PRINCIPAL FINANCIAL GROUP INC
Form 10-Q
July 31, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

1-16725

(Commission file number)

PRINCIPAL FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

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

711 High Street, Des Moines, Iowa 50392

(Address of principal executive offices)

(515) 247-5111

(Registrant s telephone number, including area code)

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

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

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

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

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

The total number of shares of the registrant s Common Stock, $0.01 par value, outstanding as of July 24, 2013, was 294,349,361.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Principal Financial Group, Inc.

Consolidated Statements of Financial Position

	June 30, 2013 (Unaudited)	December 31, 2012 (As adjusted)
	(in millions)	
Assets		
Fixed maturities, available-for-sale (2013 and 2012 include $232.8 million and $194.6 million related to consolidated variable interest entities)	**$ 49,191.6**	$ 50,939.3
Fixed maturities, trading (2013 and 2012 both include $110.4 million related to consolidated variable interest entities)	**589.8**	626.7
Equity securities, available-for-sale	**135.3**	136.5
Equity securities, trading	**636.7**	252.8
Mortgage loans	**12,121.7**	11,519.7
Real estate	**1,264.8**	1,180.3
Policy loans	**865.3**	864.9
Other investments (2013 and 2012 include $76.6 million and $80.3 million related to consolidated variable interest entities and $116.5 million and $113.9 million measured at fair value under the fair value option)	**2,976.3**	3,291.1
Total investments	**67,781.5**	68,811.3
Cash and cash equivalents	**1,110.5**	4,177.2
Accrued investment income	**565.4**	584.4
Premiums due and other receivables	**1,219.0**	1,084.4
Deferred acquisition costs	**2,925.4**	2,590.0
Property and equipment	**476.4**	464.2
Goodwill	**1,138.5**	543.4
Other intangibles	**1,517.3**	914.7
Separate account assets (2013 includes $33,179.6 million related to consolidated variable interest entities)	**118,740.2**	81,653.8
Other assets	**1,038.5**	1,006.8
Total assets	**$ 196,512.7**	$ 161,830.2
Liabilities		
Contractholder funds	**$ 36,269.7**	$ 37,786.5
Future policy benefits and claims	**22,129.5**	22,436.2
Other policyholder funds	**739.5**	716.4
Short-term debt	**175.3**	40.8
Long-term debt	**2,578.6**	2,671.3
Income taxes currently payable	**7.2**	15.3
Deferred income taxes	**578.7**	600.0
Separate account liabilities (2013 includes $33,179.6 million related to consolidated variable interest entities)	**118,740.2**	81,653.8
Other liabilities (2013 and 2012 include $314.4 million and $302.9 million related to consolidated variable interest entities, of which $98.9 million and $85.0 million are measured at fair value under the fair value option)	**5,831.5**	6,146.1
Total liabilities	**187,050.2**	152,066.4

Redeemable noncontrolling interest		**53.6**		60.4
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 2013 and 2012				
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 2013 and 2012		**0.1**		0.1
Common stock, par value $.01 per share 2,500.0 million shares authorized, 456.5 million and 453.5 million shares issued, and 293.9 million and 293.8 million shares outstanding in 2013 and 2012		**4.6**		4.5
Additional paid-in capital		**9,819.8**		9,730.9
Retained earnings		**5,125.2**		4,862.0
Accumulated other comprehensive income (loss)		**(0.5)**		640.3
Treasury stock, at cost (162.6 million and 159.7 million shares in 2013 and 2012)		**(5,645.8)**		(5,554.4)
Total stockholders equity attributable to Principal Financial Group, Inc.		**9,303.4**		9,683.4
Noncontrolling interest		**105.5**		20.0
Total stockholders equity		**9,408.9**		9,703.4
Total liabilities and stockholders equity	**$**	**196,512.7**	$	161,830.2

See accompanying notes.

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Principal Financial Group, Inc.

Consolidated Statements of Operations

(Unaudited)

	For the three months ended June 30, 2013	For the three months ended June 30, 2012	For the six months ended June 30, 2013	For the six months ended June 30, 2012
	(in millions, except per share data)			
Revenues				
Premiums and other considerations	**$ 737.2**	$ 681.3	**$ 1,431.9**	$ 1,361.1
Fees and other revenues	**803.8**	636.1	**1,537.4**	1,234.1
Net investment income	**749.7**	801.0	**1,539.0**	1,625.8
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	**(53.4)**	32.2	**(79.8)**	54.3
Total other-than-temporary impairment losses on available-for- sale securities	**(24.6)**	(49.1)	**(69.3)**	(82.8)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from) other comprehensive income	**(2.1)**	17.1	**18.1**	22.0
Net impairment losses on available-for-sale securities	**(26.7)**	(32.0)	**(51.2)**	(60.8)
Net realized capital gains (losses)	**(80.1)**	0.2	**(131.0)**	(6.5)
Total revenues	**2,210.6**	2,118.6	**4,377.3**	4,214.5
Expenses				
Benefits, claims and settlement expenses	**1,095.7**	1,110.0	**2,190.2**	2,322.5
Dividends to policyholders	**47.5**	49.5	**95.8**	99.8
Operating expenses	**801.8**	729.6	**1,597.5**	1,284.7
Total expenses	**1,945.0**	1,889.1	**3,883.5**	3,707.0
Income before income taxes	**265.6**	229.5	**493.8**	507.5
Income taxes	**29.0**	50.9	**67.2**	107.6
Net income	**236.6**	178.6	**426.6**	399.9
Net income attributable to noncontrolling interest	**6.0**	2.7	**9.5**	11.9
Net income attributable to Principal Financial Group, Inc.	**230.6**	175.9	**417.1**	388.0
Preferred stock dividends	**8.3**	8.3	**16.5**	16.5
Net income available to common stockholders	**$ 222.3**	$ 167.6	**$ 400.6**	$ 371.5
Earnings per common share				
Basic earnings per common share	**$ 0.76**	$ 0.56	**$ 1.36**	$ 1.24
Diluted earnings per common share	**$ 0.75**	$ 0.56	**$ 1.35**	$ 1.22

See accompanying notes.

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Principal Financial Group, Inc.

Consolidated Statements of Comprehensive Income

(Unaudited)

	For the three months ended June 30, 2013	For the three months ended June 30, 2012	For the six months ended June 30, 2013	For the six months ended June 30, 2012
	(in millions)			
Net income	**$ 236.6**	$ 178.6	**$ 426.6**	$ 399.9
Other comprehensive income (loss), net:				
Net unrealized gains (losses) on available-for-sale securities	**(453.7)**	100.7	**(553.0)**	262.0
Noncredit component of impairment losses on fixed maturities, available-for-sale	**0.7**	(9.9)	**(10.6)**	(10.8)
Net unrealized gains (losses) on derivative instruments	**(0.3)**	48.9	**21.7**	45.4
Foreign currency translation adjustment	**(190.4)**	(83.5)	**(136.0)**	(23.9)
Net unrecognized postretirement benefit obligation	**13.8**	8.8	**27.6**	17.5
Other comprehensive income (loss)	**(629.9)**	65.0	**(650.3)**	290.2
Comprehensive income (loss)	**(393.3)**	243.6	**(223.7)**	690.1
Comprehensive income (loss) attributable to noncontrolling interest	**(2.4)**	2.1		12.1
Comprehensive income (loss) attributable to Principal Financial Group, Inc.	**$ (390.9)**	$ 241.5	**$ (223.7)**	$ 678.0

See accompanying notes.

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Principal Financial Group, Inc.

Consolidated Statements of Stockholders Equity

(Unaudited)

	Series A preferred stock	Series B preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Noncontrolling interest	Total stockholders equity
					(in millions)				
Balances at January 1, 2012 (as adjusted)	$	$ 0.1	$ 4.5	$ 9,634.7	$ 4,323.4	$ 271.4	$ (5,281.7)	$ 353.8	$ 9,306.2
Common stock issued				11.7					11.7
Stock-based compensation and additional related tax benefits				39.0	(1.8)				37.2
Treasury stock acquired, common							(203.2)		(203.2)
Dividends to common stockholders					(108.0)				(108.0)
Dividends to preferred stockholders					(16.5)				(16.5)
Distributions to noncontrolling interest								(5.7)	(5.7)
Contributions from noncontrolling interest								6.2	6.2
Deconsolidation of certain variable interest entities								(353.2)	(353.2)
Net income (excludes $0.7 million attributable to redeemable noncontrolling interest)					388.0			11.2	399.2
Other comprehensive income (excludes $0.3 million attributable to redeemable noncontrolling interest)						290.0		(0.1)	289.9
Balances at June 30, 2012	$	$ 0.1	$ 4.5	$ 9,685.4	$ 4,585.1	$ 561.4	$ (5,484.9)	$ 12.2	$ 9,363.8
Balances at January 1, 2013	**$**	**$ 0.1**	**$ 4.5**	**$ 9,730.9**	**$ 4,862.0**	**$ 640.3**	**$ (5,554.4)**	**$ 20.0**	**$ 9,703.4**
Common stock issued			**0.1**	**37.7**					**37.8**
Stock-based compensation and additional related tax benefits				**38.1**	**(2.2)**				**35.9**
Treasury stock acquired, common							**(91.4)**		**(91.4)**
Dividends to common stockholders					**(135.2)**				**(135.2)**
Dividends to preferred stockholders					**(16.5)**				**(16.5)**
Distributions to noncontrolling interest								**(6.4)**	**(6.4)**
Contributions from noncontrolling interest								**115.9**	**115.9**
Purchase of subsidiary shares from noncontrolling interest				**1.6**				**(47.2)**	**(45.6)**

Sale of subsidiary shares to noncontrolling interest				11.5				20.3	31.8
Net income (excludes $1.1 million attributable to redeemable noncontrolling interest)					417.1			8.4	425.5
Other comprehensive loss (excludes $(4.0) million attributable to redeemable noncontrolling interest)						(640.8)		(5.5)	(646.3)
Balances at June 30, 2013	**$**	**$ 0.1**	**$ 4.6**	**$ 9,819.8**	**$ 5,125.2**	**$ (0.5)**	**$ (5,645.8)**	**$ 105.5**	**$ 9,408.9**

See accompanying notes.

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Principal Financial Group, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	For the six months ended June 30, 2013	2012
	(in millions)	
Operating activities		
Net income	$ **426.6**	$ 399.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred acquisition costs	**101.6**	(56.4)
Additions to deferred acquisition costs	**(236.6)**	(197.7)
Accrued investment income	**19.0**	25.7
Net cash flows for trading securities	**(27.4)**	81.2
Premiums due and other receivables	**(44.5)**	82.4
Contractholder and policyholder liabilities and dividends	**461.6**	806.3
Current and deferred income taxes (benefits)	**136.3**	(18.4)
Net realized capital losses	**131.0**	6.5
Depreciation and amortization expense	**75.2**	66.2
Mortgage loans held for sale, acquired or originated		(42.9)
Mortgage loans held for sale, sold or repaid, net of gain	**0.2**	60.6
Real estate acquired through operating activities	**(54.3)**	(14.5)
Real estate sold through operating activities	**11.6**	2.0
Stock-based compensation	**36.2**	37.5
Other	**(252.9)**	263.6
Net adjustments	**357.0**	1,102.1
Net cash provided by operating activities	**783.6**	1,502.0
Investing activities		
Available-for-sale securities:		
Purchases	**(4,921.6)**	(3,911.8)
Sales	**1,099.4**	695.1
Maturities	**3,955.4**	3,102.3
Mortgage loans acquired or originated	**(1,778.4)**	(1,310.9)
Mortgage loans sold or repaid	**1,079.9**	816.0
Real estate acquired	**(46.9)**	(39.8)
Net purchases of property and equipment	**(11.9)**	(24.7)
Purchase of interests in subsidiaries, net of cash acquired	**(1,268.3)**	(62.5)
Net change in other investments	**(30.2)**	(90.5)
Net cash used in investing activities	**(1,922.6)**	(826.8)
Financing activities		
Issuance of common stock	**37.8**	11.7
Acquisition of treasury stock	**(91.4)**	(203.2)
Proceeds from financing element derivatives	**14.6**	20.8
Payments for financing element derivatives	**(24.3)**	(26.4)
Excess tax benefits from share-based payment arrangements	**6.8**	10.7
Purchase of subsidiary shares from noncontrolling interest	**(47.2)**	
Sale of subsidiary shares to noncontrolling interest	**31.8**	
Dividends to common stockholders	**(135.2)**	(108.0)
Dividends to preferred stockholders	**(8.2)**	(8.2)
Issuance of long-term debt	**9.1**	9.1
Principal repayments of long-term debt	**(211.9)**	(1.5)

Net proceeds from short-term borrowings		**131.7**		155.5
Investment contract deposits		**3,157.3**		2,886.7
Investment contract withdrawals		**(4,771.4)**		(4,595.4)
Net decrease in banking operation deposits		**(23.8)**		(10.6)
Other		**(3.4)**		(3.7)
Net cash used in financing activities		**(1,927.7)**		(1,862.5)
Net decrease in cash and cash equivalents		**(3,066.7)**		(1,187.3)
Cash and cash equivalents at beginning of period		**4,177.2**		2,833.9
Cash and cash equivalents at end of period	**$**	**1,110.5**	$	1,646.6

See accompanying notes.

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements

June 30, 2013

(Unaudited)

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of Principal Financial Group, Inc. (PFG), its majority-owned subsidiaries and its consolidated variable interest entities (VIEs), have been prepared in conformity with accounting principles generally accepted in the U.S. (U.S. GAAP) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2013, are not necessarily indicative of the results that may be expected for the year ended December 31, 2013. These interim unaudited consolidated financial statements should be read in conjunction with our annual audited financial statements as of December 31, 2012, included in our Form 10-K for the year ended December 31, 2012, filed with the United States Securities and Exchange Commission (SEC). The accompanying consolidated statement of financial position as of December 31, 2012, 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.

Reclassifications have been made to prior period financial statements to conform to the June 30, 2013, presentation.

Revisions of Previously Issued Financial Statements

In conjunction with our first quarter 2013 acquisition of AFP Cuprum S.A. (Cuprum) in Chile, we re-evaluated the accounting treatment for similar products offered in other foreign jurisdictions, including the AFORE retirement accumulation business in Mexico. As a result of this re-evaluation, we have concluded that the AFORE product, which was previously accounted for under Accounting Standards Codification 944, *Financial Services Insurance*, should be accounted for as a long-term service contract, consistent with the accounting requirements for our recently acquired retirement accumulation business in Chile. The revision to the accounting treatment for the AFORE product in Mexico will result in the following changes:

(a) Fewer acquisition costs are capitalized. Specifically, we expense as incurred salary and related costs associated with the successful efforts of our proprietary sales force and sales support staff. All direct and incremental costs such as commissions will continue to be deferred.

(b) Deferred costs are amortized on a straight line basis over the expected contract life rather than based on estimated gross profits. The amortization method change also impacts purchased customer intangible assets.

We have revised our prior period consolidated financial statements accordingly**.** These revisions, inclusive of any other potential adjustments, are not material in any prior period based on an analysis of quantitative and qualitative factors in accordance with SEC Staff Accounting Bulletin 108, and, as a result, amendment of previously filed periodic reports is not required. Rather, these revisions will be made the next time we file the prior period consolidated financial statements. See our March 31, 2013, Form 10-Q filed with the SEC on May 1, 2013, for historical impacts of this revision.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued authoritative guidance that requires the liability related to certain unrecognized benefits to be offset against a deferred tax asset from operating loss carryforwards. This guidance will be effective for us beginning January 1, 2014, and is not expected to have a material impact on our consolidated financial statements.

In June 2013, the FASB issued authoritative guidance that formalizes the definition of an investment company. This guidance will be effective for us beginning January 1, 2014, and is not expected to have a material impact on our consolidated financial statements.

In March 2013, the FASB issued authoritative guidance that clarifies how the cumulative translation adjustment (CTA) related to a parent s investment in a foreign entity should be released when certain transactions related to the foreign entity occur. This guidance will be effective prospectively for us beginning on January 1, 2014, and is not expected to have a material impact on our consolidated financial statements.

In February 2013, the FASB issued authoritative guidance that requires entities to disclose additional information about items reclassified out of accumulated other comprehensive income (AOCI). Entities are required to disclose information regarding changes in AOCI balances by component and significant items reclassified out of AOCI by component either on the face of the

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2013
(Unaudited)

income statement or as a separate footnote to the financial statements. This guidance was effective for us beginning January 1, 2013, and did not have a material impact on our consolidated financial statements. This guidance did not impact the requirements for reporting of comprehensive income under FASB guidance issued in June 2011, which changed the presentation of comprehensive income in the financial statements. The guidance eliminated the presentation options contained in previous guidance and instead required 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 did not change the items that must be reported in OCI or when an item of OCI must be reclassified to net income. 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, Stockholders Equity, for further details.

In January 2013 and December 2011, the FASB issued authoritative guidance related to balance sheet offsetting. The 2011 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. The 2013 guidance clarified that the disclosure requirements would apply to derivative instruments, including bifurcated embedded derivatives, repurchase and reverse repurchase agreements and securities borrowing and securities lending arrangements that are either offset on the balance sheet or subject to an enforceable master netting arrangement or similar agreement. Both pieces of guidance were effective for us beginning January 1, 2013, with retrospective application required and did not have a material impact on our consolidated financial statements. See Note 4, Investments, for further details.

In July 2012, the FASB issued authoritative guidance that amends how indefinite-lived intangible assets are tested for impairment. The amendments provide an option to perform a qualitative assessment to determine whether it is necessary to perform the annual fair value calculation impairment test. This new guidance is effective for our 2013 indefinite-lived intangible asset impairment testing and is not expected to have a material impact on our consolidated financial statements.

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 was effective for us on January 1, 2013, and did not 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 was effective for our 2012 goodwill impairment test and did not have a material impact on our consolidated financial statements.

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 10, 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.

Separate Accounts

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

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Principal Financial Group, Inc.
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June 30, 2013
(Unaudited)

At June 30, 2013 and December 31, 2012, the separate account assets include a separate account valued at $181.6 million and $148.3 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. Acquisition

On February 4, 2013, we completed the purchase of Cuprum, a premier pension manager in Chile that will grow our ability to offer customers in Chile unmatched pension savings and retirement solutions. Our acquisition agreement required Empresas Penta S.A. and Inversiones Banpenta Limitada to sell their 63% ownership in Cuprum pursuant to a public tender offer that also included the remaining 37% of publicly traded shares. As a result of the public tender offer, we initially acquired a 91.55% ownership stake in Cuprum for a purchase price of $1.3 billion. Cuprum is consolidated within the Principal International segment on a one-month lag.

A summary of the fair values of the net assets acquired as of February 4, 2013, based upon current valuation estimates, is as follows (in millions):

Assets		
Equity securities, available-for-sale	$	3.2
Equity securities, trading		340.5
Real estate		1.9
Other investments		24.2
Cash and cash equivalents		3.5
Premiums due and other receivables		1.4
Property and equipment		19.6
Goodwill		633.3
Other intangibles		671.3
Separate account assets		33,919.4
Other assets		27.3
Total assets		35,645.6
Liabilities		
Short-term debt		5.0
Long-term debt		114.6
Separate account liabilities		33,919.4
Other liabilities		229.5
Total liabilities		34,268.5
Noncontrolling interest		113.6

Net assets acquired	$	**1,263.5**

Of the acquired intangible assets, $633.3 million was assigned to goodwill and is not subject to amortization. The goodwill is largely related to future sales anticipated from our internal workforce and entity-specific revenue synergies that will be generated by combining Cuprum with our existing businesses.

Of the remaining acquired intangible assets, $185.2 million was assigned to trade name, which is not subject to amortization, and $486.1 million was assigned to customer relationships, which is subject to amortization over a 15-year useful life.

See Note 3, Variable Interest Entities, for further information on Cuprum s separate account assets and liabilities.

The following (unaudited) pro forma consolidated results of operations have been prepared to show the impact of the acquisition of Cuprum as if the acquisition had occurred January 1, 2013, for the three and six months ended June 30, 2013, and on January 1, 2012, for the three and six months ended June 30, 2012. This supplemental pro forma information has been prepared for comparative purposes and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisition been consummated as of that time, nor is it intended to be a projection of future results.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
June 30, 2013
(Unaudited)

	For the three months ended, June 30, 2013	For the three months ended, June 30, 2012	For the six months ended, June 30, 2013	For the six months ended, June 30, 2012
	(in millions, except per share data)			
Total revenues	**$ 2,210.6**	$ 2,157.7	**$ 4,427.3**	$ 4,316.8
Net income	**236.6**	205.5	**447.1**	455.7
Basic earnings per common share	**0.76**	0.69	**1.52**	1.52
Diluted earnings per common share	**0.75**	0.68	**1.51**	1.50

The (unaudited) total revenues and net income of Cuprum included in the consolidated statement of operations from the acquisition date to the period ended June 30, 2013, were as follows:

	For the three months ended, June 30, 2013	For the six months ended, June 30, 2013
	(in millions)	
Total revenues	**$ 58.4**	**$ 76.7**
Net income	**26.1**	**35.4**

3. Variable Interest Entities

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

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

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Commercial Mortgage-Backed Securities

In September 2000, we sold commercial mortgage loans to a real estate mortgage investment conduit trust. The trust issued various commercial mortgage-backed securities (CMBS) certificates using the cash flows of the underlying commercial mortgages it purchased. This is considered a VIE due to insufficient equity to sustain itself. We have determined we are the primary beneficiary as we retained the special servicing role for the assets within the trust as well as the ownership of the bond class that controls the unilateral kick out rights of the special servicer.

Mandatory Retirement Savings

As a result of our first quarter 2013 acquisition of Cuprum, we hold an equity interest in mandatory privatized social security funds in which we provide asset management services. We determined that the mandatory privatized social security funds, which include contributors for voluntary pension savings, voluntary non-pension savings and compensation savings accounts, are VIEs. This is because the equity holders as a group lack the power, due to voting rights or similar rights, to direct the activities of the entity that most significantly impact the entity s economic performance and also because equity investors are protected from below-average market investment returns relative to the industry s return, due to a regulatory guarantee that we provide. Further we concluded that we are the primary beneficiary through our power to make decisions and our variable interest in the funds. The purpose of the funds, which reside in legally segregated entities, is to provide long-term retirement savings. The obligation to the client is directly related to the assets held in the funds and, as such, we present the assets as separate account assets and the obligation as separate account liabilities within our consolidated statements of financial position.

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

	Grantor trusts	Collateralized private investment vehicle	CMBS (in millions)	Mandatory retirement savings	Total
June 30, 2013					
Fixed maturities, available-for-sale	$ 232.8	$	$	$	$ 232.8
Fixed maturities, trading		110.4			110.4
Other investments			76.6		76.6
Accrued investment income	0.4		0.5		0.9
Separate account assets				33,179.6	33,179.6
Total assets	$ 233.2	$ 110.4	$ 77.1	$ 33,179.6	$ 33,600.3
Deferred income taxes	$ 1.7	$	$	$	$ 1.7
Separate account liabilities				33,179.6	33,179.6
Other liabilities (1)	176.6	98.3	39.5		314.4

Total liabilities	**$**	**178.3**	**$**	**98.3**	**$**	**39.5**	**$**	**33,179.6**	**$**	**33,495.7**
December 31, 2012										
Fixed maturities, available-for-sale	$	194.6	$		$		$		$	194.6
Fixed maturities, trading				110.4						110.4
Other investments						80.3				80.3
Accrued investment income		0.5				0.6				1.1
Total assets	$	195.1	$	110.4	$	80.9	$		$	386.4
Deferred income taxes	$	1.8	$		$		$		$	1.8
Other liabilities (1)		152.4		104.8		45.7				302.9
Total liabilities	$	154.2	$	104.8	$	45.7	$		$	304.7

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

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We did not provide financial or other support to investees designated as VIEs for the six months ended June 30, 2013 and 2012.

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 returns of the partnership are in the form of income tax credits and investment income. 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.

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

	Asset carrying value	Maximum exposure to loss (1)
	(in millions)	
June 30, 2013		
Fixed maturities, available-for-sale:		
Corporate	$ **500.4**	$ **412.3**
Residential mortgage-backed pass-through securities	**2,939.4**	**2,849.5**
Commercial mortgage-backed securities	**3,953.3**	**4,087.6**
Collateralized debt obligations	**355.4**	**383.6**
Other debt obligations	**3,916.0**	**3,914.8**
Fixed maturities, trading:		
Residential mortgage-backed pass-through securities	**60.8**	**60.8**
Commercial mortgage-backed securities	**2.0**	**2.0**
Collateralized debt obligations	**60.3**	**60.3**
Other debt obligations	**1.7**	**1.7**
Other investments:		
Other limited partnership interests	**128.6**	**128.6**
December 31, 2012		
Fixed maturities, available-for-sale:		
Corporate	$ 523.2	$ 403.7
Residential mortgage-backed pass-through securities	3,226.7	3,022.7
Commercial mortgage-backed securities	3,897.4	4,094.8
Collateralized debt obligations	379.2	428.8
Other debt obligations	3,779.2	3,756.9
Fixed maturities, trading:		
Residential mortgage-backed pass-through securities	77.7	77.7
Commercial mortgage-backed securities	2.8	2.8
Collateralized debt obligations	56.4	56.4
Other debt obligations	3.2	3.2
Other investments:		
Other limited partnership interests	136.2	136.2

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

Sponsored Investment Funds

We are the investment manager for certain money market mutual funds that are deemed to be VIEs. We are not the primary beneficiary of these VIEs since our involvement is limited primarily to being a service provider, and our variable interest does not absorb the majority of the variability of the entities net assets. As of June 30, 2013 and December 31, 2012, these VIEs held $1.6 billion and $1.5 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 performance-based management 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.

4. 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, nonredeemable preferred stock and mandatory regulatory required investments. We classify fixed

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maturities and equity securities as either available-for-sale or trading at the time of the purchase and, accordingly, carry them at fair value. See Note 10, Fair Value Measurements, for methodologies related to the determination of fair value. Unrealized gains and losses related to available-for-sale securities, excluding those in fair value hedging relationships, are reflected in stockholders equity, net of adjustments related to deferred acquisition costs (DAC), 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. In addition, we have assets within the trading securities portfolio that represent mandatory regulatory required investments. 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)	Fair value	Other-than-temporary impairments in AOCI (1)
June 30, 2013					
Fixed maturities, available-for-sale:					
U.S. government and agencies	$ 800.8	$ 18.4	$ 26.8	$ 792.4	$
Non-U.S. government and agencies	882.3	176.4	7.2	1,051.5	
States and political subdivisions	3,349.0	138.6	59.4	3,428.2	
Corporate	31,070.7	2,083.1	398.4	32,755.4	17.0
Residential mortgage-backed pass-through securities	2,849.5	118.4	28.5	2,939.4	
Commercial mortgage-backed securities	4,087.6	191.9	326.2	3,953.3	221.1
Collateralized debt obligations	383.6	8.6	36.8	355.4	3.5
Other debt obligations	3,914.8	52.2	51.0	3,916.0	78.5
Total fixed maturities, available-for-sale	$ 47,338.3	$ 2,787.6	$ 934.3	$ 49,191.6	$ 320.1
Total equity securities, available-for-sale	$ 132.4	$ 12.2	$ 9.3	$ 135.3	

December 31, 2012					
Fixed maturities, available-for-sale:					
U.S. government and agencies	$ 911.4	$ 33.2	$ 0.3	$ 944.3	$
Non-U.S. government and agencies	944.9	264.3	0.9	1,208.3	
States and political subdivisions	2,940.4	241.1	2.7	3,178.8	
Corporate	31,615.4	3,029.9	319.9	34,325.4	19.5
Residential mortgage-backed pass-through securities	3,022.7	204.4	0.4	3,226.7	
Commercial mortgage-backed securities	4,094.8	241.7	439.1	3,897.4	195.4
Collateralized debt obligations	428.8	7.0	56.6	379.2	4.3
Other debt obligations	3,756.9	73.5	51.2	3,779.2	82.8
Total fixed maturities, available-for-sale	$ 47,715.3	$ 4,095.1	$ 871.1	$ 50,939.3	$ 302.0
Total equity securities, available-for-sale	$ 132.4	$ 12.6	$ 8.5	$ 136.5	

(1) Excludes $135.9 million and $95.0 million as of June 30, 2013 and December 31, 2012, respectively, of net unrealized gains on impaired fixed maturities, available-for-sale related to changes in fair value subsequent to the impairment date, which are included in gross unrealized gains and gross unrealized losses.

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The amortized cost and fair value of fixed maturities available-for-sale at June 30, 2013, by expected maturity, were as follows:

	Amortized cost	Fair value
	(in millions)	
Due in one year or less	**$ 3,129.8**	**$ 3,175.7**
Due after one year through five years	**13,183.6**	**13,775.2**
Due after five years through ten years	**8,615.9**	**9,141.5**
Due after ten years	**11,173.5**	**11,935.1**
Subtotal	**36,102.8**	**38,027.5**
Mortgage-backed and other asset-backed securities	**11,235.5**	**11,164.1**
Total	**$ 47,338.3**	**$ 49,191.6**

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 and on trading securities that represent mandatory required investments are reported as net investment income and are excluded from net realized capital gains (losses). The major components of net realized capital gains (losses) on investments are summarized as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
	(in millions)			
Fixed maturities, available-for-sale:				
Gross gains	**$ 6.3**	$ 4.4	**$ 21.8**	$ 19.7
Gross losses	**(29.7)**	(50.8)	**(80.4)**	(86.9)
Other-than-temporary impairment losses reclassified to (from) OCI	**(2.1)**	17.1	**18.1**	22.0
Hedging, net	**(60.8)**	23.4	**(89.8)**	6.7
Fixed maturities, trading	**(6.3)**	(2.0)	**(6.2)**	1.0

Equity securities, available-for-sale:								
Gross gains		**0.1**				**0.1**		0.1
Gross losses		**(0.1)**				**(0.1)**		
Equity securities, trading		**5.2**		(3.5)		**11.5**		30.7
Mortgage loans		**(10.8)**		(10.2)		**(17.0)**		(21.3)
Derivatives		**11.8**		2.8		**30.0**		30.4
Other		**6.3**		19.0		**(19.0)**		(8.9)
Net realized capital gains (losses)	**$**	**(80.1)**	$	0.2	**$**	**(131.0)**	$	(6.5)

Proceeds from sales of investments (excluding call and maturity proceeds) in fixed maturities, available-for-sale were $540.2 million and $285.9 million for the three months ended June 30, 2013 and 2012, and $1,100.3 million and $716.1 million for the six months ended June 30, 2013 and 2012, respectively.

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Other-Than-Temporary Impairments

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

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

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

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

	For the three months ended June 30,		For the six months ended June 30,	
	2013	**2012**	**2013**	**2012**
		(in millions)		
Fixed maturities, available-for-sale	**$ (24.5)**	$ (49.1)	**$ (69.2)**	$ (82.8)
Equity securities, available-for-sale	**(0.1)**		**(0.1)**	
Total other-than-temporary impairment losses, net of recoveries from the sale of previously impaired securities	**(24.6)**	(49.1)	**(69.3)**	(82.8)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from)	**(2.1)**	17.1	**18.1**	22.0

OCI (1)								
Net impairment losses on available-for-sale securities	**$**	**(26.7)**	$	(32.0)	**$**	**(51.2)**	$	(60.8)

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

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

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

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

	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
	(in millions)			
Beginning balance	**$ (318.6)**	$ (404.7)	**$ (335.2)**	$ (434.8)
Credit losses for which an other-than-temporary impairment was not previously recognized	**(1.9)**	(9.5)	**(6.2)**	(16.9)
Credit losses for which an other-than-temporary impairment was previously recognized	**(16.8)**	(19.1)	**(35.1)**	(39.9)
Reduction for credit losses previously recognized on fixed maturities now sold, paid down or intended to be sold	**32.7**	56.5	**68.5**	113.8
Net reduction for positive changes in cash flows expected to be collected and amortization (1)	**3.1**	1.3	**6.5**	2.3
Ending balance	**$ (301.5)**	$ (375.5)	**$ (301.5)**	$ (375.5)

(1) Amounts are recognized in net investment income.

Gross Unrealized Losses for Fixed Maturities and Equity Securities

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

June 30, 2013		
Less than twelve months	**Greater than or equal to twelve months**	**Total**

	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
			(in millions)			
Fixed maturities, available-for-sale:						
U.S. government and agencies	$ 415.0	$ 26.8	$	$	$ 415.0	$ 26.8
Non-U.S. governments	95.7	4.1	17.5	3.1	113.2	7.2
States and political subdivisions	1,195.5	57.0	16.0	2.4	1,211.5	59.4
Corporate	4,359.6	154.4	1,465.3	244.0	5,824.9	398.4
Residential mortgage-backed pass-through securities	923.9	28.4	2.1	0.1	926.0	28.5
Commercial mortgage-backed securities	611.3	14.3	569.1	311.9	1,180.4	326.2
Collateralized debt obligations	58.9	0.4	47.1	36.4	106.0	36.8
Other debt obligations	1,421.4	20.0	266.5	31.0	1,687.9	51.0
Total fixed maturities, available-for-sale	$ 9,081.3	$ 305.4	$ 2,383.6	$ 628.9	$ 11,464.9	$ 934.3
Total equity securities, available-for-sale	$ 12.4	$ 0.1	$ 52.0	$ 9.2	$ 64.4	$ 9.3

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Of the total amounts, Principal Life Insurance Company s (Principal Life) consolidated portfolio represented $10,926.2 million in available-for-sale fixed maturities with gross unrealized losses of $885.5 million. Of those fixed maturity securities in Principal Life s consolidated portfolio with a gross unrealized loss position, 85% were investment grade (rated AAA through BBB-) with an average price of 93 (carrying value/amortized cost) at June 30, 2013. Gross unrealized losses in our fixed maturities portfolio increased slightly during the six months ended June 30, 2013, due to an increase in interest rates.

For those securities that had been in a continuous unrealized loss position for less than twelve months, Principal Life s consolidated portfolio held 1,141 securities with a carrying value of $8,777.9 million and unrealized losses of $292.4 million reflecting an average price of 97 at June 30, 2013. Of this portfolio, 92% was investment grade (rated AAA through BBB-) at June 30, 2013, with associated unrealized losses of $275.6 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 379 securities with a carrying value of $2,148.3 million and unrealized losses of $593.1 million. The average rating of this portfolio was BBB- with an average price of 78 at June 30, 2013. Of the $593.1 million in unrealized losses, the commercial mortgage-backed securities sector accounts for $311.9 million in unrealized losses with an average price of 65 and an average credit rating of BB-. The remaining unrealized losses consist primarily of $211.4 million within the corporate sector at June 30, 2013. The average price of the corporate sector was 86 and the average credit rating was BBB+. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

Because we expected to recover our amortized cost, it was not our intent to sell the fixed maturity available-for-sale securities with unrealized losses and it was not more likely than not that we would be required to sell these securities before recovery of the amortized cost, which may be maturity, we did not consider these investments to be other-than-temporarily impaired at June 30, 2013.

	December 31, 2012					
	Less than twelve months		Greater than or equal to twelve months		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
	(in millions)					
Fixed maturities, available-for-sale:						
U.S. government and agencies	$ 115.4	$ 0.3	$	$	$ 115.4	$ 0.3
Non-U.S. governments	17.3	0.2	13.4	0.7	30.7	0.9
States and political subdivisions	235.3	2.1	8.8	0.6	244.1	2.7
Corporate	831.8	10.6	1,961.7	309.3	2,793.5	319.9

Residential mortgage-backed pass-through securities	70.4	0.3	2.4	0.1	72.8	0.4
Commercial mortgage-backed securities	98.9	3.3	785.0	435.8	883.9	439.1
Collateralized debt obligations	72.2	1.0	133.8	55.6	206.0	56.6
Other debt obligations	235.6	2.0	414.9	49.2	650.5	51.2
Total fixed maturities, available-for-sale	$ 1,676.9	$ 19.8	$ 3,320.0	$ 851.3	$ 4,996.9	$ 871.1
Total equity securities, available-for-sale	$ 5.8	$ 0.1	$ 52.9	$ 8.4	$ 58.7	$ 8.5

Of the total amounts, Principal Life s consolidated portfolio represented $4,419.4 million in available-for-sale fixed maturities with gross unrealized losses of $825.7 million. Of those fixed maturity securities in Principal Life s consolidated portfolio with a gross unrealized loss position, 71% were investment grade (rated AAA through BBB-) with an average price of 84 (carrying value/amortized cost) at December 31, 2012. Gross unrealized losses in our fixed maturities portfolio decreased during the year ended December 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 224 securities with a carrying value of $1,382.1 million and unrealized losses of $16.2 million reflecting an average price of 99 at December 31, 2012. Of this portfolio, 89% was investment grade (rated AAA through BBB-) at December 31, 2012, with associated unrealized losses of $13.3 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.

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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 488 securities with a carrying value of $3,037.3 million and unrealized losses of $809.5 million. The average rating of this portfolio was BBB- with an average price of 79 at December 31, 2012. Of the $809.5 million in unrealized losses, the commercial mortgage-backed securities sector accounts for $435.8 million in unrealized losses with an average price of 64 and an average credit rating of BB+. The remaining unrealized losses consist primarily of $268.1 million within the corporate sector at December 31, 2012. The average price of the corporate sector was 86 and the average credit rating was BBB. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

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

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 DAC, reinsurance assets or liabilities, sales inducements, unearned revenue reserves, changes in policyholder liabilities and applicable income taxes was as follows:

	June 30, 2013	December 31, 2012
	(in millions)	
Net unrealized gains on fixed maturities, available-for-sale (1)	**$ 2,163.9**	$ 3,562.5
Noncredit component of impairment losses on fixed maturities, available-for-sale	**(320.1)**	(302.0)
Net unrealized gains on equity securities, available-for-sale	**2.9**	4.1
Adjustments for assumed changes in amortization patterns	**(296.9)**	(515.2)
Adjustments for assumed changes in policyholder liabilities	**(733.5)**	(1,198.7)
Net unrealized gains on derivative instruments	**104.4**	90.7
Net unrealized gains on equity method subsidiaries and noncontrolling interest adjustments	**112.0**	191.3
Provision for deferred income taxes	**(338.9)**	(597.0)
Net unrealized gains on available-for-sale securities and derivative instruments	**$ 693.8**	$ 1,235.7

(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:

	June 30, 2013	December 31, 2012
	(in millions)	
Commercial mortgage loans	**$ 10,918.7**	$ 10,235.1
Residential mortgage loans	**1,297.9**	1,382.0
Total amortized cost	**12,216.6**	11,617.1
Valuation allowance	**(94.9)**	(97.4)
Total carrying value	**$ 12,121.7**	$ 11,519.7

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We periodically purchase mortgage loans as well as sell mortgage loans we have originated. We purchased $22.5 million and $50.9 million of residential mortgage loans during the three months ended June 30, 2013 and 2012, and $71.0 million and $62.3 million during the six months ended June 30, 2013 and 2012, respectively. We sold $0.0 million and $6.3 million of residential mortgage loans during the three months ended June 30, 2013 and 2012, and $0.0 million and $12.1 million during the six months ended June 30, 2013 and 2012, respectively. We purchased $141.1 million and $30.4 million of commercial mortgage loans during the three months ended June 30, 2013 and 2012, and $141.1 million and $61.4 million during the six months ended June 30, 2013 and 2012, respectively. We sold $0.0 million and $4.0 million of commercial mortgage loans during the three months ended June 30, 2013 and 2012, and $13.0 million and $4.0 million during the six months ended June 30, 2013 and 2012, respectively.

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

	June 30, 2013		December 31, 2012	
	Amortized cost	Percent of total	Amortized cost	Percent of total
	($ in millions)			
Geographic distribution				
New England	**$ 557.4**	**5.1%**	$ 536.6	5.2%
Middle Atlantic	**2,550.4**	**23.4**	2,233.4	21.8
East North Central	**592.5**	**5.4**	635.6	6.2
West North Central	**326.7**	**3.0**	377.3	3.7
South Atlantic	**2,132.4**	**19.5**	2,135.0	20.9
East South Central	**196.9**	**1.8**	244.8	2.4
West South Central	**848.0**	**7.8**	767.9	7.5
Mountain	**850.2**	**7.8**	726.6	7.1
Pacific	**2,842.2**	**26.0**	2,562.3	25.0
International	**22.0**	**0.2**	15.6	0.2
Total	**$ 10,918.7**	**100.0%**	$ 10,235.1	100.0%
Property type distribution				
Office	**$ 3,636.2**	**33.3%**	$ 3,078.8	30.1%
Retail	**2,813.9**	**25.8**	2,928.3	28.6
Industrial	**1,844.1**	**16.9**	1,765.5	17.2
Apartments	**1,860.7**	**17.0**	1,685.9	16.5
Hotel	**436.0**	**4.0**	445.8	4.4
Mixed use/other	**327.8**	**3.0**	330.8	3.2
Total	**$ 10,918.7**	**100.0%**	$ 10,235.1	100.0%

Our residential mortgage loan portfolio is composed of home equity mortgages with an amortized cost of $441.9 million and $495.7 million and first lien mortgages with an amortized cost of $856.0 million and $886.3 million as of June 30, 2013 and December 31, 2012, 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 downward with loans in the category B+ and below having the highest risk for credit loss. Internal ratings on commercial mortgage loans are updated at least annually and potentially more often for certain loans with material changes in collateral value or occupancy and for loans on an internal watch list .

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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:

	June 30, 2013		
	Brick and mortar	**CTL**	**Total**
		(in millions)	
A- and above	**$ 8,210.0**	**$ 207.8**	**$ 8,417.8**
BBB+ thru BBB-	**1,758.9**	**271.1**	**2,030.0**
BB+ thru BB-	**217.3**	**1.0**	**218.3**
B+ and below	**250.4**	**2.2**	**252.6**
Total	**$ 10,436.6**	**$ 482.1**	**$ 10,918.7**

	December 31, 2012		
	Brick and mortar	**CTL**	**Total**
		(in millions)	
A- and above	$ 7,257.7	$ 231.3	$ 7,489.0
BBB+ thru BBB-	1,804.5	294.9	2,099.4
BB+ thru BB-	266.8	1.6	268.4
B+ and below	376.0	2.3	378.3
Total	$ 9,705.0	$ 530.1	$ 10,235.1

Residential Credit Risk Profile Based on Performance Status

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

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

June 30, 2013

	Home equity	First liens (in millions)	Total
Performing	**$ 421.1**	**$ 834.5**	**$ 1,255.6**
Nonperforming	**20.8**	**21.5**	**42.3**
Total	**$ 441.9**	**$ 856.0**	**$ 1,297.9**

		December 31, 2012	
	Home equity	First liens (in millions)	Total
Performing	$ 472.6	$ 865.0	$ 1,337.6
Nonperforming	23.1	21.3	44.4
Total	$ 495.7	$ 886.3	$ 1,382.0

Non-Accrual Mortgage Loans

Commercial and residential mortgage loans are placed on non-accrual status if we have concern regarding the collectability of future payments or if a loan has matured without being paid off or extended. Factors considered may include conversations with the borrower, loss of major tenant, bankruptcy of borrower or major tenant, decreased property cash flow for commercial mortgage loans or number of days past due and other circumstances for residential mortgage loans. Based on an assessment as to the collectability of the principal, a determination is made to apply any payments received either against the principal or according to the contractual terms of

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the loan. When a loan is placed on nonaccrual status, the accrued unpaid interest receivable is reversed against interest income. Accrual of interest resumes after factors resulting in doubts about collectability have improved. Residential first lien mortgages in the Chilean market are carried on accrual for a longer period of delinquency than domestic loans, as assessment of collectability is based on the nature of the loans and collection practices in that market.

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

	June 30, 2013	December 31, 2012
	(in millions)	
Commercial:		
Brick and mortar	**$ 32.3**	$ 44.5
Residential:		
Home equity	**20.8**	23.1
First liens	**13.3**	13.2
Total	**$ 66.4**	$ 80.8

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

	June 30, 2013						
	30-59 days past due	60-89 days past due	90 days or more past due	Total past due (in millions)	Current	Total loans	Recorded investment 90 days or more and accruing
Commercial-brick and mortar	**$**	**$**	**$ 19.7**	**$ 19.7**	**$ 10,416.9**	**$ 10,436.6**	**$**
Commercial-CTL					**482.1**	**482.1**	
Residential-home equity	**4.1**	**1.5**	**2.8**	**8.4**	**433.5**	**441.9**	
Residential-first liens	**31.3**	**8.3**	**19.2**	**58.8**	**797.2**	**856.0**	**8.2**
Total	**$ 35.4**	**$ 9.8**	**$ 41.7**	**$ 86.9**	**$ 12,129.7**	**$ 12,216.6**	**$ 8.2**

	December 31, 2012						
	30-59 days past due	60-89 days past due	90 days or more past due	Total past due (in millions)	Current	Total loans	Recorded investment 90 days or more and accruing
	$ 32.8	$ 13.7	$	$ 46.5	$ 9,658.5	$ 9,705.0	$

Commercial-brick and mortar							
Commercial-CTL					530.1	530.1	
Residential-home equity	5.7	2.8	3.9	12.4	483.3	495.7	
Residential-first liens	22.3	5.1	19.8	47.2	839.1	886.3	8.1
Total	$ 60.8	$ 21.6	$ 23.7	$ 106.1	$ 11,511.0	$ 11,617.1	$ 8.1

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

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allowance. The change in the valuation allowance provision is included in net realized capital gains (losses) on our consolidated statements of operations.

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

We review our commercial mortgage loan portfolio and analyze the need for a valuation allowance for any loan that is delinquent for 60 days or more, in process of foreclosure, restructured, on the internal watch list or that currently has a valuation allowance. In addition to establishing allowance levels for specifically identified impaired commercial mortgage loans, management determines an allowance for all other loans in the portfolio for which historical experience and current economic conditions indicate certain losses exist. These loans are segregated by 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.

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

	For the three months ended June 30, 2013		
	Commercial	**Residential** (in millions)	**Total**
Beginning balance	$ 41.8	$ 47.7	$ 89.5
Provision	6.5	4.3	10.8
Charge-offs	(1.2)	(5.4)	(6.6)
Recoveries	0.6	0.7	1.3
Effect of exchange rates		(0.1)	(0.1)
Ending balance	$ 47.7	$ 47.2	$ 94.9

	For the six months ended June 30, 2013		
	Commercial	Residential	Total
		(in millions)	
Beginning balance	$ 51.8	$ 45.6	$ 97.4
Provision	6.0	11.3	17.3
Charge-offs	(10.7)	(11.3)	(22.0)
Recoveries	0.6	1.7	2.3
Effect of exchange rates		(0.1)	(0.1)
Ending balance	$ 47.7	$ 47.2	$ 94.9
Allowance ending balance by basis of impairment method:			
Individually evaluated for impairment	$ 10.3	$ 10.7	$ 21.0
Collectively evaluated for impairment	37.4	36.5	73.9
Allowance ending balance	$ 47.7	$ 47.2	$ 94.9
Loan balance by basis of impairment method:			
Individually evaluated for impairment	$ 28.6	$ 36.8	$ 65.4
Collectively evaluated for impairment	10,890.1	1,261.1	12,151.2
Loan ending balance	$ 10,918.7	$ 1,297.9	$ 12,216.6

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	For the three months ended June 30, 2012		
	Commercial	Residential (in millions)	Total
Beginning balance	$ 52.4	$ 36.9	$ 89.3
Provision	3.4	6.6	10.0
Charge-offs	(6.5)	(7.3)	(13.8)
Recoveries		0.8	0.8
Effect of exchange rates		(0.1)	(0.1)
Ending balance	$ 49.3	$ 36.9	$ 86.2

	For the six months ended June 30, 2012		
	Commercial	Residential (in millions)	Total
Beginning balance	$ 64.8	$ 37.3	$ 102.1
Provision	10.4	13.2	23.6
Charge-offs	(25.9)	(15.6)	(41.5)
Recoveries		2.0	2.0
Ending balance	$ 49.3	$ 36.9	$ 86.2
Allowance ending balance by basis of impairment method:			
Individually evaluated for impairment	$ 5.7	$ 4.6	$ 10.3
Collectively evaluated for impairment	43.6	32.3	75.9
Allowance ending balance	$ 49.3	$ 36.9	$ 86.2
Loan balance by basis of impairment method:			
Individually evaluated for impairment	$ 37.9	$ 31.6	$ 69.5
Collectively evaluated for impairment	9,836.1	1,339.2	11,175.3
Loan ending balance	$ 9,874.0	$ 1,370.8	$ 11,244.8

Impaired Mortgage Loans

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

	June 30, 2013		
	Recorded investment	Unpaid principal balance (in millions)	Related allowance

With no related allowance recorded:						
Commercial-brick and mortar	$	**3.4**	$	**5.0**	$	
Residential-first liens		**6.4**		**6.4**		
With an allowance recorded:						
Commercial-brick and mortar		**26.1**		**26.1**		**10.3**
Residential-home equity		**20.6**		**20.6**		**9.5**
Residential-first liens		**9.8**		**9.8**		**1.2**
Total:						
Commercial	$	**29.5**	$	**31.1**	$	**10.3**
Residential	$	**36.8**	$	**36.8**	$	**10.7**

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