PRINCIPAL FINANCIAL GROUP INC
Form 10-Q
May 04, 2011
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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 March 31, 2011

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 27, 2011, was 321,318,850.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Principal Financial Group, Inc.

Consolidated Statements of Financial Position

	March 31, 2011 (Unaudited)	December 31, 2010
	(in millions)	
Assets		
Fixed maturities, available-for-sale (2011 and 2010 include $262.9 million and $257.9 million related to consolidated variable interest entities)	**$ 48,305.5**	$ 48,636.3
Fixed maturities, trading (2011 and 2010 include $135.0 million and $131.4 million related to consolidated variable interest entities)	**1,006.3**	1,120.3
Equity securities, available-for-sale	**175.8**	169.9
Equity securities, trading (2011 and 2010 include $218.6 million and $158.6 million related to consolidated variable interest entities)	**389.7**	316.9
Mortgage loans	**10,900.0**	11,125.1
Real estate	**1,010.0**	1,063.5
Policy loans	**893.0**	903.9
Other investments (2011 and 2010 include $122.5 million and $128.7 million related to consolidated variable interest entities, of which $122.2 million and $128.3 million are measured at fair value under the fair value option)	**2,676.4**	2,641.6
Total investments	**65,356.7**	65,977.5
Cash and cash equivalents (2011 and 2010 include $113.7 million and $100.0 million related to consolidated variable interest entities)	**1,984.2**	1,877.4
Accrued investment income	**675.6**	666.1
Premiums due and other receivables	**1,309.9**	1,063.0
Deferred policy acquisition costs	**3,549.9**	3,529.8
Property and equipment	**448.7**	458.7
Goodwill	**344.5**	345.4
Other intangibles	**829.3**	834.6
Separate account assets	**71,724.5**	69,555.3
Other assets	**1,326.4**	1,323.3
Total assets	**$ 147,549.7**	$ 145,631.1
Liabilities		
Contractholder funds	**$ 36,609.3**	$ 37,301.1
Future policy benefits and claims	**19,975.3**	20,046.3
Other policyholder funds	**607.5**	592.2
Short-term debt	**106.8**	107.9
Long-term debt	**1,579.8**	1,583.7
Income taxes currently payable	**3.6**	6.2
Deferred income taxes	**542.7**	409.9
Separate account liabilities	**71,724.5**	69,555.3
Other liabilities (2011 and 2010 include $517.7 million and $433.6 million related to consolidated variable interest entities, of which $106.4 million and $114.5 million are	**6,027.4**	6,143.5

measured at fair value under the fair value option)				
Total liabilities		**137,176.9**		135,746.1
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 2011 and 2010				
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 2011 and 2010		**0.1**		0.1
Common stock, par value $.01 per share 2,500.0 million shares authorized, 449.6 million and 448.5 million shares issued, and 321.3 million and 320.4 million shares outstanding in 2011 and 2010		**4.5**		4.5
Additional paid-in capital		**9,580.1**		9,563.8
Retained earnings		**4,808.6**		4,612.3
Accumulated other comprehensive income		**525.5**		272.4
Treasury stock, at cost (128.3 million and 128.1 million shares in 2011 and 2010)		**(4,731.2)**		(4,725.3)
Total stockholders equity attributable to Principal Financial Group, Inc.		**10,187.6**		9,727.8
Noncontrolling interest		**185.2**		157.2
Total stockholders equity		**10,372.8**		9,885.0
Total liabilities and stockholders equity	**$**	**147,549.7**	$	145,631.1

See accompanying notes.

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

	For the three months ended March 31, 2011	2010
	(in millions, except per share data)	
Revenues		
Premiums and other considerations	**$ 797.1**	$ 878.9
Fees and other revenues	**620.8**	567.6
Net investment income	**859.9**	863.0
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	**(5.6)**	33.7
Total other-than-temporary impairment losses on available-for-sale securities	**(14.0)**	(84.6)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from) other comprehensive income	**(38.4)**	5.4
Net impairment losses on available-for-sale securities	**(52.4)**	(79.2)
Net realized capital losses	**(58.0)**	(45.5)
Total revenues	**2,219.8**	2,264.0
Expenses		
Benefits, claims and settlement expenses	**1,191.5**	1,275.3
Dividends to policyholders	**53.6**	56.5
Operating expenses	**691.2**	675.9
Total expenses	**1,936.3**	2,007.7
Income before income taxes	**283.5**	256.3
Income taxes	**60.4**	52.7
Net income	**223.1**	203.6
Net income attributable to noncontrolling interest	**18.6**	4.6
Net income attributable to Principal Financial Group, Inc.	**204.5**	199.0
Preferred stock dividends	**8.2**	8.2
Net income available to common stockholders	**$ 196.3**	$ 190.8
Earnings per common share		
Basic earnings per common share	**$ 0.61**	$ 0.60
Diluted earnings per common share	**$ 0.60**	$ 0.59

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, 2010	$	$ 0.1	$ 4.5	$ 9,492.9	$ 4,160.7	$ (1,042.0)	$ (4,722.7)	$ 122.9	$ 8,016.4
Common stock issued				8.3					8.3
Stock-based compensation and additional related tax benefits				11.3					11.3
Treasury stock acquired, common							(1.7)		(1.7)
Dividends to preferred stockholders					(8.2)				(8.2)
Distributions to noncontrolling interest								(1.0)	(1.0)
Contributions from noncontrolling interest								5.9	5.9
Effects of implementation of accounting change related to variable interest entities, net					(10.7)	10.7			
Comprehensive income:									
Net income					199.0			4.6	203.6
Net unrealized gains, net						449.1			449.1
Noncredit component of impairment losses on fixed maturities, available-for-sale, net						(3.0)			(3.0)
Foreign currency translation adjustment, net of related income taxes						(2.6)		0.2	(2.4)
Unrecognized postretirement benefit obligation, net of related income taxes						9.9			9.9
Comprehensive income									657.2
Balances at March 31, 2010	$	$ 0.1	$ 4.5	$ 9,512.5	$ 4,340.8	$ (577.9)	$ (4,724.4)	$ 132.6	$ 8,688.2
Balances at January 1, 2011	**$**	**$ 0.1**	**$ 4.5**	**$ 9,563.8**	**$ 4,612.3**	**$ 272.4**	**$ (4,725.3)**	**$ 157.2**	**$ 9,885.0**
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)**
Comprehensive income:									
Net income					**204.5**			**18.6**	**223.1**
Net unrealized gains, net						**164.6**			**164.6**
Noncredit component of impairment losses on fixed maturities, available-for-sale,						**16.6**			**16.6**

net									
Foreign currency translation adjustment, net of related income taxes						**22.7**			**22.7**
Unrecognized postretirement benefit obligation, net of related income taxes						**49.2**			**49.2**
Comprehensive income									**476.2**
Balances at March 31, 2011	**$**	**$ 0.1**	**$ 4.5**	**$ 9,580.1**	**$ 4,808.6**	**$ 525.5**	**$ (4,731.2)**	**$ 185.2**	**$ 10,372.8**

See accompanying notes.

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

	For the three months ended March 31, 2011	2010
	(in millions)	
Operating activities		
Net income	$ 223.1	$ 203.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred policy acquisition costs	55.5	72.8
Additions to deferred policy acquisition costs	(127.0)	(123.8)
Accrued investment income	(9.5)	(32.1)
Net cash flows for trading securities	65.3	(148.8)
Premiums due and other receivables	(42.4)	(12.0)
Contractholder and policyholder liabilities and dividends	314.2	255.9
Current and deferred income taxes	48.9	37.6
Net realized capital losses	58.0	45.5
Depreciation and amortization expense	31.4	29.9
Mortgage loans held for sale, acquired or originated	(25.9)	(15.9)
Mortgage loans held for sale, sold or repaid, net of gain	15.9	13.7
Real estate sold through operating activities	76.9	3.1
Stock-based compensation	9.2	10.7
Other	501.9	313.0
Net adjustments	972.4	449.6
Net cash provided by operating activities	1,195.5	653.2
Investing activities		
Available-for-sale securities:		
Purchases	(1,666.4)	(2,228.5)
Sales	536.4	707.2
Maturities	1,725.6	828.5
Mortgage loans acquired or originated	(123.9)	(219.1)
Mortgage loans sold or repaid	323.7	451.5
Real estate acquired	(7.0)	(9.7)
Net purchases of property and equipment	(4.1)	(4.2)
Net change in other investments	(68.4)	12.3
Net cash provided by (used in) investing activities	$ 715.9	$ (462.0)

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

	For the three months ended March 31, 2011	2010
	(in millions)	
Financing activities		
Issuance of common stock	**$ 9.1**	$ 8.3
Acquisition of treasury stock	**(5.9)**	(1.7)
Proceeds from financing element derivatives	**19.4**	16.6
Payments for financing element derivatives	**(12.1)**	(13.2)
Excess tax benefits from share-based payment arrangements	**1.6**	0.4
Dividends to preferred stockholders	**(8.2)**	(8.2)
Issuance of long-term debt	**0.6**	0.2
Principal repayments of long-term debt	**(1.7)**	(3.4)
Net proceeds from short-term borrowings	**0.2**	31.2
Investment contract deposits	**893.3**	1,051.0
Investment contract withdrawals	**(2,674.2)**	(1,920.7)
Net increase (decrease) in banking operation deposits	**(25.8)**	38.7
Other	**(0.9)**	(1.1)
Net cash used in financing activities	**(1,804.6)**	(801.9)
Net increase (decrease) in cash and cash equivalents	**106.8**	(610.7)
Cash and cash equivalents at beginning of period	**1,877.4**	2,240.4
Cash and cash equivalents at end of period	**$ 1,984.2**	$ 1,629.7

See accompanying notes.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2011
(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, 2011, are not necessarily indicative of the results that may be expected for the year ended December 31, 2011. These interim unaudited consolidated financial statements should be read in conjunction with our annual audited financial statements as of December 31, 2010, included in our Form 10-K for the year ended December 31, 2010, filed with the United States Securities and Exchange Commission (SEC). The accompanying consolidated statement of financial position as of December 31, 2010, 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.

Recent Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (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 will be effective for us on July 1, 2011, and will be applied retrospectively to restructurings occurring on or after January 1, 2011. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In October 2010, the 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 will be effective for us on January 1, 2012, with retrospective application permitted but not required. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

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 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 March 2010, the FASB issued authoritative guidance that amends and clarifies the guidance on evaluation of credit derivatives embedded in beneficial interests in securitized financial assets, including asset-backed securities (ABS), credit-linked notes, collateralized loan obligations and collateralized debt obligations (CDOs). This guidance eliminates the scope exception for bifurcation of embedded credit derivatives in interests in securitized financial assets, unless they are created solely by subordination of one financial instrument to another. We adopted this guidance effective July 1, 2010, and within the scope of this guidance reclassified fixed maturities with a fair value of $75.3 million, from available-for-sale to trading. The cumulative change in accounting principle related to unrealized losses on these fixed maturities resulted in a net $25.4 million decrease to retained earnings, with a corresponding increase to accumulated other comprehensive income (AOCI).

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2011
(Unaudited)

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

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.

In June 2009, the FASB issued authoritative guidance related to the accounting for VIEs, which amends prior guidance and requires an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a VIE. This analysis identifies the primary beneficiary of a VIE 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. In addition, this guidance requires ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE. Furthermore, we are required to enhance disclosures that will provide users of financial statements with more transparent information about an enterprise s involvement in a VIE. We adopted this guidance prospectively effective January 1, 2010. Due to the implementation of this guidance, certain previously unconsolidated VIEs were consolidated and certain previously consolidated VIEs were deconsolidated. The cumulative change in accounting principle from adopting this guidance resulted in a net $10.7 million decrease to retained earnings and a net $10.7 million increase to AOCI. In February 2010, the FASB issued an amendment to this guidance. The amendment indefinitely defers the consolidation requirements for reporting enterprises interests in entities that have the characteristics of investment companies and regulated money market funds. This amendment was effective January 1, 2010, and did not have a material impact to our consolidated financial statements. The required disclosures are included in our consolidated financial statements. See Note 2, Variable Interest Entities, for further details.

Separate Accounts

At March 31, 2011 and December 31, 2010, the separate accounts include a separate account valued at $209.7 million and $221.7 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.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2011
(Unaudited)

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. We assess whether we are the primary beneficiary of VIEs we have relationships with on an ongoing basis.

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 CDOs, collateralized bond obligations, collateralized loan obligations, collateralized commodity 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, financial guarantees and the notes due at maturity or termination of the trusts. We determined we are the primary beneficiary for 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

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 which 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.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2011
(Unaudited)

2. Variable Interest Entities (continued)

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

	Grantor trusts	Collateralized private investment vehicles	CMBS (in millions)	Hedge funds (2)	Total
March 31, 2011					
Fixed maturities, available-for-sale	**$ 248.0**	**$ 14.9**	**$**	**$**	**$ 262.9**
Fixed maturities, trading		**135.0**			**135.0**
Equity securities, trading				**218.6**	**218.6**
Other investments			**122.2**	**0.3**	**122.5**
Cash and cash equivalents		**55.0**		**58.7**	**113.7**
Accrued investment income	**0.9**	**0.1**	**0.8**		**1.8**
Premiums due and other receivables		**1.5**		**48.1**	**49.6**
Total assets	**$ 248.9**	**$ 206.5**	**$ 123.0**	**$ 325.7**	**$ 904.1**
Deferred income taxes	**$ 2.3**	**$**	**$**	**$**	**$ 2.3**
Other liabilities (1)	**140.2**	**140.8**	**88.3**	**148.4**	**517.7**
Total liabilities	**$ 142.5**	**$ 140.8**	**$ 88.3**	**$ 148.4**	**$ 520.0**
December 31, 2010					
Fixed maturities, available-for-sale	$ 243.1	$ 14.8	$	$	$ 257.9
Fixed maturities, trading		131.4			131.4
Equity securities, trading				158.6	158.6
Other investments			128.4	0.3	128.7
Cash and cash equivalents		55.0		45.0	100.0
Accrued investment income	0.7	0.1	0.8		1.6
Premiums due and other receivables		1.6		13.9	15.5
Total assets	$ 243.8	$ 202.9	$ 129.2	$ 217.8	$ 793.7
Deferred income taxes	$ 2.4	$	$	$	$ 2.4
Other liabilities (1)	135.8	132.6	94.1	71.1	433.6
Total liabilities	$ 138.2	$ 132.6	$ 94.1	$ 71.1	$ 436.0

(1) Grantor trusts contain an embedded derivative of a forecasted transaction to deliver the underlying securities; collateralized private investment vehicles include derivative liabilities, financial guarantees 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 $176.5 million and $145.9 million noncontrolling interest for hedge funds as of March 31, 2011 and December 31, 2010, respectively.

We did not provide financial or other support to investees designated as VIEs for the three months ended March 31, 2011 and 2010.

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 securities issued by these VIEs are reported in fixed maturities, available-for-sale and fixed maturities, trading in the consolidated statements of financial position and are described below.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
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2. Variable Interest Entities (continued)

VIEs include CMBS, residential mortgage-backed pass-through securities (RMBS) and 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.

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, 2011		
Fixed maturities, available-for-sale:		
Corporate	$ **444.0**	$ **382.5**
Residential mortgage-backed pass-through securities	**3,168.6**	**3,066.7**
Commercial mortgage-backed securities	**3,940.2**	**4,278.0**
Collateralized debt obligations	**300.3**	**359.8**
Other debt obligations	**3,197.5**	**3,243.8**
Fixed maturities, trading:		
Residential mortgage-backed pass-through securities	**122.4**	**122.4**
Commercial mortgage-backed securities	**47.9**	**47.9**
Collateralized debt obligations	**78.3**	**78.3**
Other debt obligations	**88.3**	**88.3**
December 31, 2010		
Fixed maturities, available-for-sale:		
Corporate	$ 429.0	$ 367.7
Residential mortgage-backed pass-through securities	3,196.2	3,077.9

Commercial mortgage-backed securities	3,842.2	4,424.9
Collateralized debt obligations	293.0	380.5
Other debt obligations	3,114.1	3,184.9
Fixed maturities, trading:		
Residential mortgage-backed pass-through securities	215.5	215.5
Commercial mortgage-backed securities	5.1	5.1
Collateralized debt obligations	87.2	87.2
Other debt obligations	118.8	118.8

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

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2. Variable Interest Entities (continued)

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, 2011 and December 31, 2010, these VIEs held $1.6 billion and $1.7 billion in total assets, respectively. During 2010, we chose to contribute $3.2 million to these VIEs for competitive reasons and have no contractual obligation to further 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 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 deferred policy acquisition costs (DPAC), sales inducements, unearned revenue reserves, 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 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 other comprehensive income (OCI). For loan-backed and structured securities, we recognize income using a constant effective yield based on currently anticipated cash flows.

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Principal Financial Group, Inc.
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3. Investments (continued)

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, 2011					
Fixed maturities, available-for-sale:					
U.S. government and agencies	**$ 532.6**	**$ 18.7**	**$ 0.3**	**$**	**$ 551.0**
Non-U.S. governments	**731.3**	**99.0**	**2.1**		**828.2**
States and political subdivisions	**2,625.3**	**63.2**	**23.4**		**2,665.1**
Corporate	**32,227.6**	**1,860.5**	**416.5**	**17.0**	**33,654.6**
Residential mortgage-backed pass-through securities	**3,066.7**	**111.6**	**9.7**		**3,168.6**
Commercial mortgage-backed securities	**4,278.0**	**140.4**	**301.5**	**176.7**	**3,940.2**
Collateralized debt obligations	**359.8**	**2.7**	**45.6**	**16.6**	**300.3**
Other debt obligations	**3,243.8**	**54.9**	**15.4**	**85.8**	**3,197.5**
Total fixed maturities, available-for-sale	**$ 47,065.1**	**$ 2,351.0**	**$ 814.5**	**$ 296.1**	**$ 48,305.5**
Total equity securities, available-for-sale	**$ 174.0**	**$ 11.8**	**$ 10.0**		**$ 175.8**
December 31, 2010					
Fixed maturities, available-for-sale:					
U.S. government and agencies	$ 748.5	$ 21.0	$ 0.2	$	$ 769.3
Non-U.S. governments	744.7	127.9			872.6
States and political subdivisions	2,615.0	64.7	23.3		2,656.4
Corporate	32,523.8	1,913.7	527.0	18.0	33,892.5
Residential mortgage-backed pass-through securities	3,077.9	124.2	5.9		3,196.2
Commercial mortgage-backed securities	4,424.9	118.0	506.1	194.6	3,842.2
Collateralized debt obligations	380.5	1.7	51.8	37.4	293.0
Other debt obligations	3,184.9	53.7	40.0	84.5	3,114.1
Total fixed maturities, available-for-sale	$ 47,700.2	$ 2,424.9	$ 1,154.3	$ 334.5	$ 48,636.3
Total equity securities, available-for-sale	$ 180.0	$ 8.1	$ 18.2		$ 169.9

(1) Excludes $124.0 million and $58.6 million as of March 31, 2011 and December 31, 2010, respectively, of net unrealized gains on impaired fixed maturities, available-for-sale related to changes in fair value subsequent to the impairment date.

The amortized cost and fair value of fixed maturities available-for-sale at March 31, 2011, by expected maturity, were as follows:

	Amortized cost	Fair value
	(in millions)	
Due in one year or less	$ 2,292.9	$ 2,341.1
Due after one year through five years	13,295.6	13,854.3
Due after five years through ten years	8,771.2	9,218.1
Due after ten years	11,757.1	12,285.4
Subtotal	36,116.8	37,698.9
Mortgage-backed and other asset-backed securities	10,948.3	10,606.6
Total	$ 47,065.1	$ 48,305.5

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

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Principal Financial Group, Inc.
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3. Investments (continued)

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 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 subsequent commercial mortgage loan recoveries 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,	
	2011	**2010**
	(in millions)	
Fixed maturities, available-for-sale:		
Gross gains	**$ 12.5**	$ 19.0
Gross losses	**(23.3)**	(93.6)
Other-than-temporary impairment losses reclassified to (from) OCI	**(38.4)**	5.4
Hedging, net	**(30.2)**	46.7
Fixed maturities, trading	**(4.6)**	10.5
Equity securities, available-for-sale:		
Gross gains	**2.2**	7.5
Gross losses		(1.5)
Equity securities, trading	**30.1**	7.9
Mortgage loans	**(9.9)**	(26.0)
Derivatives	**8.9**	(49.7)
Other	**(5.3)**	28.3
Net realized capital losses	**$ (58.0)**	$ (45.5)

Proceeds from sales of investments (excluding call and maturity proceeds) in fixed maturities, available-for-sale were $0.5 billion and $0.6 billion for the three months ended March 31, 2011 and 2010, respectively.

Other-Than-Temporary Impairments

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

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

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3. Investments (continued)

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,			
	2011		2010	
	(in millions)			
Fixed maturities, available-for-sale	**$**	**(16.2)**	$	(88.6)
Equity securities, available-for-sale		**2.2**		4.0
Total other-than-temporary impairment losses, net of recoveries from the sale of previously impaired securities		**(14.0)**		(84.6)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from) OCI (1)		**(38.4)**		5.4
Net impairment losses on available-for-sale securities	**$**	**(52.4)**	$	(79.2)

(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.

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Principal Financial Group, Inc.
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3. Investments (continued)

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

	For the three months ended March 31, 2011	2010
	(in millions)	
Beginning balance	**$ (325.7)**	$ (204.7)
Credit losses for which an other-than-temporary impairment was not previously recognized	**(2.2)**	(54.8)
Credit losses for which an other-than-temporary impairment was previously recognized	**(34.5)**	(22.2)
Reduction for credit losses previously recognized on fixed maturities now sold or intended to be sold	**51.2**	18.6
Reduction for positive changes in cash flows expected to be collected and amortization (1)	**(0.9)**	0.4
Ending balance	**$ (312.1)**	$ (262.7)

(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:

	March 31, 2011					
	Less than twelve months		Greater than or equal to twelve months		Total	
	Carrying value	Gross unrealized losses	Carrying value	Gross unrealized losses	Carrying value	Gross unrealized losses
	(in millions)					
Fixed maturities, available-for-sale:						

U.S. government and agencies	$	**43.0**	$	**0.3**	$		$		$	**43.0**	$	**0.3**
Non-U.S. governments		**37.8**		**2.1**						**37.8**		**2.1**
States and political subdivisions		**766.8**		**17.0**		**45.4**		**6.4**		**812.2**		**23.4**
Corporate		**2,352.0**		**57.5**		**3,406.8**		**376.0**		**5,758.8**		**433.5**
Residential mortgage-backed pass-through securities		**641.9**		**9.4**		**5.5**		**0.3**		**647.4**		**9.7**
Commercial mortgage-backed securities		**456.5**		**7.5**		**1,147.7**		**470.7**		**1,604.2**		**478.2**
Collateralized debt obligations		**9.3**		**0.2**		**226.5**		**62.0**		**235.8**		**62.2**
Other debt obligations		**435.0**		**7.3**		**526.6**		**93.9**		**961.6**		**101.2**
Total fixed maturities, available-for-sale	$	**4,742.3**	$	**101.3**	$	**5,358.5**	$	**1,009.3**	$	**10,100.8**	$	**1,110.6**
Total equity securities, available-for-sale	$	**9.1**	$	**0.3**	$	**83.3**	$	**9.7**	$	**92.4**	$	**10.0**

Of the total amounts, Principal Life s consolidated portfolio represented $9,672.6 million in available-for-sale fixed maturities with gross unrealized losses of $1,067.5 million. Principal Life s consolidated portfolio consists of fixed maturities where 78% were investment grade (rated AAA through BBB-) with an average price of 90 (carrying value/amortized cost) at March 31, 2011. Gross unrealized losses in our fixed maturities portfolio decreased during the three months ended March 31, 2011, due to a tightening of credit spreads primarily in the corporate and commercial mortgage-backed securities sectors, partially offset by an increase in interest rates.

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Principal Financial Group, Inc.
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3. Investments (continued)

For those securities that had been in a continuous unrealized loss position for less than twelve months, Principal Life s consolidated portfolio held 567 securities with a carrying value of $4,437.0 million and unrealized losses of $90.6 million reflecting an average price of 98 at March 31, 2011. Of this portfolio, 96% was investment grade (rated AAA through BBB-) at March 31, 2011, with associated unrealized losses of $83.1 million. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

For those securities that had been in a continuous unrealized loss position greater than or equal to twelve months, Principal Life s consolidated portfolio held 699 securities with a carrying value of $5,235.6 million and unrealized losses of $976.9 million. The average rating of this portfolio was BBB with an average price of 84 at March 31, 2011. Of the $976.9 million in unrealized losses, the commercial mortgage-backed securities sector accounts for $470.8 million in unrealized losses with an average price of 71 and an average credit rating of BBB-. The remaining unrealized losses consist primarily of $343.7 million within the corporate sector at March 31, 2011. The average price of the corporate sector was 91 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, 2011.

	December 31, 2010					
	Less than twelve months		Greater than or equal to twelve months		Total	
	Carrying value	Gross unrealized losses	Carrying value	Gross unrealized losses	Carrying value	Gross unrealized losses
	(in millions)					
Fixed maturities, available-for-sale:						
U.S. government and agencies	$ 224.5	$ 0.2	$	$	$ 224.5	$ 0.2
Non-U.S. governments	7.9				7.9	
States and political subdivisions	771.0	18.4	44.2	4.9	815.2	23.3
Corporate	2,457.4	69.1	3,948.9	475.9	6,406.3	545.0
Residential mortgage-backed pass-through securities	384.9	5.9			384.9	5.9
Commercial mortgage-backed securities	340.1	4.9	1,186.4	695.8	1,526.5	700.7
Collateralized debt obligations	10.4	0.5	233.0	88.7	243.4	89.2
Other debt obligations	401.5	8.4	578.4	116.1	979.9	124.5
Total fixed maturities, available-for-sale	$ 4,597.7	$ 107.4	$ 5,990.9	$ 1,381.4	$ 10,588.6	$ 1,488.8

Total equity securities, available-for-sale	$	47.3	$	7.2	$	77.0	$	11.0	$	124.3	$	18.2

Of the total amounts, Principal Life s consolidated portfolio represented $9,914.2 million in available-for-sale fixed maturities with gross unrealized losses of $1,445.3 million. Principal Life s consolidated portfolio consists of fixed maturities where 77% were investment grade (rated AAA through BBB-) with an average price of 87 (carrying value/amortized cost) at December 31, 2010. Gross unrealized losses in our fixed maturities portfolio decreased during the year ended December 31, 2010, due to a decline in interest rates and 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 534 securities with a carrying value of $4,112.3 million and unrealized losses of $95.7 million reflecting an average price of 98 at December 31, 2010. Of this portfolio, 94% was investment grade (rated AAA through BBB-) at December 31, 2010, with associated unrealized losses of $88.7 million. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

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Principal Financial Group, Inc.
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3. Investments (continued)

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 773 securities with a carrying value of $5,801.9 million and unrealized losses of $1,349.6 million. The average rating of this portfolio was BBB with an average price of 81 at December 31, 2010. Of the $1,349.6 million in unrealized losses, the commercial mortgage-backed securities sector accounts for $695.8 million in unrealized losses with an average price of 63 and an average credit rating of BBB. The remaining unrealized losses consist primarily of $444.1 million within the corporate sector at December 31, 2010. The average price of the corporate sector was 89 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, 2010.

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, 2011	December 31, 2010
	(in millions)	
Net unrealized gains on fixed maturities, available-for-sale (1)	**$ 1,536.5**	$ 1,197.7
Noncredit component of impairment losses on fixed maturities, available-for-sale	**(296.1)**	(334.5)
Net unrealized gains (losses) on equity securities, available-for-sale	**1.8**	(10.1)
Adjustments for assumed changes in amortization patterns	**(350.5)**	(273.8)
Adjustments for assumed changes in policyholder liabilities	**(186.7)**	(212.4)
Net unrealized gains on derivative instruments	**44.3**	53.5
Net unrealized gains on equity method subsidiaries and noncontrolling interest adjustments	**144.4**	145.2
Provision for deferred income taxes	**(279.8)**	(169.0)
Effects of implementation of accounting change related to variable interest entities, net		10.7
Effects of electing fair value option for fixed maturities upon implementation of accounting changes related to embedded credit derivatives, net		25.4

Net unrealized gains on available-for-sale securities and derivative instruments	**$**	**613.9**	$	432.7

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

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3. Investments (continued)

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, 2011		December 31, 2010	
	(in millions)			
Commercial mortgage loans	$	**9,515.5**	$	9,689.6
Residential mortgage loans		**1,509.2**		1,556.6
Total amortized cost		**11,024.7**		11,246.2
Valuation allowance		**(124.7)**		(121.1)
Total carrying value	$	**10,900.0**	$	11,125.1

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

Our commercial mortgage loan portfolio consists primarily of non-recourse, fixed rate mortgages on fully or near fully leased properties. Commercial mortgage loans represent a primary area of credit risk exposure.

Our commercial mortgage loan portfolio is diversified by geographic region and specific collateral property type as follows:

	March 31, 2011		December 31, 2010	
	Amortized cost	Percent of total	Amortized cost	Percent of total
	($ in millions)			
Geographic distribution				

New England	**$ 428.1**	**4.5%**	$ 430.3	4.5%
Middle Atlantic	**1,657.4**	**17.4**	1,648.4	17.0
East North Central				