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States and political subdivisions

0.2

1.8

2.0

Corporate

199.6

(1.5

)

4.4

(38.8

)

28.8

(2.8

)

189.7

(1.0

)

Collateralized debt obligations

77.6

(3.5

)

7.1

(0.2

)

(4.2

)

76.8

Other debt obligations

5.1

2.0

(0.5

)

9.3

15.9

Total fixed maturities, available-for-sale

321.9

(5.0

)

13.7

(33.2

)

39.9

(7.0

)

330.3

(1.0

)

Fixed maturities, trading

185.7

5.1

190.8

5.0

Equity securities, available-for-sale

17.1

(0.4

)

16.7

Derivative assets

58.8

10.7

0.5

70.0

12.6

Other investments

83.6

(0.1

)

30.7

114.2

(0.1

)

Separate account assets (2)

4,440.5

106.0

(26.6

)

4,519.9

105.9

Liabilities

Investment-type insurance contracts

(179.4

)

(37.0

)

(0.1

)

(5.2

)

(221.7

)

(37.6

)

Derivative liabilities

(147.1

)

19.6

0.5

7.3

(119.7

)

19.3

Other liabilities (3)

(33.6

)

(14.7

)

(48.3

)

(14.7

)

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Principal Financial Group, Inc.

Notes to Consolidated Financial Statements

September 30, 2013

(Unaudited)

	For the nine months ended September 30, 2013							
	Beginning asset/ (liability) balance as of December 31, 2013	Total realized/unrealized gains (losses) Included in net income (1)	Total realized/unrealized gains (losses) Included in other comprehensive income	Net purchases, sales, issuances and settlements (4)	Transfers into Level 3	Transfers out of Level 3	Ending asset/ (liability) balance as of September 30, 2013	Changes in unrealized gains (losses) included in net income relating to positions still held (1)
	(in millions)							
Assets								
Fixed maturities, available-for-sale:								
Non-U.S. governments	$ 44.3	$ (0.1)	$ (0.8)	$ 4.4	$	$	$ 47.8	$ (0.1)
States and political subdivisions	1.9			(0.1)			1.8	
Corporate	174.5	(4.9)	(7.0)	(25.3)	105.3	(79.6)	163.0	(2.0)
Collateralized debt obligations	77.6	2.1	7.4	(56.0)	31.7	(24.8)	38.0	
Other debt obligations	14.7	(0.3)	3.0	12.7	17.2		47.3	(0.3)
Total fixed maturities, available-for-sale	313.0	(3.2)	2.6	(64.3)	154.2	(104.4)	297.9	(2.4)
Fixed maturities, trading	166.8	6.0		0.1			172.9	6.1
Equity securities, available-for-sale	15.3		1.9				17.2	
Derivative assets	75.1	(21.3)		3.7			57.5	(21.6)
Other investments	113.9	7.1		19.5			140.5	7.1
Separate account assets (2)	4,616.0	427.2		(108.1)	12.7	(6.5)	4,941.3	406.3
Liabilities								
Investment-type insurance contracts	(170.5)	111.2		10.0			(49.3)	109.2
Derivative liabilities	(102.6)	44.4	(0.2)	8.4			(50.0)	43.8
Other liabilities (3)	(39.6)	(27.5)					(67.1)	(27.5)

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

	For the nine months ended September 30, 2012							
	Beginning asset/ (liability) balance as of December 31, 2011	Total realized/unrealized gains (losses)		Net purchases, sales, issuances and settlements (4)	Transfers into Level 3	Transfers out of Level 3	Ending asset/ (liability) balance as of September 30, 2012	Changes in unrealized gains (losses) included in net income relating to positions still held (1)
		Included in net income (1)	Included in other comprehensive income					
	(in millions)							
Assets								
Fixed maturities, available-for-sale:								
Non-U.S. governments	$ 22.9	$	$	$ 8.5	$ 14.5	$	$ 45.9	$
States and political subdivisions			0.2		1.8		2.0	
Corporate	297.0	(6.9)	13.4	(70.3)	54.8	(98.3)	189.7	(3.0)
Collateralized debt obligations	102.5	(3.7)	4.1	5.1		(31.2)	76.8	(0.2)
Other debt obligations	27.3	(2.2)	1.3	(25.8)	15.3		15.9	(2.2)
Total fixed maturities, available-for-sale	449.7	(12.8)	19.0	(82.5)	86.4	(129.5)	330.3	(5.4)
Fixed maturities, trading	220.8	3.6		(43.1)	9.5		190.8	4.3
Equity securities, available-for-sale	18.0		(1.3)				16.7	
Derivative assets	60.2	6.9		2.9			70.0	8.0
Other investments	97.5	(0.8)		17.5			114.2	(0.8)
Separate account assets (2)	4,198.2	318.4	0.3	3.2	1.6	(1.8)	4,519.9	307.1
Liabilities								
Investment-type insurance contracts	(195.8)	(14.6)	(0.1)	(11.2)			(221.7)	(16.8)
Derivative liabilities	(177.1)	32.4	0.7	24.3			(119.7)	34.9
Other liabilities (3)	(24.2)	(24.1)					(48.3)	(24.1)

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

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

(3) Certain embedded derivatives reported in other liabilities are part of a cash flow hedge, with the effective portion of the unrealized gains (losses) recorded in AOCI.

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

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

	For the three months ended September 30, 2013				
	Purchases	Sales	Issuances	Settlements	Net purchases, sales, issuances and settlements
			(in millions)		
Assets					
Fixed maturities, available-for-sale:					
Non-U.S. governments	**$ 3.7**	**$**	**$**	**$ (0.3)**	**$ 3.4**
Corporate	**18.2**	**(0.7)**		**(0.4)**	**17.1**
Other debt obligations	**15.0**			**(1.4)**	**13.6**
Total fixed maturities, available-for-sale	**36.9**	**(0.7)**		**(2.1)**	**34.1**
Fixed maturities, trading				**0.1**	**0.1**
Derivative assets		**(0.4)**			**(0.4)**
Other investments	**25.7**			**(3.5)**	**22.2**
Separate account assets (5)	**33.6**	**(54.7)**	**(1.4)**	**(11.2)**	**(33.7)**
Liabilities					
Investment-type insurance contracts			**5.4**	**1.9**	**7.3**
Derivative liabilities		**5.6**			**5.6**

	For the three months ended September 30, 2012				
	Purchases	Sales	Issuances	Settlements	Net purchases, sales, issuances and settlements
			(in millions)		
Assets					
Fixed maturities, available-for-sale:					
Non-U.S. governments	$ 6.5	$	$	$ (0.2)	$ 6.3
Corporate	3.1	(34.1)		(7.8)	(38.8)
Collateralized debt obligations		(0.3)		0.1	(0.2)
Other debt obligations				(0.5)	(0.5)
Total fixed maturities, available-for-sale	9.6	(34.4)		(8.4)	(33.2)
Derivative assets	0.5				0.5
Other investments	33.3			(2.6)	30.7
Separate account assets (5)	42.6	(72.9)	(57.8)	61.5	(26.6)
Liabilities					
Investment-type insurance contracts			(6.7)	1.5	(5.2)
Derivative liabilities	(1.9)	9.2			7.3

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

	For the nine months ended September 30, 2013				
	Purchases	Sales	Issuances (in millions)	Settlements	Net purchases, sales, issuances and settlements
Assets					
Fixed maturities, available-for-sale:					
Non-U.S. government	$ 9.2	$ (3.9)	$	$ (0.9)	$ 4.4
States and political subdivisions				(0.1)	(0.1)
Corporate	29.6	(32.4)		(22.5)	(25.3)
Collateralized debt obligations	17.0	(47.4)		(25.6)	(56.0)
Other debt obligations	15.0			(2.3)	12.7
Total fixed maturities, available-for-sale	70.8	(83.7)		(51.4)	(64.3)
Fixed maturities, trading				0.1	0.1
Derivative assets	7.2	(3.5)			3.7
Other investments	28.3			(8.8)	19.5
Separate account assets (5)	143.2	(223.4)	(7.6)	(20.3)	(108.1)
Liabilities					
Investment-type insurance contracts			5.6	4.4	10.0
Derivative liabilities	(3.1)	11.5			8.4

	For the nine months ended September 30, 2012				
	Purchases	Sales	Issuances (in millions)	Settlements	Net purchases, sales, issuances and settlements
Assets					
Fixed maturities, available-for-sale:					
Non-U.S. government	$ 13.2	$ (3.9)	$	$ (0.8)	$ 8.5
Corporate	21.2	(80.7)		(10.8)	(70.3)
Collateralized debt obligations	5.1	(0.3)		0.3	5.1
Other debt obligations				(25.8)	(25.8)
Total fixed maturities, available-for-sale	39.5	(84.9)		(37.1)	(82.5)
Fixed maturities, trading		(0.9)		(42.2)	(43.1)
Derivative assets	3.7	(0.8)			2.9
Other investments	33.3			(15.8)	17.5
Separate account assets (5)	211.1	(191.9)	(204.1)	188.1	3.2
Liabilities					
Investment-type insurance contracts			(14.8)	3.6	(11.2)
Derivative liabilities	(3.6)	27.9			24.3

(5) Issuances and settlements include amounts related to mortgage encumbrances associated with real estate in our separate accounts.

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Principal Financial Group, Inc.
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(Unaudited)

Transfers

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

	For the three months ended September 30, 2013					
	Transfers out of Level 1 into Level 2	Transfers out of Level 1 into Level 3	Transfers out of Level 2 into Level 1	Transfers out of Level 2 into Level 3	Transfers out of Level 3 into Level 1	Transfers out of Level 3 into Level 2
	(in millions)					
Assets						
Fixed maturities, available-for-sale:						
Corporate	$	$	$	$ 4.7	$	$ 29.5
Collateralized debt obligations						2.6
Other debt obligations				15.0		
Total fixed maturities, available-for-sale				19.7		32.1
Separate account assets	7.1		6.9	4.9		6.3

	For the three months ended September 30, 2012					
	Transfers out of Level 1 into Level 2	Transfers out of Level 1 into Level 3	Transfers out of Level 2 into Level 1	Transfers out of Level 2 into Level 3	Transfers out of Level 3 into Level 1	Transfers out of Level 3 into Level 2
	(in millions)					
Assets						
Fixed maturities, available-for-sale:						
States and political subdivisions	$	$	$	$ 1.8	$	$
Corporate				28.8		2.8
Collateralized debt obligations						4.2
Other debt obligations				9.3		
Total fixed maturities, available-for-sale				39.9		7.0
Separate account assets	7.8		0.3			

	For the nine months ended September 30, 2013					
	Transfers out of Level 1 into Level 2	Transfers out of Level 1 into Level 3	Transfers out of Level 2 into Level 1	Transfers out of Level 2 into Level 3	Transfers out of Level 3 into Level 1	Transfers out of Level 3 into Level 2
	(in millions)					
Assets						
Fixed maturities, available-for-sale:						

Corporate	$	$	$	$ **105.3**	$	$ **79.6**
Collateralized debt obligations				**31.7**		**24.8**
Other debt obligations				**17.2**		
Total fixed maturities, available-for-sale				**154.2**		**104.4**
Separate account assets	**250.9**	**0.1**	**11.7**	**12.6**		**6.5**

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

	For the nine months ended September 30, 2012					
	Transfers out of Level 1 into Level 2	Transfers out of Level 1 into Level 3	Transfers out of Level 2 into Level 1	Transfers out of Level 2 into Level 3	Transfers out of Level 3 into Level 1	Transfers out of Level 3 into Level 2
	(in millions)					
Assets						
Fixed maturities, available-for-sale:						
Non-U.S. governments	$	$	$	$ 14.5	$	$
States and political subdivisions				1.8		
Corporate				54.8		98.3
Collateralized debt obligations						31.2
Other debt obligations				15.3		
Total fixed maturities, available-for-sale				86.4		129.5
Fixed maturities, trading				9.5		
Separate account assets	3,230.6	0.3	0.3	1.3		1.8

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

Separate account assets transferred between Level 1 and Level 2 during the nine months ended September 30, 2012, primarily related to foreign equity securities. When these securities are valued at the local close price of the exchange where the assets traded, they are reflected in Level 1. When events materially affecting the value occur between the close of the local exchange and the New York Stock Exchange, we use adjusted prices determined by a third party pricing vendor to update the foreign market closing prices and the fair value is reflected in Level 2.

Assets transferred into Level 3 during the nine months ended September 30, 2013 and 2012, primarily included those assets for which we are now unable to obtain pricing from a recognized third party pricing vendor as well as assets that were previously priced using a matrix valuation approach that may no longer be relevant when applied to asset-specific situations.

Assets transferred out of Level 3 during the nine months ended September 30, 2013 and 2012, included those for which we are now able to obtain pricing from a recognized third party pricing vendor or from internal models using substantially all market observable information.

Quantitative Information about Level 3 Fair Value Measurements

The following table provides quantitative information about the significant unobservable inputs used for recurring fair value measurements categorized within Level 3, excluding assets and liabilities for which significant quantitative unobservable inputs are not developed internally,

which primarily consists of those valued using broker quotes. Refer to Assets and liabilities measured at fair value on a recurring basis for a complete valuation hierarchy summary.

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

	As of September 30, 2013				
	Assets / (liabilities) measured at fair value (in millions)	**Valuation technique(s)**	**Unobservable input description**	**Input/range of inputs**	**Weighted average**
Assets					
Fixed maturities, available-for-sale:					
Non-U.S. governments	$ **12.1**	Discounted cash flow	Discount rate (1)	2.3%	2.3%
Corporate	**50.2**	Discounted cash flow	Discount rate (1)	2.0%-8.2%	3.8%
			Earnings before interest, taxes, depreciation and amortization multiple	0x-4.5x	0.4x
			Probability of default	0%-100%	7.9%
			Potential loss severity	0%-17%	1.3%
			Illiquidity premium	0 basis points (bps)-50bps	31bps
Collateralized debt obligations	**13.6**	Discounted cash flow	Discount rate (1)	1.6%	1.6%
			Illiquidity premium	400bps	400bps
Other debt obligations	**16.1**	Discounted cash flow	Discount rate (1)	7.3%-15.0%	11.4%
			Illiquidity premium	0bps-50bps	23bps
Fixed maturities, trading	**40.0**	Discounted cash flow	Discount rate (1)	1.7%-82.7%	4.5%
			Illiquidity premium	0bps-1,400bps	350bps
	110.4	See note (2)			

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

	As of September 30, 2013				
	Assets / (liabilities) measured at fair value (in millions)	**Valuation technique(s)**	**Unobservable input description**	**Input/range of inputs**	**Weighted average**
Other investments	**72.6**	Discounted cash flow - commercial mortgage loans of consolidated VIEs	Discount rate (1)	4.3%	4.3%
			Illiquidity premium	155bps	155bps
	67.9	Discounted cash flow - equity method real estate investments	Discount rate (1)	8.0%-8.4%	8.2%
			Terminal capitalization rate	5.5%-6.8%	6.1%
			Average market rent growth rate	3.5%-3.6%	3.6%
		Discounted cash flow - equity method real estate investment - debt	Loan to value	42.8%-60.6%	51.7%
			Credit spread rate	1.5%-2.0%	1.8%
Separate account assets	**4,780.1**	Discounted cash flow - mortgage loans	Discount rate (1)	0.7%-7.9%	3.6%
			Illiquidity premium	0bps-50bps	13bps
			Credit spread rate	51bps-700bps	254bps
		Discounted cash flow - real estate	Discount rate (1)	6.0%-16.0%	7.8%
			Terminal capitalization rate	4.5%-9.0%	6.7%
			Average market rent growth rate	1.9%-5.0%	3.3%
		Discounted cash flow - real estate debt	Loan to value	13.6%-69.6%	51.9%
			Credit spread rate	1.6%-4.9%	3.3%

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

	As of September 30, 2013				
	Assets / (liabilities) measured at fair value (in millions)	**Valuation technique(s)**	**Unobservable input description**	**Input/range of inputs**	**Weighted average**
Liabilities					
Investment-type insurance contracts	**(49.3)**	Discounted cash flow	Long duration interest rate	3.5%-3.7% (3)	
			Long-term equity market volatility	15.0%-39.8%	
			Non-performance risk	0.2%-1.3%	
			Utilization rate	See note (4)	
			Lapse rate	0.5%-14.6%	
			Mortality rate	See note (5)	
Derivative liabilities	**(27.7)**	See note (2)			
Other liabilities	**(67.1)**	See note (2)			

	As of December 31, 2012				
	Assets / (liabilities) measured at fair value (in millions)	**Valuation technique(s)**	**Unobservable input description**	**Input/range of inputs**	**Weighted average**
Assets					
Fixed maturities, available-for-sale:					
Non-U.S. governments	$ 12.9	Discounted cash flow	Discount rate (1)	1.6%	1.6%
			Illiquidity premium	50 basis points (bps)	50bps
Corporate	66.6	Discounted cash flow	Discount rate (1)	1.7%-29.0%	8.4%
			Illiquidity premium	0bps-100bps	39bps
			Earnings before interest, taxes, depreciation and amortization multiple	0x-3.5x	0.2x
			Probability of default	0%-100%	6.4%
			Potential loss severity	0%-30%	1.9%
Collateralized debt obligations	38.2	Discounted cash flow	Discount rate (1)	1.0%-19.8%	13.3%
			Illiquidity premium	400bps-1,000bps	791bps

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

	As of December 31, 2012				
	Assets / (liabilities) measured at fair value (in millions)	Valuation technique(s)	Unobservable input description	Input/range of inputs	Weighted average
Other debt obligations	14.7	Discounted cash flow	Discount rate (1)	6.5%-20.0%	11.8%
			Illiquidity premium	0bps-50bps	30bps
Fixed maturities, trading	35.9	Discounted cash flow	Discount rate (1)	1.2%-60.5%	4.1%
			Illiquidity premium	0bps-1,400bps	390bps
	110.4	See note (2)			
Other investments	80.3	Discounted cash flow - commercial mortgage loans of consolidated VIEs	Discount rate (1)	3.5%	3.5%
			Illiquidity premium	287bps	287bps
	33.6	Discounted cash flow - equity method real estate investment	Discount rate (1)	9.3%	9.3%
			Terminal capitalization rate	5.5%	5.5%
			Average market rent growth rate	3.6%	3.6%
		Discounted cash flow - equity method real estate investment debt	Loan to value	49.4%	49.4%
			Credit spread rate	3.3%	3.3%

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

	As of December 31, 2012				
	Assets / (liabilities) measured at fair value (in millions)	**Valuation technique(s)**	**Unobservable input description**	**Input/range of inputs**	**Weighted average**
Separate account assets	4,449.0	Discounted cash flow - mortgage loans	Discount rate (1)	0.8%-10.4%	3.3%
			Illiquidity premium	0bps-50bps	20bps
			Credit spread rate	44bps-975bps	286bps
		Discounted cash flow - real estate	Discount rate (1)	6.5%-16.0%	8.3%
			Terminal capitalization rate	4.8%-9.0%	7.2%
			Average market rent growth rate	2.3%-5.5%	3.3%
		Discounted cash flow - real estate debt	Loan to value	17.0%-86.0%	54.8%
			Credit spread rate	1.6%-5.3%	3.5%
Liabilities					
Investment-type insurance contracts	(170.5)	Discounted cash flow	Long duration interest rate	2.6%-2.8% (3)	
			Long-term equity market volatility	16.1%-38.3%	
			Non-performance risk	0.3%-1.6%	
			Utilization rate	See note (4)	
			Lapse rate	0.5%-14.6%	
			Mortality rate	See note (5)	
Derivative liabilities	(65.1)	See note (2)			
Other liabilities	(39.6)	See note (2)			

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(1) Represents market comparable interest rate or an index adjusted rate used as the base rate in the discounted cash flow analysis prior to any credit spread, illiquidity or other adjustments, where applicable.

(2) Relates to a consolidated collateralized private investment vehicle that is a VIE. Fixed maturities, trading represents the underlying collateral of the investment structure and consists of high-grade fixed maturity investments, which are over-collateralized based on outstanding notes priced at par. The derivative liability represents credit default swaps that are valued using a correlation model to the credit default swap (CDS) Index (CDX) and inputs to the valuation are based on observable market data such as the end of period swap curve, CDS constituents of the index and spread levels of the index, as well as CDX tranche spreads. The other liabilities represent obligations to third party note holders due at maturity or termination of the trust. The value of the obligations reflect the third parties interest in the investment structure.

(3) Represents the range of rate curves used in the valuation analysis that we have determined market participants would use when pricing the instrument. Derived from interpolation between observable 20 and 30-year swap rates.

(4) This input factor is the number of contractholders taking withdrawals as well as the amount and timing of the withdrawals and a range does not provide a meaningful presentation.

(5) This input is based on an appropriate industry mortality table and a range does not provide a meaningful presentation.

Principal Financial Group, Inc.
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Market comparable discount rates are used as the base rate in the discounted cash flows used to determine the fair value of certain assets. Increases or decreases in the credit spreads on the comparable assets could cause the fair value of the assets to significantly decrease or increase, respectively. Additionally, we may adjust the base discount rate or the modeled price by applying an illiquidity premium given the highly structured nature of certain assets. Increases or decreases in this illiquidity premium could cause significant decreases or increases, respectively, in the fair value of the asset.

Embedded derivatives can be either assets or liabilities within the investment-type insurance contracts line item, depending on certain inputs at the reporting date. Increases to an asset or decreases to a liability are described as increases to fair value. Increases or decreases in market volatilities could cause significant decreases or increases, respectively, in the fair value of embedded derivatives in investment-type insurance contracts. Long duration interest rates are used as the mean return when projecting the growth in the value of associated account value and impact the discount rate used in the discounted future cash flows valuation. The amount of claims will increase if account value is not sufficient to cover guaranteed withdrawals. Increases or decreases in risk free rates could cause the fair value of the embedded derivative to significantly increase or decrease, respectively. Increases or decreases in our own credit risks, which impact the rates used to discount future cash flows, could significantly increase or decrease, respectively, the fair value of the embedded derivative. All of these changes in fair value would impact net income.

Decreases or increases in the mortality rate assumption could cause the fair value of the embedded derivative to decrease or increase, respectively. Decreases or increases in the overall lapse rate assumption could cause the fair value of the embedded derivative to decrease or increase, respectively. The lapse rate assumption varies dynamically based on the relationship of the guarantee and associated account value. A stronger or weaker dynamic lapse rate assumption could cause the fair value of the embedded derivative to decrease or increase, respectively. The utilization rate assumption includes how many contractholders will take withdrawals, when they will take them and how much of their benefit they will take. Increases or decreases in the assumption of the number of contractholders taking withdrawals could cause the fair value of the embedded derivative to decrease or increase, respectively. Assuming contractholders take withdrawals earlier or later could cause the fair value of the embedded derivative to decrease or increase, respectively. Assuming contractholders take more or less of their benefit could cause the fair value of the embedded derivative to decrease or increase, respectively.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis. During the nine months ended September 30, 2013, certain mortgage loans had been marked to fair value of $101.6 million. The net impact of impairments and improvements in estimated fair value of previously impaired loans resulted in a net loss of $4.6 million and $22.3 million for the three and nine months ended September 30, 2013, respectively, that was recorded in net realized capital gains (losses) as part of the mortgage loan valuation allowance. This includes the impact of certain loans no longer on our books. These collateral-dependent mortgage loans are a Level 3 fair value measurement, as fair value is based on the fair value of the underlying real estate collateral, which is estimated using appraised values that involve significant unobservable inputs. The fair value of the underlying collateral is determined based on a discounted cash flow valuation either from an external broker opinion of value or an internal model. Significant inputs used in the discounted cash flow calculation include: a discount rate, terminal capitalization rate and average market rent growth. The ranges of inputs used in the fair value measurements for the mortgage loans marked to fair value during the nine months ended September 30, 2013, were:

Discount rate = 8.0% - 20.0%

Terminal capitalization rate = 7.5% - 10.5%

Average market rent growth = 1.0% - 10.9%

During the nine months ended September 30, 2013, certain mortgage servicing rights had been marked to fair value of $7.6 million. The net impact of impairments and subsequent improvements in estimated fair value of previously impaired mortgage servicing rights resulted in a net gain of zero and $1.3 million for the three and nine months ended September 30, 2013, that was recorded in operating expenses. These mortgage servicing rights are a Level 3 fair value measurement, as fair value is determined by calculating the present value of the future servicing cash flows from the underlying mortgage loans. The discount rate used in calculating the present value of the future servicing cash flows was 3.9% for the nine months ended September 30, 2013.

During the nine months ended September 30, 2012, certain mortgage loans had been marked to fair value of $172.5 million. The net impact of impairments and improvements in estimated fair value of previously impaired loans resulted in a net loss of $3.1 million and $14.4 million for the three and nine months ended September 30, 2012, respectively, that was recorded in net realized capital gains (losses) as part of the mortgage loan valuation allowance. This includes the impact of certain loans no longer on our

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books. These collateral-dependent mortgage loans are a Level 3 fair value measurement, as fair value is based on the fair value of the underlying real estate collateral, which is estimated using appraised values that involve significant unobservable inputs.

Discount rate = 8.0% - 20.0%

Terminal capitalization rate = 6.3% - 10.5%

Average market rent growth = 3.0% - 8.0%

During the nine months ended September 30, 2012, certain mortgage servicing rights had been written down to fair value of $5.6 million. The net impact of impairments and improvements in estimated fair value of previously impaired mortgage servicing rights resulted in a net loss of $0.2 million and $0.3 million for the three and nine months ended September 30, 2012, that was recorded in operating expenses. These mortgage servicing rights are a Level 3 fair value measurement, as fair value is determined by calculating the present value of the future servicing cash flows from the underlying mortgage loans. The discount rate used in calculating the present value of the future servicing cash flows was 3.0% for the nine months ended September 30, 2012.

During the nine months ended September 30, 2012, certain real estate had been written down to fair value of $5.0 million, resulting in a loss of $0.1 million for the three and nine months ended September 30, 2012, that was recorded in net realized capital gains (losses). This is a Level 3 fair value measurement, as the fair value of real estate is estimated using appraised values that involve significant unobservable inputs that are not developed internally.

Fair Value Option

As a result of our implementation of new authoritative guidance related to the accounting for VIEs effective January 1, 2010, we elected fair value accounting for certain assets and liabilities of newly consolidated VIEs for which it was not practicable for us to determine the carrying value. The fair value option was elected for commercial mortgage loans reported with other investments and obligations reported with other liabilities in the consolidated statements of financial position. The changes in fair value of these items are reported in net realized capital gains (losses) on the consolidated statements of operations.

The fair value and aggregate contractual principal amounts of commercial mortgage loans for which the fair value option has been elected were $72.6 million and $67.6 million as of September 30, 2013, and $80.3 million and $76.4 million as of December 31, 2012, respectively. The change in fair value of the loans resulted in a ($0.5) million and $0.3 million pre-tax gain (loss) for the three months ended September 30, 2013

and 2012, respectively, and a $1.1 million and ($0.3) million pre-tax gain (loss) for the nine months ended September 30, 2013 and 2012, respectively, none of which related to instrument-specific credit risk. None of these loans were more than 90 days past due or in nonaccrual status. Interest income on these commercial mortgage loans is included in net investment income on the consolidated statements of operations and is recorded based on the effective interest rates as determined at the closing of the loan. Interest income recorded on these commercial mortgage loans was $1.4 million and $1.6 million for the three months ended September 30, 2013 and 2012, respectively, and $4.3 million and $5.1 million for the nine months ended September 30, 2013 and 2012, respectively.

The fair value and aggregate unpaid principal amounts of obligations for which the fair value option has been elected were $102.2 million and $178.0 million as of September 30, 2013, and $85.0 million and $186.8 million as of December 31, 2012, respectively. For the three months ended September 30, 2013 and 2012, the change in fair value of the obligations resulted in a pre-tax loss of $7.2 million and $14.7 million, which includes a pre-tax loss of $7.6 million and $14.7 million related to instrument-specific credit risk that is estimated based on credit spreads and quality ratings, respectively. For the nine months ended September 30, 2013 and 2012, the change in fair value of the obligations resulted in a pre-tax loss of $26.3 million and $23.2 million, which includes a pre-tax loss of $27.5 million and $24.1 million related to instrument-specific credit risk that is estimated based on credit spreads and quality ratings, respectively. Interest expense recorded on these obligations is included in operating expenses on the consolidated statements of operations and was $0.9 million and $1.2 million for the three months ended September 30, 2013 and 2012, respectively, and $2.7 million and $3.9 million for the nine months ended September 30, 2013 and 2012, respectively.

We invest in real estate ventures for the purpose of earning investment returns and for capital appreciation. We elected the fair value option for certain ventures that are subject to the equity method of accounting because the nature of the investments are to add value to the properties and generate income from the operations of the properties. Other equity method real estate investments are not fair valued because the investments mainly generate income from the operations of the underlying properties. These investments are reported with other investments in the consolidated statements of financial position. The changes in fair value are reported in net investment income on the consolidated statements of operations. The fair value of the equity method investments for which the fair value option has been elected was $67.9 million and $33.6 million as of September 30, 2013 and December 31, 2012, respectively.

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The change in fair value of the investments resulted in a $2.3 million and $(0.5) million pre-tax gain (loss) for the three months ended September 30, 2013 and 2012, respectively, and $6.1 million and $(0.5) million pre-tax gain (loss) for the nine months ended September 30, 2013 and 2012, respectively.

Financial Instruments Not Reported at Fair Value

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

	September 30, 2013				
			Fair value hierarchy level		
	Carrying amount	Fair value	Level 1	Level 2	Level 3
	(in millions)				
Assets (liabilities)					
Mortgage loans	**$ 11,868.1**	**$ 12,190.9**	**$**	**$**	**$ 12,190.9**
Policy loans	**859.6**	**988.6**			**988.6**
Other investments	**183.4**	**184.2**		**136.3**	**47.9**
Cash and cash equivalents	**1,117.1**	**1,117.1**	**1,117.1**		
Investments-type insurance contracts	**(30,394.9)**	**(30,627.9)**		**(6,396.7)**	**(24,231.2)**
Short-term debt	**(175.5)**	**(175.5)**		**(175.5)**	
Long-term debt	**(2,593.3)**	**(2,721.9)**		**(2,677.0)**	**(44.9)**
Separate account liabilities	**(113,916.9)**	**(112,489.0)**			**(112,489.0)**
Bank deposits	**(1,898.6)**	**(1,901.7)**	**(1,184.0)**	**(717.7)**	
Cash collateral payable	**(30.0)**	**(30.0)**	**(30.0)**		

	December 31, 2012				
			Fair value hierarchy level		
	Carrying amount	Fair value	Level 1	Level 2	Level 3
	(in millions)				
Assets (liabilities)					
Mortgage loans	$ 11,519.7	$ 12,163.7	$	$	$ 12,163.7
Policy loans	864.9	1,056.8			1,056.8
Other investments	280.1	280.5		195.3	85.2
Cash and cash equivalents	2,404.6	2,404.6	2,364.6	40.0	
Investments-type insurance contracts	(31,953.1)	(32,531.6)		(7,367.4)	(25,164.2)
Short-term debt	(40.8)	(40.8)		(40.8)	
Long-term debt	(2,671.3)	(2,951.4)		(2,921.7)	(29.7)
Separate account liabilities	(73,096.0)	(72,173.8)			(72,173.8)
Bank deposits	(2,174.7)	(2,177.7)	(1,404.4)	(773.3)	

Cash collateral payable	(205.6)	(205.6)	(205.6)

Mortgage Loans

Fair values of commercial and residential mortgage loans are primarily determined by discounting the expected cash flows at current treasury rates plus an applicable risk spread, which reflects credit quality and maturity of the loans. The risk spread is based on market clearing levels for loans with comparable credit quality, maturities and risk. The fair value of mortgage loans may also be based on the fair value of the underlying real estate collateral less cost to sell, which is estimated using appraised values. These are reflected in Level 3.

Policy Loans

Fair values of policy loans are estimated by discounting expected cash flows using a risk-free rate based on the Treasury curve. The expected cash flows reflect an estimate of timing of the repayment of the loans. These are reflected in Level 3.

Other Investments

The fair value of commercial loans and certain consumer loans included in other investments is calculated by discounting scheduled cash flows through the estimated maturity date using market interest rates that reflect the credit and interest rate risk inherent in

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the loans. The estimate of term to maturity is based on historical experience, adjusted as required, for current economic and lending conditions. The effect of nonperforming loans is considered in assessing the credit risk inherent in the fair value estimate. These are reflected in Level 3. The carrying value of the remaining investments reported in this line item approximate their fair value and are of a short-term nature. These are reflected in Level 2.

Cash and Cash Equivalents

Certain cash equivalents not reported at fair value include short-term investments with maturities of less than three months for which public quotations are not available to use in determining fair value. Because of the highly liquid nature of these assets, carrying amounts are used to approximate fair value, which are reflected in Level 2. The carrying amounts of the remaining cash and cash equivalents that are not reported at fair value on a recurring basis approximate their fair value, which are reflected in Level 1 given the nature of cash.

Investment-Type Insurance Contracts

The fair values of our reserves and liabilities for investment-type insurance contracts are determined via a third party pricing vendor or using discounted cash flow analyses when we are unable to find a price from third party pricing vendors. Third party pricing on various outstanding medium-term notes and funding agreements is based on observable inputs such as benchmark yields and spreads based on reported trades for our medium-term notes and funding agreement issuances. These are reflected in Level 2. The discounted cash flow analyses for the remaining contracts is based on current interest rates, including non-performance risk, being offered for similar contracts with maturities consistent with those remaining for the investment-type contracts being valued. These are reflected in Level 3. Investment-type insurance contracts include insurance, annuity and other policy contracts that do not involve significant mortality or morbidity risk and are only a portion of the policyholder liabilities appearing in the consolidated statements of financial position. Insurance contracts include insurance, annuity and other policy contracts that do involve significant mortality or morbidity risk. The fair values for our insurance contracts, other than investment-type contracts, are not required to be disclosed.

Short-Term Debt

The carrying amount of short-term debt approximates its fair value because of the relatively short time between origination of the debt instrument and its maturity, which is reflected in Level 2.

Long-Term Debt

Long-term debt primarily includes senior note issuances for which the fair values are determined using inputs that are observable in the market or that can be derived from or corroborated with observable market data. These are reflected in Level 2. Additionally, our long-term debt includes non-recourse mortgages and notes payable that are primarily financings for real estate developments for which the fair values are estimated using discounted cash flow analysis based on our incremental borrowing rate for similar borrowing arrangements. These are reflected in Level 3.

Separate Account Liabilities

Fair values of separate account liabilities, excluding insurance-related elements, are estimated based on market assumptions around what a potential acquirer would pay for the associated block of business, including both the separate account assets and liabilities. As the applicable separate account assets are already reflected at fair value, any adjustment to the fair value of the block is an assumed adjustment to the separate account liabilities. To compute fair value, the separate account liabilities are originally set to equal separate account assets because these are pass-through contracts. The separate account liabilities are reduced by the amount of future fees expected to be collected that are intended to offset upfront acquisition costs already incurred that a potential acquirer would not have to pay. The estimated future fees are adjusted by an adverse deviation discount and the amount is then discounted at a risk-free rate as measured by the yield on Treasury securities at maturities aligned with the estimated timing of fee collection. These are reflected in Level 3.

Bank Deposits

The fair value of deposits of our Principal Bank subsidiary with no stated maturity is equal to the amount payable on demand (i.e., their carrying amounts). These are reflected in Level 1. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount is estimated using the rates currently offered for deposits of similar remaining maturities. These are reflected in Level 2.

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Cash Collateral Payable

The carrying amount of the payable associated with our obligation to return the cash collateral received under derivative credit support annex (collateral) agreements approximates its fair value, which is reflected in Level 1.

11. Segment Information

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

The Retirement and Investor Services segment provides retirement and related financial products and services primarily to businesses, their employees and other individuals.

The Principal Global Investors segment provides asset management services to our asset accumulation business, our insurance operations, the Corporate segment and third-party clients.

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

The U.S. Insurance Solutions segment provides individual life insurance and specialty benefits, which consists of group dental and vision insurance, individual and group disability insurance, group life insurance and non-medical fee-for-service claims administration, throughout the United States.

The Corporate segment manages the assets representing capital that has not been allocated to any other segment. Financial results of the Corporate segment primarily reflect our financing activities (including interest expense and preferred stock dividends), income on capital not allocated to other segments, inter-segment eliminations, U.S. income tax risks and certain income, expenses and other after-tax adjustments not allocated to the segments based on the nature of such items. Results of our exited group medical insurance business are reported in this segment.

Management uses segment operating earnings in goal setting, as a basis for determining employee compensation and in evaluating performance on a basis comparable to that used by securities analysts. We determine segment operating earnings by adjusting U.S. GAAP net income for net realized capital gains (losses), as adjusted, and other after-tax adjustments which management believes are not indicative of overall operating trends. Net realized capital gains (losses), as adjusted, are net of income taxes, related changes in the amortization pattern of DAC and other actuarial balances, recognition of deferred front-end fee revenues for sales charges on retirement and life insurance products and services, amortization of hedge accounting book value adjustments for certain discontinued hedges, net realized capital gains and losses distributed, noncontrolling interest capital gains and losses and certain market value adjustments to fee revenues. Net realized capital gains (losses), as adjusted, exclude periodic settlements and accruals on derivative instruments not designated as hedging instruments and exclude certain market value adjustments of embedded derivatives and realized capital gains (losses) associated with our exited group medical insurance business. Segment operating revenues exclude net realized capital gains (losses) (except periodic settlements and accruals on derivatives not designated as hedging instruments), including their impact on recognition of front-end fee revenues, certain market value adjustments to fee revenues and amortization of hedge accounting book value adjustments for certain discontinued hedges, and revenue from our exited group medical insurance business. Segment operating revenues include operating revenues from real estate properties that qualify for discontinued operations. While these items may be significant components in understanding and assessing the consolidated financial performance, management believes the presentation of segment operating earnings enhances the understanding of our results of operations by highlighting earnings attributable to the normal, ongoing operations of the business.

The accounting policies of the segments are consistent with the accounting policies for the consolidated financial statements, with the exception of income tax allocation. The Corporate segment functions to absorb the risk inherent in interpreting and applying tax law. The segments are allocated tax adjustments consistent with the positions we took on tax returns. The Corporate segment results reflect any differences between the U.S. tax returns and the estimated resolution of any disputes.

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

	September 30, 2013	December 31, 2012
	(in millions)	
Assets:		
Retirement and Investor Services	**$ 124,202.2**	$ 117,399.5
Principal Global Investors	**1,273.8**	1,282.2
Principal International	**53,158.2**	19,170.9
U.S. Insurance Solutions	**19,754.7**	19,017.2
Corporate	**3,298.5**	4,960.4
Total consolidated assets	**$ 201,687.4**	$ 161,830.2

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
	(in millions)			
Operating revenues by segment:				
Retirement and Investor Services	**$ 1,136.5**	$ 1,570.7	**$ 3,387.6**	$ 3,707.0
Principal Global Investors	**160.9**	144.0	**482.8**	423.2
Principal International	**303.3**	203.8	**825.9**	676.9
U.S. Insurance Solutions	**767.6**	766.5	**2,318.6**	2,215.0
Corporate	**(52.5)**	(46.4)	**(149.1)**	(139.8)
Total segment operating revenues	**2,315.8**	2,638.6	**6,865.8**	6,882.3
Net realized capital gains (losses), net of related revenue adjustments	**(76.7)**	64.9	**(253.4)**	12.8
Exited group medical insurance business	**0.5**	1.2	**4.5**	24.1
Total revenues per consolidated statements of operations	**$ 2,239.6**	$ 2,704.7	**$ 6,616.9**	$ 6,919.2
Operating earnings (loss) by segment, net of related income taxes:				
Retirement and Investor Services	**$ 172.9**	$ 137.5	**$ 515.2**	$ 422.8
Principal Global Investors	**23.1**	20.6	**72.4**	55.0
Principal International	**50.7**	37.0	**153.6**	112.6
U.S. Insurance Solutions	**54.0**	(21.6)	**136.9**	78.8
Corporate	**(31.5)**	(31.2)	**(104.2)**	(100.7)
Total segment operating earnings, net of related income taxes	**269.2**	142.3	**773.9**	568.5
Net realized capital gains (losses), as adjusted (1)	**(22.8)**	88.8	**(126.8)**	39.6
Other after-tax adjustments (2)	**(0.7)**	(43.9)	**(0.8)**	(49.4)
Net income available to common stockholders per consolidated statements of operations	**$ 245.7**	$ 187.2	**$ 646.3**	$ 558.7

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

	For the three months ended September 30, 2013	For the three months ended September 30, 2012	For the nine months ended September 30, 2013	For the nine months ended September 30, 2012
	(in millions)			
Net realized capital gains (losses):				
Net realized capital gains (losses)	**$ (50.9)**	$ 87.7	**$ (181.9)**	$ 81.2
Certain derivative and hedging-related adjustments	**(25.6)**	(22.7)	**(70.7)**	(68.4)
Recognition of front-end fee revenue	**(0.2)**	(0.1)	**(0.8)**	
Net realized capital gains (losses), net of related revenue adjustments	**(76.7)**	64.9	**(253.4)**	12.8
Amortization of deferred acquisition costs and other actuarial balances	**26.7**	30.5	**44.8**	34.7
Capital gains distributed	**(0.2)**	(6.8)	**(11.1)**	(8.7)
Certain market value adjustments of embedded derivatives	**18.7**		**18.4**	(1.4)
Net realized capital losses associated with exited group medical insurance business				0.2
Noncontrolling interest capital gains	**(0.2)**		**(0.2)**	(8.2)
Income tax effect	**8.9**	0.2	**74.7**	10.2
Net realized capital gains (losses), as adjusted	**$ (22.8)**	$ 88.8	**$ (126.8)**	$ 39.6

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(2) For the three months ended September 30, 2013, other after-tax adjustments included the negative effect of losses associated with our exited group medical insurance business that does not qualify for discontinued operations accounting treatment under U.S. GAAP.

For the three months ended September 30, 2012, other after-tax adjustments included the negative effect of (a) a contribution of appreciated stock made to The Principal Financial Group Foundation, Inc. ($39.8 million) and (b) losses associated with our exited group medical insurance business that does not yet qualify for discontinued operations accounting treatment under U.S. GAAP ($4.1 million).

For the nine months ended September 30, 2013, other after-tax adjustments included the negative effect of losses associated with our exited group medical insurance business that does not yet qualify for discontinued operations accounting treatment under U.S. GAAP.

For the nine months ended September 30, 2012, other after-tax adjustments included the negative effect of (a) a contribution of appreciated stock made to The Principal Financial Group Foundation, Inc. ($39.8 million) and (b) losses associated with our exited group medical insurance business that does not yet qualify for discontinued operations accounting treatment under U.S. GAAP ($9.6 million).

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	For the three months ended September 30, 2013	2012	For the nine months ended September 30, 2013	2012
	(in millions)			
Retirement and Investor Services:				
Full service accumulation	**$ 369.9**	$ 339.0	**$ 1,087.7**	$ 1,006.1
Principal Funds	**194.8**	156.8	**565.9**	453.0
Individual annuities	**334.5**	302.1	**881.8**	864.0
Bank and trust services	**24.4**	26.1	**74.9**	75.9
Eliminations	**(38.3)**	(30.4)	**(109.1)**	(88.6)
Total Accumulation	**885.3**	793.6	**2,501.2**	2,310.4
Investment only	**83.1**	105.2	**260.6**	328.8
Full service payout	**168.1**	671.9	**625.8**	1,067.8
Total Guaranteed	**251.2**	777.1	**886.4**	1,396.6
Total Retirement and Investor Services	**1,136.5**	1,570.7	**3,387.6**	3,707.0
Principal Global Investors (1)	**160.9**	144.0	**482.8**	423.2
Principal International	**303.3**	203.8	**825.9**	676.9
U.S. Insurance Solutions:				
Individual life insurance	**362.7**	372.6	**1,110.2**	1,044.8
Specialty benefits insurance	**405.0**	393.9	**1,208.6**	1,170.2
Eliminations	**(0.1)**		**(0.2)**	
Total U.S. Insurance Solutions	**767.6**	766.5	**2,318.6**	2,215.0
Corporate	**(52.5)**	(46.4)	**(149.1)**	(139.8)
Total operating revenues	**$ 2,315.8**	$ 2,638.6	**$ 6,865.8**	$ 6,882.3
Total operating revenues	**$ 2,315.8**	$ 2,638.6	**$ 6,865.8**	$ 6,882.3
Net realized capital gains (losses), net of related revenue adjustments	**(76.7)**	64.9	**(253.4)**	12.8
Exited group medical insurance business	**0.5**	1.2	**4.5**	24.1
Total revenues per consolidated statements of operations	**$ 2,239.6**	$ 2,704.7	**$ 6,616.9**	$ 6,919.2

(1) Reflects inter-segment revenues of $61.1 million and $54.1 million for the three months ended September 30, 2013 and 2012, respectively, and $179.9 million and $160.0 million for the nine months ended September 30, 2013 and 2012, respectively.

12. Stock-Based Compensation Plans

As of September 30, 2013, we have the Amended and Restated 2010 Stock Incentive Plan, the Employee Stock Purchase Plan, the 2005 Directors Stock Plan, the Stock Incentive Plan, the Directors Stock Plan and the Long-Term Performance Plan (Stock-Based Compensation Plans). As of May 17, 2005, no new grants will be made under the Stock Incentive Plan, the Directors Stock Plan or the Long-Term Performance Plan. Under the terms of the Amended and Restated 2010 Stock Incentive Plan, grants may be nonqualified stock options, incentive stock options qualifying under Section 422 of the Internal Revenue Code, restricted stock, restricted stock units, stock appreciation rights, performance shares, performance units or other stock-based awards. The 2005 Directors Stock Plan provides for the grant of nonqualified stock options, restricted stock, restricted stock units or other stock-based awards to our nonemployee directors. To date, we have not granted any incentive

stock options, restricted stock or performance units.

As of September 30, 2013, the maximum number of new shares of common stock that were available for grant under the Amended and Restated 2010 Stock Incentive Plan and the 2005 Directors Stock Plan was 6.5 million.

For awards with graded vesting, we use an accelerated expense attribution method. The compensation cost that was charged against income for stock-based awards granted under the Stock-Based Compensation Plans was as follows:

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	For the nine months ended September 30,	
	2013	**2012**
	(in millions)	
Compensation cost	**$ 33.9**	$ 40.3
Related income tax benefit	**14.6**	13.3
Capitalized as part of an asset	**1.9**	1.8

Nonqualified Stock Options

Nonqualified stock options were granted to certain employees under the Amended and Restated 2010 Stock Incentive Plan. Total options granted were 0.8 million for the nine months ended September 30, 2013. The fair value of these options was determined using the Black-Scholes option valuation model assuming a weighted-average dividend yield of 3.0 percent, a weighted-average expected volatility of 53.3 percent, a weighted-average risk-free interest rate of 1.1 percent and a weighted-average expected term of 6.5 years. The weighted-average estimated fair value of stock options granted during the nine months ended September 30, 2013, was $11.95 per share.

We previously determined expected volatility based on, among other factors, historical volatility using daily price observations. Beginning with nonqualified stock options granted in 2013, we determine expected volatility based on a combination of historical volatility using daily price observations and implied volatility from traded options on our common stock. We believe that incorporating both historical and implied volatility into our expected volatility assumption calculation better reflects market expectations.

As of September 30, 2013, there was $5.4 million of total unrecognized compensation cost related to nonvested stock options. The cost is expected to be recognized over a weighted-average service period of approximately 1.4 years.

Performance Share Awards

Performance share awards were granted to certain employees under the Amended and Restated 2010 Stock Incentive Plan. Total performance share awards granted were 0.3 million for the nine months ended September 30, 2013. The performance share awards granted represent initial target awards and do not reflect potential increases or decreases resulting from the final performance results to be determined at the end of the performance period. The actual number of shares to be awarded at the end of each performance period will range between 0% and 150% of the initial target awards. The fair value of performance share awards is determined based on the closing stock price of our common shares on the grant date. The weighted-average grant date fair value of these performance share awards granted was $30.70 per common share.

As of September 30, 2013, there was $7.8 million of total unrecognized compensation cost related to nonvested performance share awards granted. The cost is expected to be recognized over a weighted-average service period of approximately 1.4 years.

Restricted Stock Units

Restricted stock units were issued to certain employees and agents pursuant to the Amended and Restated 2010 Stock Incentive Plan and non-employee directors pursuant to the 2005 Directors Stock Plan. Total restricted stock units granted were 1.3 million for the nine months ended September 30, 2013. The fair value of restricted stock units is determined based on the closing stock price of our common shares on the grant date. The weighted-average grant date fair value of these restricted stock units granted was $30.99 per common share.

As of September 30, 2013, there was $44.8 million of total unrecognized compensation cost related to nonvested restricted stock unit awards granted. The cost is expected to be recognized over a weighted-average period of approximately 1.9 years.

Employee Stock Purchase Plan

Under the Employee Stock Purchase Plan, employees purchased 0.5 million shares for the nine months ended September 30, 2013. The weighted average fair value of the discount on the stock purchased was $12.72 per share.

As of September 30, 2013, a total of 5.5 million of new shares are available to be made issuable by us for this plan.

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13. Earnings Per Common Share

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
	(in millions, except per share data)			
Net income	**$ 259.1**	$ 198.8	**$ 685.7**	$ 598.7
Subtract:				
Net income attributable to noncontrolling interest	**5.2**	3.4	**14.7**	15.3
Preferred stock dividends	**8.2**	8.2	**24.7**	24.7
Adjustments to redemption amounts of redeemable noncontrolling interests (1)				
Total	**$ 245.7**	$ 187.2	**$ 646.3**	$ 558.7
Weighted-average shares outstanding:				
Basic	**294.9**	294.7	**294.4**	298.6
Dilutive effects:				
Stock options	**1.7**	1.0	**1.4**	1.0
Restricted stock units	**1.7**	1.5	**1.6**	1.4
Performance share awards	**0.3**	0.3	**0.3**	0.4
Diluted	**298.6**	297.5	**297.7**	301.4
Net income per common share:				
Basic	**$ 0.83**	$ 0.64	**$ 2.20**	$ 1.87
Diluted	**$ 0.82**	$ 0.63	**$ 2.17**	$ 1.85

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(1) During the third quarter of 2013, we identified a classification error of certain of our noncontrolling interests, which had a related impact to earnings per share. See related discussion in Note 9, Stockholders Equity Noncontrolling Interest. The correction of the classification error in the third quarter of 2013 did not significantly impact earnings per share.

The calculation of diluted earnings per share for the three and nine months ended September 30, 2013 and 2012, excludes the incremental effect related to certain outstanding stock-based compensation grants due to their anti-dilutive effect.

14. Condensed Consolidating Financial Information

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

The following tables set forth condensed consolidating financial information of (i) PFG, (ii) Principal Life, (iii) Principal Financial Services, Inc. (PFS) and all other direct and indirect subsidiaries of PFG on a combined basis and (iv) the eliminations necessary to arrive at the information for PFG on a consolidated basis as of September 30, 2013 and December 31, 2012, and for the nine months ended September 30, 2013 and 2012.

In presenting the condensed consolidating financial statements, the equity method of accounting has been applied to (i) PFG s interest in PFS, (ii) Principal Life s interest in all direct subsidiaries of Principal Life and (iii) PFS s interest in Principal Life even though all such subsidiaries meet the requirements to be consolidated under U.S. GAAP. Earnings of subsidiaries are, therefore, reflected in the parent s investment and earnings. All intercompany balances and transactions, including elimination of the parent s investment in subsidiaries, between PFG, Principal Life and PFS and all other subsidiaries have been eliminated, as shown in the column Eliminations. These condensed consolidating financial statements should be read in conjunction with the consolidated financial statements. The financial information may not necessarily be indicative of results of operations, cash flows or financial position had the subsidiaries operated as independent entities.

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Principal Financial Group, Inc.
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Condensed Consolidating Statements of Financial Position

September 30, 2013

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Assets					
Fixed maturities, available-for-sale	$	$ 42,736.2	$ 6,567.9	$ (389.2)	$ 48,914.9
Fixed maturities, trading		254.9	318.0		572.9
Equity securities, available-for-sale		103.3	10.7		114.0
Equity securities, trading		0.3	665.9		666.2
Mortgage loans		10,857.9	1,334.5	(324.3)	11,868.1
Real estate		8.0	1,270.6		1,278.6
Policy loans		829.1	30.5		859.6
Investment in unconsolidated entities	11,642.3	3,392.1	4,396.6	(18,530.6)	900.4
Other investments	9.3	2,024.1	1,263.5	(1,203.3)	2,093.6
Cash and cash equivalents	50.8	651.6	934.8	69.9	1,707.1
Accrued investment income		508.8	63.9	(1.5)	571.2
Premiums due and other receivables		1,022.2	1,648.1	(1,509.6)	1,160.7
Deferred acquisition costs		2,790.2	217.4		3,007.6
Property and equipment		401.5	77.6		479.1
Goodwill		54.3	1,073.2		1,127.5
Other intangibles		27.1	1,470.3		1,497.4
Separate account assets		78,819.5	44,981.0		123,800.5
Other assets	66.7	893.1	1,859.7	(1,751.5)	1,068.0
Total assets	$ 11,769.1	$ 145,374.2	$ 68,184.2	$ (23,640.1)	$ 201,687.4
Liabilities					
Contractholder funds	$	$ 35,435.4	$ 1,254.4	$ (287.1)	$ 36,402.7
Future policy benefits and claims		17,888.0	4,709.9	(273.7)	22,324.2
Other policyholder funds		703.3	50.8	(0.5)	753.6
Short-term debt			175.5		175.5
Long-term debt	2,448.7	99.4	369.6	(324.4)	2,593.3
Income taxes currently payable			80.8	(72.9)	7.9
Deferred income taxes		(66.2)	869.3	(168.5)	634.6
Separate account liabilities		78,819.5	44,981.0		123,800.5
Other liabilities	42.0	5,138.6	3,716.6	(3,510.0)	5,387.2
Total liabilities	2,490.7	138,018.0	56,207.9	(4,637.1)	192,079.5
Redeemable noncontrolling interest			234.5		234.5
Stockholders equity					
Series A preferred stock					

Series B preferred stock	**0.1**				**0.1**
Common stock	**4.6**	**2.5**		**(2.5)**	**4.6**
Additional paid-in capital	**9,749.3**	**5,505.9**	**9,160.8**	**(14,666.7)**	**9,749.3**
Retained earnings	**5,249.9**	**1,643.8**	**2,467.0**	**(4,110.8)**	**5,249.9**
Accumulated other comprehensive income (loss)	**(17.7)**	**204.0**	**14.5**	**(218.5)**	**(17.7)**
Treasury stock, at cost	**(5,707.8)**				**(5,707.8)**
Total stockholders equity attributable to PFG	**9,278.4**	**7,356.2**	**11,642.3**	**(18,998.5)**	**9,278.4**
Noncontrolling interest			**99.5**	**(4.5)**	**95.0**
Total stockholders equity	**9,278.4**	**7,356.2**	**11,741.8**	**(19,003.0)**	**9,373.4**
Total liabilities and stockholders equity	**$ 11,769.1**	**$ 145,374.2**	**$ 68,184.2**	**$ (23,640.1)**	**$ 201,687.4**

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Condensed Consolidating Statements of Financial Position

December 31, 2012

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined (in millions)	Eliminations	Principal Financial Group, Inc. Consolidated
Assets					
Fixed maturities, available-for-sale	$	$ 44,614.6	$ 6,681.7	$ (357.0)	$ 50,939.3
Fixed maturities, trading	10.5	284.4	331.8		626.7
Equity securities, available-for-sale		131.3	5.2		136.5
Equity securities, trading		0.3	252.5		252.8
Mortgage loans		10,054.2	1,775.5	(310.0)	11,519.7
Real estate		8.4	1,171.9		1,180.3
Policy loans		834.0	30.9		864.9
Investment in unconsolidated entities	11,853.3	3,309.2	4,808.3	(19,101.8)	869.0
Other investments	11.1	2,834.0	1,208.4	(1,631.4)	2,422.1
Cash and cash equivalents	207.1	1,698.4	2,286.9	(15.2)	4,177.2
Accrued investment income		521.6	64.5	(1.7)	584.4
Premiums due and other receivables	0.1	916.7	1,327.1	(1,159.5)	1,084.4
Deferred acquisition costs		2,394.8	195.2		2,590.0
Property and equipment		402.2	62.0		464.2
Goodwill		54.3	489.1		543.4
Other intangibles		27.9	886.8		914.7
Separate account assets		69,217.8	12,436.0		81,653.8
Other assets	78.0	947.8	1,567.7	(1,586.7)	1,006.8
Total assets	$ 12,160.1	$ 138,251.9	$ 35,581.5	$ (24,163.3)	$ 161,830.2
Liabilities					
Contractholder funds	$	$ 37,053.3	$ 1,011.9	$ (278.7)	$ 37,786.5
Future policy benefits and claims		17,944.9	4,679.6	(188.3)	22,436.2
Other policyholder funds		676.5	40.3	(0.4)	716.4
Short-term debt			40.8		40.8
Long-term debt	2,448.6	99.4	433.3	(310.0)	2,671.3
Income taxes currently payable			84.7	(69.4)	15.3
Deferred income taxes		324.5	378.4	(102.9)	600.0
Separate account liabilities		69,217.8	12,436.0		81,653.8
Other liabilities	28.1	5,375.1	4,538.4	(3,795.5)	6,146.1
Total liabilities	2,476.7	130,691.5	23,643.4	(4,745.2)	152,066.4
Redeemable noncontrolling interest			60.4		60.4
Stockholders equity					
Series A preferred stock					

Series B preferred stock		0.1							0.1
Common stock		4.5		2.5				(2.5)	4.5
Additional paid-in capital		9,730.9		5,747.6		9,393.8		(15,141.4)	9,730.9
Retained earnings		4,862.0		1,167.7		1,783.4		(2,951.1)	4,862.0
Accumulated other comprehensive income		640.3		642.6		676.1		(1,318.7)	640.3
Treasury stock, at cost		(5,554.4)							(5,554.4)
Total stockholders equity attributable to PFG		9,683.4		7,560.4		11,853.3		(19,413.7)	9,683.4
Noncontrolling interest						24.4		(4.4)	20.0
Total stockholders equity		9,683.4		7,560.4		11,877.7		(19,418.1)	9,703.4
Total liabilities and stockholders equity	$	12,160.1	$	138,251.9	$	35,581.5	$	(24,163.3)	$ 161,830.2

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Condensed Consolidating Statements of Operations

For the nine months September 30, 2013

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined (in millions)	Eliminations	Principal Financial Group, Inc. Consolidated
Revenues					
Premiums and other considerations	$	$ 1,853.6	$ 281.3	$	$ 2,134.9
Fees and other revenues		1,272.3	1,325.8	(257.7)	2,340.4
Net investment income	0.4	1,775.7	526.5	20.9	2,323.5
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	6.3	(630.7)	514.8	0.1	(109.5)
Total other-than-temporary impairment losses on available-for-sale securities		(75.4)	(5.8)		(81.2)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from) other comprehensive income		11.4	(2.6)		8.8
Net impairment losses on available-for-sale securities		(64.0)	(8.4)		(72.4)
Net realized capital gains (losses)	6.3	(694.7)	506.4	0.1	(181.9)
Total revenues	6.7	4,206.9	2,640.0	(236.7)	6,616.9
Expenses					
Benefits, claims and settlement expenses		2,828.8	466.7	(9.1)	3,286.4
Dividends to policyholders		144.3			144.3
Operating expenses	105.2	1,378.6	1,113.2	(224.9)	2,372.1
Total expenses	105.2	4,351.7	1,579.9	(234.0)	5,802.8
Income (loss) before income taxes	(98.5)	(144.8)	1,060.1	(2.7)	814.1
Income taxes (benefits)	(39.4)	(136.0)	304.0	(0.2)	128.4
Equity in the net income (loss) of subsidiaries	730.1	530.2	(11.2)	(1,249.1)	
Net income	671.0	521.4	744.9	(1,251.6)	685.7
Net income attributable to noncontrolling interest			14.8	(0.1)	14.7
Net income attributable to PFG	671.0	521.4	730.1	(1,251.5)	671.0
Preferred stock dividends	24.7				24.7
Net income available to common stockholders	$ 646.3	$ 521.4	$ 730.1	$ (1,251.5)	$ 646.3

Net income	$	**671.0**	$	**521.4**	$	**744.9**	$	**(1,251.6)**	$	**685.7**
Other comprehensive loss		**(683.9)**		**(438.6)**		**(225.6)**		**679.8**		**(668.3)**
Comprehensive income (loss)	$	**(12.9)**	$	**82.8**	$	**519.3**	$	**(571.8)**	$	**17.4**

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Condensed Consolidating Statements of Operations

For the nine months September 30, 2012

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined (in millions)	Eliminations	Principal Financial Group, Inc. Consolidated
Revenues					
Premiums and other considerations	$	$ 2,265.7	$ 253.6	$	$ 2,519.3
Fees and other revenues	0.3	1,115.0	1,018.9	(225.1)	1,909.1
Net investment income	2.7	1,869.8	521.9	15.2	2,409.6
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities		(296.9)	496.8	(23.5)	176.4
Total other-than-temporary impairment losses on available-for-sale securities		(111.5)	(14.8)	(0.1)	(126.4)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to other comprehensive income		27.1	4.1		31.2
Net impairment losses on available-for-sale securities		(84.4)	(10.7)	(0.1)	(95.2)
Net realized capital gains (losses)		(381.3)	486.1	(23.6)	81.2
Total revenues	3.0	4,869.2	2,280.5	(233.5)	6,919.2
Expenses					
Benefits, claims and settlement expenses		3,542.3	436.7	(9.5)	3,969.5
Dividends to policyholders		149.5			149.5
Operating expenses	90.8	1,286.3	920.2	(196.2)	2,101.1
Total expenses	90.8	4,978.1	1,356.9	(205.7)	6,220.1
Income (loss) before income taxes	(87.8)	(108.9)	923.6	(27.8)	699.1
Income taxes (benefits)	(34.4)	(126.4)	261.7	(0.5)	100.4
Equity in the net income (loss) of subsidiaries	636.8	438.6	(9.7)	(1,065.7)	
Net income	583.4	456.1	652.2	(1,093.0)	598.7
Net income attributable to noncontrolling interest			15.4	(0.1)	15.3
Net income attributable to PFG	583.4	456.1	636.8	(1,092.9)	583.4
Preferred stock dividends	24.7				24.7
Net income available to common stockholders	$ 558.7	$ 456.1	$ 636.8	$ (1,092.9)	$ 558.7

Net income	$	583.4	$	456.1	$	652.2	$	(1,093.0)	$	598.7
Other comprehensive income		564.6		546.2		104.7		(597.4)		618.1
Comprehensive income	$	1,148.0	$	1,002.3	$	756.9	$	(1,690.4)	$	1,216.8

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Condensed Consolidating Statements of Cash Flows

For the nine months September 30, 2013

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Operating activities					
Net cash provided by (used in) operating activities	$ (12.8)	$ 1,412.5	$ (132.2)	$ 130.4	$ 1,397.9
Investing activities					
Available-for-sale securities:					
Purchases		(6,094.0)	(926.7)	8.4	(7,012.3)
Sales		1,281.4	370.1	(24.8)	1,626.7
Maturities		5,186.5	596.7		5,783.2
Mortgage loans acquired or originated		(2,226.3)	(175.6)	381.9	(2,020.0)
Mortgage loans sold or repaid		1,408.3	583.2	(420.7)	1,570.8
Real estate acquired			(59.0)		(59.0)
Net purchases of property and equipment		(20.2)	(2.5)		(22.7)
Purchases of interests in subsidiaries, net of cash acquired			(1,268.3)		(1,268.3)
Dividends and returns of capital received from unconsolidated entities	169.3	157.9	169.3	(496.5)	
Net change in other investments	(3.2)	76.1	(128.4)	24.3	(31.2)
Net cash provided by (used in) investing activities	166.1	(230.3)	(841.2)	(527.4)	(1,432.8)
Financing activities					
Issuance of common stock	80.2				80.2
Acquisition of treasury stock	(153.4)				(153.4)
Proceeds from financing element derivatives		46.7			46.7
Payments for financing element derivatives		(36.9)			(36.9)
Excess tax benefits from share-based payment arrangements		2.5	6.1		8.6
Purchase of subsidiary shares from noncontrolling interest			(51.7)		(51.7)
Sale of subsidiary shares to noncontrolling interest			32.1		32.1
Dividends to common stockholders	(211.7)				(211.7)
Dividends to preferred stockholders	(24.7)				(24.7)
Issuance of long-term debt			24.1		24.1

Principal repayments of long-term debt			**(197.8)**	**(14.4)**	**(212.2)**
Net proceeds from short-term borrowings			**131.6**		**131.6**
Dividends and capital paid to parent		**(169.3)**	**(327.2)**	**496.5**	
Investment contract deposits		**4,985.4**	**284.8**		**5,270.2**
Investment contract withdrawals		**(7,051.1)**	**(4.5)**		**(7,055.6)**
Net decrease in banking operation deposits			**(276.2)**		**(276.2)**
Other		**(6.3)**			**(6.3)**
Net cash used in financing activities	**(309.6)**	**(2,229.0)**	**(378.7)**	**482.1**	**(2,435.2)**
Net decrease in cash and cash equivalents	**(156.3)**	**(1,046.8)**	**(1,352.1)**	**85.1**	**(2,470.1)**
Cash and cash equivalents at beginning of period	**207.1**	**1,698.4**	**2,286.9**	**(15.2)**	**4,177.2**
Cash and cash equivalents at end of period	**$ 50.8**	**$ 651.6**	**$ 934.8**	**$ 69.9**	**$ 1,707.1**

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Condensed Consolidating Statements of Cash Flows

For the nine months September 30, 2012

	Principal Financial Group, Inc. Parent Only	Principal Life Insurance Company Only	Principal Financial Services, Inc. and Other Subsidiaries Combined (in millions)	Eliminations	Principal Financial Group, Inc. Consolidated
Operating activities					
Net cash provided by (used in) operating activities	$ 49.2	$ 2,369.3	$ (204.2)	$ 159.4	$ 2,373.7
Investing activities					
Available-for-sale securities:					
Purchases		(5,753.7)	(739.5)	25.7	(6,467.5)
Sales		862.7	98.8	(15.0)	946.5
Maturities		4,058.9	643.8		4,702.7
Mortgage loans acquired or originated		(1,687.2)	(177.4)	52.8	(1,811.8)
Mortgage loans sold or repaid		1,104.6	280.3	(218.2)	1,166.7
Real estate acquired			(114.8)		(114.8)
Net purchases of property and equipment		(22.4)	(13.2)		(35.6)
Purchases of interests in subsidiaries, net of cash acquired			(62.5)		(62.5)
Dividends and returns of capital received from unconsolidated entities	539.8	435.0	539.8	(1,514.6)	
Net change in other investments	(0.2)	(14.8)	(14.8)	(13.1)	(42.9)
Net cash provided by (used in) investing activities	539.6	(1,016.9)	440.5	(1,682.4)	(1,719.2)
Financing activities					
Issuance of common stock	24.7				24.7
Acquisition of treasury stock	(272.7)				(272.7)
Proceeds from financing element derivatives		51.6			51.6
Payments for financing element derivatives		(38.3)			(38.3)
Excess tax benefits from share-based payment arrangements		4.7	5.1		9.8
Dividends to common stockholders	(169.6)				(169.6)
Dividends to preferred stockholders	(16.5)				(16.5)
Issuance of long-term debt	593.8		9.1		602.9
Principal repayments of long-term debt			(45.7)	43.6	(2.1)
Net repayments of short-term borrowings			(81.0)		(81.0)

Dividends and capital paid to parent		(539.8)	(974.8)	1,514.6	
Investment contract deposits		4,481.7	317.0		4,798.7
Investment contract withdrawals		(6,123.8)	(2.2)		(6,126.0)
Net increase in banking operation deposits			14.9		14.9
Other		(5.8)			(5.8)
Net cash provided by (used in) financing activities	159.7	(2,169.7)	(757.6)	1,558.2	(1,209.4)
Net increase (decrease) in cash and cash equivalents	748.5	(817.3)	(521.3)	35.2	(554.9)
Cash and cash equivalents at beginning of period	226.7	1,344.5	1,277.6	(14.9)	2,833.9
Cash and cash equivalents at end of period	$ 975.2	$ 527.2	$ 756.3	$ 20.3	$ 2,279.0

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On May 24, 2011, our shelf registration statement was filed with the SEC and became effective. The shelf registration replaces the shelf registration that had been in effect since June 2008, as it was scheduled to expire in June 2011. Under our current shelf registration, we have the ability to issue unsecured senior debt securities or subordinated debt securities, junior subordinated debt, preferred stock, common stock, warrants, depository shares, stock purchase contracts and stock purchase units of PFG, trust preferred securities of three subsidiary trusts and guarantees by PFG of these trust preferred securities. Our wholly owned subsidiary, PFS, may guarantee, fully and unconditionally or otherwise, our obligations with respect to any non-convertible securities, other than common stock, described in the shelf registration statement.

The following tables set forth condensed consolidating financial information of (i) PFG, (ii) PFS, (iii) Principal Life and all other direct and indirect subsidiaries of PFG on a combined basis and (iv) the eliminations necessary to arrive at the information for PFG on a consolidated basis as of September 30, 2013 and December 31, 2012, and for the nine months ended September 30, 2013 and 2012.

In presenting the condensed consolidating financial statements, the equity method of accounting has been applied to (i) PFG s interest in PFS and (ii) PFS s interest in Principal Life and all other subsidiaries, where applicable, even though all such subsidiaries meet the requirements to be consolidated under U.S. GAAP. Earnings of subsidiaries are, therefore, reflected in the parent s investment and earnings. All intercompany balances and transactions, including elimination of the parent s investment in subsidiaries, between PFG, PFS and Principal Life and all other subsidiaries have been eliminated, as shown in the column Eliminations. These condensed consolidating financial statements should be read in conjunction with the consolidated financial statements. The financial information may not necessarily be indicative of results of operations, cash flows or financial position had the subsidiaries operated as independent entities.

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Principal Financial Group, Inc.
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Condensed Consolidating Statements of Financial Position

September 30, 2013

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined	Eliminations	Principal Financial Group, Inc. Consolidated
			(in millions)		
Assets					
Fixed maturities, available-for-sale	$	$	$ 48,914.9	$	$ 48,914.9
Fixed maturities, trading			572.9		572.9
Equity securities, available-for-sale			114.0		114.0
Equity securities, trading			666.2		666.2
Mortgage loans			11,868.1		11,868.1
Real estate			1,278.6		1,278.6
Policy loans			859.6		859.6
Investment in unconsolidated entities	11,642.3	11,404.6	900.3	(23,046.8)	900.4
Other investments	9.3	55.8	2,028.6	(0.1)	2,093.6
Cash and cash equivalents	50.8	491.0	1,822.1	(656.8)	1,707.1
Accrued investment income			571.2		571.2
Premiums due and other receivables		0.9	2,261.2	(1,101.4)	1,160.7
Deferred acquisition costs			3,007.6		3,007.6
Property and equipment			479.1		479.1
Goodwill			1,127.5		1,127.5
Other intangibles			1,497.4		1,497.4
Separate account assets			123,800.5		123,800.5
Other assets	66.7	88.1	1,116.4	(203.2)	1,068.0
Total assets	$ 11,769.1	$ 12,040.4	$ 202,886.2	$ (25,008.3)	$ 201,687.4
Liabilities					
Contractholder funds	$	$	$ 36,402.7	$	$ 36,402.7
Future policy benefits and claims			22,324.2		22,324.2
Other policyholder funds			753.6		753.6
Short-term debt			453.9	(278.4)	175.5
Long-term debt	2,448.7		1,228.9	(1,084.3)	2,593.3
Income taxes currently payable		10.9	55.2	(58.2)	7.9
Deferred income taxes			776.0	(141.4)	634.6
Separate account liabilities			123,800.5		123,800.5
Other liabilities	42.0	387.2	5,357.1	(399.1)	5,387.2
Total liabilities	2,490.7	398.1	191,152.1	(1,961.4)	192,079.5
Redeemable noncontrolling interest			234.5		234.5
Stockholders equity					

Series A preferred stock					
Series B preferred stock	**0.1**				**0.1**
Common stock	**4.6**		**17.8**	**(17.8)**	**4.6**
Additional paid-in capital	**9,749.3**	**9,160.8**	**9,068.4**	**(18,229.2)**	**9,749.3**
Retained earnings	**5,249.9**	**2,467.0**	**2,327.3**	**(4,794.3)**	**5,249.9**
Accumulated other comprehensive income (loss)	**(17.7)**	**14.5**	**(6.9)**	**(7.6)**	**(17.7)**
Treasury stock, at cost	**(5,707.8)**		**(2.0)**	**2.0**	**(5,707.8)**
Total stockholders equity attributable to PFG	**9,278.4**	**11,642.3**	**11,404.6**	**(23,046.9)**	**9,278.4**
Noncontrolling interest			**95.0**		**95.0**
Total stockholders equity	**9,278.4**	**11,642.3**	**11,499.6**	**(23,046.9)**	**9,373.4**
Total liabilities and stockholders equity	**$ 11,769.1**	**$ 12,040.4**	**$ 202,886.2**	**$ (25,008.3)**	**$ 201,687.4**

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Principal Financial Group, Inc.
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Condensed Consolidating Statements of Financial Position

December 31, 2012

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined (in millions)	Eliminations	Principal Financial Group, Inc. Consolidated
Assets					
Fixed maturities, available-for-sale	$	$	$ 50,939.3	$	$ 50,939.3
Fixed maturities, trading	10.5		616.2		626.7
Equity securities, available-for-sale			136.5		136.5
Equity securities, trading			252.8		252.8
Mortgage loans			11,519.7		11,519.7
Real estate			1,180.3		1,180.3
Policy loans			864.9		864.9
Investment in unconsolidated entities	11,853.3	10,632.1	860.2	(22,476.6)	869.0
Other investments	11.1	39.6	2,371.4		2,422.1
Cash and cash equivalents	207.1	612.5	4,241.3	(883.7)	4,177.2
Accrued investment income			584.4		584.4
Premiums due and other receivables	0.1	1,122.1	2,206.7	(2,244.5)	1,084.4
Deferred acquisition costs			2,590.0		2,590.0
Property and equipment			464.2		464.2
Goodwill			543.4		543.4
Other intangibles			914.7		914.7
Separate account assets			81,653.8		81,653.8
Other assets	78.0	51.0	1,003.5	(125.7)	1,006.8
Total assets	$ 12,160.1	$ 12,457.3	$ 162,943.3	$ (25,730.5)	$ 161,830.2
Liabilities					
Contractholder funds	$	$	$ 37,786.5	$	$ 37,786.5
Future policy benefits and claims			22,436.2		22,436.2
Other policyholder funds			716.4		716.4
Short-term debt			2,564.1	(2,523.3)	40.8
Long-term debt	2,448.6		222.7		2,671.3
Income taxes currently payable		0.1	47.2	(32.0)	15.3
Deferred income taxes			686.1	(86.1)	600.0
Separate account liabilities			81,653.8		81,653.8
Other liabilities	28.1	603.9	6,117.8	(603.7)	6,146.1
Total liabilities	2,476.7	604.0	152,230.8	(3,245.1)	152,066.4
Redeemable noncontrolling interest			60.4		60.4
Stockholders equity					

Series A preferred stock					
Series B preferred stock	0.1				0.1
Common stock	4.5		17.8	(17.8)	4.5
Additional paid-in capital	9,730.9	9,393.8	8,287.7	(17,681.5)	9,730.9
Retained earnings	4,862.0	1,783.4	1,666.7	(3,450.1)	4,862.0
Accumulated other comprehensive income	640.3	676.1	661.9	(1,338.0)	640.3
Treasury stock, at cost	(5,554.4)		(2.0)	2.0	(5,554.4)
Total stockholders equity attributable to PFG	9,683.4	11,853.3	10,632.1	(22,485.4)	9,683.4
Noncontrolling interest			20.0		20.0
Total stockholders equity	9,683.4	11,853.3	10,652.1	(22,485.4)	9,703.4
Total liabilities and stockholders equity	$ 12,160.1	$ 12,457.3	$ 162,943.3	$ (25,730.5)	$ 161,830.2

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Principal Financial Group, Inc.
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Condensed Consolidating Statements of Operations

For the nine months September 30, 2013

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined (in millions)	Eliminations	Principal Financial Group, Inc. Consolidated
Revenues					
Premiums and other considerations	$	$	$ 2,134.9	$	$ 2,134.9
Fees and other revenues		0.9	2,357.8	(18.3)	2,340.4
Net investment income	0.4	1.1	2,321.8	0.2	2,323.5
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	6.3	2.6	(118.4)		(109.5)
Total other-than-temporary impairment losses on available-for-sale securities			(81.2)		(81.2)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to other comprehensive income			8.8		8.8
Net impairment losses on available-for-sale securities			(72.4)		(72.4)
Net realized capital gains (losses)	6.3	2.6	(190.8)		(181.9)
Total revenues	6.7	4.6	6,623.7	(18.1)	6,616.9
Expenses					
Benefits, claims and settlement expenses			3,286.4		3,286.4
Dividends to policyholders			144.3		144.3
Operating expenses	105.2	8.4	2,276.6	(18.1)	2,372.1
Total expenses	105.2	8.4	5,707.3	(18.1)	5,802.8
Income (loss) before income taxes	(98.5)	(3.8)	916.4		814.1
Income taxes (benefits)	(39.4)	(2.2)	170.0		128.4
Equity in the net income of subsidiaries	730.1	731.7		(1,461.8)	
Net income	671.0	730.1	746.4	(1,461.8)	685.7
Net income attributable to noncontrolling interest			14.7		14.7
Net income attributable to PFG	671.0	730.1	731.7	(1,461.8)	671.0
Preferred stock dividends	24.7				24.7
Net income available to common stockholders	$ 646.3	$ 730.1	$ 731.7	$ (1,461.8)	$ 646.3

Net income	$	**671.0**	$	**730.1**	$	**746.4**	$	**(1,461.8)**	$	**685.7**
Other comprehensive loss		**(683.9)**		**(671.8)**		**(679.2)**		**1,366.6**		**(668.3)**
Comprehensive income (loss)	$	**(12.9)**	$	**58.3**	$	**67.2**	$	**(95.2)**	$	**17.4**

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Principal Financial Group, Inc.
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(Unaudited)

Condensed Consolidating Statements of Operations

For the nine months September 30, 2012

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined (in millions)	Eliminations	Principal Financial Group, Inc. Consolidated
Revenues					
Premiums and other considerations	$	$	$ 2,519.3	$	$ 2,519.3
Fees and other revenues	0.3		1,909.6	(0.8)	1,909.1
Net investment income	2.7	0.1	2,406.4	0.4	2,409.6
Net realized capital gains, excluding impairment losses on available-for-sale securities		1.0	175.4		176.4
Total other-than-temporary impairment losses on available-for-sale securities			(126.4)		(126.4)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to other comprehensive income			31.2		31.2
Net impairment losses on available-for-sale securities			(95.2)		(95.2)
Net realized capital gains		1.0	80.2		81.2
Total revenues	3.0	1.1	6,915.5	(0.4)	6,919.2
Expenses					
Benefits, claims and settlement expenses			3,969.5		3,969.5
Dividends to policyholders			149.5		149.5
Operating expenses	90.8	4.4	2,006.3	(0.4)	2,101.1
Total expenses	90.8	4.4	6,125.3	(0.4)	6,220.1
Income (loss) before income taxes	(87.8)	(3.3)	790.2		699.1
Income taxes (benefits)	(34.4)	(4.7)	139.5		100.4
Equity in the net income of subsidiaries	636.8	635.4		(1,272.2)	
Net income	583.4	636.8	650.7	(1,272.2)	598.7
Net income attributable to noncontrolling interest			15.3		15.3
Net income attributable to PFG	583.4	636.8	635.4	(1,272.2)	583.4
Preferred stock dividends	24.7				24.7
Net income available to common stockholders	$ 558.7	$ 636.8	$ 635.4	$ (1,272.2)	$ 558.7

Net income	$	583.4	$	636.8	$	650.7	$	(1,272.2)	$	598.7
Other comprehensive income		564.6		615.4		578.3		(1,140.2)		618.1
Comprehensive income	$	1,148.0	$	1,252.2	$	1,229.0	$	(2,412.4)	$	1,216.8

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Principal Financial Group, Inc.
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Condensed Consolidating Statements of Cash Flows

For the nine months September 30, 2013

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined (in millions)	Eliminations	Principal Financial Group, Inc. Consolidated
Operating activities					
Net cash provided by (used in) operating activities	$ (12.8)	$ 870.9	$ 1,473.4	$ (933.6)	$ 1,397.9
Investing activities					
Available-for-sale securities:					
Purchases			(7,012.3)		(7,012.3)
Sales			1,626.7		1,626.7
Maturities			5,783.2		5,783.2
Mortgage loans acquired or originated			(2,020.0)		(2,020.0)
Mortgage loans sold or repaid			1,570.8		1,570.8
Real estate acquired			(59.0)		(59.0)
Net purchases of property and equipment			(22.7)		(22.7)
Purchases of interests in subsidiaries, net of cash acquired			(1,268.3)		(1,268.3)
Dividends and returns of capital received from (contributions to) unconsolidated entities	169.3	(809.2)		639.9	
Net change in other investments	(3.2)	(13.9)	(14.1)		(31.2)
Net cash provided by (used in) investing activities	166.1	(823.1)	(1,415.7)	639.9	(1,432.8)
Financing activities					
Issuance of common stock	80.2				80.2
Acquisition of treasury stock	(153.4)				(153.4)
Proceeds from financing element derivatives			46.7		46.7
Payments for financing element derivatives			(36.9)		(36.9)
Excess tax benefits from share-based payment arrangements			8.6		8.6
Purchase of subsidiary shares from noncontrolling interest			(51.7)		(51.7)
Sale of subsidiary shares to noncontrolling interest			32.1		32.1
Dividends to common stockholders	(211.7)				(211.7)
Dividends to preferred stockholders	(24.7)				(24.7)

Issuance of long-term debt			**1,108.4**	**(1,084.3)**	**24.1**
Principal repayments of long-term debt			**(212.2)**		**(212.2)**
Net proceeds from (repayments of) short-term borrowings			**(2,113.2)**	**2,244.8**	**131.6**
Capital received from (dividends and capital paid to) parent		**(169.3)**	**809.2**	**(639.9)**	
Investment contract deposits			**5,270.2**		**5,270.2**
Investment contract withdrawals			**(7,055.6)**		**(7,055.6)**
Net decrease in banking operation deposits			**(276.2)**		**(276.2)**
Other			**(6.3)**		**(6.3)**
Net cash used in financing activities	**(309.6)**	**(169.3)**	**(2,476.9)**	**520.6**	**(2,435.2)**
Net decrease in cash and cash equivalents	**(156.3)**	**(121.5)**	**(2,419.2)**	**226.9**	**(2,470.1)**
Cash and cash equivalents at beginning of period	**207.1**	**612.5**	**4,241.3**	**(883.7)**	**4,177.2**
Cash and cash equivalents at end of period	$ **50.8**	$ **491.0**	$ **1,822.1**	$ **(656.8)**	$ **1,707.1**

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Principal Financial Group, Inc.
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Condensed Consolidating Statements of Cash Flows

For the nine months September 30, 2012

	Principal Financial Group, Inc. Parent Only	Principal Financial Services, Inc. Only	Principal Life Insurance Company and Other Subsidiaries Combined (in millions)	Eliminations	Principal Financial Group, Inc. Consolidated
Operating activities					
Net cash provided by (used in) operating activities	$ 49.2	$ (164.6)	$ 2,303.2	$ 185.9	$ 2,373.7
Investing activities					
Available-for-sale securities:					
Purchases			(6,467.5)		(6,467.5)
Sales			946.5		946.5
Maturities			4,702.7		4,702.7
Mortgage loans acquired or originated			(1,811.8)		(1,811.8)
Mortgage loans sold or repaid			1,166.7		1,166.7
Real estate acquired			(114.8)		(114.8)
Net purchases of property and equipment			(35.6)		(35.6)
Purchases of interests in subsidiaries, net of cash acquired			(62.5)		(62.5)
Dividends and returns of capital received from unconsolidated entities	539.8	538.6		(1,078.4)	
Net change in other investments	(0.2)	(27.1)	(15.6)		(42.9)
Net cash provided by (used in) investing activities	539.6	511.5	(1,691.9)	(1,078.4)	(1,719.2)
Financing activities					
Issuance of common stock	24.7				24.7
Acquisition of treasury stock	(272.7)				(272.7)
Proceeds from financing element derivatives			51.6		51.6
Payments for financing element derivatives			(38.3)		(38.3)
Excess tax benefits from share-based payment arrangements			9.8		9.8
Dividends to common stockholders	(169.6)				(169.6)
Dividends to preferred stockholders	(16.5)				(16.5)
Issuance of long-term debt	593.8		9.1		602.9
Principal repayments of long-term debt			(2.1)		(2.1)
Net repayments of short-term borrowings		(50.0)	(13.6)	(17.4)	(81.0)

Dividends and capital paid to parent		(539.8)	(538.6)	1,078.4	
Investment contract deposits			4,798.7		4,798.7
Investment contract withdrawals			(6,126.0)		(6,126.0)
Net increase in banking operation deposits			14.9		14.9
Other			(5.8)		(5.8)
Net cash provided by (used in) financing activities	159.7	(589.8)	(1,840.3)	1,061.0	(1,209.4)
Net increase (decrease) in cash and cash equivalents	748.5	(242.9)	(1,229.0)	168.5	(554.9)
Cash and cash equivalents at beginning of period	226.7	702.4	2,787.9	(883.1)	2,833.9
Cash and cash equivalents at end of period	$ 975.2	$ 459.5	$ 1,558.9	$ (714.6)	$ 2,279.0

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

The following analysis discusses our financial condition as of September 30, 2013, compared with December 31, 2012, and our consolidated results of operations for the three and nine months ended September 30, 2013 and 2012, prepared in conformity with U.S. GAAP. The discussion and analysis includes, where appropriate, factors that may affect our future financial performance. The discussion should be read in conjunction with our Form 10-K, for the year ended December 31, 2012, filed with the SEC and the unaudited consolidated financial statements and the related notes to the financial statements and the other financial information included elsewhere in this Form 10-Q.

Forward-Looking Information

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

Actual results may differ materially from those included in the forward-looking statements as a result of risks and uncertainties including, but not limited to, the following: (1) adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs, as well as our access to capital and cost of capital; (2) continued difficult conditions in the global capital markets and the economy generally may materially and adversely affect our business and results of operations; (3) continued volatility or declines in the equity markets could reduce our assets under management (AUM) and may result in investors withdrawing from the markets or decreasing their rates of investment, all of which could reduce our revenues and net income; (4) changes in interest rates or credit spreads may adversely affect our results of operations, financial condition and liquidity, and our net income can vary from period-to-period; (5) our investment portfolio is subject to several risks that may diminish the value of our invested assets and the investment returns credited to customers, which could reduce our sales, revenues, AUM and net income; (6) our valuation of fixed maturities, equity securities and derivatives may include methodologies, estimations and assumptions which are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our results of operations or financial condition; (7) the determination of the amount of allowances and impairments taken on our investments requires estimations and assumptions which are subject to differing interpretations and could materially impact our results of operations or financial position; (8) any impairments of or valuation allowances against our deferred tax assets could adversely affect our results of operations and financial condition; (9) gross unrealized losses may be realized or result in future impairments, resulting in a reduction in our net income; (10) competition from companies that may have greater financial resources, broader arrays of products, higher ratings and stronger financial performance may impair our ability to retain existing customers, attract new customers and maintain our profitability; (11) we may not be able to protect our intellectual property and may be subject to infringement claims; (12) a downgrade in our financial strength or credit ratings may increase policy surrenders and withdrawals, reduce new sales and terminate relationships with distributors, impact existing liabilities and increase our cost of capital, any of which could adversely affect our profitability and financial condition; (13) our efforts to reduce the impact of interest rate changes on our profitability and retained earnings may not be effective; (14) guarantees within certain of our products that protect policyholders may decrease our earnings or increase the volatility of our results of operations or financial position under U.S. GAAP if our hedging or risk management strategies prove ineffective or insufficient; (15) if we are unable to attract and retain qualified employees and sales representatives and develop new distribution sources, our results of operations, financial condition and sales of our products may be adversely impacted; (16) our international businesses face political, legal, operational and other risks that could reduce our profitability in those businesses; (17) we may face losses if our actual experience differs significantly from our pricing and reserving assumptions; (18) our ability to pay stockholder dividends and meet our obligations may be constrained by the limitations on dividends Iowa insurance laws impose on Principal Life; (19) the pattern of amortizing our DAC and other actuarial balances on our universal life-type insurance contracts, participating life insurance policies and certain investment contracts may change, impacting both the level of the DAC and other actuarial balances and the timing of our net income; (20) we may need to fund deficiencies in our Closed Block assets; (21) a pandemic, terrorist attack or other catastrophic event could adversely affect our net income; (22) our reinsurers could default on their obligations or increase their rates, which could adversely impact our net income and financial condition; (23) we face risk arising from acquisition of businesses; (24) we face risks arising from the acquisition

of Cuprum; (25) changes in laws, regulations or accounting standards may reduce our profitability; (26) we may be unable to mitigate the impact of Regulation XXX and Actuarial Guideline 38, potentially resulting in a negative impact to our capital position and/or a reduction in sales of term and universal life insurance products; (27) a computer system failure or security breach could disrupt our business, damage our reputation and adversely impact our profitability; (28) loss of key vendor relationships or failure of a vendor to protect information of our customers or employees could adversely affect our business or result in losses; (29) results of litigation and regulatory investigations may affect our financial strength or reduce our profitability; (30) from time to time we may become subject to tax audits, tax litigation or similar proceedings, and as a result we may owe additional taxes, interest and penalties in amounts that may be material; (31) fluctuations in foreign currency exchange rates could reduce our profitability; (32) applicable laws and our certificate of incorporation and by-laws may

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discourage takeovers and business combinations that some stockholders might consider in their best interests and (33) our financial results may be adversely impacted by global climate changes.

Overview

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

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

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

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

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

- Corporate, which manages the assets representing capital that has not been allocated to any other segment. Financial results of the Corporate segment primarily reflect our financing activities (including interest expense and preferred stock dividends), income on capital not allocated to other segments, inter-segment eliminations, U.S. income tax risks and certain income, expenses and other after-tax adjustments not allocated to the segments based on the nature of such items.

Transactions Affecting Comparability of Results of Operations

Acquisitions

We entered into acquisition agreements for the following businesses during 2013 and 2012.

Liongate Capital Management. On May 1, 2013, we finalized the purchase of a 55% interest in Liongate Capital Management (Liongate), a global alternative investment boutique based in London and New York. Liongate is focused on managing portfolios of hedge funds and had $1.4 billion in AUM at the time of acquisition. Liongate is accounted for on the equity method within the Principal Global Investors segment.

AFP Cuprum S.A. On February 4, 2013, we finalized the purchase of Cuprum, a premier pension manager in Chile. As a result of the public tender offer, we initially acquired a 91.55% ownership stake in Cuprum for a purchase price of $1.3 billion. Cuprum had $34.3 billion in AUM at the time of acquisition and is consolidated within the Principal International segment on a one-month lag. For additional information, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 2, Acquisitions.

First Dental Health. On November 1, 2012, we finalized the purchase of a 100% interest in First Dental Health, a California based independent dental preferred provider organization. First Dental Health is consolidated within the U.S. Insurance Solutions segment.

Claritas Administração de Recursos Ltda./Claritas Investments, Ltd. On April 2, 2012, we finalized the purchase of a 60% indirect ownership in Claritas, a leading Brazilian mutual fund and asset management company. The Sao Paulo-based company manages equity funds, balanced funds, managed accounts and other strategies for affluent clients and institutions through its multi-channel distribution network. Claritas had $1.8 billion in AUM at the time of acquisition and is consolidated within the Principal International segment.

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Other

Actuarial Assumption Updates. We periodically review and update actuarial assumptions that are inputs to the models for DAC and other actuarial balances and make improvements as necessary. During third quarter 2013, our review and update did not result in a material impact to net income. During the third quarter of 2012, improvements were made resulting in an unlocking of DAC and other actuarial balances that decreased total company net income by $85.2 million for both the three and nine months ended September 30, 2012.

We updated our actuarial models to reflect the lower interest rate environment in our U.S. operations. The updates to our long-term interest rate assumptions and related refinements to the interest rate component of our actuarial models resulted in an unlocking that negatively impacted operating earnings. The negative unlocking from the lower interest rates was partially offset by the positive impact from the increased expected persistency in our individual annuities business. The net negative segment operating earnings impact was $66.3 million, which was comprised of $55.2 million for our U.S. Insurance Solutions segment and $11.1 million for our Retirement and Investor Services segment.

In addition to the interest rate assumption update, we updated our assumptions and made model refinements that resulted in a net negative unlocking and a $12.9 million decrease to operating earnings in total for the Retirement and Investor Services and U.S. Insurance Solutions segments for both the three and nine months ended September 30, 2012.

Within our individual life insurance business, we have an integrated actuarial model that impacts several line items within our income statement. Operating earnings for the individual life insurance business was negatively impacted $62.9 million for both the three and nine months ended September 30, 2012. The impact on the income statement line items was as follows fee revenues increased $13.5 million; benefits, claims and settlement expenses increased $67.2 million; and operating expenses increased $43.0 million.

Catalyst Health Solutions, Inc. In July 2012, Catalyst Health Solutions, Inc. merged with a wholly-owned subsidiary of SXC Health Solutions Corp. As a result of the merger, we realized an after-tax gain. We subsequently contributed appreciated stock of the ultimate surviving corporation (now known as Catamaran Corp.) to The Principal Financial Group Foundation, Inc. and sold our remaining interest in Catamaran Corp., resulting in a total after-tax net realized capital gain of $141.2 million.

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

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

continuing operations.

With the exception of corporate overhead, amounts related to our group medical insurance business previously included in segment operating earnings have been removed from operating earnings for all periods presented and are reported as other after-tax adjustments. The operating revenues associated with our exited group medical insurance business were $0.5 million and $1.2 million for the three months ended September 30, 2013 and 2012, respectively, and $4.5 million and $24.1 million for the nine months ended September 30, 2013 and 2012, respectively. The other after-tax adjustments associated with the after-tax earnings (loss) of our exited group medical insurance business were $(0.7) million and $(4.1) million for the three months ended September 30, 2013 and 2012, respectively, and $(0.8) million and $(9.6) million for the nine months ended September 30, 2013 and 2012, respectively.

Fluctuations in Foreign Currency to U.S. Dollar Exchange Rates

Fluctuations in foreign currency to U.S. dollar exchange rates for countries in which we have operations can affect reported financial results. In years when foreign currencies weaken against the U.S. dollar, translating foreign currencies into U.S. dollars results in fewer U.S. dollars to be reported. When foreign currencies strengthen, translating foreign currencies into U.S. dollars results in more U.S. dollars to be reported.

Foreign currency exchange rate fluctuations create variances in our financial statement line items but have not had a material impact on our consolidated financial results. Principal International segment operating earnings were negatively impacted by $3.2

million and $4.1 million for the three and nine months ended September 30, 2013, respectively, as a result of fluctuations in foreign currency to U.S. dollar exchange rates. For a discussion of our approaches to managing foreign currency exchange rate risk, see Item 3. Quantitative and Qualitative Disclosures About Market Risk Foreign Currency Risk.

Stock-Based Compensation Plans

For information related to our Stock-Based Compensation Plans, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 12, Stock-Based Compensation Plans.

Employee and Agent Benefits Expense

The 2013 annual defined benefit pension expense for substantially all of our employees and certain agents is expected to be $143.3 million pre-tax, which is a $21.0 million increase from the 2012 pre-tax pension expense of $122.3 million. This increase is primarily due to a decrease in the discount rate from 5.15% for 2012 to 4.00% for 2013. Also, the expected long-term return on plan assets used to develop the 2013 expense decreased to 7.50% from 8.00% used in 2012. Pre-tax pension expense of $35.8 million and $107.3 million was reflected in the determination of net income for the three and nine months ended September 30, 2013, respectively.

The 2013 annual other postemployment benefit (OPEB) plan expense (income) for employees and certain agents is expected to be $(47.0) million pre-tax, which is an $8.2 million decrease from the 2012 pre-tax OPEB income of $(55.2) million. The weighted average expected long-term return on plan assets used to develop the expense (income) in 2013 decreased to 5.62% from 7.30%, which was based on weighted average expected long-term asset returns for the medical, life and long-term care plans. The expected long-term rates for the medical, life and long-term care plans were 5.40%, 7.75% and 5.85%, respectively. The expected rate of return for the medical plans was reduced to 5.40% to reflect the after-tax return on the plan assets resulting from the decision to have taxes paid by the trust instead of Principal Life. The discount rate used to develop the 2013 expense (income) decreased to 4.00%, down from the 5.15% discount rate used in 2012. The pre-tax expense (income) of $(11.7) million and $(35.1) million was reflected in the determination of net income for the three and nine months ended September 30, 2013, respectively.

Recent Accounting Changes

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

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Results of Operations

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

	For the three months ended September 30,			For the nine months ended September 30,		
	2013	**2012**	**Increase (decrease)**	**2013**	**2012**	**Increase (decrease)**
			(in millions)			
Revenues:						
Premiums and other considerations	**$ 703.0**	$ 1,158.2	**$** (455.2)	**$ 2,134.9**	$ 2,519.3	**$** (384.4)
Fees and other revenues	**803.0**	675.0	128.0	**2,340.4**	1,909.1	431.3
Net investment income	**784.5**	783.8	0.7	**2,323.5**	2,409.6	(86.1)
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	**(29.7)**	122.1	(151.8)	**(109.5)**	176.4	(285.9)
Total other-than-temporary impairment losses on available-for-sale securities	**(11.9)**	(43.6)	31.7	**(81.2)**	(126.4)	45.2
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from) other comprehensive income	**(9.3)**	9.2	(18.5)	**8.8**	31.2	(22.4)
Net impairment losses on available-for-sale securities	**(21.2)**	(34.4)	13.2	**(72.4)**	(95.2)	22.8
Net realized capital gains (losses)	**(50.9)**	87.7	(138.6)	**(181.9)**	81.2	(263.1)
Total revenues	**2,239.6**	2,704.7	(465.1)	**6,616.9**	6,919.2	(302.3)
Expenses:						
Benefits, claims and settlement expenses	**1,096.2**	1,647.0	(550.8)	**3,286.4**	3,969.5	(683.1)
Dividends to policyholders	**48.5**	49.7	(1.2)	**144.3**	149.5	(5.2)
Operating expenses	**774.6**	816.4	(41.8)	**2,372.1**	2,101.1	271.0
Total expenses	**1,919.3**	2,513.1	(593.8)	**5,802.8**	6,220.1	(417.3)
Income before income taxes	**320.3**	191.6	128.7	**814.1**	699.1	115.0
Income taxes (benefits)	**61.2**	(7.2)	68.4	**128.4**	100.4	28.0
Net income	**259.1**	198.8	60.3	**685.7**	598.7	87.0
Net income attributable to noncontrolling interest	**5.2**	3.4	1.8	**14.7**	15.3	(0.6)
Net income attributable to Principal Financial Group, Inc.	**253.9**	195.4	58.5	**671.0**	583.4	87.6

Preferred stock dividends		**8.2**		8.2				**24.7**		24.7		
Net income available to common stockholders	$	**245.7**	$	187.2	$	58.5	$	**646.3**	$	558.7	$	87.6

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

Net Income Available to Common Stockholders

Net income available to common stockholders increased primarily due to higher earnings in our U.S. Insurance Solutions segment due to unlocking associated with a change in our long-term interest rate assumptions and model refinements in 2012, which had a negative impact on 2012 earnings. In addition, net income available to common stockholders increased due to higher earnings in our Retirement and Investor Services segment stemming from positive equity market performance and growth in the business. These increases in net income available to common stockholders were partially offset by an after-tax increase in net realized capital losses due to the net after-tax gain in 2012 resulting from the Catalyst Health Solutions, Inc. transaction.

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Total Revenues

Premiums decreased $470.1 million for the Retirement and Investor Services segment primarily due to lower sales of single premium group annuities with life contingencies. The single premium product, which is typically used to fund defined benefit plan terminations, can generate large premiums from very few customers and therefore premiums tend to vary from period to period.

Fee revenues increased $78.0 million for the Retirement and Investor Services segment primarily due to an increase in average account values, which resulted from positive equity market performance and growth in the business. In addition, fee revenues increased $48.6 million for the Principal International segment primarily due to the Cuprum acquisition.

Net investment income increased due to higher inflation-based investment returns on average invested assets and cash as a result of higher inflation in Chile, which was partially offset by the weakening of the Latin American currencies against the U.S. dollar and lower investment yields in our U.S. operations. For additional information, see Investments Investment Results.

Net realized capital gains (losses) can be volatile due to other-than-temporary impairments of invested assets, mark-to-market adjustments of certain invested assets and our decision to sell invested assets. We had net realized capital losses in 2013 as compared to net realized capital gains in 2012 due to a gain associated with the merger of Catalyst Health Solutions, Inc. and the subsequent disposition of our remaining interest in the surviving corporation in the third quarter of 2012. For additional information, see Investments Investment Results.

Total Expenses

Benefits, claims and settlement expenses decreased $523.4 million for the Retirement and Investor Services segment primarily due to a decrease in change in reserves resulting from lower sales of single premium group annuities with life contingencies.

Operating expenses decreased primarily due to a $61.2 million charitable contribution of appreciated stock to The Principal Financial Group Foundation within our Corporate segment in 2012 and unlocking associated with a change in our long-term interest rate assumptions and model refinements within our U.S. Insurance Solutions segment in 2012. Partially offsetting these decreases was an increase in operating expenses within our Principal International segment primarily due to the Cuprum acquisition. In addition, operating expenses increased within our Retirement and Investor Services segment primarily due to higher expenses stemming from growth in the business and positive equity market performance.

Income Taxes

The effective income tax rates were 19% and -4% for the three months ended September 30, 2013 and 2012, respectively. The effective income tax rate for the three months ended September 30, 2013, was lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received, the presentation of taxes on our share of earnings generated from equity method investments reflected in net investment income and lower tax rates of foreign jurisdictions. The effective income tax rate for the three months ended September 30, 2012, was lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received, tax benefits associated with a contribution of appreciated stock made to The Principal Financial Group Foundation, Inc. and a third quarter adjustment to reflect a decrease in our estimated annual effective income tax rate. The effective income tax rate increased to 19% from -4% for the three months ended September 30, 2013 and 2012, respectively, primarily due to tax benefits associated with a third quarter 2012 contribution of appreciated stock made to The Principal Financial Group Foundation, Inc. and higher income before income taxes in third quarter 2013.

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Net Income Available to Common Stockholders

Net income available to common stockholders increased primarily due to higher earnings in our Retirement and Investor Services segment stemming from positive equity market performance and growth in the business. In addition, net income available to common stockholders increased due to higher earnings in our U.S. Insurance Solutions segment due to unlocking associated with a change in our long-term interest rate assumptions and model refinements in the third quarter of 2012, which had a negative impact on 2012 earnings. These increases in net income available to common stockholders were partially offset by an after-tax increase in net realized capital losses due to the net after-tax gain in 2012 resulting from the Catalyst Health Solutions, Inc. transaction.

Total Revenues

Premiums decreased $426.7 million for the Retirement and Investor Services segment primarily due to lower sales of single premium group annuities with life contingencies. The single premium product, which is typically used to fund defined benefit plan terminations, can generate large premiums from very few customers and therefore premiums tend to vary from period to period.

Fee revenues increased $206.0 million for the Retirement and Investor Services segment primarily due to an increase in average account values, which resulted from positive equity market performance and growth in the business. In addition, fee revenues increased $137.1 million for the Principal International segment primarily due to the Cuprum acquisition.

Net investment income decreased primarily due to lower investment yields in our U.S. operations. For additional information, see Investments Investment Results.

Net realized capital losses increased primarily due to a gain associated with the merger of Catalyst Health Solutions, Inc. and the subsequent disposition of our remaining interest in the surviving corporation in the third quarter of 2012 and increased losses on derivatives not designated as hedging instruments. For additional information, see Investments Investment Results.

Total Expenses

Benefits, claims and settlement expenses decreased $572.4 million for the Retirement and Investor Services segment primarily due to a decrease in change in reserves resulting from lower sales of single premium group annuities with life contingencies. In addition, benefits, claims and settlement expenses decreased $120.0 million for the U.S. Insurance Solutions segment primarily due to the change in basis for amortizing DAC and other actuarial balances in the first quarter of 2012 and the result of unlocking associated with a change in our long-term interest rate assumptions and model refinements in the third quarter of 2012.

Operating expenses increased within our U.S. Insurance Solutions segment primarily due to the change in basis for amortizing DAC and other actuarial balances in the first quarter of 2012, partially offset by the result of unlocking associated with a change in our long-term interest rate assumptions and model refinements in the third quarter of 2012. In addition, operating expenses increased within our Retirement and Investor Services segment primarily due to higher expenses stemming from growth in the business and positive equity market performance. Furthermore, operating expenses also increased within our Principal International segment primarily due to acquisition and growth initiatives across the segment. These increases were partially offset by a $61.2 million charitable contribution of appreciated stock to The Principal Financial Group Foundation within our Corporate segment in 2012.

Income Taxes

The effective income tax rates were 16% and 14% for the nine months ended September 30, 2013 and 2012, respectively. The effective income tax rate for the nine months ended September 30, 2013, was lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received, the presentation of taxes on our share of earnings generated from equity method investments in net investment income and lower tax rates of foreign jurisdiction. The effective income tax rate for the nine months ended September 30, 2012, was lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received, the presentation of taxes on our share of earnings generated from equity method investments in net investment income and tax benefits associated with a contribution of appreciated stock made to The Principal Financial Group Foundation, Inc.

Results of Operations by Segment

For results of operations by segment see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 11, Segment Information.

Retirement and Investor Services Segment

Retirement and Investor Services Segment Summary Financial Data

Net revenue is a key metric used to understand Retirement and Investor Services (RIS) earnings growth. Net revenue is defined as operating revenues less benefits, claims and settlement expenses less dividends to policyholders. Net revenue from our Accumulation products is primarily fee based and is impacted by changes in the equity markets. Net revenue from our Guaranteed products is driven by our ability to earn an investment spread. Accumulation net revenue has grown due to improvement in the equity markets as well as growth in the block of business. Guaranteed net revenue has increased due to improvement in variable investment income.

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The following table presents the RIS net revenue for the periods indicated:

	For the three months ended September 30,			For the nine months ended September 30,		
	2013	2012	Increase (decrease)	2013	2012	Increase (decrease)
	(in millions)					
Net revenue:						
Accumulation	**$ 580.9**	$ 512.0	$ 68.9	**$ 1,719.2**	$ 1,501.5	$ 217.7
Guaranteed	**40.2**	37.1	3.1	**137.6**	120.3	17.3
Total Retirement and Investor Services	**$ 621.1**	$ 549.1	$ 72.0	**$ 1,856.8**	$ 1,621.8	$ 235.0

Retirement and Investor Services Segment Summary Financial Data

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

	For the three months ended September 30,			For the nine months ended September 30,		
	2013	2012	Increase (decrease)	2013	2012	Increase (decrease)
	(in millions)					
Operating revenues:						
Premiums and other considerations	**$ 181.4**	$ 651.5	$ (470.1)	**$ 551.5**	$ 978.2	$ (426.7)
Fees and other revenues	**460.1**	382.1	78.0	**1,327.3**	1,121.3	206.0
Net investment income	**495.0**	537.1	(42.1)	**1,508.8**	1,607.5	(98.7)
Total operating revenues	**1,136.5**	1,570.7	(434.2)	**3,387.6**	3,707.0	(319.4)
Expenses:						
Benefits, claims and settlement expenses, including dividends to policyholders	**515.4**	1,021.6	(506.2)	**1,530.8**	2,085.2	(554.4)
Operating expenses	**400.0**	375.8	24.2	**1,194.5**	1,080.0	114.5
Total expenses	**915.4**	1,397.4	(482.0)	**2,725.3**	3,165.2	(439.9)
Operating earnings before income taxes	**221.1**	173.3	47.8	**662.3**	541.8	120.5
Income taxes	**48.2**	35.8	12.4	**147.1**	119.0	28.1
Operating earnings	**$ 172.9**	$ 137.5	$ 35.4	**$ 515.2**	$ 422.8	$ 92.4

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

Operating Earnings

Operating earnings increased $34.1 million in our Accumulation business primarily due to positive equity market performance and growth in the business.

Net Revenue

Net revenue increased $68.9 million in our Accumulation business primarily due to higher fees stemming from an increase in average account values, which resulted from positive equity market performance and growth in the business.

Operating Expenses

Operating expenses increased $23.3 million in our Accumulation business primarily due to an increase in non-deferrable distribution costs resulting from growth in the business, higher staff-related costs, including pension and other postretirement benefit expense, and an increase in sub-advisory fees stemming from positive equity market performance. These increases were partially offset by lower DAC amortization, resulting primarily from our review and update of our actuarial assumptions in 2012.

Income Taxes

The effective income tax rates for the segment were 22% and 21% for the three months ended September 30, 2013 and 2012, respectively. The effective income tax rates were lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received and the interest exclusion from taxable income.

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Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Operating Earnings

Operating earnings increased $82.1 million in our Accumulation business primarily due to positive equity market performance and growth in the business.

Net Revenue

Net revenue increased $217.7 million in our Accumulation business primarily due to higher fees stemming from an increase in average account values, which resulted from positive equity market performance and growth in the business.

Operating Expenses

Operating expenses increased $113.4 million in our Accumulation business primarily due to an increase in non-deferrable distribution costs resulting from growth in the business, higher sub-advisory fees stemming from positive equity market performance and an increase in staff-related costs, including pension and other postretirement benefit expense.

Income Taxes

The effective income tax rate for the segment was 22% for both the nine months ended September 30, 2013 and 2012. The effective income tax rate was lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received and the interest exclusion from taxable income.

Principal Global Investors Segment

Principal Global Investors Segment Summary Financial Data

AUM is a key indicator of earnings growth for our Principal Global Investors segment, as AUM is the base by which we generate revenues. Net cash flow and market performance are the two main drivers of AUM growth. Net cash flow reflects our ability to attract and retain client deposits. Market performance reflects equity, fixed income and real estate market performance. The percentage growth in revenues of the segment will generally track with the percentage growth in AUM. This trend may vary due to changes in business and/or product mix.

The following table presents the AUM rollforward for assets managed by Principal Global Investors for the periods indicated:

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
	(in billions)			
AUM, beginning of period	**$ 271.2**	$ 243.9	**$ 263.2**	$ 227.8
Net cash flow	**1.8**	4.6	**3.2**	11.2
Investment performance	**8.6**	8.8	**16.9**	20.1
Operations acquired (1)			**1.4**	
Other		1.1	**(3.1)**	(0.7)
AUM, end of period	**$ 281.6**	$ 258.4	**$ 281.6**	$ 258.4

(1) Reflects the acquisition of Liongate in May 2013.

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

	For the three months ended September 30,			For the nine months ended September 30,		
	2013	**2012**	**Increase (decrease)**	**2013**	**2012**	**Increase (decrease)**
			(in millions)			
Operating revenues:						
Fees and other revenues	**$ 158.8**	$ 141.2	$ 17.6	**$ 474.0**	$ 413.8	$ 60.2
Net investment income	**2.1**	2.8	(0.7)	**8.8**	9.4	(0.6)
Total operating revenues	**160.9**	144.0	16.9	**482.8**	423.2	59.6
Expenses:						
Total expenses	**121.0**	110.0	11.0	**360.3**	332.1	28.2
Operating earnings before income taxes and noncontrolling interest	**39.9**	34.0	5.9	**122.5**	91.1	31.4
Income taxes	**12.7**	10.5	2.2	**40.1**	29.4	10.7
Operating earnings attributable to noncontrolling interest	**4.1**	2.9	1.2	**10.0**	6.7	3.3
Operating earnings	**$ 23.1**	$ 20.6	$ 2.5	**$ 72.4**	$ 55.0	$ 17.4

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

Operating Earnings

Operating earnings increased primarily due to higher fee revenues driven by an increase in average AUM. These increases were partially offset by higher variable compensation costs resulting from growth in the business.

Income Taxes

The effective income tax rates for the segment were 32% and 31% for the three months ended September 30, 2013 and 2012, respectively. The effective income tax rates were lower than the U.S. statutory rate primarily due to the inclusion of income attributable to noncontrolling interest in operating earnings before income taxes with no corresponding change in income taxes reported by us as the controlling interest.

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Operating Earnings

Operating earnings increased primarily due to higher fee revenues driven by an increase in average AUM as well as a performance fee realized in our real estate business. These increases were partially offset by higher variable compensation costs resulting from growth in the business.

Income Taxes

The effective income tax rates for the segment were 33% and 32% for the nine months ended September 30, 2013 and 2012, respectively. The effective income tax rates were lower than the U.S. statutory rate primarily due to the inclusion of income attributable to noncontrolling interest in operating earnings before income taxes with no corresponding change in income taxes reported by us as the controlling interest.

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Principal International Segment

Principal International Segment Summary Financial Data

AUM is generally a key indicator of earnings growth for the segment, as AUM is the base by which we can generate local currency profits. The Cuprum business in Chile differs in that the majority of fees are collected with each deposit by the mandatory retirement customers, based on a capped salary level, as opposed to asset levels. Net customer cash flow and market performance are the two main drivers of local currency AUM growth. Net customer cash flow reflects our ability to attract and retain client deposits. Market performance reflects the investment returns on our underlying AUM. Our financial results are also impacted by fluctuations of the foreign currency to U.S. dollar exchange rates for the countries in which we have business. AUM of our foreign subsidiaries is translated into U.S. dollar equivalents at the end of the reporting period using the spot foreign exchange rates. Revenue and expenses for our foreign subsidiaries are translated into U.S. dollar equivalents at the average foreign exchange rates for the reporting period.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
	(in billions)			
AUM, beginning of period	**$ 102.9**	$ 60.3	**$ 69.3**	$ 52.8
Net cash flow	**1.1**	2.7	**5.8**	7.3
Investment performance	**0.5**	1.9	**0.8**	5.5
Operations acquired (1)		0.2	**34.3**	2.0
Effect of exchange rates	**(1.5)**	1.1	**(7.2)**	(1.2)
Other	**(0.1)**		**(0.1)**	(0.2)
AUM, end of period	**$ 102.9**	$ 66.2	**$ 102.9**	$ 66.2

(1) Reflects the April 2012 acquisition of Claritas in Brazil and the February 2013 acquisition of Cuprum in Chile.

Net revenue is a key metric used to understand the earnings growth for the Principal International segment. The following table presents the net revenue of the Principal International segment for the periods indicated.

	For the three months ended September 30,			For the nine months ended September 30,		
	2013	2012	Increase (decrease)	2013	2012	Increase (decrease)
	(in millions)					
Net revenue	**$ 141.3**	$ 94.4	$ 46.9	**$ 412.3**	$ 275.1	$ 137.2

Net revenue increased primarily due to the Cuprum acquisition in Chile.

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

	For the three months ended September 30,			For the nine months ended September 30,		
	2013	**2012**	**Increase (decrease)**	**2013**	**2012**	**Increase (decrease)**
			(in millions)			
Operating revenues:						
Premiums and other considerations	**$ 75.8**	$ 65.3	$ 10.5	**$ 225.6**	$ 213.6	$ 12.0
Fees and other revenues	**107.1**	58.5	48.6	**296.3**	159.2	137.1
Net investment income	**120.4**	80.0	40.4	**304.0**	304.1	(0.1)
Total operating revenues	**303.3**	203.8	99.5	**825.9**	676.9	149.0
Expenses:						
Benefits, claims and settlement expenses	**162.0**	109.4	52.6	**413.6**	401.8	11.8
Operating expenses	**86.8**	54.9	31.9	**242.1**	160.3	81.8
Total expenses	**248.8**	164.3	84.5	**655.7**	562.1	93.6
Operating earnings before income taxes and noncontrolling interest	**54.5**	39.5	15.0	**170.2**	114.8	55.4
Income taxes	**3.2**	2.1	1.1	**12.7**	1.8	10.9
Operating earnings attributable to noncontrolling interest	**0.6**	0.4	0.2	**3.9**	0.4	3.5
Operating earnings	**$ 50.7**	$ 37.0	$ 13.7	**$ 153.6**	$ 112.6	$ 41.0

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

Operating Earnings

Operating earnings increased primarily due to the Cuprum acquisition.

Operating Revenues

Premiums increased $10.6 million in Chile primarily due to higher sales of single premium annuities with life contingencies partially offset by the weakening of the Chilean peso against the U.S. dollar.

Fees and other revenues increased primarily due to the Cuprum acquisition.

Net investment income increased primarily due to higher inflation-based investment returns on average invested assets and cash as a result of higher inflation in Chile partially offset by the weakening of the Latin American currencies against the U.S. dollar.

Total Expenses

Benefits, claims and settlement expenses increased primarily due to higher inflation-based interest crediting rates to customers and higher sales of single premium annuities with life contingencies in Chile.

Operating expenses increased primarily due to the Cuprum acquisition.

Income Taxes

The effective income tax rates for the segment were 6% and 5% for the three months ended September 30, 2013 and 2012, respectively. The effective income tax rates were lower than the U.S. statutory rate primarily due to the presentation of taxes on our share of earnings generated from our equity method investments. Specifically, our share of earnings generated from equity method investments, net of foreign taxes incurred, are reported within net investment income whereas any residual U.S. tax expense or benefit related to equity method investments is reported in income taxes. Lower tax rates of foreign jurisdictions also contributed to the lower effective income tax rates.

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Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Operating Earnings

Operating earnings increased primarily due to the Cuprum acquisition.

Operating Revenues

Premiums increased $12.1 million in Chile primarily due to higher sales of single premium annuities with life contingencies.

Fees and other revenues increased primarily due to the Cuprum acquisition.

Net investment income decreased primarily due to lower inflation-based investment returns on average invested assets and cash as a result of lower inflation in Chile and Mexico partially offset by higher average invested assets in Chile.

Total Expenses

Benefits, claims and settlement expenses increased $13.3 million in Chile primarily due to higher sales of single premium annuities with life contingencies partially offset by lower inflation-based interest crediting rates to customers.

Operating expenses increased primarily due to acquisition and growth initiatives across the segment.

Income Taxes

The effective income tax rates for the segment were 7% and 2% for the nine months ended September 30, 2013 and 2012, respectively. The effective income tax rates were lower than the U.S. statutory rate primarily due to taxes on our share of earnings generated from our equity method investments. Specifically, our share of earnings generated from equity method investments, net of foreign taxes incurred, are reported within net investment income whereas any residual U.S. tax expense or benefit related to equity method investments is reported in income taxes. Lower tax rates of foreign jurisdictions also contributed to the lower effective income tax rates. The effective income tax rate increased to 7% from 2% for the nine months ended September 30, 2013 and 2012, respectively, primarily due to the Cuprum acquisition in Chile, which

increased our distribution of operating earnings from our consolidated entities compared to our equity method investments. This was partially offset by lower tax rates of foreign jurisdictions.

U.S. Insurance Solutions Segment

Individual Life Insurance Trends

Our life insurance premium and fees are influenced by both economic and industry trends. Due to the declining interest rate environment in recent years, we have intentionally increased sales of non-interest sensitive traditional products.

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

	For the three months ended September 30, 2013	For the three months ended September 30, 2012	For the nine months ended September 30, 2013	For the nine months ended September 30, 2012
	(in millions)			
Universal and variable universal life insurance fee revenues (1)	**$ 130.9**	$ 138.5	**$ 398.4**	$ 331.7
Traditional life insurance premiums	**121.8**	122.0	**380.0**	371.0

(1) Fee revenues for the three and nine months ended September 30, 2012, reflect a $13.5 million increase due to unearned revenue unlocking associated with a change in our long-term interest rate assumptions and model refinements. Fee revenues for the nine months ended September 30, 2012, reflects a $46.6 million reduction due to unlocking of unearned revenue associated with the change in basis for amortizing DAC and other actuarial balances in the first quarter of 2012.

Specialty Benefits Insurance Trends

Premium and fees in our specialty benefits insurance business are also influenced by economic and industry trends. Premium and fees have risen slower in recent years due to more moderate increases in underlying salaries and lower membership growth in existing group contracts.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
	(in millions)			
Premium and fees:				
Group dental and vision insurance	**$ 145.4**	$ 144.0	**$ 436.8**	$ 431.8
Group life insurance	**85.5**	81.6	**251.8**	245.4
Group disability insurance	**76.7**	73.5	**227.4**	217.1
Individual disability insurance	**64.3**	59.7	**190.1**	174.7
Wellness (1)		1.8	**4.9**	6.8

(1) On July 1, 2013, we completed the transfer of ownership of Principal Wellness Company to Accountable Health, Inc. We have an equity interest in Accountable Health, Inc., which is reflected in the Corporate segment.

U.S. Insurance Solutions Segment Summary Financial Data

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

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

	For the three months ended September 30,			For the nine months ended September 30,		
	2013	2012	Increase (decrease)	2013	2012	Increase (decrease)
	(in millions)					
Operating revenues:						
Premiums and other considerations	**$ 445.7**	$ 441.3	$ 4.4	**$ 1,354.5**	$ 1,324.7	$ 29.8
Fees and other revenues (1)	**142.2**	151.7	(9.5)	**437.8**	373.1	64.7
Net investment income	**179.7**	173.5	6.2	**526.3**	517.2	9.1
Total operating revenues	**767.6**	766.5	1.1	**2,318.6**	2,215.0	103.6
Expenses:						
Benefits, claims and settlement expenses (1)	**446.2**	524.4	(78.2)	**1,383.8**	1,494.9	(111.1)
Dividends to policyholders	**48.0**	49.2	(1.2)	**143.1**	148.0	(4.9)
Operating expenses (1)	**193.2**	229.2	(36.0)	**590.0**	460.8	129.2
Total expenses	**687.4**	802.8	(115.4)	**2,116.9**	2,103.7	13.2
Operating earnings (losses) before income taxes	**80.2**	(36.3)	116.5	**201.7**	111.3	90.4

Income taxes (benefits)		**26.2**		(14.7)		40.9		**64.8**		32.5	32.3
Operating earnings (losses)	**$**	**54.0**	$	(21.6)	$	75.6	**$**	**136.9**	$	78.8	$ 58.1

(1) For further details related to the impact associated with the actuarial assumption update and the change in basis for

amortizing DAC and other actuarial balances on results for the three and nine months ended September 30, 2012, see Transactions Affecting Comparability of Results of Operations Actuarial Assumption Updates and Individual Life Insurance Amortization.

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

Operating Earnings

Operating earnings increased $60.2 million in our individual life insurance business primarily due to unfavorable unlocking associated with a change in our long-term interest rate assumptions and model refinements in 2012, partially offset by higher mortality in 2013. Operating earnings in our specialty benefits insurance business increased $15.4 million primarily due to improved claim experience and growth in our business.

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Operating Revenues

Premiums increased $12.3 million in our specialty benefits insurance business primarily due to growth as a result of solid sales in the block of business and stable employment and salary trends. This increase was partially offset by a decrease in premiums of $7.9 million in our individual life insurance business primarily due to higher ceded premium in our universal life and variable universal life lines of business.

Fees and other revenues decreased $8.5 million in our individual life insurance business primarily due to unearned revenue unlocking associated with a change in our long-term interest rate assumptions and model refinements in 2012.

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

Total Expenses

Benefits, claims and settlement expenses decreased $63.0 million in our individual life insurance business primarily due to unlocking associated with a change in our long-term interest rate assumptions and model refinements in 2012, partially offset by higher mortality in 2013. Benefits, claims and settlements expenses in our specialty benefits insurance business decreased $15.2 million due to improved claim experience, somewhat offset by growth in the business.

Operating expenses decreased $36.0 million primarily due to unlocking associated with a change in our long-term interest rate assumptions and model refinements in our individual life insurance business in 2012.

Income Taxes

The effective income tax rates for the segment were 33% and 40% for the three months ended September 30, 2013 and 2012, respectively. The effective income tax rate for the three months ended September 30, 2013, was lower than the U.S. statutory rate primarily due to interest exclusion from taxable income and income tax deductions allowed for corporate dividends received. The effective income tax rate for the three months ended September 30, 2012, reflects the pre-tax operating loss incurred and the benefits from the interest exclusion from taxable income and income tax deductions allowed for corporate dividends received. The effective income tax rate decreased to 33% from 40% for the three months ended September 30, 2013 and 2012, respectively, primarily due to the higher pre-tax income in third quarter 2013.

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Operating Earnings

Operating earnings increased $37.3 million in our individual life insurance business primarily due to unfavorable unlocking associated with a change in our long-term interest rate assumptions and model refinements in the third quarter of 2012, partially offset by higher mortality and an increase in reserves associated with growth in our lines of business in 2013. In addition, operating earnings in our specialty benefits insurance business increased $20.8 million primarily due to improved claim experience, partially offset by higher staff-related costs, including pension and other postretirement benefit expense.

Operating Revenues

Premiums increased $35.2 million in our specialty benefits insurance business primarily due to growth as a result of solid sales in the block of business and stable employment and salary trends.

Fees and other revenues increased $64.8 million in our individual life insurance business primarily due to unlocking of unearned revenue associated with the change in basis for amortizing DAC and other actuarial balances in the first quarter of 2012 and growth in our universal life and variable universal life lines of business in 2013. This increase was partially offset by a decrease in fees and revenues due to unlocking associated with a change in our long-term interest rate assumptions and model refinements in the third quarter of 2012.

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Total Expenses

Total expense increased $7.7 million in our individual life insurance business primarily due to the change in basis for amortizing DAC and other actuarial balances in the first quarter of 2012, higher mortality and growth in 2013. These increases were partially offset by a decrease in operating expenses due to unlocking associated with the change in our long-term interest rate assumptions and model refinements in the third quarter of 2012. In addition, total expenses increased $5.7 million in our specialty benefit insurance business due to growth and higher staff related costs, including pension and other postretirement benefits, partially offset by improved claim experience.

Income Taxes

The effective income tax rates for the segment were 32% and 29% for the nine months ended September 30, 2013 and 2012, respectively. The effective income tax rates were lower than the U.S. statutory rate primarily due to interest exclusion from taxable income and income tax deductions allowed for corporate dividends received.

Corporate Segment

Corporate Segment Summary Financial Data

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

	For the three months ended September 30,			For the nine months ended September 30,		
	2013	2012	Increase (decrease)	2013	2012	Increase (decrease)
	(in millions)					
Total operating revenues	**$ (52.5)**	$ (46.4)	$ (6.1)	**$ (149.1)**	$ (139.8)	$ (9.3)
Total expenses	**(9.7)**	(6.4)	(3.3)	**(9.1)**	(18.4)	9.3
Operating loss before income taxes, preferred stock dividends and noncontrolling interest	**(42.8)**	(40.0)	(2.8)	**(140.0)**	(121.4)	(18.6)
Income tax benefits	**(19.8)**	(17.1)	(2.7)	**(61.1)**	(45.4)	(15.7)
Preferred stock dividends	**8.2**	8.2		**24.7**	24.7	
Operating earnings attributable to noncontrolling interest	**0.3**	0.1	0.2	**0.6**		0.6
Operating loss	**$ (31.5)**	$ (31.2)	$ (0.3)	**$ (104.2)**	$ (100.7)	$ (3.5)

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

Operating Loss

The operating loss increased due to higher after-tax interest expense on corporate debt.

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Operating Loss

The operating loss increased primarily due to higher after-tax interest expense on corporate debt. The one-time costs associated with the first quarter 2013 acquisition of Cuprum were largely offset by interest income earned on the assets used to fund the Cuprum acquisition.

Liquidity and Capital Resources

Liquidity and capital resources represent the overall strength of a company and its ability to generate strong cash flows, borrow funds at a competitive rate and raise new capital to meet operating and growth needs. Our legal entity structure has an impact on our ability to meet cash flow needs as an organization. Following is a simplified organizational structure.

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Liquidity

Our liquidity requirements have been and will continue to be met by funds from consolidated operations as well as the issuance of commercial paper, common stock, debt or other capital securities and borrowings from credit facilities. We believe that cash flows from these sources are sufficient to satisfy the current liquidity requirements of our operations, including reasonably foreseeable contingencies.

We maintain a level of cash and securities which, combined with expected cash inflows from investments and operations, is believed to be adequate to meet anticipated short-term and long-term payment obligations. We will continue our prudent capital management practice of regularly exploring options available to us to maximize capital flexibility, including accessing the capital markets and careful attention to and management of expenses.

We perform rigorous liquidity stress testing to ensure our asset portfolio includes sufficient high quality liquid assets which could be utilized to bolster our liquidity position under increasingly stressed market conditions. These assets could be utilized as collateral for secured borrowing transactions with various third parties, or by selling the securities in the open market if needed. As of September 30, 2013, approximately $9.9 billion, or 99%, of our institutional guaranteed investment contracts and funding agreements cannot be redeemed by contractholders prior to maturity. Our life insurance and annuity liabilities contain provisions limiting early surrenders.

As of September 30, 2013 and December 31, 2012, we had short-term credit facilities with various financial institutions in an aggregate amount of $1,105.0 million and $905.0 million, respectively. As of September 30, 2013 and December 31, 2012, we had $175.5 million and $40.8 million, respectively, of outstanding borrowings, with no assets pledged as support as of September 30, 2013. Our credit facilities include a $500.0 million 4-year facility that matures in March 2016, with PFG, PFS and Principal Life as co-borrowers. We also have a $300.0 million 364-day facility for Principal Life only that was refinanced in April 2013. Also in April 2013, we added a $200.0 million 3-year facility with PFG, PFS, Principal Life and Principal Financial Services V (UK) LTD as borrowers. These credit facilities are committed facilities and provide 100% back-stop support for our commercial paper program. The 4-year facility is supported by eighteen banks; the 364-day facility and 3-year facility are supported by fifteen banks, most of which have other relationships with us. Due to the financial strength and the strong relationships we have with these providers, we are comfortable there is a very low risk the financial institutions would be unable or unwilling to fund these facilities.

The Holding Companies: Principal Financial Group, Inc. and Principal Financial Services, Inc. The principal sources of funds available to our parent holding company, PFG, to meet its obligations, including the payments of dividends on common stock, debt service and the repurchase of stock, are dividends from subsidiaries as well as its ability to borrow funds at competitive rates and raise capital to meet operating and growth needs. The declaration and payment of common stock dividends by us is subject to the discretion of our Board of Directors and will depend on our overall financial condition, results of operations, capital levels, cash requirements, future prospects, receipt of dividends from Principal Life (as described below), risk management considerations and other factors deemed relevant by the Board. There are no significant restrictions that limit the payment of dividends by PFG, except those generally applicable to corporations incorporated in Delaware. Dividends from Principal Life, our primary subsidiary, are limited by Iowa law.

Under Iowa laws, Principal Life may pay dividends only from the earned surplus arising from its business and must receive the prior approval of the Insurance Commissioner of the State of Iowa (the Commissioner) to pay stockholder dividends or make any other distribution if such distributions would exceed certain statutory limitations. Iowa law gives the Commissioner discretion to disapprove requests for distributions in excess of these limits. Extraordinary dividends include those made within the preceding twelve months that exceed the greater of (i) 10% of Principal Life s statutory policyholder surplus as of the previous year-end or (ii) the statutory net gain from operations from the previous calendar year. Based on December 31, 2012, statutory results, the dividend limitation for Principal Life is approximately $472.0 million. No stockholder dividends were paid by Principal Life to its parent as of

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September 30, 2013, however, on September 28, 2013, Principal Life distributed paid-in and contributed surplus in the amount of $150.0 million to its parent company.

Operations. Our primary consolidated cash flow sources are premiums from insurance products, pension and annuity deposits, asset management fee revenues, administrative services fee revenues, income from investments and proceeds from the sales or maturity of investments. Cash outflows consist primarily of payment of benefits to policyholders and beneficiaries, income and other taxes, current operating expenses, payment of dividends to policyholders, payments in connection with investments acquired, payments made to acquire subsidiaries, payments relating to policy and contract surrenders, withdrawals, policy loans, interest payments and repayment of short-term debt and long-term debt. Our investment strategies are generally intended to provide adequate funds to pay benefits without forced sales of investments. For a discussion of our investment objectives, strategies and a discussion of duration matching, see Investments as well as Item 3. Quantitative and Qualitative Disclosures About Market Risk Interest Rate Risk.

Cash Flows. Activity, as reported in our consolidated statements of cash flows, provides relevant information regarding our sources and uses of cash. The following discussion of our operating, investing and financing portions of the cash flows excludes cash flows attributable to the separate accounts.

Net cash provided by operating activities was $1,397.9 million and $2,373.7 million for the nine months ended September 30, 2013 and 2012, respectively. From our insurance business, we typically generate positive cash flows from operating activities, as premiums collected from our insurance products and income received from our investments exceed acquisition costs, benefits paid, redemptions and operating expenses. These positive cash flows are then invested to support the obligations of our insurance and investment products and required capital supporting these products. Our cash flows from operating activities are affected by the timing of premiums, fees and investment income received and benefits and expenses paid. The decrease in cash provided by operating activities in 2013 compared to 2012 is primarily due to fluctuations in receivables and payables associated with the timing of settlements.

Net cash used in investing activities was $1,432.8 million and $1,719.2 million for the nine months ended September 30, 2013 and 2012, respectively. The decrease in cash used in investing activities in 2013 compared to 2012 is primarily the result of fewer net purchases of investments in the current year. This decrease is largely offset by the first quarter 2013 acquisition of Cuprum.

Net cash used in financing activities was $2,435.2 million and $1,209.4 million for the nine months ended September 30, 2013 and 2012, respectively. The increase in cash used in financing activities is primarily due to net repayments of debt in 2013, as compared to net borrowings in 2012. Additionally, cash used in financing activities increased due to the transfer of certain Principal Bank deposits as part of the bank s transformation to a limited purpose trust institution.

Shelf Registration. On May 24, 2011, our shelf registration statement was filed with the SEC and became effective. The shelf registration replaces the shelf registration that had been in effect since June 2008. Under our current shelf registration, we have the ability to issue in unlimited amounts, unsecured senior debt securities or subordinated debt securities, junior subordinated debt, preferred stock, common stock, warrants, depository shares, stock purchase contracts and stock purchase units of PFG, trust preferred securities of three subsidiary trusts and guarantees by PFG of these trust preferred securities. Our wholly owned subsidiary, PFS, may guarantee, fully and unconditionally or otherwise, our obligations with respect to any non-convertible securities, other than common stock, described in the shelf registration.

Preferred Stock Dividend Restrictions and Payments. The certificates of designation for the Series A and B Preferred Stock restrict the declaration of preferred dividends if we fail to meet specified capital adequacy, net income or stockholders equity levels. As of September 30, 2013, we have no preferred dividend restrictions. The dividend payments on our preferred stock are not mandatory or cumulative, as our Board of Directors approves each quarterly dividend payment.

Short-Term Debt. The components of short-term debt were as follows:

	September 30, 2013	December 31, 2012
	(in millions)	
Short-term credit facilities	**$ 135.3**	$
Other recourse short-term debt	**40.2**	40.8
Total short-term debt	**$ 175.5**	$ 40.8

Long-Term Debt. As of September 30, 2013, there have been no significant changes to long-term debt since December 31, 2012.

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

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	September 30, 2013	December 31, 2012
	(in millions)	
Dividends to stockholders	**$ (211.7)**	$ (231.3)
Repurchase of common stock	**(153.4)**	(272.7)
Total cash returned to stockholders	**$ (365.1)**	$ (504.0)

For additional stockholders equity information, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 9, Stockholders Equity.

Capitalization

The following table summarizes our capital structure:

	September 30, 2013	December 31, 2012
	(in millions)	
Debt:		
Short-term debt	**$ 175.5**	$ 40.8
Long-term debt	**2,593.3**	2,671.3
Total debt	**2,768.8**	2,712.1
Equity excluding AOCI	**9,296.1**	9,043.1
Total capitalization excluding AOCI	**$ 12,064.9**	$ 11,755.2
Debt to equity excluding AOCI	**30%**	30%
Debt to capitalization excluding AOCI	**23%**	23%

As of September 30, 2013, we had $216.5 million of excess capital in the holding companies, consisting of cash and highly liquid assets available for debt maturities, interest, preferred stock dividends and other holding company obligations. In addition, we continue to maintain sufficient capital levels in Principal Life based on our current financial strength ratings.

Contractual Obligations and Contractual Commitments

As of September 30, 2013, there have been no significant changes to contractual obligations and contractual commitments since December 31, 2012.

Off-Balance Sheet Arrangements

Variable Interest Entities. We have relationships with various types of special purpose entities and other entities where we have a variable interest as described in Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 3, Variable Interest Entities.

Guarantees and Indemnifications. As of September 30, 2013, there have been no significant changes to guarantees and indemnifications since December 31, 2012. For guarantee and indemnification information, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 8, Contingencies, Guarantees and Indemnifications under the caption, Guarantees and Indemnifications.

Financial Strength Rating and Credit Ratings

Our ratings are influenced by the relative ratings of our peers/competitors as well as many other factors including our operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage (i.e., debt), risk exposures, operating leverage, ratings and other factors.

In a semi-annual review completed in October, Fitch affirmed the financial strength ratings of PFG and its subsidiaries noting PFG s strong capitalization and stable, balanced operating profitability. The outlook remains as negative which reflects concerns related to execution risk associated with our ongoing integration of Cuprum, combined with financial leverage at the high end of rating expectations.

A.M. Best affirmed a stable outlook on the U.S. life insurance sector. Fitch and Standard & Poor s maintain a stable outlook, and Moody s maintains a negative outlook. Regardless of their published outlook on the sector, these rating agencies note that current

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challenges for the industry are the result of sustained low interest rates, global sovereign uncertainty, equity market volatility, and lingering unemployment and fiscal tightening.

In early July, following a review of PFG and its subsidiaries under its revised criteria, Standard & Poor s affirmed the financial strength rating of Principal Life and Principal National Life Insurance Company. The outlook was revised to stable from negative . The change in outlook reflects Standard & Poor s positive view of our solid operating performance, diversification by product line and geography, as well as financial leverage, fixed charge coverage and capital adequacy supportive of the ratings.

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

	A.M. Best	Fitch	Standard & Poor s	Moody s
Principal Financial Group				
Senior Unsecured Debt (1)	a-		BBB+	Baa1
Preferred Stock (2)	bbb		BBB-	Baa3
Principal Financial Services				
Senior Unsecured Debt	a-		BBB+	A3
Commercial Paper	AMB-1		A-2	P-2
Principal Life Insurance Company				
Insurer Financial Strength	A+	AA-	A+	Aa3
Issuer Credit Rating	aa-			
Commercial Paper	AMB-1+		A-1+	P-1
Surplus Notes	a		A-	A2
Enterprise Risk Management Rating			Strong	
Principal National Life Insurance Company				
Insurer Financial Strength	A+	AA-	A+	Aa3

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

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

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels for disclosure purposes. The fair value hierarchy gives the highest priority (Level 1) to quoted prices in active markets for identical assets or liabilities and gives the lowest priority (Level 3) to unobservable inputs. An asset or liability s classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. See Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 10, Fair Value Measurements for further details, including a reconciliation of changes in Level 3 fair value measurements.

As of September 30, 2013, 36% of our net assets (liabilities) were Level 1, 61% were Level 2 and 3% were Level 3. Excluding separate account assets as of September 30, 2013, 1% of our net assets (liabilities) were Level 1, 98% were Level 2 and 1% were Level 3.

As of December 31, 2012, 41% of our net assets (liabilities) were Level 1, 55% were Level 2 and 4% were Level 3. Excluding separate account assets as of December 31, 2012, 2% of our net assets (liabilities) were Level 1, 97% were Level 2 and 1% were Level 3.

Changes in Level 3 Fair Value Measurements

Net assets (liabilities) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of September 30, 2013, were $5,460.9 million as compared to $4,987.4 million as of December 31, 2012. The increase was primarily related to gains on other invested assets and real estate included in our separate account assets, as well as gains on bifurcated embedded derivatives in investment-type insurance contracts and derivative liabilities.

Net assets (liabilities) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of September 30, 2012, were $4,852.2 million as compared to $4,647.3 million as of December 31, 2011. The increase was primarily related to gains on other invested assets and real estate included in our separate account assets. This increase was largely offset by

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sales and net transfers out of Level 3 into Level 2 for certain fixed maturities, available-for-sale. The transfers out of Level 3 were due to our obtaining prices from third party pricing vendors or using internal models based on substantially observable market information versus relying on broker quotes or utilizing significant unobservable inputs.

Investments

We had total consolidated assets as of September 30, 2013, of $201,687.4 million, of which $67,268.3 million were invested assets. The rest of our total consolidated assets are comprised primarily of separate account assets for which we do not bear investment risk. Because we generally do not bear any investment risk on assets held in separate accounts, the discussion and financial information below does not include such assets.

Overall Composition of Invested Assets

Invested assets as of September 30, 2013, were predominantly high quality and broadly diversified across asset class, individual credit, industry and geographic location. Asset allocation is determined based on cash flow and the risk/return requirements of our products. As shown in the following table, the major categories of invested assets are fixed maturities and commercial mortgage loans. The remainder is invested in other investments, residential mortgage loans, real estate and equity securities. In addition, policy loans are included in our invested assets.

	September 30, 2013		December 31, 2012	
	Carrying amount	% of total	Carrying amount	% of total
	($ in millions)			
Fixed maturities:				
Public	**$ 34,367.7**	**51%**	$ 36,136.2	52%
Private	**15,120.1**	**22**	15,429.8	22
Equity securities	**780.2**	**1**	389.3	1
Mortgage loans:				
Commercial	**10,615.9**	**16**	10,183.3	15
Residential	**1,252.2**	**2**	1,336.4	2
Real estate held for sale	**168.3**		87.0	
Real estate held for investment	**1,110.3**	**2**	1,093.3	2
Policy loans	**859.6**	**1**	864.9	1
Other investments	**2,994.0**	**5**	3,291.1	5
Total invested assets	**67,268.3**	**100%**	68,811.3	100%
Cash and cash equivalents	**1,707.1**		4,177.2	
Total invested assets and cash	**$ 68,975.4**		$ 72,988.5	

Investment Results

Net Investment Income

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

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	For the three months ended September 30, 2013		2012		Increase (decrease) 2013 vs. 2012		For the nine months ended September 30, 2013		2012		Increase (decrease) 2013 vs. 2012	
	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
	($ in millions)											
Fixed maturities	**5.0%**	**$ 594.9**	4.9%	$ 598.8	0.1%	$ (3.9)	**4.9%**	**$ 1,754.6**	5.1%	$ 1,857.3	(0.2)%	$ (102.7)
Equity securities	**(1.6)**	**(3.3)**	3.6	3.3	(5.2)	(6.6)	**1.3**	**5.7**	3.6	11.7	(2.3)	(6.0)
Mortgage loans commercial	**5.1**	**136.9**	5.7	140.9	(0.6)	(4.0)	**5.2**	**406.6**	5.8	420.6	(0.6)	(14.0)
Mortgage loans residential	**6.7**	**21.0**	4.1	13.7	2.6	7.3	**5.2**	**50.3**	5.3	53.8	(0.1)	(3.5)
Real estate	**4.1**	**13.0**	7.8	23.2	(3.7)	(10.2)	**4.5**	**42.0**	5.5	47.8	(1.0)	(5.8)
Policy loans	**5.8**	**12.5**	6.1	13.2	(0.3)	(0.7)	**5.8**	**37.4**	6.2	40.8	(0.4)	(3.4)
Cash and cash equivalents	**0.6**	**2.2**	0.5	2.6	0.1	(0.4)	**0.5**	**12.2**	0.4	6.9	0.1	5.3
Other investments	**3.5**	**26.2**	1.0	7.7	2.5	18.5	**3.0**	**71.6**	1.4	31.9	1.6	39.7
Total before investment expenses	**4.8**	**803.4**	4.8	803.4			**4.6**	**2,380.4**	4.8	2,470.8	(0.2)	(90.4)
Investment expenses	**(0.1)**	**(18.9)**	(0.1)	(19.6)		0.7	**(0.1)**	**(56.9)**	(0.1)	(61.2)		4.3
Net investment income	**4.7%**	**$ 784.5**	4.7%	$ 783.8	%	$ 0.7	**4.5%**	**$ 2,323.5**	4.7%	$ 2,409.6	(0.2)%	$ (86.1)

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

Net investment income increased due to higher inflation-based investment returns on average invested assets and cash as a result of higher inflation in Chile, partially offset by the weakening of the Latin American currencies against the U.S. dollar. This increase was offset by a decrease in net investment income due to lower yields offset by an increase in average invested assets and cash in our U.S. operations.

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Net investment income decreased primarily due to lower investment yields offset by an increase in average invested assets and cash in our U.S. operations. Within our international operations, net investment income decreased primarily due to lower inflation-based investment returns on average invested assets and cash as a result of lower inflation in Chile and Mexico, partially offset by higher average invested assets in Chile.

Net Realized Capital Gains (Losses)

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

	For the three months ended September 30,		Increase (decrease)	For the nine months ended September 30,		Increase (decrease)
	2013	2012	2013 vs. 2012	2013	2012	2013 vs. 2012
			(in millions)			
Fixed maturities, available-for-sale credit impairments (1)	**$ (21.2)**	$ (34.3)	$ 13.1	**$ (70.4)**	$ (95.1)	$ 24.7
Commercial mortgages credit impairments	**(0.7)**	(4.0)	3.3	**(6.4)**	(11.9)	5.5
Other credit impairments	**(2.5)**	(19.3)	16.8	**(13.9)**	(32.8)	18.9
Fixed maturities, available-for-sale and trading noncredit	**1.6**	7.1	(5.5)	**4.1**	23.7	(19.6)
Derivatives and related hedge activities (2)	**(43.6)**	(74.8)	31.2	**(107.2)**	(30.1)	(77.1)
Other gains (losses)	**15.5**	213.0	(197.5)	**11.9**	227.4	(215.5)
Net realized capital gains (losses)	**$ (50.9)**	$ 87.7	$ (138.6)	**$ (181.9)**	$ 81.2	$ (263.1)

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(1) Includes credit impairments as well as losses on sales of fixed maturities to reduce credit risk, net of realized credit recoveries on the sale of previously impaired securities. Credit gains on sales, excluding associated foreign currency fluctuations that are included in derivatives and related hedging activities, were a net gain of $2.1 million and $0.0 million for the nine months ended September 30, 2013 and 2012, respectively. There were no credit gains on sales for the three months ended September 30, 2013 and 2012.

(2) Includes fixed maturities, available-for-sale impairment-related net gains of $0.2 million and $0.0 for the nine months ended September 30, 2013 and 2012, respectively, which were hedged by derivatives reflected in this line. There were no fixed maturities available-for-sale impairment-related net gains in this line for the three months ended September 30, 2013 and 2012.

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Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

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

Net realized capital losses on other-credit impairments decreased due to lower losses on residential mortgage loans as a result of improved market conditions.

Net realized capital losses on derivatives and related hedge activities decreased due to lower losses on the GMWB embedded derivatives, including changes in the spread reflecting our own creditworthiness, and related hedging instruments. This was partially offset by decreased gains on currency forwards and currency swaps due to changes in exchange rates.

Other net realized capital gains decreased due to $184.3 million of net gains realized in the third quarter of 2012 related to the merger of Catalyst Health Solutions, Inc. and the subsequent disposition of our remaining interest in the merged entity.

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

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

Net realized capital losses on other-credit impairments decreased due to lower losses on residential mortgage loans as a result of improved market conditions.

Net realized capital gains on fixed maturities, noncredit decreased as a result of lower gains on sales and mark-to-market adjustments on fixed maturity securities.

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

Other net realized capital gains decreased due to $184.3 million of net gains realized in the third quarter of 2012 related to the merger of Catalyst Health Solutions, Inc. and the subsequent disposition of our remaining interest in the merged entity. In addition, other net realized capital gains decreased due to increased foreign currency translation losses on cash held for the Cuprum acquisition that was completed in the first quarter 2013 and a 2013 realized loss resulting from the write-off of impaired corporate owned real estate.

U.S. Investment Operations

Of our invested assets, $61,047.2 million were held by our U.S. operations as of September 30, 2013. Our U.S. invested assets are managed primarily by our Principal Global Investors segment. Our primary investment objective is to maximize after-tax returns consistent with acceptable risk parameters. We seek to protect policyholders benefits by optimizing the risk/return relationship on an ongoing basis, through asset/liability matching, reducing the credit risk, avoiding high levels of investments that may be redeemed by the issuer, maintaining sufficiently liquid investments and avoiding undue asset concentrations through diversification. We are exposed to two primary sources of investment risk:

- credit risk, relating to the uncertainty associated with the continued ability of an obligor to make timely payments of principal and interest and
- interest rate risk, relating to the market price and/or cash flow variability associated with changes in market yield curves.

Our ability to manage credit risk is essential to our business and our profitability. We devote considerable resources to the credit analysis of each new investment. We manage credit risk through industry, issuer and asset class diversification. Our Investment Committee, appointed by our Board of Directors, is responsible for establishing all investment policies and approving or authorizing all investments, except the Executive Committee of the Board must approve any investment transaction exceeding $500.0 million. As of September 30, 2013, there are thirteen members on the Investment Committee, one of whom is a member of our Board of Directors. The remaining members are senior management members representing various areas of our company.

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We also seek to manage call or prepayment risk arising from changes in interest rates. We assess and price for call or prepayment risks in all of our investments and monitor these risks in accordance with asset/liability management policies.

The amortized cost and weighted average yield, calculated using amortized cost, of non-structured fixed maturity securities that will be callable at the option of the issuer, excluding securities with a make-whole provision, was $789.9 million and 4.7%, respectively, as of September 30, 2013. In addition, the amortized cost and weighted average yield of residential mortgage-backed pass-through securities, residential collateralized mortgage obligations, and asset-backed securities - home equity with material prepayment risk was $4,091.6 million and 3.7%, respectively, as of September 30, 2013.

Our Fixed Income Securities Committee, consisting of fixed income securities senior management members, approves the credit rating for the fixed maturities we purchase. Teams of security analysts, organized by industry, analyze and monitor these investments. In addition, we have teams who specialize in RMBS, CMBS, ABS, municipals and below investment grade securities. Our analysts monitor issuers held in the portfolio on a continuous basis with a formal review documented annually or more frequently if material events affect the issuer. The analysis includes both fundamental and technical factors. The fundamental analysis encompasses both quantitative and qualitative analysis of the issuer. The qualitative analysis includes an assessment of both accounting and management aggressiveness of the issuer. In addition, technical indicators such as stock price volatility and credit default swap levels are monitored.

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

- material changes in the issuer s revenues or margins;
- significant management or organizational changes;
- significant changes regarding the issuer s industry;
- debt service coverage or cash flow ratios that fall below industry-specific thresholds;
- violation of financial covenants and
- other business factors that relate to the issuer.

A dedicated risk management team is responsible for centralized monitoring of the commercial mortgage loan portfolio. We apply a variety of strategies to minimize credit risk in our commercial mortgage loan portfolio. When considering new commercial mortgage loans, we review the cash flow fundamentals of the property, make a physical assessment of the underlying security, conduct a comprehensive market analysis and compare against industry lending practices. We use a proprietary risk rating model to evaluate all new and substantially all existing loans within the portfolio. The proprietary risk model is designed to stress projected cash flows under simulated economic and market downturns. Our lending guidelines are typically 75% or less loan-to-value ratio and a debt service coverage ratio of at least 1.2 times. We analyze investments outside of these guidelines based on cash flow quality, tenancy and other factors. The following table presents loan-to-value and debt service coverage ratios for our brick and mortar commercial mortgages, excluding Principal Global Investors segment mortgages:

	Weighted average loan-to-value ratio		Debt service coverage ratio	
	September 30, 2013	**December 31, 2012**	**September 30, 2013**	**December 31, 2012**
New mortgages	**46%**	48%	**2.8x**	3.2x
Entire mortgage portfolio	**51%**	54%	**2.4x**	2.2x

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

Overall Composition of U.S. Invested Assets

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

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	September 30, 2013		December 31, 2012	
	Carrying amount	% of total	Carrying amount	% of total
	($ in millions)			
Fixed maturities:				
Public	$ **30,899.5**	**51%**	$ 32,437.5	52%
Private	**15,119.5**	**25**	15,429.8	25
Equity securities	**254.3**		263.2	
Mortgage loans:				
Commercial	**10,575.1**	**17**	10,167.7	16
Residential	**566.8**	**1**	657.7	1
Real estate held for sale	**164.6**		80.0	
Real estate held for investment	**1,107.8**	**2**	1,092.5	2
Policy loans	**834.0**	**1**	838.2	1
Other investments	**1,525.6**	**3**	1,847.4	3
Total invested assets	**61,047.2**	**100%**	62,814.0	100%
Cash and cash equivalents	**1,612.9**		4,071.8	
Total invested assets and cash	$ **62,660.1**		$ 66,885.8	

Fixed Maturities

Fixed maturities consist of publicly traded and privately placed bonds, MBS, ABS, redeemable preferred stock and certain nonredeemable preferred stock. Included in the privately placed category as of September 30, 2013 and December 31, 2012, were $10.2 billion and $9.9 billion, respectively, of securities subject to certain holding periods and resale restrictions pursuant to Rule 144A of the Securities Act of 1933.

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

	September 30, 2013		December 31, 2012	
	Carrying amount	% of total	Carrying amount	% of total
	($ in millions)			
U.S. government and agencies	$ **720.6**	**2%**	$ 953.7	2%
States and political subdivisions	**3,756.2**	**8**	3,327.8	7
Non-U.S. governments	**526.0**	**1**	663.4	1
Corporate - public	**17,438.6**	**38**	18,718.2	39
Corporate - private	**12,363.4**	**27**	12,808.6	27
Residential mortgage-backed pass-through securities	**2,787.4**	**6**	3,277.4	7
Commercial mortgage-backed securities	**3,985.4**	**9**	3,900.2	8
Residential collateralized mortgage obligations	**1,038.3**	**2**	1,115.3	2
Asset-backed securities	**3,403.1**	**7**	3,102.7	7
Total fixed maturities	$ **46,019.0**	**100%**	$ 47,867.3	100%

We believe it is desirable to hold residential mortgage-backed pass-through securities due to their credit quality and liquidity as well as portfolio diversification characteristics. Our portfolio is comprised of Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation pass-through securities. In addition, our residential collateralized mortgage obligation portfolio offers structural features that allow cash flows to be matched to our liabilities.

CMBS provide varying levels of credit protection, diversification and reduced event risk depending on the securities owned and composition of the loan pool. CMBS are predominantly comprised of large pool securitizations that are diverse by property type, borrower and geographic dispersion. The risks to any CMBS deal are determined by the credit quality of the underlying loans and how those loans perform over time. Another key risk is the vintage of the underlying loans and the state of the markets during a particular vintage. In the CMBS market, there is a material difference in the outlook for the performance of loans originated in 2004 and earlier relative to loans originated in 2005 through 2008. For loans originated prior to 2005, underwriting assumptions were more conservative regarding required debt service coverage and loan-to-value ratios. For the 2005 through 2008 vintages, real estate values peaked and the underwriting expectations were that values would continue to increase, which makes those loan values more sensitive to market declines. The 2009 through 2013 vintages represent a return to debt service coverage ratios and loan-to-value ratios that more closely resemble loans originated prior to 2005.

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We purchase ABS to diversify the overall credit risks of the fixed maturities portfolio and to provide attractive returns. The principal risks in holding ABS are structural and credit risks. Structural risks include the security s priority in the issuer s capital structure, the adequacy of and ability to realize proceeds from the collateral and the potential for prepayments. Credit risks involve collateral and issuer/servicer risk where collateral and servicer performance may deteriorate. Our ABS portfolio is diversified both by type of asset and by issuer. We actively monitor holdings of ABS to recognize adverse changes in the risk profile of each security. Prepayments in the ABS portfolio are, in general, insensitive to changes in interest rates or are insulated from such changes by call protection features. In the event that we are subject to prepayment risk, we monitor the factors that impact the level of prepayment and prepayment speed for those ABS. In addition, we diversify the risks of ABS by holding a diverse class of securities, which limits our exposure to any one security.

The international exposure held in our U.S. operation s fixed maturities portfolio was 27% of total fixed maturities as of September 30, 2013, and 27% as of December 31, 2012. It is comprised of corporate and foreign government fixed maturities. The following table presents the carrying amount of our international exposure for our U.S. operation s fixed maturities portfolio for the periods indicated.

	September 30, 2013	December 31, 2012
	(in millions)	
European Union, excluding UK	**$ 4,023.2**	$ 4,415.8
United Kingdom	**2,745.3**	2,663.6
Asia-Pacific	**1,499.4**	1,390.7
Australia/New Zealand	**1,303.2**	1,383.8
Europe, non EU	**1,047.8**	1,126.0
Latin America	**912.3**	886.3
Middle East and Africa	**442.4**	505.4
Other (1)	**310.8**	352.4
Total	**$ 12,284.4**	$ 12,724.0

(1) Includes exposure from one country and various supranational organizations as of both September 30, 2013, and December 31, 2012.

International fixed maturities are determined by the country of domicile of the parent entity of an individual asset. All international fixed maturities held by our U.S. operations are either denominated in U.S. dollars or have been swapped into U.S. dollar equivalents. Our international investments are analyzed internally by country and industry credit investment professionals. We control concentrations using issuer and country level exposure benchmarks, which are based on the credit quality of the issuer and the country. Our investment policy limits total international fixed maturities investments and we are within those internal limits. Exposure to Canada is not included in our international exposure. As of September 30, 2013 and December 31, 2012, our investments in Canada totaled $1,560.4 million and $1,819.0 million, respectively.

Economic and fiscal conditions in select European countries, including Greece, Ireland, Italy, Portugal and Spain, continue to cause credit concerns particularly to financial institutions and banks with exposure to the European periphery region. Our exposure to the region within our U.S. investment operations fixed maturities portfolio is modest and manageable, representing 2.0% and 2.2% of total fixed maturities as of September 30, 2013 and December 31, 2012, respectively. Additionally, we did not hold any sovereign debt issuances of the selected countries and had not bought or sold credit protection on sovereign issuances as of September 30, 2013 and December 31, 2012.

The fixed maturities within our U.S. operations portfolio with exposure to the region are primarily corporate credit issuances of large multinational companies where the majority of revenues are coming from outside the country where the parent company is domiciled. Our

experience indicates multinational companies have demonstrated better market price performance and credit ratings stability. As of September 30, 2013, 96% of our total portfolio exposure consists of investment grade bonds with an average price of 103 (carrying value/amortized cost) and a weighted average time to maturity of 5 years.

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

	September 30, 2013 (in millions)					
Select European Exposure	**Greece**	**Ireland**	**Italy**	**Portugal**	**Spain**	**Total**
Non-Sovereign:						
Financial institutions	**$**	**$ 42.1**	**$ 45.0**	**$**	**$ 127.0**	**$ 214.1**
Non-financial institutions		**274.9**	**191.2**	**20.0**	**239.5**	**725.6**
Total	**$**	**$ 317.0**	**$ 236.2**	**$ 20.0**	**$ 366.5**	**$ 939.7**

	December 31, 2012 (in millions)					
Select European Exposure	**Greece**	**Ireland**	**Italy**	**Portugal**	**Spain**	**Total**
Non-Sovereign:						
Financial institutions	$	$ 59.9	$ 44.4	$	$ 138.5	$ 242.8
Non-financial institutions		270.5	225.7	26.7	278.1	801.0
Total	$	$ 330.4	$ 270.1	$ 26.7	$ 416.6	$ 1,043.8

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

Fixed Maturities Credit Concentrations. One aspect of managing credit risk is through industry, issuer and asset class diversification. Our credit concentrations are managed to established limits. The following table presents our top ten exposures as of September 30, 2013.

	Amortized cost (in millions)
General Electric Co.	**$ 207.1**
AT&T Inc.	**176.9**
Berkshire Hathaway Inc.	**163.1**
Verizon Communications Inc	**162.3**
Duke Energy Corp.	**157.5**
JPMorgan Chase & Co.	**149.0**
Wells Fargo & Co.	**148.7**
Merck & Co Inc.	**146.5**
Prudential Financial Inc.	**144.6**
Republic of Korea	**142.5**
Total top ten exposures	**$ 1,598.2**

Fixed Maturities Valuation and Credit Quality. Valuation techniques for the fixed maturities portfolio vary by security type and the availability of market data. The use of different pricing techniques and their assumptions could produce different financial results. See Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 10, Fair Value Measurements for further details regarding our pricing methodology. Once prices are determined, they are reviewed by pricing analysts for reasonableness based on asset class and observable market data. Investment analysts who are familiar with specific securities review prices for reasonableness through direct interaction with external sources, review of recent trade activity or use of internal models. All fixed maturities placed on the watch list are periodically analyzed by investment analysts or analysts that focus on troubled securities (Workout Group). This group then meets with the Chief Investment Officer and the Portfolio Managers to determine reasonableness of prices. The valuation of impaired bonds for which there is no quoted price is typically

based on the present value of the future cash flows expected to be received. Although we believe these values reasonably reflect the fair value of those securities, the key assumptions about risk premiums, performance of underlying collateral (if any) and other market factors involve qualitative and unobservable inputs.

The Securities Valuation Office (SVO) of the National Association of Insurance Commissioners (NAIC) monitors the bond investments of insurers for regulatory capital and reporting purposes and, when required, assigns securities to one of six investment categories. For certain bonds, the NAIC designations closely mirror the Nationally Recognized Statistical Rating Organizations (NRSRO) credit ratings. For most corporate bonds, NAIC designations 1 and 2 include bonds considered investment grade by such

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rating organizations. Bonds are considered investment grade when rated Baa3 or higher by Moody s, or BBB- or higher by S&P. NAIC designations 3 through 6 are referred to as below investment grade. Bonds are considered below investment grade when rated Ba1 or lower by Moody s, or BB+ or lower by S&P.

However, for loan-backed and structured securities, as defined by the NAIC, the NAIC rating is not always equivalent to an NRSRO rating as described below. For non-agency RMBS, PIMCO Advisors models and assigns the NAIC ratings. For CMBS, Blackrock Solutions undertakes the modeling and assignment of those NAIC ratings. Other loan-backed and structured securities may be subject to an intrinsic price matrix as provided by the NAIC. This may result in a final designation being higher or lower than the NRSRO credit rating.

The following table presents our total fixed maturities by NAIC designation and the equivalent ratings of the NRSROs as of the periods indicated as well as the percentage, based on fair value, that each designation comprises.

1	AAA/AA/A	**$ 26,992.4**	**$ 28,033.1**	**61%**	$ 26,880.3	$ 28,943.8	60%
2	BBB	**13,891.8**	**14,680.2**	**32**	14,331.8	15,596.0	33
3	BB	**2,485.9**	**2,448.5**	**5**	2,416.0	2,330.1	5
4	B	**567.8**	**527.8**	**1**	677.2	615.7	1
5	CCC and lower	**244.9**	**182.8**	**1**	335.9	254.7	1
6	In or near default	**221.6**	**146.6**		259.2	127.0	
	Total fixed maturities	**$ 44,404.4**	**$ 46,019.0**	**100%**	$ 44,900.4	$ 47,867.3	100%

Fixed maturities include 18 securities with an amortized cost of $216.3 million, gross gains of $1.2 million, gross losses of $5.3 million and a carrying amount of $212.2 million as of September 30, 2013, that are still pending a review and assignment of a rating by the SVO. Due to the timing of when fixed maturities are purchased, legal documents are filed and the review by the SVO is completed, there will always be securities in our portfolio that are unrated over a reporting period. In these instances, an equivalent rating is assigned based on our fixed income analyst s assessment.

Commercial Mortgage-Backed Securities and Home Equity Asset-Backed Securities Portfolios. As of September 30, 2013, based on amortized cost, 53% of our CMBS portfolio had ratings of A or higher and 35% was issued prior to 2005 and after 2008 and 6% of our ABS home equity portfolio had ratings of A or higher and 65% was issued prior to 2005.

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

			September 30, 2013			
	AAA	**AA**	**A**	**BBB**	**BB+ and Below**	**Total**

	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount
						(in millions)						
2003 & Prior	$ 21.5	$ 22.2	$ 9.9	$ 11.4	$ 0.7	$ 0.8	$ 27.8	$ 31.4	$ 85.6	$ 78.7	$ 145.5	$ 144.5
2004	44.0	44.9	61.5	63.3	44.3	45.8	30.5	32.3	78.8	68.8	259.1	255.1
2005	315.2	331.8	52.2	56.0	39.3	39.4	116.2	118.5	186.4	138.7	709.3	684.4
2006	85.9	90.1	48.4	49.6	72.5	77.3	118.8	124.7	142.7	117.8	468.3	459.5
2007	73.4	76.3	74.3	84.1	141.8	157.2	252.4	272.7	799.3	663.4	1,341.2	1,253.7
2008	11.0	11.5	43.6	49.5			18.4	19.3	67.3	75.1	140.3	155.4
2009	81.8	86.6	94.4	99.5							176.2	186.1
2010	63.7	70.1	60.0	61.8							123.7	131.9
2011	102.4	103.4	121.5	122.3							223.9	225.7
2012	210.7	211.3	153.4	153.2							364.1	364.5
2013	98.2	96.2	28.9	28.4							127.1	124.6
Total (1)	$ 1,107.8	$ 1,144.4	$ 748.1	$ 779.1	$ 298.6	$ 320.5	$ 564.1	$ 598.9	$ 1,360.1	$ 1,142.5	$ 4,078.7	$ 3,985.4

(1) The CMBS portfolio included agency CMBS with a $407.6 million amortized cost and a $411.0 million carrying amount.

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	December 31, 2012											
	AAA		AA		A		BBB		BB+ and Below		Total	
	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount
	(in millions)											
2003 & Prior	$ 40.8	$ 41.7	$ 24.1	$ 24.3	$ 37.7	$ 38.2	$ 60.5	$ 61.4	$ 118.2	$ 98.2	$ 281.3	$ 263.8
2004	73.2	76.3	56.9	59.5	49.2	48.1	31.2	26.5	97.0	71.5	307.5	281.9
2005	345.0	373.2	47.3	51.7	39.6	39.1	91.7	88.8	211.7	140.0	735.3	692.8
2006	124.2	132.1	30.7	32.4	72.9	79.2	93.7	101.8	160.8	110.6	482.3	456.1
2007	117.1	118.4	59.5	69.9	158.6	181.2	231.7	261.6	758.4	544.8	1,325.3	1,175.9
2008	11.2	12.2	43.5	52.3			23.4	26.0	31.5	32.6	109.6	123.1
2009	92.3	101.2	100.5	108.1							192.8	209.3
2010	64.1	73.1	65.1	68.9							129.2	142.0
2011	97.5	100.6	122.2	128.3							219.7	228.9
2012	157.7	163.2	156.9	163.2							314.6	326.4
Total (1)	$ 1,123.1	$ 1,192.0	$ 706.7	$ 758.6	$ 358.0	$ 385.8	$ 532.2	$ 566.1	$ 1,377.6	$ 997.7	$ 4,097.6	$ 3,900.2

(1) The CMBS portfolio included agency CMBS with a $403.8 million amortized cost and a $423.0 million carrying amount.

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

	September 30, 2013											
	AAA		AA		A		BBB		BB+ and Below		Total	
	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount
	(in millions)											
2003 & Prior	**$ 1.0**	**$ 1.0**	**$ 4.6**	**$ 4.6**	**$ 6.3**	**$ 6.5**	**$ 19.3**	**$ 19.7**	**$ 129.4**	**$ 121.3**	**$ 160.6**	**$ 153.1**
2004					**5.9**	**6.0**	**17.8**	**18.2**	**43.6**	**42.0**	**67.3**	**66.2**
2005					**3.0**	**3.1**			**70.9**	**65.3**	**73.9**	**68.4**
2006									**13.1**	**13.3**	**13.1**	**13.3**
2007									**37.5**	**35.0**	**37.5**	**35.0**
Total	**$ 1.0**	**$ 1.0**	**$ 4.6**	**$ 4.6**	**$ 15.2**	**$ 15.6**	**$ 37.1**	**$ 37.9**	**$ 294.5**	**$ 276.9**	**$ 352.4**	**$ 336.0**

	December 31, 2012											
	AAA		AA		A		BBB		BB+ and Below		Total	
	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount
	(in millions)											
2003 & Prior	$ 2.0	$ 2.0	$ 4.8	$ 5.0	$ 5.7	$ 5.8	$ 21.6	$ 21.5	$ 141.4	$ 127.8	$ 175.5	$ 162.1
2004					5.9	5.7	19.4	19.2	44.9	40.2	70.2	65.1
2005					3.0	3.1			71.4	58.0	74.4	61.1
2006									13.8	12.6	13.8	12.6
2007									37.2	32.9	37.2	32.9
Total	$ 2.0	$ 2.0	$ 4.8	$ 5.0	$ 14.6	$ 14.6	$ 41.0	$ 40.7	$ 308.7	$ 271.5	$ 371.1	$ 333.8

Fixed Maturities Watch List. We monitor any decline in the credit quality of fixed maturities through the designation of problem securities, potential problem securities and restructured securities . We define problem securities in our fixed maturity portfolio as securities: (i) as to which

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

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

	September 30, 2013		December 31, 2012	
	($ in millions)			
Total fixed maturities (public and private)	$	**46,019.0**	$	47,867.3
Problem fixed maturities (1)	$	**438.2**	$	385.8
Potential problem fixed maturities		**165.6**		204.6
Restructured problem fixed maturities				15.2
Total problem, potential problem and restructured fixed maturities	$	**603.8**	$	605.6
Total problem, potential problem and restructured fixed maturities as a percent of total fixed maturities		**1.31%**		1.27%

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(1) The problem fixed maturities carrying amount is net of other-than-temporary impairment losses.

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

Each reporting period, a group of individuals including the Chief Investment Officer, our Portfolio Managers, members of our Workout Group and representatives from Investment Accounting review all securities to determine whether an other-than-temporary decline in value exists and whether losses should be recognized. The analysis focuses on each issuer s ability to service its debts in a timely fashion. Formal documentation of the analysis and our decision is prepared and approved by management.

We consider relevant facts and circumstances in evaluating whether a credit or interest-rate related impairment of a security is other than temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in value; (3) the financial position and access to capital of the issuer, including the current and future impact of any specific events; (4) for structured securities, the adequacy of the expected cash flows and (5) our intent to sell the security or whether it is more likely than not we will be required to sell the security before recovery of its amortized cost which, in some cases, may extend to maturity. To the extent we determine that a security is deemed to be other than temporarily impaired, an impairment loss is recognized. For additional details, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 4, Investments.

We would not consider a security with unrealized losses to be other than temporarily impaired when it is not our intent to sell the security, it is not more likely than not that we would be required to sell the security before recovery of the amortized cost, which may be maturity, and we expect to recover the amortized cost basis. However, we do sell securities under certain circumstances, such as when we have evidence of a change in the issuer s creditworthiness, when we anticipate poor relative future performance of securities, when a change in regulatory requirements modifies what constitutes a permissible investment or the maximum level of investments held or when there is an increase in capital requirements or a change in risk weights of debt securities. Sales generate both gains and losses.

There are a number of significant risks and uncertainties inherent in the process of monitoring credit impairments and determining if an impairment is other than temporary. These risks and uncertainties include: (1) the risk that our assessment of an issuer s ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer, (2) the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated, (3) the risk that our investment professionals are making decisions based on fraudulent or misstated information in the financial statements provided by issuers and (4) the risk that new information obtained by us or changes in other facts and circumstances lead us to change our intent to not sell the security prior to recovery of its amortized cost. Any of these situations could result in a charge to net income in a future period.

The net realized loss relating to other-than-temporary credit impairments and credit related sales of fixed maturities was $68.5 million and $95.1 million for the nine months ended September 30, 2013 and 2012, respectively.

Fixed Maturities Available-for-Sale

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

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	September 30, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
	(in millions)			
Finance Banking	$ 4,153.4	$ 162.8	$ 166.5	$ 4,149.7
Finance Brokerage	271.5	18.3	1.2	288.6
Finance Finance Companies	158.0	9.4	0.2	167.2
Finance Financial Other	543.6	64.2	1.0	606.8
Finance Insurance	2,497.6	201.0	9.5	2,689.1
Finance REITS	904.2	49.4	7.8	945.8
Industrial Basic Industry	1,645.2	80.6	18.0	1,707.8
Industrial Capital Goods	1,624.2	120.1	4.1	1,740.2
Industrial Communications	2,101.9	145.4	14.6	2,232.7
Industrial Consumer Cyclical	1,602.3	112.6	8.7	1,706.2
Industrial Consumer Non-Cyclical	3,143.5	205.6	16.4	3,332.7
Industrial Energy	1,972.6	165.1	10.5	2,127.2
Industrial Other	367.0	20.5	0.7	386.8
Industrial Technology	961.6	50.1	5.4	1,006.3
Industrial Transportation	805.4	43.6	8.3	840.7
Utility Electric	2,744.3	199.6	36.1	2,907.8
Utility Natural Gas	1,099.2	86.0	14.4	1,170.8
Utility Other	280.7	19.6	1.6	298.7
Government guaranteed	1,280.3	112.4	6.2	1,386.5
Total corporate securities	28,156.5	1,866.3	331.2	29,691.6
Residential mortgage-backed pass-through securities	2,658.6	104.6	27.9	2,735.3
Commercial mortgage-backed securities	4,076.8	188.0	281.3	3,983.5
Residential collateralized mortgage obligations	1,028.5	20.2	10.4	1,038.3
Asset-backed securities Home equity (1)	352.4	10.1	26.5	336.0
Asset-backed securities All other	2,659.4	20.9	9.5	2,670.8
Collateralized debt obligations Credit	54.5		31.1	23.4
Collateralized debt obligations CMBS	40.7	2.8	1.7	41.8
Collateralized debt obligations Loans	263.3	4.5	0.7	267.1
Total mortgage-backed and other asset-backed securities	11,134.2	351.1	389.1	11,096.2
U.S. government and agencies	741.1	15.9	36.4	720.6
States and political subdivisions	3,557.7	129.5	70.6	3,616.6
Non-U.S. governments	446.9	80.1	1.0	526.0
Total fixed maturities, available-for-sale	$ 44,036.4	$ 2,442.9	$ 828.3	$ 45,651.0

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

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	December 31, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
	(in millions)			
Finance Banking	$ 4,243.6	$ 219.9	$ 234.1	$ 4,229.4
Finance Brokerage	377.2	31.0	1.1	407.1
Finance Finance Companies	173.7	12.2		185.9
Finance Financial Other	519.5	79.9		599.4
Finance Insurance	2,748.2	280.2	11.0	3,017.4
Finance REITS	982.8	66.3	4.1	1,045.0
Industrial Basic Industry	1,589.0	149.7	1.0	1,737.7
Industrial Capital Goods	2,012.7	188.1	0.6	2,200.2
Industrial Communications	2,025.7	242.2	1.9	2,266.0
Industrial Consumer Cyclical	1,551.0	174.1	2.9	1,722.2
Industrial Consumer Non-Cyclical	3,303.0	332.5	1.4	3,634.1
Industrial Energy	1,985.7	296.9	1.6	2,281.0
Industrial Other	477.8	38.2		516.0
Industrial Technology	904.8	66.4	0.4	970.8
Industrial Transportation	730.2	64.4	0.7	793.9
Utility Electric	2,739.5	310.6	12.1	3,038.0
Utility Natural Gas	1,033.7	136.4	0.9	1,169.2
Utility Other	291.1	34.1		325.2
Government guaranteed	1,126.7	152.8	1.6	1,277.9
Total corporate securities	28,815.9	2,875.9	275.4	31,416.4
Residential mortgage-backed pass-through securities	2,997.8	202.3	0.4	3,199.7
Commercial mortgage-backed securities	4,094.8	241.7	439.1	3,897.4
Residential collateralized mortgage obligations	1,091.9	31.2	8.9	1,114.2
Asset-backed securities Home equity (1)	371.1	4.7	42.0	333.8
Asset-backed securities All other	2,293.9	37.6	0.3	2,331.2
Collateralized debt obligations Credit	79.3		40.0	39.3
Collateralized debt obligations CMBS	92.2	3.4	15.1	80.5
Collateralized debt obligations Loans	242.3	3.6	1.1	244.8
Collateralized debt obligations ABS	15.0		0.4	14.6
Total mortgage-backed and other asset-backed securities	11,278.3	524.5	547.3	11,255.5
U.S. government and agencies	911.4	33.2	0.3	944.3
States and political subdivisions	2,940.4	241.1	2.7	3,178.8
Non-U.S. governments	545.5	117.9		663.4
Total fixed maturities, available-for-sale	$ 44,491.5	$ 3,792.6	$ 825.7	$ 47,458.4

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

Of the $828.3 million in gross unrealized losses as of September 30, 2013, there were $2.5 million in losses attributed to securities scheduled to mature in one year or less, $33.1 million attributed to securities scheduled to mature between one to five years, $88.7 million attributed to securities scheduled to mature between five to ten years, $314.9 million attributed to securities scheduled to mature after ten years and $389.1 million related to mortgage-backed and other ABS that are not classified by maturity year. As of September 30, 2013, we were in a $1,614.6 million net unrealized gain position as compared to a $2,966.9 million net unrealized gain position as of December 31, 2012. The $1,352.3 million decrease in net unrealized gains for the nine months ended September 30, 2013, can primarily be attributed to an approximate 53 basis

points increase in interest rates.

Fixed Maturities Available-for-Sale Unrealized Losses. We believe that our long-term fixed maturities portfolio is well diversified among industry types and between publicly traded and privately placed securities. Each year, we direct the majority of our net cash inflows into investment grade fixed maturities. Our current policy is to limit the percentage of cash flow invested in below investment grade assets to 10% of cash flow.

We invest in privately placed fixed maturities to enhance the overall value of the portfolio, increase diversification and obtain higher yields than are possible with comparable quality public market securities. Generally, private placements provide broader access to

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management information, strengthened negotiated protective covenants, call protection features and, where applicable, a higher level of collateral. They are, however, generally not freely tradable because of restrictions imposed by federal and state securities laws and illiquid trading markets.

The following table presents our fixed maturities available-for-sale by investment grade and below investment grade and the associated gross unrealized gains and losses, including the other-than-temporary impairment losses reported in OCI, as of the periods indicated.

	September 30, 2013				December 31, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
	(in millions)							
Investment grade:								
Public	$ 27,739.0	$ 1,639.7	$ 363.5	$ 29,015.2	$ 28,273.4	$ 2,604.1	$ 198.9	$ 30,678.6
Private	12,823.0	708.7	155.8	13,375.9	12,684.2	1,065.2	142.7	13,606.7
Below investment grade:								
Public	1,807.8	45.6	162.3	1,691.1	1,723.1	55.2	258.8	1,519.5
Private	1,666.6	48.9	146.7	1,568.8	1,810.8	68.1	225.3	1,653.6
Total fixed maturities, available-for-sale	$ 44,036.4	$ 2,442.9	$ 828.3	$ 45,651.0	$ 44,491.5	$ 3,792.6	$ 825.7	$ 47,458.4

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

	September 30, 2013					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	$ 583.9	$ 5.0	$ 433.8	$ 6.8	$ 1,017.7	$ 11.8
Greater than three to six months	4,363.4	194.7	1,659.9	55.0	6,023.3	249.7
Greater than six to nine months	179.0	10.7	81.1	3.1	260.1	13.8
Greater than nine to twelve months	131.5	11.8	22.0	2.3	153.5	14.1
Greater than twelve to twenty-four months	74.9	6.0	25.5	0.1	100.4	6.1
Greater than twenty-four to thirty-six months	70.5	5.3	66.5	8.3	137.0	13.6
Greater than thirty-six months	503.5	130.0	407.1	80.2	910.6	210.2
Total fixed maturities, available-for-sale	$ 5,906.7	$ 363.5	$ 2,695.9	$ 155.8	$ 8,602.6	$ 519.3

	December 31, 2012					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					

Three months or less	$ 646.6	$ 3.7	$ 227.1	$ 1.5	$ 873.7	$ 5.2
Greater than three to six months	148.4	2.1	31.8	0.4	180.2	2.5
Greater than six to nine months	21.3	0.3	50.6	0.6	71.9	0.9
Greater than nine to twelve months	34.6	1.0	7.1	0.1	41.7	1.1
Greater than twelve to twenty-four months	205.8	17.7	167.6	10.0	373.4	27.7
Greater than twenty-four to thirty-six months	72.2	8.8	41.9	0.9	114.1	9.7
Greater than thirty-six months	811.6	165.3	706.9	129.2	1,518.5	294.5
Total fixed maturities, available-for-sale	$ 1,940.5	$ 198.9	$ 1,233.0	$ 142.7	$ 3,173.5	$ 341.6

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

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	September 30, 2013					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	**$ 157.7**	**$ 2.7**	**$ 223.1**	**$ 2.3**	**$ 380.8**	**$ 5.0**
Greater than three to six months	**196.7**	**6.5**	**180.3**	**8.2**	**377.0**	**14.7**
Greater than six to nine months	**0.1**		**19.1**	**0.8**	**19.2**	**0.8**
Greater than nine to twelve months	**7.4**	**0.1**	**11.7**	**0.6**	**19.1**	**0.7**
Greater than twelve to twenty-four months			**16.4**	**2.3**	**16.4**	**2.3**
Greater than twenty-four to thirty-six months	**18.6**	**2.8**	**18.3**	**7.2**	**36.9**	**10.0**
Greater than thirty-six months	**471.1**	**150.2**	**302.4**	**125.3**	**773.5**	**275.5**
Total fixed maturities, available-for-sale	**$ 851.6**	**$ 162.3**	**$ 771.3**	**$ 146.7**	**$ 1,622.9**	**$ 309.0**

	December 31, 2012					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	$ 32.9	$ 0.4	$ 47.6	$ 0.8	$ 80.5	$ 1.2
Greater than three to six months	7.5	0.1	76.1	1.6	83.6	1.7
Greater than six to nine months	11.0	1.2	17.1	1.4	28.1	2.6
Greater than nine to twelve months			26.7	1.6	26.7	1.6
Greater than twelve to twenty-four months	17.7	5.1	33.5	2.8	51.2	7.9
Greater than twenty-four to thirty-six months	6.8	0.3	12.4	8.4	19.2	8.7
Greater than thirty-six months	556.2	251.7	400.4	208.7	956.6	460.4
Total fixed maturities, available-for-sale	$ 632.1	$ 258.8	$ 613.8	$ 225.3	$ 1,245.9	$ 484.1

The following tables present the carrying amount and the gross unrealized losses, including other-than-temporary impairment losses reported in OCI, on fixed maturities available-for-sale where the estimated fair value had declined and remained below amortized cost by 20% or more as of the periods indicated.

	September 30, 2013					
	Problem, potential problem, and restructured		All other fixed maturity securities		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	**$ 7.0**	**$ 1.8**	**$ 5.5**	**$ 2.2**	**$ 12.5**	**$ 4.0**
Greater than three to six months	**13.1**	**4.1**	**8.8**	**2.9**	**21.9**	**7.0**
Greater than six to nine months			**21.4**	**11.0**	**21.4**	**11.0**
Greater than nine to twelve months		**0.1**	**1.2**	**1.5**	**1.2**	**1.6**
Greater than twelve months	**154.9**	**214.8**	**322.8**	**172.2**	**477.7**	**387.0**
Total fixed maturities, available-for-sale	**$ 175.0**	**$ 220.8**	**$ 359.7**	**$ 189.8**	**$ 534.7**	**$ 410.6**

	December 31, 2012					
	Problem, potential problem, and restructured		All other fixed maturity securities		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	$	$	$ 7.7	$ 2.4	$ 7.7	$ 2.4
Greater than three to six months			1.1	0.7	1.1	0.7
Greater than six to nine months			0.4	0.3	0.4	0.3
Greater than nine to twelve months	3.0	2.5	17.6	5.7	20.6	8.2
Greater than twelve months	194.1	269.0	457.0	379.5	651.1	648.5
Total fixed maturities, available-for-sale	$ 197.1	$ 271.5	$ 483.8	$ 388.6	$ 680.9	$ 660.1

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Mortgage Loans

Mortgage loans consist of commercial mortgage loans on real estate and residential mortgage loans. The carrying amount of our commercial mortgage loan portfolio was $10,575.1 million and $10,167.7 million as of September 30, 2013 and December 31, 2012, respectively. The carrying amount of our residential mortgage loan portfolio was $566.8 million and $657.7 million as of September 30, 2013 and December 31, 2012, respectively.

Commercial Mortgage Loans. We generally report commercial mortgage loans on real estate at cost adjusted for amortization of premiums and accrual of discounts, computed using the interest method and net of valuation allowances.

Commercial mortgage loans play an important role in our investment strategy by:

- providing strong risk-adjusted relative value in comparison to other investment alternatives;
- enhancing total returns and
- providing strategic portfolio diversification.

As a result, we have focused on constructing a solid, high quality portfolio of mortgages. Our portfolio is generally comprised of mortgages originated with conservative loan-to-value ratios, high debt service coverages and general purpose property types with a strong credit tenancy.

Our commercial mortgage loan portfolio consists primarily of non-recourse, fixed rate mortgages on fully or near fully leased properties. The mortgage portfolio is comprised primarily of well anchored retail properties, office properties, general-purpose industrial properties and apartments.

Our commercial mortgage loan portfolio is diversified by geography and specific collateral property type. Commercial mortgage lending in the state of California accounted for 21% and 20% of our commercial mortgage loan portfolio as of September 30, 2013 and December 31, 2012, respectively. We are, therefore, exposed to potential losses resulting from the risk of catastrophes, such as earthquakes, that may affect the region. Like other lenders, we generally do not require earthquake insurance for properties on which we make commercial mortgage loans. With respect to California properties, however, we obtain an engineering report specific to each property. The report assesses the building s design specifications, whether it has been upgraded to meet seismic building codes and the maximum loss that is likely to result from a variety of different seismic events. We also obtain a report that assesses, by building and geographic fault lines, the amount of loss our commercial mortgage loan portfolio might suffer under a variety of seismic events.

The typical borrower in our commercial loan portfolio is a single purpose entity or single asset entity. As of September 30, 2013 and December 31, 2012, the total number of commercial mortgage loans outstanding was 974 and 977, of which 66% and 68% were for loans with

principal balances less than $10 million, respectively. The average loan size of our commercial mortgage portfolio was $10.9 million and $10.4 million as of September 30, 2013 and December 31, 2012, respectively.

Commercial Mortgage Loan Credit Monitoring. For further details on monitoring and management of our commercial mortgage loan portfolio, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 4, Investments Mortgage Loan Credit Monitoring.

We categorize loans that are 60 days or more delinquent, loans in process of foreclosure and loans with borrowers or credit tenants in bankruptcy that are delinquent as problem loans. Valuation allowances or charge-offs have been recognized on most problem loans. We categorize loans that are delinquent less than 60 days where the default is expected to be cured and loans with borrowers or credit tenants in bankruptcy that are current as potential problem loans. The decision whether to classify a loan delinquent less than 60 days as a potential problem involves significant subjective judgments by management as to the likely future economic conditions and developments with respect to the borrower. We categorize loans for which the original note rate has been reduced below market and loans for which the principal has been reduced as restructured loans. We also consider loans that are refinanced more than one year beyond the original maturity or call date at below market rates as restructured.

There has been a decrease in the total level of problem, potential problem and restructured commercial mortgages during 2013 primarily due to loan payoffs, foreclosures and improvement in general market fundamentals such as increases in employment, falling vacancies and relatively little new construction.

The following table presents the carrying amounts of problem, potential problem and restructured commercial mortgages relative to the carrying amount of all commercial mortgages for the periods indicated.

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	September 30, 2013		December 31, 2012
	($ in millions)		
Total commercial mortgages	$	**10,575.1**	$	10,167.7
Problem commercial mortgages	$	**102.3**	$	40.1
Potential problem commercial mortgages		**51.3**		177.6
Restructured problem commercial mortgages		**0.9**		
Total problem, potential problem and restructured commercial mortgages	$	**154.5**	$	217.7
Total problem, potential problem and restructured commercial mortgages as a percent of total commercial mortgages		**1.46%**		2.14%

Commercial Mortgage Loan Valuation Allowance. The valuation allowance for commercial mortgage loans includes loan specific reserves for loans that are deemed to be impaired as well as reserves for pools of loans with similar characteristics where a property risk or market specific risk has not been identified but for which we anticipate a loss may occur. For further details on the commercial mortgage valuation allowance, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 4, Investments Mortgage Loan Valuation Allowance.

The valuation allowance decreased $9.4 million for the nine months ended September 30, 2013, and decreased $13.0 million for the year ended December 31, 2012. The decrease in the level of valuation allowance during 2013 and 2012 was related to the same market factors as those causing the decrease in the level of problem, potential problem and restructured commercial mortgages for the nine months ended September 30, 2013.

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

	September 30, 2013		December 31, 2012	
	($ in millions)			
Balance, beginning of period	$	**51.8**	$	64.8
Provision		**6.7**		13.5
Charge-offs		**(16.9)**		(26.7)
Recoveries		**0.8**		0.2
Balance, end of period	$	**42.4**	$	51.8
Valuation allowance as % of carrying value before reserves		**0.40%**		0.51%

Residential Mortgage Loans. The residential mortgage loan portfolio is composed of home equity mortgages with an amortized cost of $416.8 million and $495.7 million and first lien mortgages with an amortized cost of $194.6 million and $206.4 million as of September 30, 2013 and December 31, 2012, respectively. The home equity loans are generally second lien mortgages made up of closed-end loans and lines of credit. Non-performing residential mortgage loans, which are defined as loans 90 days or greater delinquent plus non-accrual loans, totaled $22.9 million and $32.3 million as of September 30, 2013 and December 31, 2012, respectively.

We establish the residential mortgage loan valuation allowance at levels considered adequate to absorb probable losses within the portfolio based on management s evaluation of the size and current risk characteristics of the portfolio. Such evaluation considers numerous factors, including, but not limited to net charge-off trends, loss forecasts, collateral values, geographic location, borrower credit scores, delinquency rates, industry condition and economic trends. The changes in the valuation allowance are reported in net realized capital gains (losses) on our consolidated statements of operations.

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

	September 30, 2013	December 31, 2012
	($ in millions)	
Balance, beginning of period	**$ 44.4**	$ 36.0
Provision	**12.8**	39.9
Charge-offs	**(15.0)**	(35.1)
Recoveries	**2.4**	3.6
Balance, end of period	**$ 44.6**	$ 44.4
Valuation allowance as % of carrying value before reserves	**7.3%**	6.3%

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Real Estate

Real estate consists primarily of commercial equity real estate. As of September 30, 2013 and December 31, 2012, the carrying amount of our equity real estate investment was $1,272.4 million, or 2%, and $1,172.5 million, or 2%, of U.S. invested assets, respectively. Our commercial equity real estate is held in the form of wholly owned real estate, real estate acquired upon foreclosure of commercial mortgage loans and majority owned interests in real estate joint ventures.

Equity real estate is categorized as either real estate held for investment or real estate held for sale. Real estate held for investment totaled $1,107.8 million and $1,092.5 million as of September 30, 2013 and December 31, 2012, respectively. The carrying value of real estate held for investment is generally adjusted for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Such impairment adjustments are recorded as net realized losses and, accordingly, are reflected in our consolidated results of operations. For the nine months ended September 30, 2013 and the year ended December 31, 2012, there were no such impairment adjustments.

The carrying amount of real estate held for sale was $164.6 million and $80.0 million as of September 30, 2013 and December 31, 2012, respectively. There were no valuation allowances as of September 30, 2013 or December 31, 2012. Once we identify a real estate property to be sold and commence a plan for marketing the property, we classify the property as held for sale. We establish a valuation allowance subject to periodic revisions, if necessary, to adjust the carrying value of the property to reflect the lower of its current carrying value or the fair value, less associated selling costs.

We use research, both internal and external, to recommend appropriate product and geographic allocations and changes to the equity real estate portfolio. We monitor product, geographic and industry diversification separately and together to determine the most appropriate mix.

Equity real estate is distributed across geographic regions of the country with 76% of the concentration in the South Atlantic, Pacific, and West South Central regions of the United States as of September 30, 2013. By property type, there is a concentration in office and retail that represented approximately 64% of the equity real estate portfolio as of September 30, 2013.

Other Investments

Our other investments totaled $1,525.6 million as of September 30, 2013, compared to $1,847.4 million as of December 31, 2012. Derivative assets accounted for $668.2 million and $996.0 million in other investments as of September 30, 2013 and December 31, 2012, respectively. The remaining invested assets include equity method investments, which include real estate properties owned jointly with venture partners and operated by the partners.

International Investment Operations

Of our invested assets, $6,221.1 million were held by our Principal International segment as of September 30, 2013. The assets are managed by either our Principal Global Investors segment or by the local Principal International affiliate. Due to the regulatory constraints in each country, each company maintains its own investment policies. As shown in the following table, the major category of international invested assets as of September 30, 2013 and December 31, 2012, was fixed maturities. The following table excludes invested assets of the separate accounts.

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	September 30, 2013		December 31, 2012	
	Carrying amount	**% of total**	**Carrying amount**	**% of total**
		($ in millions)		
Fixed maturities:				
Public	**$ 3,468.2**	**56%**	$ 3,698.7	62%
Private	**0.6**			
Equity securities	**525.9**	**8**	126.1	2
Mortgage loans:				
Commercial	**40.8**	**1**	15.6	
Residential	**685.4**	**11**	678.7	11
Real estate held for sale	**3.7**		7.0	
Real estate held for investment	**2.5**		0.8	
Policy loans	**25.6**		26.7	1
Other investments:				
Investment in equity method subsidiaries	**655.1**	**11**	718.0	12
Direct financing leases	**737.2**	**12**	655.1	11
Derivative assets and other short-term investments	**76.1**	**1**	70.6	1
Total invested assets	**6,221.1**	**100%**	5,997.3	100%
Cash and cash equivalents	**94.2**		105.4	
Total invested assets and cash	**$ 6,315.3**		$ 6,102.7	

Per Chilean regulation, in order to offer its pension products, Cuprum is required to hold a 1% investment (encaje) in each of the five funds it manages for its clients. Cuprum s investment in the encaje is dictated by client activity and all investment performance from encaje is retained by Cuprum. We acquired $340.5 million of encaje assets in conjunction with our February 4, 2013, acquisition of Cuprum. The encaje assets are classified as equity securities, trading within our consolidated statements of financial position, with all mark-to-market changes reflected in net investment income.

Fixed Maturities Exposure

Economic and fiscal conditions in select European countries, including Greece, Ireland, Italy, Portugal and Spain, continue to cause credit concerns particularly to financial institutions and banks with exposure to the European periphery region. Our exposure to the region within our International investment operations fixed maturities portfolio is manageable, representing 5.7% and 6.2% of our total International invested assets as of September 30, 2013 and December 31, 2012, respectively. Portfolio holdings with exposure to this region consist of fixed maturities issued in the same countries as our International operations by local subsidiaries of the European parent. Nearly all of the exposure is to bonds issued in Chile. In addition, we did not hold any sovereign debt issuances of the selected countries and had not bought or sold credit protection on sovereign issuances as of September 30, 2013 and December 31, 2012.

Financial sector exposure is to local subsidiary banks, subject to local capital requirements and banking regulation. The current financial exposure carries an average AA local rating from S&P and the average time to maturity is 17 years. Non-financial sector exposure consists primarily of infrastructure bonds, which are backed by the project itself, often with minimum revenue guarantees from the government. The current non-financial exposure carries an average AA local rating from S&P. The current Italian exposure has an average time to maturity of 14 years. In addition, the current Spanish exposure has an average time to maturity of 13 years. As of September 30, 2013, our total portfolio exposure had an average price of 108 (carrying value/amortized cost).

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

Select European Exposure	September 30, 2013 Italy	Spain	Total	December 31, 2012 Italy	Spain	Total
			(in millions)			
Non-Sovereign:						
Financial institutions	**$**	**$ 224.0**	**$ 224.0**	$	$ 237.3	$ 237.3
Non-financial institutions	**14.7**	**118.8**	**133.5**	11.1	125.4	136.5
Total	**$ 14.7**	**$ 342.8**	**$ 357.5**	$ 11.1	$ 362.7	$ 373.8

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Exposures and Risk Management

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

We enter into market-sensitive instruments primarily for purposes other than trading. The active management of market risk is an integral part of our operations. We manage our overall market risk exposure within established risk tolerance ranges by using the following approaches:

- rebalance our existing asset or liability portfolios;
- control the risk structure of newly acquired assets and liabilities or
- use derivative instruments to modify the market risk characteristics of existing assets or liabilities or assets expected to be purchased.

Interest Rate Risk

Interest rate risk is the risk we will incur economic losses due to adverse changes in interest rates. We are exposed to interest rate risk from several sources:

- Due to the inherent difficulty in obtaining assets that mature or have their rate reset at the exact same time as the liabilities they support, assets may have to be reinvested or sold in the future to meet the liability cash flows in unknown interest rate environments.
- There may be timing differences between when new liabilities are priced and when assets are purchased or procured that can cause fluctuations in profitability if interest rates move materially in the interim.
- Prepayment options embedded within asset and liability contracts can alter the cash flow profiles from what was originally expected.
- The spreads between the investment income we earn and the interest we credit to customers who own products with guaranteed minimum interest rates may decrease (or potentially become negative) during periods of sustained low interest rates.

- During periods of sustained low interest rates, the interest rates that we earn on our assets may be lower than the rates assumed in pricing our insurance products, thereby reducing our profitability. If interest rates remain low over a sustained period of time, this may result in increases in our reserves and unlocking of our DAC asset and other actuarial balances.

- During a period of rising interest rates, policy surrenders, withdrawals, and requests for policy loans may increase as customers seek to achieve higher returns. We may be required to sell assets to raise the cash necessary to respond to such surrenders, withdrawals and loans, thereby realizing capital losses on the assets sold.

- For our long-term borrowings, we are exposed to interest rate risk at the time of maturity or early redemption, when we may be required to refinance our obligations.

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

An increase in market interest rates may cause the fair value of our financial assets to decline. The reduction in the fair value of our financial assets would be partly offset by a corresponding reduction in the fair value of our financial liabilities. The following tables show the net estimated potential loss in fair value at total company level from a hypothetical 100 basis point immediate, parallel increase in interest rates as of September 30, 2013, and December 31, 2012. Our selection of a 100 basis point immediate, parallel increase in interest rates is a hypothetical rate scenario we use to demonstrate potential risk. While a 100 basis point immediate, parallel increase does not represent our view of future market changes, it is a near term reasonably possible hypothetical change that illustrates the potential impact of such events. While these fair value measurements provide a representation of interest rate sensitivity, they are based on our portfolio exposures at a point in time and may not be representative of future market results. These exposures will change as a result of ongoing portfolio transactions in response to new business, management s assessment of changing market conditions and available investment opportunities.

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	As of September 30, 2013			
	Notional	Asset (liability) fair value	Hypothetical fair value after +100 basis point parallel yield curve shift	Hypothetical changes in fair value
	(in millions)			
Financial assets with interest rate risk:				
Fixed maturities, available-for-sale		$ 48,914.9	$ 46,663.6	$ (2,251.3)
Fixed maturities, trading		572.9	548.1	(24.8)
Mortgage loans		12,190.9	11,690.7	(500.2)
Policy loans		988.6	912.0	(76.6)
Equity securities, trading		403.9	387.7	(16.2)
Other investments		116.9	116.6	(0.3)
Financial liabilities with interest rate risk:				
Investment-type insurance contracts		(30,677.2)	(29,817.9)	859.3
Long-term debt		(2,721.9)	(2,476.9)	245.0
Bank deposits		(1,901.7)	(1,891.9)	9.8
Derivatives with interest rate risk				
Interest rate swaps	$ 19,601.8	(349.0)	(428.9)	(79.9)
Currency swaps	2,559.3	92.7	91.9	(0.8)
Equity options	1,624.7	(82.2)	(113.7)	(31.5)
Interest rate options	1,500.0	29.3	25.6	(3.7)
Swaptions	325.0	1.1	3.6	2.5
Interest rate futures	211.0	2.7	13.5	10.8
Net estimated potential loss in fair value				$ (1,857.9)

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	As of December 31, 2012			
	Notional	Asset (liability) fair value	Hypothetical fair value after +100 basis point parallel yield curve shift	Hypothetical changes in fair value
	(in millions)			
Financial assets with interest rate risk:				
Fixed maturities, available-for-sale		$ 50,939.3	$ 48,651.7	$ (2,287.6)
Fixed maturities, trading		626.7	600.6	(26.1)
Mortgage loans		12,163.7	11,686.6	(477.1)
Policy loans		1,056.8	985.9	(70.9)
Equity securities, trading		81.1	76.0	(5.1)
Other investments		119.8	117.7	(2.1)
Financial liabilities with interest rate risk:				
Investment-type insurance contracts		(32,702.1)	(31,754.6)	947.5
Long-term debt		(2,951.4)	(2,671.6)	279.8
Bank deposits		(2,177.7)	(2,166.3)	11.4
Derivatives with interest rate risk				
Interest rate swaps	**$** 18,381.2	(296.1)	(377.2)	(81.1)
Currency swaps	3,454.1	102.2	101.3	(0.9)
Equity options	1,559.7	34.5	(1.7)	(36.2)
Interest rate options	500.0	48.5	19.2	(29.3)
Swaptions	325.0	0.7	2.6	1.9
Interest rate futures	82.0		2.6	2.6
Net estimated potential loss in fair value				$ (1,773.2)

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

The tables above do not include approximately $29,036.3 million of liabilities relating to insurance contracts involving significant mortality or morbidity risk as of September 30, 2013 and $28,815.5 million as of December 31, 2012, which are not considered financial liabilities. We believe the interest rate sensitivities of these insurance liabilities would economically serve as a partial offset to the net interest rate risk of the financial assets and liabilities that are set forth in these tables.

The fair value sensitivity table above replaces our 2012 Form 10-K sensitivity table, which showed the duration gap between our liabilities and the assets backing them, as well as the net fair value change for a 100 basis point immediate, parallel increase in interest rates. We believe the new disclosure provides more useful information, as it presents our assets and liabilities at a more granular level. The new disclosure also provides better perspective on the sensitivity of AOCI to interest rate changes. Therefore, we believe the new disclosure provides a clearer and more comprehensive indication of the potential impact on our consolidated statements of financial position from a 100 basis point change in interest rates.

Our net estimated potential loss in fair value as of September 30, 2013, increased $84.7 million from December 31, 2012, primarily due to a slight increase in the duration of our financial assets and a slight decrease in the duration of our financial liabilities.

The following table provides detail on the differences between the interest rates being credited to contractholders as of September 30, 2013, and the respective guaranteed minimum interest rates (GMIRs), broken down by GMIR level within the Retirement and Investor Services and U.S. Insurance Solutions segments.

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	Account values (1)					
	Excess of crediting rates over GMIR:					
	At GMIR	Up to 0.50% above GMIR	0.51% to 1.00% above GMIR ($ in millions)	1.01% to 2.00% above GMIR	2.01% or more above GMIR	Total
Guaranteed minimum interest rate						
Retirement and Investor Services						
Up to 1.00%	$ **444.4**	$ **583.6**	$ **3,454.6**	$ **759.2**	$ **46.4**	$ **5,288.2**
1.01% - 2.00%	**241.3**	**200.4**	**324.7**	**60.9**		**827.3**
2.01% - 3.00%	**8,647.5**	**74.7**	**336.8**	**441.1**	**1.6**	**9,501.7**
3.01% - 4.00%	**251.3**					**251.3**
Subtotal	**9,584.5**	**858.7**	**4,116.1**	**1,261.2**	**48.0**	**15,868.5**
U.S. Insurance Solutions						
Up to 1.00%			**24.0**	**11.8**		**35.8**
1.01% - 2.00%	**247.3**		**100.0**	**35.7**	**2.6**	**385.6**
2.01% - 3.00%	**1,803.1**	**976.2**	**165.7**	**68.4**	**0.1**	**3,013.5**
3.01% - 4.00%	**1,416.9**	**21.8**	**17.0**	**44.8**	**6.4**	**1,506.9**
4.01% - 5.00%	**144.1**	**103.6**	**79.8**	**21.9**		**349.4**
Subtotal	**3,611.4**	**1,101.6**	**386.5**	**182.6**	**9.1**	**5,291.2**
Total	$ **13,195.9**	$ **1,960.3**	$ **4,502.6**	$ **1,443.8**	$ **57.1**	$ **21,159.7**
Percentage of total	**62.3%**	**9.3%**	**21.3%**	**6.8%**	**0.3%**	**100.0%**

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

During periods of low or declining interest rates, our margin of investment income above our interest credited to our liabilities (investment margins) may be negatively impacted. Assuming a hypothetical scenario where market interest rates immediately fall by 25 basis points from their September 30, 2013 levels and then remain unchanged thereafter, we estimate that the impact of such an environment could reduce our investment margins for our domestic business by approximately $3 million and $6 million pre-tax during the 12 months ending September 30, 2014 and 2015, respectively, compared to a scenario where market interest rates remain unchanged from their September 30, 2013 levels. This hypothetical scenario reflects only the impact related to the approximately $21 billion of in-force contracts with guaranteed minimum interest rates shown above, and does not reflect potential impacts on our DAC asset and other actuarial balances. In determining the potential impact, we have reflected the impact of potential changes in crediting rates to policyholders, limited by any restrictions on our ability to adjust crediting rates due to guaranteed minimum interest rates. Our estimates of future margins include the impact of expected premium payments, lapses, and withdrawals on existing policies, but they do not include the impact of new sales. Our selection of a 25 basis point immediate, parallel decrease in interest rates is a hypothetical rate scenario we use to demonstrate potential risk. While a 25 basis point immediate, parallel decrease does not represent our view of future market changes, it is a near term reasonably possible hypothetical change that illustrates the potential impact of such events.

We manage interest rate risk through the use of an integrated risk management framework that helps us identify, assess, monitor, report and manage our risks within established limits and risk tolerances. Our internal risk committees monitor and discuss our risk profile and identify necessary actions to mitigate impacts from interest rate risk.

We also limit our exposure to interest rate risk through our business mix and strategy. We have intentionally limited our exposure to specific products where investment margins are critical to the product s profitability, and we continue to emphasize the sale of products that generate revenues in the form of fees for service or premiums for insurance coverage and expose us to minimal interest rate risk.

One of the measures we use to quantify our exposure to interest rate risk is duration, which is a measure of the sensitivity of the fair value of assets and liabilities to changes in interest rates. Differences in durations between assets and liabilities are measured and kept within acceptable tolerances. Derivatives are also commonly used to mitigate interest rate risk due to cash flow mismatches and timing differences. Prepayment risk is controlled by limiting our exposure to investments that are prepayable without penalty prior to maturity at the option of the issuer. We also require additional yield on these investments to compensate for the risk the issuer will exercise such option. Prepayment risk is also controlled by limiting the sales of liabilities with features such as puts or other options that can be

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exercised against the company at inopportune times. For example, as of September 30, 2013, approximately $9.9 billion, or 99%, of our institutional guaranteed investment contracts and funding agreements cannot be redeemed by contractholders prior to maturity. We manage the interest rate risk associated with our long-term borrowings by monitoring the interest rate environment and evaluating refinancing opportunities as maturity dates approach.

The plan fiduciaries use a Dynamic Asset Allocation strategy for our qualified defined benefit pension plan, which strategically allocates an increasing portion of the assets of the pension plan to fixed income securities as the funding status improves. The intended purpose of using the Dynamic Asset Allocation strategy is that the expected change in the value of the plan assets and the change in pension benefit obligation due to market movements are more likely to have more correlation versus a static allocation of assets between categories. For more information see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Benefit Plans and Item 8. Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 7, Employee and Agent Benefits in our Annual Report on Form 10-K for the year ended December 31, 2012.

See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Valuation and Impairment of Fixed Income Investments in our Annual Report on Form 10-K for the year ended December 31, 2012, for additional discussion of the impact interest rate increases would have on fixed maturities, available-for-sale.

Use of Derivatives to Manage Interest Rate Risk. We use or have previously used various derivative financial instruments to manage our exposure to fluctuations in interest rates, including interest rate swaps, interest rate collars, swaptions and futures. We use interest rate swaps and futures contracts to hedge changes in interest rates subsequent to the issuance of an insurance liability, such as a guaranteed investment contract, but prior to the purchase of a supporting asset, or during periods of holding assets in anticipation of near term liability sales. We use interest rate swaps primarily to more closely match the interest rate characteristics of assets and liabilities. They can be used to change the sensitivity to the interest rate of specific assets and liabilities as well as an entire portfolio. We use interest rate collars to manage interest rate risk related to GMIR liabilities in our individual annuities contracts and lapse risk associated with higher interest rates. We purchase swaptions to offset or modify existing exposures.

Foreign Currency Risk

Foreign currency risk is the risk we will incur economic losses due to adverse fluctuations in foreign currency exchange rates. This risk arises from foreign currency-denominated funding agreements issued to nonqualified institutional investors in the international market, foreign currency-denominated fixed maturities and our international operations, including potential acquisition and divestiture activity.

We estimate that as of September 30, 2013, a 10% immediate unfavorable change in each of the foreign currency exchange rates to which we are exposed would result in no material change to the net fair value of our foreign currency denominated instruments identified above because we effectively hedge foreign currency denominated instruments to minimize exchange rate impacts, which is consistent with our estimate as of December 31, 2012. However, fluctuations in foreign currency exchange rates do affect the translation of operating earnings and equity of our international operations into our consolidated financial statements.

For our Principal International segment, we estimate that a 10% immediate unfavorable change in each of the foreign currency exchange rates to which we were exposed would have resulted in a $312.3 million, or 10%, reduction in the total equity excluding noncontrolling interests of our international operations as of September 30, 2013, as compared to an estimated $184.2 million, or 10%, reduction as of December 31, 2012. The Cuprum acquisition increased total equity excluding noncontrolling interests exposed to foreign currency risk and the corresponding dollar impact of the foreign currency exchange rates compared to December 31, 2012. We estimate that a 10% unfavorable change in the average foreign currency exchange rates to which we were exposed through our international operations would have resulted in a $5.9 million, or 12%, reduction in the operating earnings of our international operations for the three months ended September 30, 2013, as compared to an estimated $4.2 million, or 11%, reduction for the three months ended September 30, 2012. In addition, we estimate that a 10% unfavorable change in the average foreign currency exchange rates to which we were exposed through our international operations would have resulted in a $17.3 million, or 11%, reduction in the operating earnings of our international operations for the nine months ended September 30, 2013, as compared to an estimated $12.9 million, or 11%, reduction for the nine months ended September 30, 2012.

The selection of a 10% immediate unfavorable change in all currency exchange rates should not be construed as a prediction by us of future market events, but rather as an illustration of the potential impact of such an event. These exposures will change as a result of a change in the size and mix of our foreign operations.

Use of Derivatives to Manage Foreign Currency Risk. The foreign currency risk on funding agreements and fixed maturities in our U.S. operations is mitigated by using currency swaps that swap the foreign currency interest and principal payments to our

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functional currency. The notional amount of our currency swap agreements associated with foreign-denominated liabilities was $1,425.0 million and $2,209.6 million as of September 30, 2013 and December 31, 2012, respectively. The notional amount of our currency swap agreements associated with foreign-denominated fixed maturities was $1,030.2 million and $1,164.0 million as of September 30, 2013 and December 31, 2012, respectively.

With regard to our international operations, in order to enhance the diversification of our investment portfolios we may invest in bonds denominated in a currency that is different than the currency of our liabilities. We use foreign exchange derivatives to economically hedge the currency mismatch. Our operations in Chile had currency swaps with a notional amount of $104.1 million and $80.5 million as of September 30, 2013 and December 31, 2012, respectively. Chile also utilized currency forwards with a notional amount of $264.0 million and $257.2 million as of September 30, 2013 and December 31, 2012, respectively.

We used currency options with a notional amount of $1,400.0 million and currency forwards with a notional amount of $300.0 million as of December 31, 2012, to manage the foreign currency risk associated with a business combination. There were no hedges of business combinations outstanding at September 30, 2013. Additionally, from time to time we take measures to hedge our net equity investments in our foreign subsidiaries from currency risks. There were no outstanding net equity investment hedges in 2013 or 2012.

Equity Risk

Equity risk is the risk we will incur economic losses due to adverse fluctuations in common stock prices. As of September 30, 2013 and December 31, 2012, the fair value of our equity securities was $780.2 million and $389.3 million, respectively. The increase is primarily due to equity securities that we acquired as part of the Cuprum acquisition that was completed in first quarter 2013. As of September 30, 2013, we estimate that a 10% decline in the value of the equity securities would result in a decline in fair value of the equity securities of $78.0 million, as compared to a decline in fair value of the equity securities of $38.9 million as of December 31, 2012.

We are also exposed to the risk that asset-based fees decrease as a result of declines in assets under management due to changes in investment prices and the risk that asset management fees calculated by reference to performance could be lower. The risk of decreased asset-based and asset management fees could also impact our estimates of total gross profits used as a basis for amortizing deferred acquisition costs and other actuarial balances. We estimate that an immediate 10% decline in the S&P index, followed by a 2% per quarter increase would reduce our annual operating earnings by approximately 4% to 6%. For further discussion, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Deferred Policy Acquisition Costs and Other Actuarial Balances in our Annual Report on Form 10-K for the year ended December 31, 2012.

The selection of a 10% unfavorable change in the equity markets should not be construed as a prediction by us of future market events, but rather as an illustration of the potential impact of such an event. Our exposure will change as a result of changes in our mix of business.

We also have equity risk associated with (1) fixed deferred annuity contracts that credit interest to customers based on changes in an external equity index; (2) variable annuity contracts that have a GMWB rider that allows the customer to make withdrawals of a specified annual amount, either for a fixed number of years or for the lifetime of the customer, even if the account value is reduced to zero; (3) variable annuity contracts that have a guaranteed minimum death benefit (GMDB) that allows the death benefit to be paid, even if the account value has fallen below the

GMDB amount and (4) investment-type contracts in which the return is subject to minimum contractual guarantees. We are also subject to equity risk based upon the assets that support our employee benefit plans. For further discussion of equity risk associated with these plans, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Benefit Plans in our Annual Report on Form 10-K for the year ended December 31, 2012.

Use of Derivatives to Manage Equity Risk. We economically hedge the fixed deferred annuity product, where the interest credited is linked to an external equity index, by purchasing options that match the product s profile. We economically hedge the GMWB exposure, which includes interest rate risk and equity risk, using futures, options and interest rate swaps with notional amounts of $489.7 million, $1,624.7 million, and $3,140.5 million, respectively, as of September 30, 2013, and notional amounts of $455.6 million, $1,539.7 million, and $2,904.8 million, respectively, as of December 31, 2012. The fair value of both the GMWB embedded derivative and associated hedging instruments are sensitive to financial market conditions and the variance related to the change in fair value of these items for a given period is largely dependent on market conditions at the end of the period.

Credit Risk

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

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Use of Derivatives to Diversify or Hedge Credit Risk. We purchase credit default swaps to hedge credit exposures in our investment portfolio and total return swaps to hedge our investment portfolio from credit losses. We sell credit default swaps to offer credit protection to investors when entering into synthetic replicating transactions. When selling credit protection, if there is an event of default by the referenced name, we are obligated to pay the counterparty the referenced amount of the contract and receive in return the referenced security. For further information on credit derivatives sold, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 5, Derivative Financial Instruments under the caption, Credit Derivatives Sold.

We economically hedged credit exposure in our portfolio by purchasing credit default swaps with a notional amount of $359.3 million and $359.8 million and total return swaps of $100.0 million and $100.0 million as of September 30, 2013 and December 31, 2012, respectively. We had credit exposure through credit default swaps with a notional amount of $110.4 million and $110.4 million as of September 30, 2013 and December 31, 2012, respectively, by investing in various tranches of a synthetic collateralized debt obligation. In addition, we sold credit default swaps creating replicated assets with a notional amount of $608.5 million and $908.1 million as of September 30, 2013 and December 31, 2012, respectively.

Derivative Counterparty Risk

In conjunction with our use of derivatives, we are exposed to counterparty risk, or the risk that the counterparty fails to perform the terms of the derivative contract. We actively manage this risk by:

- obtaining approval of all new counterparties by the Investment Committee;
- establishing exposure limits that take into account non-derivative exposure we have with the counterparty as well as derivative exposure;
- performing similar credit analysis prior to approval on each derivatives counterparty that we do when lending money on a long-term basis;
- diversifying our risk across numerous approved counterparties;
- implementing credit support annex (collateral) agreements (CSAs) for over-the-counter derivative transactions or similar agreements with a majority of our counterparties to further limit counterparty exposures, which provide for netting of exposures;
- limiting exposure to A credit or better for over-the-counter derivative counterparties without CSAs;
- conducting stress-test analysis to determine the maximum exposure created during the life of a prospective transaction
- daily monitoring of counterparty credit ratings, exposures and associated collateral levels and
- trading mandatorily cleared contracts through centralized clearinghouses.

We believe the risk of incurring losses due to nonperformance by our counterparties is manageable. For further information on derivatives, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 5, Derivative Financial Instruments.

Based on our accounting policy, our disclosed exposure measures the fair value of derivatives that have become favorable to us and, therefore, is a combined credit exposure if all of the involved counterparties failed to fulfill their obligations. For further information on derivative exposure, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 5, Derivative Financial Instruments under the caption, Exposure.

We manage our exposure on a net basis, whereby we net positive and negative exposures for each counterparty with agreements in place. For further information on derivative exposure, see Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 4, Investments under the caption, Balance Sheet Offsetting. We have not incurred any material losses on derivative financial instruments due to counterparty nonperformance. As a result of our management of counterparty risk and the collateralization of our derivative portfolio, any credit exposure to derivative counterparties is immaterial as of September 30, 2013.

Item 4. Controls and Procedures

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Disclosure Controls and Procedures

In order to ensure that the information that we must disclose in our filings with the SEC is recorded, processed, summarized and reported on a timely basis, we have adopted disclosure controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file with or submit to the SEC is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our Chief Executive Officer, Larry D. Zimpleman, and our Chief Financial Officer, Terrance J. Lillis, have reviewed and evaluated our disclosure controls and procedures as of September 30, 2013, and have concluded that our disclosure controls and procedures are effective.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Disclosure concerning material legal proceedings can be found in Part I, Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 8, Contingencies, Guarantees and Indemnifications under the caption, Litigation and Regulatory Contingencies and Part I, Item 1. Financial Statements, Notes to Unaudited Consolidated Financial Statements, Note 6, Income Taxes, which are incorporated here by this reference.

Item 1A. Risk Factors

In addition to the other information set forth in this report, consideration should be given to the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012. If any of those factors were to occur, they could materially adversely affect our business, financial condition or future results, and could cause actual results to differ materially from those expressed in forward-looking statements in this report. Except as described below, there have been no material changes with respect to the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2012. The following risk factor has been updated and restated in its entirety.

We may be unable to mitigate the impact of Regulation XXX and Actuarial Guideline 38, potentially resulting in a negative impact to our capital position and/or a reduction in sales in term and universal life insurance products.

The NAIC Model Regulation entitled Valuation of Life Insurance Policies, commonly known as Regulation XXX , establishes statutory reserve requirements for term life insurance policies and universal life insurance policies with secondary guarantees. Actuarial Guideline 38 (AG38)

clarifies the application of Regulation XXX with respect to certain universal life insurance products with secondary guarantees.

The NAIC amended AG38 in 2012 in order to create more clarity around reserving practices for certain policies that are accounted for under this guideline. The effects of the changes to AG38 are two-fold:

- Reserves for certain inforce policies may be subject to additional statutory reserve minimums effective for the December 31, 2012, reporting period and

- Reserves for products designed in a specific manner and sold after January 1, 2013 will be subject to a higher statutory reserve basis.

We have implemented reinsurance transactions utilizing affiliated reinsurers to mitigate the capital impact of Regulation XXX and AG38 on our term and universal life insurance business. The NAIC has formed a Capital and Special Purpose Vehicle Use Subgroup of the Financial Condition Committee to investigate the utilization of certain affiliated reinsurance transactions and could recommend changes to criteria that permit reinsurance credit and the types of assets that can support certain portions of ceded reserves in these transactions. We cannot provide assurances that we will be able to continue to utilize these transactions for reinsuring certain portions of our term and universal life insurance reserves. If we are unable to mitigate the impact of Regulation XXX and AG38 on these products, additional capital may be required to support those products, and we may be required to increase prices and/or reduce sales of our term and universal life insurance products.

The State of New York enforces AG38 through New York Regulation 147 (Reg. 147). The New York Department of Financial Services (NYDFS) implemented regulatory requirements to Reg. 147 which supported the NAIC AG38 amendment for December 31, 2012 reserve calculations, but in September 2013, the NYDFS withdrew those regulatory requirements. NYDFS has stated an intent to implement a different and more conservative interpretation of Reg. 147, which in effect would increase what we

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report in New York as reserves.

Principal Life is licensed to sell life insurance products in all 50 states, including New York. As a result, Principal Life is required to annually file a Supplement to the Life and Accident and Health Annual Statement (Supplement) that adjusts the statutory financial statements filed with the State of Iowa. The Supplement includes balance sheets, income statements and other key financial metrics to comply with New York s regulations. At this time, however, we do not know the amount by which we may be required to increase reserves in the Supplement or other actions we may take in response to the interpretation New York may make of Reg. 147.

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

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

Issuer Purchases of Equity Securities

Period	Total number of shares purchased (1)		Average price paid per share	Total number of shares purchased as part of publicly announced programs		Maximum dollar value of shares that may yet be purchased under the programs (in millions) (2)
January 1, 2013 January 31, 2013	**800,177**	**$**	**29.55**	**796,502**	**$**	**18.6**
February 1, 2013 February 28, 2013	**623,549**	**$**	**30.94**	**600,853**	**$**	**150.0**
March 1, 2013 March 31, 2013	**1,472,980**	**$**	**32.53**	**996,654**	**$**	**117.0**
April 1, 2013 April 30, 2013	**2,964**	**$**	**33.87**		**$**	**117.0**
May 1, 2013 May 31, 2013	**9,806**	**$**	**36.66**		**$**	**117.0**
June 1, 2013 June 30, 2013	**203**	**$**	**37.85**		**$**	**117.0**
July 1, 2013 July 31, 2013	**306,000**	**$**	**38.64**	**306,000**	**$**	**105.2**
August 1, 2013 August 31, 2013	**348,477**	**$**	**41.90**	**347,166**	**$**	**90.6**
September 1, 2013 September 30, 2013	**839,014**	**$**	**42.45**	**838,946**	**$**	**55.0**
Total	**4,403,170**			**3,886,121**		

(1) Includes the number of shares of common stock utilized to execute certain stock incentive awards and shares purchased as part of publicly announced programs.

(2) Our Board of Directors authorized a repurchase program in May 2012 of up to $200.0 million of our outstanding common stock. The program was completed in February 2013. In February 2013, our Board of Directors authorized a repurchase program of up to $150.0 million of our outstanding common stock.

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Item 6. Exhibits

Exhibit Number	Description
12	Statement Regarding Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Larry D. Zimpleman
31.2	Certification of Terrance J. Lillis
32.1	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Larry D. Zimpleman
32.2	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code Terrance J. Lillis
101	The following materials from Principal Financial Group, Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Position, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Stockholders Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Unaudited Consolidated Financial Statements.

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SIGNATURE

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

PRINCIPAL FINANCIAL GROUP, INC.

Dated: October 30, 2013	By	/s/ Terrance J. Lillis Terrance J. Lillis Senior Vice President and Chief Financial Officer Duly Authorized Officer, Principal Financial Officer, and Chief Accounting Officer

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