senior debt issuance A3

(2) S&P has rated Principal Financial Group s preferred stock issuance BB

Fair Value Measurement

Fair value is 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 for disclosure purposes. The fair value hierarchy gives the highest priority (Level 1) to quoted

Table of Contents

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 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 9, Fair Value Measurements for further details, including a reconciliation of changes in Level 3 fair value measurements.

As of March 31, 2012, 43% of our net assets (liabilities) were Level 1, 53% were Level 2 and 4% were Level 3. Excluding separate account assets as of March 31, 2012, 1% of our net assets (liabilities) were Level 1, 98% were Level 2 and 1% were Level 3.

As of December 31, 2011, 41% of our net assets (liabilities) were Level 1, 55% were Level 2 and 4% were Level 3. Excluding separate account assets as of December 31, 2011, 3% of our net assets (liabilities) were Level 1, 96% 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 March 31, 2012, were $4,660.6 million as compared to $4,647.3 million as of December 31, 2011. The increase in Level 3 assets is primarily related to gains on other invested assets and real estate included in our separate account assets. This increase is largely offset by transfers out of Level 3 into Level 2 for certain long-term bonds due to our obtaining prices from third party pricing vendors or using internal models based on substantially observable market information versus relying on broker quotes or utilizing significant unobservable inputs.

Net assets (liabilities) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of March 31, 2011, were $4,719.1 million as compared to $4,691.4 million as of December 31, 2010. The increase is primarily related to gains on other invested assets and real estate included in our separate account assets. These increases are partially offset by net sales of separate account assets and transfers out of Level 3 to Level 2 due to our obtaining prices from third party pricing vendors versus relying on broker quotes or internal pricing models for certain separate account long term bonds.

Investments

We had total consolidated assets as of March 31, 2012, of $153.7 billion, of which $67.3 billion 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 March 31, 2012, 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.

	March 31, 2012		December 31, 2011	
	Carrying amount	% of total	Carrying amount	% of total
	($ in millions)			
Fixed maturities:				
Public	**$ 35,451.4**	**53%**	$ 35,350.3	53%
Private	**14,918.6**	**22**	14,628.1	22
Equity securities	**674.8**	**1**	481.9	1
Mortgage loans:				
Commercial	**9,964.4**	**15**	9,396.6	14
Residential	**1,344.5**	**2**	1,330.6	2
Real estate held for sale	**47.1**		44.8	
Real estate held for investment	**1,064.8**	**2**	1,048.1	2
Policy loans	**873.9**	**1**	885.1	1
Other investments	**2,952.5**	**4**	2,985.8	5
Total invested assets	**67,292.0**	**100%**	66,151.3	100%
Cash and cash equivalents	**1,651.9**		2,833.9	
Total invested assets and cash	**$ 68,943.9**		$ 68,985.2	

Table of Contents

Investment Results

Net Investment Income

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

	For the three months ended March 31,				Increase (decrease)	
	2012		2011		2012 vs. 2011	
	Yield	Amount	Yield	Amount	Yield	Amount
	($ in millions)					
Fixed maturities	**5.3%**	**$ 641.0**	5.5%	$ 667.0	(0.2)%	$ (26.0)
Equity securities	**3.5**	**5.1**	2.9	3.9	0.6	1.2
Mortgage loans - commercial	**5.8**	**139.2**	5.9	139.8	(0.1)	(0.6)
Mortgage loans - residential	**6.6**	**22.0**	5.6	20.9	1.0	1.1
Real estate	**4.0**	**11.0**	11.0	28.6	(7.0)	(17.6)
Policy loans	**6.4**	**14.0**	6.4	14.5		(0.5)
Cash and cash equivalents	**0.4**	**2.2**	0.3	1.4	0.1	0.8
Other investments	**1.5**	**11.4**	0.7	4.5	0.8	6.9
Total before investment expenses	**5.0**	**845.9**	5.3	880.6	(0.3)	(34.7)
Investment expenses	**(0.1)**	**(21.1)**	(0.1)	(20.8)		(0.3)
Net investment income	**4.9%**	**$ 824.8**	5.2%	$ 859.8	(0.3)%	$ (35.0)

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Net investment income decreased due to lower reinvestment yields primarily on our fixed maturities portfolio and a decrease due to a gain on sale of development real estate in the prior year with no corresponding activity in the current year. These decreases were partially offset by higher inflation-based investment returns on average invested assets and cash, most notably fixed maturities and other investments, as a result of higher inflation in Chile.

Net Realized Capital Gains (Losses)

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

	For the three months ended March 31,	Increase (decrease)

	2012	2011 (in millions)	2012 vs. 2011
Fixed maturities, available-for-sale - credit impairments (1)	**$ (28.8)**	**$** (50.2)	$ 21.4
Fixed maturities, available-for-sale - other	**12.9**	1.0	11.9
Fixed maturities, trading	**3.0**	(4.6)	7.6
Equity securities credit impairments, net of recoveries		2.1	(2.1)
Derivatives and related hedge activities (2)	**(3.5)**	(25.2)	21.7
Commercial mortgages	**(4.5)**	(7.8)	3.3
Other gains	**14.2**	26.7	(12.5)
Net realized capital losses	**$ (6.7)**	**$** (58.0)	$ 51.3

---

(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 $0.0 million and $4.7 million for the three months ended March 31, 2012 and 2011, respectively.

(2) Includes fixed maturities, available-for-sale impairment-related net gains of $0.0 million and $0.4 million for the three months ended March 31, 2012 and 2011, respectively, which were hedged by derivatives reflected in this line.

Table of Contents

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Net realized capital losses on fixed maturities, available-for-sale - credit impairments decreased primarily due to lower impairments on commercial mortgage-backed and other asset-backed securities as a result of improved market conditions.

Net realized capital gains on fixed maturities, available-for-sale - other increased as a result of higher gains on sales in 2012 versus 2011.

Net realized capital losses on derivatives and related hedge activities decreased due to gains versus losses on derivatives not designated as hedging instruments, including currency forwards and currency swaps, due to changes in exchange rates.

Other net realized capital gains decreased due to lower equity market gains in 2012 versus 2011.

U.S. Investment Operations

Of our invested assets, $61.7 billion were held by our U.S. operations as of March 31, 2012. 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 a given 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 March 31, 2012, there are twelve members on the Investment Committee, one of whom is a member of our Board of Directors. The remaining members are senior management members representing various areas of our company.

We also seek to reduce call or prepayment risk arising from changes in interest rates in individual investments. We limit our exposure to investments that are prepayable without penalty prior to maturity at the option of the issuer and we require additional yield on these investments

to compensate for the risk that the issuer will exercise such option. We assess option risk in all investments we make and, when we take that risk, we price for it accordingly.

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 declines in the issuer s revenues or margins;
- significant management or organizational changes;
- significant uncertainty 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.

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 the origination of new

Table of Contents

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 65% or less loan-to-value ratio and a debt service coverage ratio of at least 1.5 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	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
New mortgages	**48%**	45%	**3.5x**	3.3x
Entire mortgage portfolio	**58%**	60%	**2.0x**	2.0x

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

Overall Composition of U.S. Invested Assets

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

	March 31, 2012		December 31, 2011	
	Carrying amount	% of total	Carrying amount	% of total
	($ in millions)			
Fixed maturities:				
Public	**$ 31,949.6**	**52%**	$ 32,081.2	53%
Private	**14,918.6**	**24**	14,628.1	24
Equity securities	**583.4**	**1**	395.9	1
Mortgage loans:				
Commercial	**9,953.2**	**16**	9,386.0	15
Residential	**715.3**	**1**	746.0	1
Real estate held for sale	**39.1**		36.6	
Real estate held for investment	**1,064.0**	**2**	1,047.3	2
Policy loans	**848.5**	**1**	861.6	1
Other investments	**1,614.1**	**3**	1,783.5	3
Total invested assets	**61,685.8**	**100%**	60,966.2	100%
Cash and cash equivalents	**1,496.4**		2,741.7	
Total invested assets and cash	**$ 63,182.2**		$ 63,707.9	

Fixed Maturities

Fixed maturities consist of publicly traded and privately placed bonds, asset-backed securities, redeemable preferred stock and certain nonredeemable preferred stock. Included in the privately placed category as of March 31, 2012 and December 31, 2011, were $9.5 billion and $9.1 billion, respectively, of securities subject to certain holding periods and resale restrictions pursuant to Rule 144A of the Securities Act of 1933. Fixed maturities include trading portfolios that support investment strategies that involve the active and frequent purchase and sale of fixed maturities. We held $202.5 million and $279.1 million of these trading securities as of March 31, 2012 and December 31, 2011, respectively.

Table of Contents

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

	March 31, 2012		December 31, 2011	
	Carrying amount	% of total	Carrying amount	% of total
	($ in millions)			
U.S. government and agencies	**$ 976.2**	**2%**	$ 1,004.7	2%
States and political subdivisions	**3,066.2**	**7**	3,041.1	7
Non-U.S. governments	**588.2**	**1**	676.1	1
Corporate - public	**19,088.1**	**41**	19,194.4	41
Corporate - private	**12,366.6**	**26**	11,920.7	26
Residential mortgage-backed pass-through securities	**3,421.1**	**7**	3,421.3	7
Commercial mortgage-backed securities	**3,503.4**	**7**	3,425.7	7
Residential collateralized mortgage obligations	**1,325.3**	**3**	1,403.8	3
Asset-backed securities	**2,533.1**	**6**	2,621.5	6
Total fixed maturities	**$ 46,868.2**	**100%**	$ 46,709.3	100%

We believe that 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 2005 and earlier relative to loans originated in 2006 through 2008. For loans originated prior to 2006, underwriting assumptions were more conservative regarding required debt service coverage and loan-to-value ratios. For the 2006 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 2011 vintages represent a return to debt service coverage ratios and loan-to-value ratios that more closely resemble loans originated prior to 2006.

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 issuer/servicer risk where collateral values can become impaired in the event of servicer credit deterioration. Our ABS portfolio is diversified both by type of asset and by issuer. We actively monitor holdings of ABS to ensure that the risk profile of each security improves or remains consistent. 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 diversify the risks of ABS by holding 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 27% and 26% of total fixed maturities as of March 31, 2012 and December 31, 2011, respectively. It is comprised of corporate and foreign government fixed maturities. The following table presents the carrying amount of our international exposure for our U.S. operation s fixed maturities portfolio for the periods indicated.

	March 31, 2012	December 31, 2011
	(in millions)	
European Union	**$ 4,432.6**	$ 4,132.1
United Kingdom	**2,420.0**	2,329.5
Australia/New Zealand	**1,505.0**	1,490.1
Asia-Pacific	**1,218.7**	1,172.3
Latin America	**873.1**	868.8
Other countries (1)	**2,118.5**	2,139.8
Total	**$ 12,567.9**	$ 12,132.6

(1) Includes exposure from 14 countries as of March 31, 2012 and 14 countries as of December 31, 2011.

Table of Contents

International fixed maturities are determined by the country of domicile of the parent entity of an individual asset. All international fixed maturities held by our U.S. operations are either denominated in U.S. dollars or have been swapped into U.S. dollar equivalents. Our international investments are analyzed internally by country and industry credit investment professionals. We control concentrations using issuer and country level exposure benchmarks, which are based on the credit quality of the issuer and the country. Our investment policy limits total international fixed maturities investments and we are within those internal limits. Exposure to Canada is not included in our international exposure. As of March 31, 2012 and December 31, 2011, our investments in Canada totaled $1,771.6 million and $1,749.1 million, respectively.

Economic and fiscal conditions in select European countries, including Greece, Ireland, Italy, Portugal and Spain, continue to cause credit concerns particularly to financial institutions and banks with exposure to the European periphery region. Our exposure to the region within our U.S. investment operations fixed maturities portfolio is modest and manageable, representing 2.4% and 2.4% of total fixed maturities as of March 31, 2012 and December 31, 2011, respectively. Additionally, we did not hold any sovereign debt issuances of the selected countries and had not bought or sold credit protection on sovereign issuances as of March 31, 2012 and December 31, 2011.

The fixed maturities within our U.S. operations portfolio with exposure to the region are primarily corporate credit issuances of large multi-national companies where the majority of revenues are coming from outside the country where the parent company is domiciled. Our experience indicates multinational companies have demonstrated better market price performance and credit ratings stability. As of March 31, 2012, 95% of our total portfolio exposure consists of investment grade bonds with an average price of 100 (carrying value/amortized cost) and a weighted average time to maturity of 5 years.

The following table presents the carrying amount of our European periphery zone fixed maturities exposure for the periods indicated:

	March 31, 2012 (in millions)					
Select European Exposure	**Greece**	**Ireland**	**Italy**	**Portugal**	**Spain**	**Total**
Non-Sovereign:						
Financial institutions	**$**	**$ 62.3**	**$ 60.4**	**$**	**$ 171.0**	**$ 293.7**
Non-financial institutions	**7.5**	**258.1**	**233.2**	**21.9**	**291.8**	**812.5**
Total	**$ 7.5**	**$ 320.4**	**$ 293.6**	**$ 21.9**	**$ 462.8**	**$ 1,106.2**

	December 31, 2011 (in millions)					
Select European Exposure	**Greece**	**Ireland**	**Italy**	**Portugal**	**Spain**	**Total**
Non-Sovereign:						
Financial institutions	$	$ 62.1	$ 53.7	$	$ 152.2	$ 268.0
Non-financial institutions	7.1	295.5	223.9	19.9	284.5	830.9
Total	$ 7.1	$ 357.6	$ 277.6	$ 19.9	$ 436.7	$ 1,098.9

For further details on our International investment operations exposure to these European countries, see International Investment Operations Fixed Maturities Exposure.

Table of Contents

Fixed Maturities Credit Concentrations. One aspect of managing credit risk is through industry, issuer and asset class diversification. Our credit concentrations are managed to established limits. The following table presents our top ten exposures as of March 31, 2012.

		Amortized cost (in millions)
Berkshire Hathaway Inc.	$	**215.2**
General Electric Co.		**202.3**
AT&T Inc.		**183.3**
Bank of America Corp.		**178.1**
Wells Fargo & Co.		**176.6**
HSBC Holdings PLC		**157.9**
Rabobank Netherlands		**156.3**
JPMorgan Chase & Co.		**154.7**
Verizon Communications Inc.		**154.2**
Republic of Korea		**150.8**
Total top ten exposures	$	**1,729.4**

Fixed Maturities Valuation and Credit Quality. Valuation techniques for the fixed maturities portfolio vary by security type and the availability of market data. The use of different pricing techniques and their assumptions could produce different financial results. See Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 9, 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. In addition, 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 National Association of Insurance Commissioners (NAIC) monitors the bond investments of insurers for regulatory capital and reporting purposes and, when required, assigns securities to one of six 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 non-agency RMBS, PIMCO Advisors models and assigns the NAIC ratings. For CMBS, Blackrock Solutions undertakes the modeling and assignment 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 periods indicated as well as the percentage, based on fair value, that each designation comprises.

		March 31, 2012			December 31, 2011		
NAIC Rating	Rating Agency Equivalent	Amortized cost	Carrying amount	% of total carrying amount	Amortized cost	Carrying amount	% of total carrying amount
				($ in millions)			
1	AAA/AA/A	**$ 26,592.7**	**$ 28,130.0**	**60%**	$ 26,802.2	$ 28,115.1	60%
2	BBB	**14,501.9**	**15,275.7**	**33**	14,570.4	15,195.9	33
3	BB	**2,755.0**	**2,519.4**	**5**	2,537.5	2,405.8	5
4	B	**676.7**	**532.8**	**1**	759.1	582.3	1
5	CCC and lower	**333.3**	**266.2**	**1**	329.4	255.5	1
6	In or near default	**282.6**	**144.1**		273.4	154.7	
	Total fixed maturities	**$ 45,142.2**	**$ 46,868.2**	**100%**	$ 45,272.0	$ 46,709.3	100%

Table of Contents

Fixed maturities include 12 securities with an amortized cost of $135.8 million, gross gains of $4.6 million, gross losses of $0.2 million and a carrying amount of $140.2 million as of March 31, 2012, 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 and Home Equity Asset-Backed Securities Portfolios. As of March 31, 2012, based on amortized cost, 51% of our CMBS portfolio had ratings of A or higher and 39% was issued in 2005 or before and 11% of our ABS home equity portfolio had ratings of A or higher and 87% was issued in 2005 or before.

The following tables present our exposure by credit quality, based on the lowest NRSRO designation, and year of issuance (vintage) for our CMBS portfolio as of the periods indicated.

	March 31, 2012 (in millions)											
	AAA		AA		A		BBB		BB+ and Below		Total	
	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount
2003 & Prior	**$ 71.5**	**$ 70.2**	**$ 75.0**	**$ 75.7**	**$ 56.4**	**$ 57.3**	**$ 78.2**	**$ 72.7**	**$ 157.1**	**$ 114.7**	**$ 438.2**	**$ 390.6**
2004	**91.3**	**95.5**	**56.8**	**57.7**	**46.9**	**45.2**	**25.2**	**19.8**	**119.5**	**95.7**	**339.7**	**313.9**
2005	**338.1**	**366.6**	**43.7**	**48.5**	**25.4**	**23.7**	**70.6**	**59.4**	**246.2**	**158.0**	**724.0**	**656.2**
2006	**165.4**	**173.2**	**4.8**	**5.6**	**67.0**	**72.3**	**37.7**	**38.7**	**184.2**	**120.8**	**459.1**	**410.6**
2007	**224.6**	**221.9**	**35.7**	**40.0**	**148.7**	**168.7**	**237.3**	**254.2**	**716.4**	**447.1**	**1,362.7**	**1,131.9**
2008	**11.4**	**11.7**	**15.0**	**17.1**	**33.1**	**38.1**			**33.7**	**33.3**	**93.2**	**100.2**
2009	**102.2**	**106.3**	**52.7**	**55.1**							**154.9**	**161.4**
2010	**60.8**	**66.3**	**19.5**	**20.8**							**80.3**	**87.1**
2011	**104.8**	**107.1**	**58.6**	**60.8**							**163.4**	**167.9**
2012	**35.0**	**34.3**	**48.5**	**49.3**							**83.5**	**83.6**
Total	**$ 1,205.1**	**$ 1,253.1**	**$ 410.3**	**$ 430.6**	**$ 377.5**	**$ 405.3**	**$ 449.0**	**$ 444.8**	**$ 1,457.1**	**$ 969.6**	**$ 3,899.0**	**$ 3,503.4**

2003 & Prior	$ 147.0	$ 142.3	$ 81.3	$ 81.4	$ 72.2	$ 70.2	$ 94.6	$ 85.2	$ 117.8	$ 79.9	$ 512.9	$ 459.0
2005	362.0	392.4	43.5	48.0	18.3	17.1	77.5	61.6	225.0	128.7	726.3	647.8
2007	292.2	288.9	22.8	25.1	152.7	165.2	300.8	306.6	637.2	347.8	1,405.7	1,133.6
2009	123.6	127.5	16.1	16.3							139.7	143.8
2011	165.3	164.0									165.3	164.0

The following tables present our exposure by credit quality, based on the lowest NRSRO designation, and vintage for our ABS home equity portfolio supported by subprime first lien mortgages as of the periods indicated.

2003 & Prior	$ **2.8**	$ **2.8**	$ **5.0**	$ **5.1**	$ **11.1**	$ **10.3**	$ **55.7**	$ **50.6**	$ **117.2**	$ **90.1**	$ **191.8**	$ **158.9**
2005			**3.0**	**3.1**					**72.2**	**48.8**	**75.2**	**51.9**
2007									**37.1**	**30.1**	**37.1**	**30.1**

Table of Contents

2003 & Prior	$ 12.3	$ 12.3	$ 7.3	$ 7.0	$ 12.7	$ 12.0	$ 61.2	$ 54.8	$ 102.7	$ 77.1	$ 196.2	$ 163.2
2005			3.0	3.1					67.8	43.3	70.8	$ 46.4
2007									37.2	27.8	37.2	$ 27.8

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

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

	March 31, 2012	**December 31, 2011**
	($ in millions)	
Total fixed maturities (public and private)	**$ 46,868.2**	$ 46,709.3
Problem fixed maturities (1)	**$ 366.2**	$ 343.5
Potential problem fixed maturities	**159.8**	166.3
Restructured problem fixed maturities	**15.7**	14.6
Total problem, potential problem and restructured fixed maturities	**$ 541.7**	$ 524.4
Total problem, potential problem and restructured fixed maturities as a percent of total fixed maturities	**1.16%**	1.12%

(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 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 3,

Table of Contents

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.

There are a number of significant risks and uncertainties 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 $28.8 million and $54.9 million for the three months ended March 31, 2012 and 2011, respectively.

Table of Contents

Fixed Maturities Available-for-Sale

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

	March 31, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
	(in millions)			
Finance Banking	$ 4,638.7	$ 122.1	$ 324.0	$ 4,436.8
Finance Brokerage	370.5	20.5	2.4	388.6
Finance Finance Companies	211.4	10.9	2.2	220.1
Finance Financial Other	549.3	64.1	0.5	612.9
Finance Insurance	2,922.8	194.3	49.4	3,067.7
Finance REITS	1,044.7	39.7	15.8	1,068.6
Industrial Basic Industry	1,773.3	135.3	4.2	1,904.4
Industrial Capital Goods	2,040.1	152.2	6.9	2,185.4
Industrial Communications	2,068.3	184.5	12.8	2,240.0
Industrial Consumer Cyclical	1,559.6	133.3	5.9	1,687.0
Industrial Consumer Non-Cyclical	3,193.5	282.5	2.9	3,473.1
Industrial Energy	1,929.9	213.1	1.0	2,142.0
Industrial Other	571.6	34.6	1.4	604.8
Industrial Technology	888.2	60.9	6.9	942.2
Industrial Transportation	576.2	44.3	4.7	615.8
Utility Electric	2,762.9	250.5	17.1	2,996.3
Utility Natural Gas	995.0	96.4	3.8	1,087.6
Utility Other	225.6	22.3		247.9
FDIC guaranteed	55.0	0.3		55.3
Government guaranteed	1,229.6	118.0	4.4	1,343.2
Total corporate securities	29,606.2	2,179.8	466.3	31,319.7
Residential mortgage-backed pass-through securities	3,125.0	184.4	0.8	3,308.6
Commercial mortgage-backed securities	3,894.8	154.4	550.0	3,499.2
Residential collateralized mortgage obligations	1,310.3	31.7	32.4	1,309.6
Asset-backed securities Home equity (1)	390.2	0.5	75.7	315.0
Asset-backed securities All other	1,765.2	23.7	1.6	1,787.3
Collateralized debt obligations Credit	82.9		47.5	35.4
Collateralized debt obligations CMBS	95.9	2.2	16.0	82.1
Collateralized debt obligations Loans	218.6	0.8	3.3	216.1
Collateralized debt obligations ABS	15.0		1.7	13.3
Total mortgage-backed and other asset-backed securities	10,897.9	397.7	729.0	10,566.6
U.S. government and agencies	771.2	31.2	1.3	801.1
States and political subdivisions	2,692.6	228.2	3.7	2,917.1

Non-U.S. governments		**498.8**		**89.5**		**0.1**		**588.2**
Total fixed maturities, available-for-sale	**$**	**44,466.7**	**$**	**2,926.4**	**$**	**1,200.4**	**$**	**46,192.7**

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

Table of Contents

	December 31, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
	(in millions)			
Finance Banking	$ 4,520.7	$ 79.9	$ 445.5	$ 4,155.1
Finance Brokerage	381.0	15.4	6.7	389.7
Finance Finance Companies	216.2	8.9	4.7	220.4
Finance Financial Other	532.4	55.5	1.1	586.8
Finance Insurance	2,966.3	227.2	73.0	3,120.5
Finance REITS	1,015.2	28.3	22.0	1,021.5
Industrial Basic Industry	1,656.6	135.3	5.4	1,786.5
Industrial Capital Goods	2,133.0	146.8	14.3	2,265.5
Industrial Communications	2,033.2	179.9	23.8	2,189.3
Industrial Consumer Cyclical	1,606.7	130.5	12.4	1,724.8
Industrial Consumer Non-Cyclical	3,084.0	286.3	3.7	3,366.6
Industrial Energy	1,978.4	220.9	1.2	2,198.1
Industrial Other	596.1	32.5	3.9	624.7
Industrial Technology	851.3	57.7	9.3	899.7
Industrial Transportation	626.2	45.7	10.3	661.6
Utility Electric	2,709.6	276.0	18.9	2,966.7
Utility Natural Gas	1,034.2	100.2	1.8	1,132.6
Utility Other	197.1	20.1		217.2
FDIC guaranteed	80.0	0.6		80.6
Government guaranteed	1,219.0	107.8	7.8	1,319.0
Total corporate securities	29,437.2	2,155.5	665.8	30,926.9
Residential mortgage-backed pass-through securities	3,130.8	185.6	0.7	3,315.7
Commercial mortgage-backed securities	3,894.3	117.0	597.6	3,413.7
Residential collateralized mortgage obligations	1,408.1	32.0	51.5	1,388.6
Asset-backed securities Home equity (1)	390.8	0.2	82.6	308.4
Asset-backed securities All other	1,808.0	68.1	2.9	1,873.2
Collateralized debt obligations Credit	82.8		34.4	48.4
Collateralized debt obligations CMBS	98.7	1.6	18.5	81.8
Collateralized debt obligations Loans	203.2	0.3	8.8	194.7
Collateralized debt obligations ABS	15.0		1.1	13.9
Total mortgage-backed and other asset-backed securities	11,031.7	404.8	798.1	10,638.4
U.S. government and agencies	772.3	32.8		805.1
States and political subdivisions	2,670.0	218.2	5.5	2,882.7
Non-U.S. governments	580.7	96.3	0.9	676.1
Total fixed maturities, available-for-sale	$ 44,491.9	$ 2,907.6	$ 1,470.3	$ 45,929.2

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

Of the $1,200.4 million in gross unrealized losses as of March 31, 2012, there were $4.7 million in losses attributed to securities scheduled to mature in one year or less, $60.2 million attributed to securities scheduled to mature between one to five years, $37.5 million attributed to securities scheduled to mature between five to ten years, $369.0 million attributed to securities scheduled to mature after ten years and $729.0 million related to mortgage-backed and other ABS that are not classified by maturity year. As of March 31, 2012, we were in a $1,726.0 million net unrealized gain position as compared to a $1,437.3 million net unrealized gains position as of December 31, 2011. Of the $288.7 million

increase in net unrealized gains for the three months ended March 31, 2012, an approximate $0.5 million net unrealized loss can be attributed to an approximate 22 basis points increase in interest rates which is more than offset by net unrealized gains related to other market factors.

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. During first quarter 2012, we did not actively increase our investment in available-for-sale below investment grade assets. While Principal Life s general account investment returns have improved due to the below investment

Table of Contents

grade asset class, we manage its growth strategically by limiting it to no more than 10% of the total fixed maturities portfolios.

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 periods indicated.

	March 31, 2012				December 31, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
	(in millions)							
Investment grade:								
Public	**$ 28,138.5**	**$ 2,043.4**	**$ 306.7**	**$ 29,875.2**	$ 28,497.9	$ 1,989.8	$ 435.0	$ 30,052.7
Private	**12,468.9**	**801.7**	**227.3**	**13,043.3**	12,298.2	757.4	373.8	12,681.8
Below investment grade:								
Public	**1,925.4**	**34.2**	**340.7**	**1,618.9**	1,834.4	21.3	365.1	1,490.6
Private	**1,933.9**	**47.1**	**325.7**	**1,655.3**	1,861.4	139.1	296.4	1,704.1
Total fixed maturities, available-for-sale	**$ 44,466.7**	**$ 2,926.4**	**$ 1,200.4**	**$ 46,192.7**	$ 44,491.9	$ 2,907.6	$ 1,470.3	$ 45,929.2

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 periods indicated.

	March 31, 2012					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	**$ 776.3**	**$ 8.4**	**$ 441.3**	**$ 5.8**	**$ 1,217.6**	**$ 14.2**
Greater than three to six months	**155.7**	**5.2**	**65.7**	**1.3**	**221.4**	**6.5**
Greater than six to nine months	**393.2**	**14.7**	**293.0**	**8.9**	**686.2**	**23.6**
Greater than nine to twelve months	**384.3**	**18.8**	**251.6**	**10.6**	**635.9**	**29.4**
Greater than twelve to twenty-four months	**150.1**	**17.2**	**167.5**	**10.1**	**317.6**	**27.3**
Greater than twenty-four to thirty-six months	**91.2**	**8.9**	**3.2**	**0.3**	**94.4**	**9.2**
Greater than thirty-six months	**1,030.3**	**233.5**	**1,009.2**	**190.3**	**2,039.5**	**423.8**
Total fixed maturities, available-for-sale	**$ 2,981.1**	**$ 306.7**	**$ 2,231.5**	**$ 227.3**	**$ 5,212.6**	**$ 534.0**

	December 31, 2011					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	$ 897.5	$ 14.1	$ 472.0	$ 4.9	$ 1,369.5	$ 19.0
Greater than three to six months	1,022.9	33.7	747.1	24.0	1,770.0	57.7
Greater than six to nine months	420.3	40.7	337.4	20.2	757.7	60.9
Greater than nine to twelve months	61.8	5.5	65.2	3.4	127.0	8.9
Greater than twelve to twenty-four months	135.0	15.8	184.5	20.5	319.5	36.3
Greater than twenty-four to thirty-six months	65.7	16.3	30.0	5.5	95.7	21.8
Greater than thirty-six months	1,122.5	308.9	1,138.0	295.3	2,260.5	604.2
Total fixed maturities, available-for-sale	$ 3,725.7	$ 435.0	$ 2,974.2	$ 373.8	$ 6,699.9	$ 808.8

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 periods indicated.

Table of Contents

	March 31, 2012					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	**$ 34.6**	**$ 0.1**	**$ 224.0**	**$ 12.0**	**$ 258.6**	**$ 12.1**
Greater than three to six months	**26.3**	**1.2**	**19.0**	**0.8**	**45.3**	**2.0**
Greater than six to nine months	**63.5**	**3.7**	**53.6**	**3.8**	**117.1**	**7.5**
Greater than nine to twelve months	**52.6**	**5.7**	**32.2**	**0.6**	**84.8**	**6.3**
Greater than twelve to twenty-four months	**35.0**	**13.6**	**64.8**	**8.5**	**99.8**	**22.1**
Greater than twenty-four to thirty-six months			**16.0**	**4.1**	**16.0**	**4.1**
Greater than thirty-six months	**721.2**	**316.4**	**485.4**	**295.9**	**1,206.6**	**612.3**
Total fixed maturities, available-for-sale	**$ 933.2**	**$ 340.7**	**$ 895.0**	**$ 325.7**	**$ 1,828.2**	**$ 666.4**

	December 31, 2011					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	$ 123.4	$ 3.6	$ 72.3	$ 6.3	$ 195.7	$ 9.9
Greater than three to six months	71.3	8.1	165.4	12.4	236.7	20.5
Greater than six to nine months	74.3	11.5	30.8	1.9	105.1	13.4
Greater than nine to twelve months	16.9	9.5	29.5	1.6	46.4	11.1
Greater than twelve to twenty-four months	42.2	11.8	18.9	4.4	61.1	16.2
Greater than twenty-four to thirty-six months	17.9	3.6	1.3	0.3	19.2	3.9
Greater than thirty-six months	693.0	317.0	483.5	269.5	1,176.5	586.5
Total fixed maturities, available-for-sale	$ 1,039.0	$ 365.1	$ 801.7	$ 296.4	$ 1,840.7	$ 661.5

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 periods indicated.

	March 31, 2012					
	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	**$ 38.2**	**$ 15.9**	**$ 46.7**	**$ 14.7**	**$ 84.9**	**$ 30.6**
Greater than three to six months			**33.7**	**14.4**	**33.7**	**14.4**
Greater than six to nine months	**54.0**	**25.7**	**307.3**	**130.8**	**361.3**	**156.5**
Greater than nine to twelve months	**18.7**	**11.4**	**66.4**	**40.8**	**85.1**	**52.2**
Greater than twelve months	**147.8**	**245.4**	**426.2**	**397.3**	**574.0**	**642.7**
	$ 258.7	**$ 298.4**	**$ 880.3**	**$ 598.0**	**$ 1,139.0**	**$ 896.4**

Total fixed maturities,
available-for-sale

	December 31, 2011					
	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	$ 42.4	$ 14.0	$ 231.7	$ 75.5	$ 274.1	$ 89.5
Greater than three to six months	74.4	32.2	587.3	263.9	661.7	296.1
Greater than six to nine months	18.2	11.6	77.6	47.2	95.8	58.8
Greater than nine to twelve months	3.5	1.6	6.9	8.5	10.4	10.1
Greater than twelve months	171.9	262.4	452.8	387.6	624.7	650.0
Total fixed maturities, available-for-sale	$ 310.4	$ 321.8	$ 1,356.3	$ 782.7	$ 1,666.7	$ 1,104.5

Table of Contents

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 $9,953.2 million and $9,386.0 million as of March 31, 2012 and December 31, 2011, respectively. The carrying amount of our residential mortgage loan portfolio was $715.3 million and $746.0 million as of March 31, 2012 and December 31, 2011, 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 solid, 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 credit oriented retail properties, office properties and general-purpose industrial properties.

Our commercial mortgage loan portfolio is diversified by geography and specific collateral property type. Commercial mortgage lending in the state of California accounted for 21% and 22% of our commercial mortgage loan portfolio as of March 31, 2012 and December 31, 2011, 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 March 31, 2012 and December 31, 2011, 28% and 30%, respectively, of the commercial mortgage loan portfolio was comprised of mortgage loans with principal balances of less than $10.0 million. The total number of commercial mortgage loans outstanding was 989 and 975 as of March 31, 2012 and December 31, 2011,

respectively. The average loan size of our commercial mortgage portfolio was $10.1 million and $9.7 million as of March 31, 2012 and December 31, 2011, respectively.

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

There has been a decrease in the total level of problem, potential problem and restructured commercial mortgages during first quarter 2012 primarily due to loan payoffs, foreclosures, and improvement in collateral occupancies and values. The South Atlantic and Pacific regions account for over 85% of the problem, potential problem and restructured commercial mortgages as of March 31, 2012. The South Atlantic, Pacific, and East North Central regions accounted for over 90% of the problem, potential problem, and restructured commercial mortgages as of December 31, 2011. Office and apartment properties accounted for over half of the problem, potential problem and restructured commercial mortgages as of both March 31, 2012 and December 31, 2011.

The following table presents the carrying amounts of problem, potential problem and restructured commercial mortgages

Table of Contents

relative to the carrying amount of all commercial mortgages for the periods indicated.

	March 31, 2012	December 31, 2011
	($ in millions)	
Total commercial mortgages	**$ 9,953.2**	$ 9,386.0
Problem commercial mortgages	**$ 64.7**	$ 112.7
Potential problem commercial mortgages	**102.5**	152.8
Restructured problem commercial mortgages	**52.6**	7.5
Total problem, potential problem and restructured commercial mortgages	**$ 219.8**	$ 273.0
Total problem, potential problem and restructured commercial mortgages as a percent of total commercial mortgages	**2.21%**	2.91%

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 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 valuation allowance, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 3, Investments Mortgage Loan Valuation Allowance.

The valuation allowance decreased $12.4 million for the three months ended March 31, 2012, and decreased $15.8 million for the year ended December 31, 2011. The decrease in the level of valuation allowance during 2012 was related to the same market factors as those causing the decrease in the level of problem, potential problem and restructured commercial mortgages during the three months ended March 31, 2012. The decrease in the level of valuation allowance during 2011 was primarily related to loan write downs, payoffs and loan sales and the related release of valuation allowance, which is partially offset by current period provisions. The South Atlantic region accounts for the highest level of reserves at both March 31, 2012 and December 31, 2011.

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

	March 31, 2012	December 31, 2011
	($ in millions)	
Balance, beginning of period	**$ 64.8**	$ 80.6
Provision	**7.0**	17.0
Charge-offs	**(19.4)**	(32.9)
Recoveries		0.1
Balance, end of period	**$ 52.4**	$ 64.8
Valuation allowance as % of carrying value before reserves	**0.52%**	0.69%

Residential Mortgage Loans. The residential mortgage loan portfolio is composed of home equity mortgages with an amortized cost of $583.1 million and $611.0 million and first lien mortgages with an amortized cost of $167.5 million and $171.0 million as of March 31, 2012 and December 31, 2011, respectively, primarily held by our Bank and Trust Services business. 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 $22.5 million and $24.0 million as of March 31, 2012 and December 31, 2011, respectively. We establish the residential mortgage loan valuation allowance at levels considered adequate to absorb 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 are showing signs of stabilization and the portfolio balance is declining. The following table represents our residential mortgage valuation allowance for the periods indicated.

Table of Contents

	March 31, 2012	December 31, 2011
	($ in millions)	
Balance, beginning of period	**$ 36.0**	$ 37.7
Provision	**6.4**	28.5
Charge-offs	**(8.3)**	(33.4)
Recoveries	**1.2**	3.2
Balance, end of period	**$ 35.3**	$ 36.0
Valuation allowance as % of carrying value before reserves	**4.7%**	4.6%

Real Estate

Real estate consists primarily of commercial equity real estate. As of March 31, 2012 and December 31, 2011, the carrying amount of our equity real estate investment was $1,103.1 million, or 2%, and $1,083.9 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 $1,064.0 million and $1,047.3 million as of March 31, 2012 and December 31, 2011, respectively. The carrying value of real estate held for investment is generally adjusted for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Such impairment adjustments are recorded as net realized losses and, accordingly, are reflected in our consolidated results of operations. For the three months ended March 31, 2012 and year ended December 31, 2011, there were no such impairment adjustments.

The carrying amount of real estate held for sale was $39.1 million and $36.6 million as of March 31, 2012 and December 31, 2011, respectively. There were no valuation allowances as of March 31, 2012 or December 31, 2011. 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.

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 with larger concentrations in the South Atlantic, West South Central, and Pacific regions of the United States as of March 31, 2012. By property type, there is a concentration in office, industrial, and retail that represented approximately 77% of the equity real estate portfolio as of March 31, 2012.

Other Investments

Our other investments totaled $1,614.1 million as of March 31, 2012, compared to $1,783.5 million as of December 31, 2011. Derivative assets accounted for $944.5 million and $1,156.5 million in other investments as of March 31, 2012 and December 31, 2011, respectively. The remaining invested assets include equity method investments, which include real estate properties owned jointly with venture partners and operated by the partners.

International Investment Operations

Of our invested assets, $5.6 billion were held by our Principal International segment as of March 31, 2012. The assets are managed by either our Principal Global Investors segment or 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 categories of international invested assets as of March 31, 2012 and December 31, 2011, were fixed maturities, other investments, residential mortgage loans and equity securities. In addition, policy loans are included in our invested assets. The following table excludes invested assets of the separate accounts.

Table of Contents

	March 31, 2012		December 31, 2011	
	Carrying amount	% of total	Carrying amount	% of total
	($ in millions)			
Fixed maturities - Public	**$ 3,501.8**	**63%**	$ 3,269.1	63%
Equity securities	**91.4**	**2**	86.0	2
Mortgage loans:				
Commercial	**11.2**		10.6	
Residential	**629.2**	**11**	584.6	11
Real estate held for sale	**8.0**		8.2	
Real estate held for investment	**0.8**		0.8	
Policy loans	**25.4**		23.5	1
Other investments	**1,338.4**	**24**	1,202.3	23
Total invested assets	**5,606.2**	**100%**	5,185.1	100%
Cash and cash equivalents	**155.5**		92.2	
Total invested assets and cash	**$ 5,761.7**		$ 5,277.3	

Investments in equity method subsidiaries and direct financing leases accounted for $705.8 million and $573.6 million, respectively, of other investments as of March 31, 2012. Investments in equity method subsidiaries and direct financing leases accounted for $667.5 million and $507.5 million, respectively, of other investments as of December 31, 2011. The remaining other investments as of both March 31, 2012 and December 31, 2011, are primarily related to derivative assets and other short-term investments.

Fixed Maturities Exposure

Economic and fiscal conditions in select European countries, including Greece, Ireland, Italy, Portugal and Spain, continue to cause credit concerns particularly to financial institutions and banks with exposure to the European periphery region. Our exposure to the region within our International investment operations fixed maturities portfolio is manageable, representing 7.4% and 7.7% of our total International invested assets as of March 31, 2012 and December 31, 2011, respectively. Portfolio holdings with exposure to this region consist of fixed maturities issued in the same countries as our International operations by local subsidiaries of the European parent. Nearly all of the exposure is to bonds issued in Chile. In addition, we did not hold any sovereign debt issuances of the selected countries and had not bought or sold credit protection on sovereign issuances as of March 31, 2012 and December 31, 2011.

Financial sector exposure is to local subsidiary banks, subject to local capital requirements and banking regulation. The current financial exposure carries an average AAA local rating from S&P and the average time to maturity is 18 years. Non-financial sector exposure consists primarily of infrastructure bonds, which are backed by the project itself, often with minimum revenue guarantees from the government. The current non-financial exposure carries an average AA local rating from S&P. The current Italian exposure has an average time to maturity of 14 years. In addition, the current Spanish exposure has an average time to maturity of 13 years. As of March 31, 2012, our total portfolio exposure had an average price of 107 (carrying value/amortized cost).

The following table presents the carrying amount of our European periphery zone fixed maturities exposure for the periods indicated.

	March 31, 2012			December 31, 2011		
Select European Exposure	**Italy**	**Spain**	**Total**	**Italy**	**Spain**	**Total**

					(in millions)							
Non-Sovereign:												
Financial institutions	**$**		**$**	**257.5**	**$**	**257.5**	$		$	241.5	$	241.5
Non-financial institutions		**46.8**		**119.3**		**166.1**		52.5		112.4		164.9
Total	**$**	**46.8**	**$**	**376.8**	**$**	**423.6**	$	52.5	$	353.9	$	406.4

For further details on our U.S. investment operations exposure to these European countries, see U.S. Investment Operations Fixed Maturities.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Exposures and Risk Management

Market risk is the risk that we will incur losses due to adverse fluctuations in market rates and prices. Our primary market risk exposure is to changes in interest rates, although we also have exposures to changes in equity prices and foreign currency exchange rates.

We enter into market-sensitive instruments primarily for purposes other than trading. 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 that we will incur economic losses due to adverse changes in interest rates. One source of interest rate risk is 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. Secondly, 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. A third source of interest rate risk is the prepayment options embedded within asset and liability contracts that can alter the cash flow profiles from what was originally expected.

One of the measures we use to quantify our exposure to interest rate risk is duration. To calculate duration, we project asset and liability cash flows. These cash flows are discounted to a net present value basis using a spot yield curve, which is a blend of the spot yield curves for each of the asset types in the portfolio. Duration is calculated by re-calculating these cash flows, re-determining the net present value based upon an alternative level of interest rates, and determining the percentage change in fair value.

We manage interest rate risks in a number of ways. Differences in durations between assets and liabilities are measured and kept within acceptable tolerances. Derivatives are also commonly used to mitigate interest rate risk due to cash flow mismatches and timing differences. 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. For example, as of March 31, 2012, approximately $10.4 billion, or 98%, of our institutional GICs and funding agreements

cannot be redeemed by contractholders prior to maturity.

We are also exposed to interest rate risk based upon the discount rate assumption used for purposes of valuing our pension and other postretirement benefit obligations.

Duration-Managed. Our exposure to interest rate risk stems largely from our substantial holdings of guaranteed fixed rate liabilities in our Retirement and Investor Services segment. We actively manage the duration of assets and liabilities in these products by minimizing the difference between the two.

As of March 31, 2012, the difference between the asset and liability durations on our primary duration-managed portfolio was -0.12, as compared to -0.35 as of December 31, 2011. This duration gap indicates that, as of March 31, 2012, the sensitivity of the fair value of our assets to interest rate movements is less than that of the fair value of our liabilities. Our goal is to minimize the duration gap. Currently, our guidelines indicate that total duration gaps between the asset and liability portfolios should be within +/-0.25. The value of the assets in this portfolio was $26,074.4 million and $26,811.6 million as of March 31, 2012 and December 31, 2011, respectively.

Duration-Monitored. For products such as whole life insurance and term life insurance that are less sensitive to interest rate risk, and for other products such as individual fixed deferred annuities, we manage interest rate risk based on a modeling process that considers the target average life, maturities, crediting rates and assumptions of policyholder behavior. As of March 31, 2012, the weighted-average difference between the asset and liability durations on these portfolios was -3.44, as compared to -3.03 as of December 31, 2011. This duration gap indicates that, as of March 31, 2012, the sensitivity of the fair value of our assets to interest rate movements is less than that of the fair value of our liabilities. We attempt to monitor this duration gap consistent with our overall risk/reward tolerances. The value of the assets in these portfolios was $25,566.4 million and $25,650.8 million as of March 31, 2012 and December 31, 2011, respectively.

Table of Contents

Non Duration-Managed. We also have a block of participating general account pension business that passes most of the actual investment performance of the assets to the customer. The investment strategy of this block is to maximize investment return to the customer on a best efforts basis, and there is little or no attempt to manage the duration of this portfolio since there is little or no interest rate risk. The value of the assets in these portfolios was $5,253.9 million and $5,400.0 million as of March 31, 2012 and December 31, 2011, respectively.

Using the assumptions and data in effect as of March 31, 2012, we estimate that a 100 basis point immediate, parallel increase in interest rates increases the net fair value of our portfolio by approximately $911.2 million, compared with an estimated $871.9 million increase as of December 31, 2011. The following table details the estimated changes by risk management strategy. The table also gives the weighted-average duration of the asset portfolio for each category, and the net duration gap (i.e., the weighted-average difference between the asset and liability durations).

	March 31, 2012			
Risk Management Strategy	**Value of total assets (in millions)**	**Duration of assets**	**Net duration gap**	**Net fair value change (in millions)**
Primary duration-managed	**$ 26,074.4**	**3.73**	**(0.12)**	**$ 31.3**
Duration-monitored	**25,566.4**	**4.28**	**(3.44)**	**879.9**
Non duration-managed	**5,253.9**	**4.19**	**N/A**	**N/A**
Total	**$ 56,894.7**			**$ 911.2**

Our selection of a 100 basis point immediate, parallel increase or decrease 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.

Debt Issued and Outstanding. The primary risk for our long-term borrowings is interest rate risk at the time of maturity or early redemption, when we may be required to refinance these obligations. We continue to monitor the interest rate environment and to evaluate refinancing opportunities as maturity dates approach.

The aggregate fair value of long-term debt, excluding accrued interest, was $1,773.0 million and $1,750.7 million, as of March 31, 2012 and December 31, 2011, respectively. As of March 31, 2012, a 100 basis point immediate, parallel decrease in interest rates would increase the fair value of debt by approximately $129.7 million, as compared to an estimated $129.1 million increase as of December 31, 2011. As of March 31, 2012, a 100 basis point immediate, parallel increase in interest rates would decrease the fair value of debt by approximately $123.2 million, as compared to an estimated $118.1 million decrease as of December 31, 2011. Debt is not recorded at fair value on the consolidated statements of financial position.

Our selection of a 100 basis point immediate, parallel increase or decrease in interest rates is a hypothetical rate scenario we use to demonstrate potential risk. While a 100 basis point immediate, parallel increase or 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. While these fair value measurements provide a representation of interest rate sensitivity, they are based on our long-term debt obligations at a point in time and may not be representative of future obligations. These exposures will change as a result of ongoing changes to our outstanding long-term debt obligations.

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 guaranteed minimum interest rate liabilities in our individual annuities contracts. We purchase swaptions to offset existing exposures. Occasionally, we have sold a callable investment-type agreement and used written interest rate swaptions to transform the callable liability into a fixed term liability.

Derivatives in our portfolio with interest rate sensitivity were in a net liability position with a fair value of $446.4 million and $424.6 million as of March 31, 2012 and December 31, 2011, respectively. The following table shows the interest rate sensitivity of our derivatives measured in terms of fair value. These exposures will change as a result of ongoing portfolio and risk management activities.

Table of Contents

	March 31, 2012				
			Fair value (no accrued interest)		
	Notional amount	Weighted average term (years) (1)	-100 basis point change	No change	+100 basis point change
	($ in millions)				
Interest rate swaps	**$ 19,923.7**	**5.14**	**$ (439.7)**	**$ (474.2)**	**$ (514.0)**
Interest rate collars	**500.0**	**10.90**	**58.5**	**25.6**	**12.6**
Swaptions	**325.0**	**3.47**	**0.6**	**2.2**	**7.4**
Futures (2)	**30.5**	**0.24**	**(1.2)**		**1.2**
Total	**$ 20,779.2**		**$ (381.8)**	**$ (446.4)**	**$ (492.8)**

(1) Based on maturity date.

(2) We use U.S. Treasury futures to manage our over/under commitment position, and our position in these contracts changes daily.

Our selection of a 100 basis point immediate, parallel increase or decrease in interest rates is a hypothetical rate scenario we use to determine potential risk. While a 100 basis point immediate, parallel increase or 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. While these fair value measurements provide a representation of interest rate sensitivity, they are based on our derivative 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 derivative transactions.

Foreign Currency Risk

Foreign currency risk is the risk that 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.

We estimate that as of March 31, 2012, 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, 2011. However, fluctuations in foreign currency exchange rates do affect the translation of 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 $188.5 million, or 10%, reduction in the total equity excluding noncontrolling interests of our international operations as of March 31, 2012, as compared to an estimated $167.8 million, or 10%, reduction as of December 31, 2011. 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 $4.6 million, or 11%, reduction in the operating earnings of our international operations for the three months ended March 31, 2012, as compared to an estimated $3.4 million, or 12%, reduction for the three months ended March 31, 2011.

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 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 $2,311.3 million and $2,454.3 million as of March 31, 2012 and December 31, 2011, respectively. The notional amount of our currency swap agreements associated with foreign-denominated fixed maturities was $1,298.2 million and $1,390.1 million as of March 31, 2012 and December 31, 2011, respectively.

With regard to our international operations, we attempt to do as much of our business as possible in the functional currency of the country of operation. At times, however, we are unable to do so, and in these cases, we use foreign exchange derivatives to economically hedge the resulting risks. Our operations in Chile had currency swaps with a notional amount of $75.4 million and $75.4 million as of March 31, 2012 and December 31, 2011, respectively, which were used to swap cash flows on U.S. dollar-denominated bonds to a local currency. Chile also utilized currency forwards with a notional amount of $176.5 million and $147.3 million as of March 31, 2012 and December 31, 2011, respectively, in order to mitigate currency exposure related to bonds denominated in currencies other than Chilean pesos.

Table of Contents

Additionally, from time to time we take measures to hedge our net equity investments in our foreign subsidiaries from currency risks. There were no outstanding net equity investment hedges in 2012 or 2011.

Equity Risk

Equity risk is the risk that we will incur economic losses due to adverse fluctuations in a particular common stock. As of March 31, 2012 and December 31, 2011, the fair value of our equity securities was $674.8 million and $481.9 million, respectively. As of March 31, 2012, a 10% decline in the value of the equity securities would result in an unrealized loss of $67.5 million, as compared to an estimated unrealized loss of $48.2 million as of December 31, 2011.

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. We estimate that an immediate 10% decline in the S&P index, followed by a 2% per quarter increase would reduce our annual operating earnings by approximately four to six percent. 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 policy acquisition costs and other actuarial balances.

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.

We also have equity risk associated with (1) fixed deferred annuity 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 receive at least the principal deposit back through withdrawals of a specified annual amount, 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; (4) investment-type contracts in which the return is tied to an external equity index and (5) investment-type 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 benefit plans.

Use of Derivatives to Manage Equity Risk. We economically hedge the fixed deferred annuity product, where the interest credited is linked to an external equity index, by purchasing options that match the product s profile. We economically hedge the GMWB exposure, which includes interest rate risk and equity risk, using futures, options and interest rate swaps. We economically hedge the investment contract exposure to an external equity index using equity call options.

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. We recognized a pre-tax loss on the derivatives used to economically hedge our GMWB market risk of $113.0 million and $32.2 million for the three months ended March 31, 2012 and 2011, respectively. We recognized a pre-tax gain on the change in fair value of the GMWB embedded derivative that is primarily related to market risk impacts (excluding spread reflecting our own creditworthiness) of $138.1 million and $22.9 million for the three months ended March 31, 2012 and 2011, respectively. Additionally, we recognized a pre-tax loss on the change in value of the GMWB liability related to other factors of $68.7 million and $26.8 million for the three months ended March 31, 2012 and 2011, respectively, primarily related to incorporating a spread reflecting our own creditworthiness. We reflect the actual and expected changes in value

of the GMWB embedded derivative and the associated hedging instruments in our estimated gross profits, which resulted in a pre-tax decrease in DPAC amortization of $25.9 million and $14.7 million for the three months ended March 31, 2012 and 2011, respectively.

Credit Risk

Credit risk relates to the uncertainty associated with the continued ability of a given obligor to make timely payments of principal and interest. Our ability to manage credit risk is essential to our business and our profitability. See Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Investments for additional information about credit risk.

Use of Derivatives to Diversify or Hedge Credit Risk. We purchase credit default swaps to hedge credit exposures in our investment portfolio and total return swaps to hedge our investment portfolio from credit losses. We sell credit default swaps to offer credit protection to investors. When selling credit protection, if there is an event of default by the referenced name, we are obligated to pay the counterparty the referenced amount of the contract and receive in return the referenced security. For further information on credit derivatives sold, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 4, Derivative Financial Instruments under the caption, Credit Derivatives Sold.

We economically hedged credit exposure in our portfolio by purchasing credit default swaps with a notional amount of $370.8 million and $607.0 million and total return swaps of $100.0 million and $15.0 million as of March 31, 2012 and December 31, 2011,

Table of Contents

respectively. We had credit exposure through credit default swaps with a notional amount of $140.0 million and $147.4 million as of March 31, 2012 and December 31, 2011, respectively, by investing in various tranches of synthetic collateralized debt obligations. In addition, we sold credit default swaps creating replicated assets with a notional amount of $770.6 million and $775.9 million as of March 31, 2012 and December 31, 2011, respectively.

Derivative Counterparty Risk

In conjunction with our use of derivatives, we are exposed 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) 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 counterparties without CSAs;
- conducting stress-test analysis to determine the maximum exposure created during the life of a prospective transaction and
- daily monitoring of counterparty credit ratings, exposures and associated collateral levels.

We believe the risk of incurring losses due to nonperformance by our counterparties is manageable. For further information on derivatives, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 4, Derivative Financial Instruments.

Based on our accounting policy, our disclosed exposure measures the fair value of derivatives that have become favorable to us and, therefore, is a combined credit exposure if all of the involved counterparties failed to fulfill their obligations. In the hypothetical scenario where all of our counterparties fail to fulfill their obligations, our exposure would be $1,041.7 million; however, including collateral received our exposure would be reduced to $894.9 million at March 31, 2012. For further information on derivative exposure, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 4, Derivative Financial Instruments under the caption, Exposure.

We manage our exposure on a net basis, whereby we net positive and negative exposures for each counterparty with agreements in place. Netting positive and negative exposures would yield an exposure of $184.0 million, which is reduced to $37.2 million with pledged collateral at March 31, 2012. As of March 31, 2012, we held total collateral of $146.8 million in the form of cash and securities and we posted $485.0 million in cash and securities as collateral to our counterparties. We have not incurred any material losses on derivative financial instruments due to counterparty nonperformance. As a result of our management of our counterparty risk and the collateralization of our derivative portfolio, any deterioration in our derivative counterparties credit would not materially impact our financial statements as of March 31, 2012.

Item 4. Controls and Procedures

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, Larry D. Zimpleman, and our Chief Financial Officer, Terrance J. Lillis, have reviewed and evaluated our disclosure controls and procedures as of March 31, 2012, and have concluded that our disclosure controls and procedures are effective.

Table of Contents

PART II   OTHER INFORMATION

Item 1. Legal Proceedings

Disclosure concerning material legal proceedings can be found in Part I, Item 1.   Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 7, Contingencies, Guarantees and Indemnifications   under the caption,   Litigation and Regulatory Contingencies, which is incorporated here by this reference.

Item 1A. Risk Factors

In addition to the other information set forth in this report, consideration should be given to the factors discussed in Part I, Item 1A.   Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011. If any of those factors were to occur, they could materially adversely affect our business, financial condition or future results, and could cause actual results to differ materially from those expressed in forward-looking statements in this report. There have been no material changes with respect to the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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

Issuer Purchases of Equity Securities

Period	**Total number of shares (or units) purchased (1)**	**Average price paid per share (or unit)**	**Total number of shares (or units) purchased as part of publicly announced plans or programs**	**Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs (in millions) (2)**
January 1, 2012 January 31, 2012	**675**	**$ 26.21**		**$**
February 1, 2012 February 29, 2012	**285,323**	**27.84**		**100.0**
March 1, 2012 March 31, 2012	**2,048,998**	**27.43**	**1,823,735**	**50.0**
Total	**2,334,996**		**1,823,735**	

(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) During February 2012, our Board of Directors authorized a repurchase program of up to $100.0 million of our outstanding common stock.

Table of Contents

Exhibit Index

Exhibit Number	Description
10.1.5	Amended and Restated Principal Financial Group, Inc. 2010 Stock Incentive Plan
12	Statement Regarding Computation of Ratio of Earnings to Fixed Charges
18	Change in Method of Accounting Principle - Reinsurance Accounting Change
31.1	Certification of Larry D. Zimpleman
31.2	Certification of Terrance J. Lillis
32.1	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Larry D. Zimpleman
32.2	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Terrance J. Lillis
101	The following materials from Principal Financial Group, Inc. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 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 Other Comprehensive Income, (iv) the Consolidated Statements of Stockholders Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements.

Table of Contents

SIGNATURE

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

	PRINCIPAL FINANCIAL GROUP, INC.	
Dated: May 2, 2012	By	/s/ Terrance J. Lillis Terrance J. Lillis Senior Vice President and Chief Financial Officer Duly Authorized Officer, Principal Financial Officer, and Chief Accounting Officer

Table of Contents

Exhibit Index

Exhibit Number	Description
10.1.5	Amended and Restated Principal Financial Group, Inc. 2010 Stock Incentive Plan
12	Statement Regarding Computation of Ratio of Earnings to Fixed Charges
18	Change in Method of Accounting Principle - Reinsurance Accounting Change
31.1	Certification of Larry D. Zimpleman
31.2	Certification of Terrance J. Lillis
32.1	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Larry D. Zimpleman
32.2	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Terrance J. Lillis
101	The following materials from Principal Financial Group, Inc. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 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 Other Comprehensive Income, (iv) the Consolidated Statements of Stockholders Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements.