

PRINCIPAL FINANCIAL GROUP INC

Form 10-Q

November 01, 2017

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017

OR

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

1-16725

(Commission file number)

PRINCIPAL FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

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Delaware

(State or other jurisdiction of incorporation or organization)

42-1520346

(I.R.S. Employer Identification Number)

711 High Street, Des Moines, Iowa 50392

(Address of principal executive offices)

(515) 247-5111

(Registrant's telephone number, including area code)

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

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

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

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

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

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

The total number of shares of the registrant's Common Stock, \$0.01 par value, outstanding as of October 25, 2017, was 288,754,689.

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

	September 30, 2017 (Unaudited)	December 31, 2016
	<i>(in millions)</i>	
Assets		
Fixed maturities, available-for-sale (2017 and 2016 include \$257.4 million and \$232.5 million related to consolidated variable interest entities)	\$ 59,137.8	\$ 54,846.1
Fixed maturities, trading (2017 and 2016 include \$0.0 million and \$82.4 million related to consolidated variable interest entities)	232.5	398.4
Equity securities, available-for-sale	118.3	98.9
Equity securities, trading (2017 and 2016 include \$788.3 million and \$721.9 million related to consolidated variable interest entities)	1,670.9	1,413.4
Mortgage loans	14,020.4	13,230.2
Real estate (2017 and 2016 include \$291.9 million and \$305.7 million related to consolidated variable interest entities)	1,650.2	1,368.8
Policy loans	812.0	823.8
Other investments (2017 and 2016 include \$105.5 million and \$89.8 million related to consolidated variable interest entities and \$88.9 million and \$86.2 million measured at fair value under the fair value option)	3,561.3	3,655.9
Total investments	81,203.4	75,835.5
Cash and cash equivalents	2,795.0	2,719.6
Accrued investment income	634.6	580.6
Premiums due and other receivables	1,516.6	1,361.9
Deferred acquisition costs	3,481.4	3,380.2
Property and equipment	754.6	699.0
Goodwill	1,055.2	1,020.8
Other intangibles	1,314.7	1,325.3
Separate account assets (2017 and 2016 include \$39,725.2 million and \$35,844.1 million related to consolidated variable interest entities)	154,085.9	139,832.6
Other assets	1,092.2	1,258.8
Total assets	\$ 247,933.6	\$ 228,014.3
Liabilities		
Contractholder funds (2017 and 2016 include \$374.5 million and \$358.7 million related to consolidated variable interest entities)	\$ 38,208.6	\$ 37,953.6
Future policy benefits and claims	32,129.1	29,000.7
Other policyholder funds	926.2	890.4
Short-term debt	58.8	51.4
Long-term debt	3,175.4	3,125.7
Income taxes currently payable	53.7	12.9
Deferred income taxes	1,515.2	972.4
Separate account liabilities (2017 and 2016 include \$39,725.2 million and \$35,844.1 million related to consolidated variable interest entities)	154,085.9	139,832.6
Other liabilities (2017 and 2016 include \$259.2 million and \$284.1 million related to consolidated variable interest entities, of which \$0.0 million and \$59.9 million are measured at fair value under the fair value option)	5,584.3	5,783.3
Total liabilities	235,737.2	217,623.0

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Redeemable noncontrolling interest (2017 and 2016 include \$50.1 million and \$58.8 million related to consolidated variable interest entities)	129.1	97.5
Stockholders' equity		
Common stock, par value \$.01 per share 2,500.0 million shares authorized, 473.5 million and 469.2 million shares issued, and 288.5 million and 287.7 million shares outstanding in 2017 and 2016	4.7	4.7
Additional paid-in capital	9,886.8	9,686.0
Retained earnings	8,784.6	7,720.4
Accumulated other comprehensive income (loss)	47.0	(675.2)
Treasury stock, at cost (185.0 million and 181.5 million shares in 2017 and 2016)	(6,726.7)	(6,508.6)
Total stockholders' equity attributable to Principal Financial Group, Inc.	11,996.4	10,227.3
Noncontrolling interest	70.9	66.5
Total stockholders' equity	12,067.3	10,293.8
Total liabilities and stockholders' equity	\$ 247,933.6	\$ 228,014.3

See accompanying notes.

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Principal Financial Group, Inc.

Consolidated Statements of Operations

(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
	<i>(in millions, except per share data)</i>			
Revenues				
Premiums and other considerations	\$ 2,126.1	\$ 1,002.7	\$ 4,826.8	\$ 3,561.1
Fees and other revenues	987.1	915.0	2,882.8	2,687.7
Net investment income	838.0	856.1	2,581.8	2,417.0
Net realized capital gains, excluding impairment losses on available-for-sale securities	693.2	55.5	623.7	283.9
Net other-than-temporary impairment (losses) recoveries on for-sale securities	2.6	(22.0)	(27.1)	(81.0)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from) other comprehensive income	(19.2)	10.7	(32.5)	11.6
Net impairment losses on available-for-sale securities	(16.6)	(11.3)	(59.6)	(69.4)
Net realized capital gains	676.6	44.2	564.1	214.5
Total revenues	4,627.8	2,818.0	10,855.5	8,880.3
Expenses				
Benefits, claims and settlement expenses	2,504.6	1,482.2	6,020.7	4,800.6
Dividends to policyholders	32.6	45.5	92.7	122.3
Operating expenses	932.8	919.6	2,804.7	2,747.0
Total expenses	3,470.0	2,447.3	8,918.1	7,669.9
Income before income taxes	1,157.8	370.7	1,937.4	1,210.4
Income taxes	344.6	43.3	455.8	186.8
Net income	813.2	327.4	1,481.6	1,023.6
Net income attributable to noncontrolling interest	3.0	19.2	13.0	25.1
Net income attributable to Principal Financial Group, Inc.	\$ 810.2	\$ 308.2	\$ 1,468.6	\$ 998.5
Earnings per common share				
Basic earnings per common share	\$ 2.80	\$ 1.07	\$ 5.08	\$ 3.45
Diluted earnings per common share	\$ 2.76	\$ 1.06	\$ 5.02	\$ 3.41
Dividends declared per common share	\$ 0.47	\$ 0.41	\$ 1.38	\$ 1.18

See accompanying notes.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
	<i>(in millions)</i>			
Net income	\$ 813.2	\$ 327.4	\$ 1,481.6	\$ 1,023.6
Other comprehensive income, net:				
Net unrealized gains on available-for-sale securities	70.1	120.3	569.1	827.9
Noncredit component of impairment losses on fixed maturities, available-for-sale	13.3	(5.3)	21.0	(6.9)
Net unrealized gains (losses) on derivative instruments	(11.1)	3.7	(29.3)	16.2
Foreign currency translation adjustment	88.6	(16.0)	151.3	127.8
Net unrecognized postretirement benefit obligation	4.2	8.0	12.8	24.0
Other comprehensive income	165.1	110.7	724.9	989.0
Comprehensive income	978.3	438.1	2,206.5	2,012.6
Comprehensive income attributable to noncontrolling interest	5.0	18.8	15.7	30.5
Comprehensive income attributable to Principal Financial Group, Inc.	\$ 973.3	\$ 419.3	\$ 2,190.8	\$ 1,982.1

See accompanying notes.

Table of Contents**Principal Financial Group, Inc.****Consolidated Statements of Stockholders' Equity****(Unaudited)**

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss) <i>(in millions)</i>	Treasury stock	Noncontrolling interest	Total stockholders equity
Balances as of January 1, 2016	\$ 4.7	\$ 9,544.8	\$ 6,875.9	\$ (882.5)	\$ (6,231.3)	\$ 65.8	\$ 9,377.4
Common stock issued		25.7					25.7
Stock-based compensation and additional related tax benefits		65.0	(5.2)			0.3	60.1
Treasury stock acquired, common					(245.2)		(245.2)
Dividends to common stockholders			(341.1)				(341.1)
Distributions to noncontrolling interest						(3.7)	(3.7)
Contributions from noncontrolling interest						0.7	0.7
Purchase of subsidiary shares from noncontrolling interest (1)		15.1		(9.3)			5.8
Adjustments to redemption amount of redeemable noncontrolling interest		(4.1)					(4.1)
Net income (1)			998.5			4.3	1,002.8
Other comprehensive income (1)				983.6		1.8	985.4
Balances as of September 30, 2016	\$ 4.7	\$ 9,646.5	\$ 7,528.1	\$ 91.8	\$ (6,476.5)	\$ 69.2	\$ 10,863.8
Balances as of January 1, 2017	\$ 4.7	\$ 9,686.0	\$ 7,720.4	\$ (675.2)	\$ (6,508.6)	\$ 66.5	\$ 10,293.8
Common stock issued		143.1					143.1
Stock-based compensation		68.1	(5.9)			0.2	62.4
Treasury stock acquired, common					(218.1)		(218.1)
Dividends to common stockholders			(398.5)				(398.5)
Distributions to noncontrolling interest						(6.1)	(6.1)
Contributions from noncontrolling interest						4.2	4.2
Purchase of subsidiary shares from noncontrolling interest (1)		(7.6)				(1.3)	(8.9)
Adjustments to redemption amount of redeemable noncontrolling interest		(2.8)					(2.8)
Net income (1)			1,468.6			6.1	1,474.7
Other comprehensive income (1)				722.2		1.3	723.5
Balances as of September 30, 2017	\$ 4.7	\$ 9,886.8	\$ 8,784.6	\$ 47.0	\$ (6,726.7)	\$ 70.9	\$ 12,067.3

(1) Excludes amounts attributable to redeemable noncontrolling interest. See Note 9, Stockholders' Equity, for further details.

See accompanying notes.

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

	For the nine months ended September 30,	
	2017	2016
	<i>(in millions)</i>	
Operating activities		
Net income	\$ 1,481.6	\$ 1,023.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred acquisition costs	173.8	264.0
Additions to deferred acquisition costs	(307.2)	(293.6)
Accrued investment income	(54.0)	(67.8)
Net cash flows for trading securities	55.3	25.6
Premiums due and other receivables	(158.2)	68.9
Contractholder and policyholder liabilities and dividends	2,693.5	1,594.4
Current and deferred income taxes	456.0	75.6
Net realized capital gains	(564.1)	(214.5)
Depreciation and amortization expense	144.8	139.6
Real estate acquired through operating activities	(55.2)	(31.2)
Real estate sold through operating activities	1.3	21.4
Stock-based compensation	62.2	58.7
Other	(301.1)	262.6
Net adjustments	2,147.1	1,903.7
Net cash provided by operating activities	3,628.7	2,927.3
Investing activities		
Available-for-sale securities:		
Purchases	(10,425.7)	(10,590.0)
Sales	1,011.2	1,138.1
Maturities	6,577.2	5,836.0
Mortgage loans acquired or originated	(2,036.5)	(2,116.3)
Mortgage loans sold or repaid	1,297.4	1,440.8
Real estate acquired	(113.6)	(90.2)
Real estate sold	457.1	35.5
Net purchases of property and equipment	(133.3)	(109.1)
Net change in other investments	48.5	(42.4)
Net cash used in investing activities	(3,317.7)	(4,497.6)
Financing activities		
Issuance of common stock	143.1	25.7
Acquisition of treasury stock	(218.1)	(245.2)
Proceeds from financing element derivatives	0.1	0.3
Payments for financing element derivatives	(59.5)	(67.3)
Excess tax benefits from share-based payment arrangements		5.9
Purchase of subsidiary shares from noncontrolling interest	(13.3)	(2.4)
Dividends to common stockholders	(398.5)	(341.1)
Issuance of long-term debt		11.0
Principal repayments of long-term debt	(56.2)	
Net proceeds from (repayments of) short-term borrowings	4.9	(143.4)
Investment contract deposits	8,244.4	8,108.5
Investment contract withdrawals	(7,963.1)	(6,201.4)
Net increase in banking operation deposits	79.8	69.6

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Other		0.8		3.5
Net cash provided by (used in) financing activities		(235.6)		1,223.7
Net increase (decrease) in cash and cash equivalents		75.4		(346.6)
Cash and cash equivalents at beginning of period		2,719.6		2,564.8
Cash and cash equivalents at end of period	\$	2,795.0	\$	2,218.2

Supplemental disclosure of non-cash activities:

Assets and liability changes resulting from exchange agreement to exit real estate joint ventures:

Real estate properties received	\$	743.2	\$	
Long-term debt assumed on real estate properties received	\$	269.0	\$	
Increase in other investments due to discontinuing equity method accounting	\$	222.4	\$	

See accompanying notes.

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**Principal Financial Group, Inc.
Notes to Consolidated Financial Statements**

**September 30, 2017
(Unaudited)**

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of Principal Financial Group, Inc. (PFG) have been prepared in conformity with accounting principles generally accepted in the U.S. (U.S. GAAP) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2017, are not necessarily indicative of the results that may be expected for the year ended December 31, 2017. These interim unaudited consolidated financial statements should be read in conjunction with our annual audited financial statements as of December 31, 2016, included in our Form 10-K for the year ended December 31, 2016, filed with the United States Securities and Exchange Commission (SEC). The accompanying consolidated statement of financial position as of December 31, 2016, has been derived from the audited consolidated statement of financial position but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

Consolidation

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

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

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
September 30, 2017
(Unaudited)

Recent Accounting Pronouncements

Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
<i>Standards not yet adopted:</i>		
<p>Goodwill impairment testing This authoritative guidance simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 (which measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill to the carrying amount of that goodwill) from the goodwill impairment test. A goodwill impairment loss will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. Early adoption is permitted.</p>	January 1, 2020	We are currently evaluating the impact this guidance will have on our consolidated financial statements.
<p>Credit losses This authoritative guidance requires entities to use a current expected credit loss (CECL) model to measure impairment for most financial assets that are not recorded at fair value through net income. Under the CECL model, an entity will estimate lifetime expected credit losses considering available relevant information about historical events, current conditions and reasonable and supportable forecasts. The CECL model does not apply to available-for-sale debt securities. This guidance also expands the required credit loss disclosures and will be applied using a modified retrospective approach by recording a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. Early adoption is permitted.</p>	January 1, 2020	We are currently evaluating the impact this guidance will have on our consolidated financial statements. We believe estimated credit losses under the CECL model will generally result in earlier loss recognition for loans and other receivables.
<p>Targeted improvements to accounting for hedging activities This authoritative guidance updates certain recognition and measurement requirements for hedge accounting. The objective of the guidance is to more closely align the economics of a company's risk management activities in its financial results and reduce the complexity of applying hedge accounting. The updates include the expansion of hedging</p>	January 1, 2019	We are currently evaluating the impact this guidance will have on our consolidated financial statements.

<p>strategies that are eligible for hedge accounting, elimination of the separate measurement and reporting of hedge ineffectiveness, presentation of the changes in the fair value of the hedging instrument in the same consolidated statement of operations line as the earnings effect of the hedged item and simplification of hedge effectiveness assessments. This guidance also includes new disclosures and will be applied using a modified retrospective approach by recording a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. Early adoption is permitted.</p>		
<p>Premium amortization on purchased callable debt securities This authoritative guidance applies to entities that hold certain non-contingently callable debt securities, where the amortized cost basis is at a premium to the price repayable by the issuer at the earliest call date. Under the guidance the premium will be amortized to the first call date. This guidance requires adoption through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. Early adoption is permitted.</p>	<p>January 1, 2019</p>	<p>We are currently evaluating the impact this guidance will have on our consolidated financial statements.</p>

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
September 30, 2017
(Unaudited)

Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
<p>Leases This authoritative guidance requires lessee recognition of lease assets and lease liabilities on the balance sheet. The concept of an operating lease, where the lease assets and liabilities are off balance sheet, is eliminated under the new guidance. For lessors, the guidance modifies lease classification criteria and accounting for certain types of leases. Other key aspects of the guidance relate to the removal of the current real estate-specific guidance and new presentation and disclosure requirements. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes certain optional practical expedients that may be elected. Early adoption is permitted.</p>	January 1, 2019	We have primarily focused our implementation efforts on identifying our leases that are within the scope of the guidance and will be added to our balance sheet. We are currently evaluating other impacts this guidance will have on our consolidated financial statements.
<p>Nonfinancial asset derecognition and partial sales of nonfinancial assets This authoritative guidance clarifies the scope of the recently established guidance on nonfinancial asset derecognition and the accounting for partial sales of nonfinancial assets. The guidance conforms the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue recognition standard.</p>	January 1, 2018	We have nearly completed our evaluation of this guidance and do not expect it to have a material impact on our consolidated financial statements.
<p>Presentation of net periodic pension cost and net periodic postretirement benefit cost This authoritative guidance requires that an employer disaggregate the service cost component from the other components of net benefit cost. The guidance also provides explicit guidance on the presentation of the service cost component and the other components of net benefit cost in the consolidated statement of operations and allows only the service cost component of net benefit cost to be eligible for capitalization.</p>	January 1, 2018	This guidance is not expected to have a material impact on our consolidated financial statements.
<p>Definition of a business This authoritative guidance clarifies the definition of a business to assist with evaluating when transactions involving an integrated set of assets and activities (a set) should be accounted for as acquisitions or disposals of assets or businesses. The guidance requires that when substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the</p>	January 1, 2018	We have nearly completed our evaluation of this guidance and do not expect it to have a material impact on our consolidated financial statements.

<p>set is not a business. The guidance also requires a set to include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output to be considered a business. Lastly, the guidance removes the evaluation of whether a market participant could replace missing elements and narrows the definition of outputs by more closely aligning it with how outputs are described in the revenue recognition guidance. The guidance will be applied prospectively. Early application is permitted in certain circumstances.</p>		
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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
September 30, 2017
(Unaudited)

Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
<p>Financial instruments - recognition and measurement This authoritative guidance addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The primary focus of this guidance is to supersede the guidance to classify equity securities with readily determinable fair values into different categories (trading or available-for-sale) and rather requires these equity securities to be measured at fair value with changes in the fair value recognized through net income. This guidance requires adoption through a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption.</p>	January 1, 2018	As of September 30, 2017, we did not hold material equity securities accounted for at fair value through other comprehensive income that will be accounted for at fair value through net income under the updated guidance. We have nearly completed our evaluation of this guidance and do not expect it to have a material impact on our consolidated financial statements.
<p>Revenue recognition This authoritative guidance replaces all general and most industry specific revenue recognition guidance currently prescribed by U.S. GAAP. The core principle is that an entity recognizes revenue to reflect the transfer of a promised good or service to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for that good or service. This guidance also provides clarification on when an entity is a principal or an agent in a transaction. In addition, the guidance updates the accounting for certain costs associated with obtaining and fulfilling a customer contract. The guidance may be applied using one of the following two methods: (1) retrospectively to each prior reporting period presented, or (2) retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.</p>	January 1, 2018	Only a portion of our total revenues, less than 20%, are subject to this guidance as it does not apply to revenue on contracts accounted for under the insurance contracts or financial instruments standards. Our evaluation process is substantially complete and included, but was not limited to, identifying contracts within the scope of the guidance, reviewing and documenting our accounting for these contracts, identifying and determining the accounting for any related contract costs, and preparing the required financial statement disclosures. To date, we have identified financial statement changes related to deferring and amortizing certain sales compensation related to obtaining customer contracts, but we do not expect the impact of these changes to be material. We have not identified material changes in the timing of our revenue recognition. We plan to adopt the guidance on January 1, 2018, using the modified retrospective application.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
September 30, 2017
(Unaudited)

Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
<p>Income tax - intra-entity transfers of assets This authoritative guidance requires entities to recognize current and deferred income tax resulting from an intra-entity asset transfer when the transfer occurs. Prior to issuance of this guidance, U.S. GAAP did not allow recognition of income tax consequences until the asset had been sold to a third party. This guidance requires adoption through a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption with early adoption permitted.</p>	January 1, 2018	We have nearly completed our evaluation of this guidance and do not expect it to have a material impact on our consolidated financial statements.
<i>Standards adopted:</i>		
<p>Employee share-based payment accounting This authoritative guidance changes certain aspects of accounting for and reporting share-based payments to employees including changes related to the income tax effects of share-based payments, tax withholding requirements and accounting for forfeitures. Various transition methods will apply depending on the situation being addressed.</p>	January 1, 2017	The guidance was adopted prospectively as indicated by the guidance for each area of change and did not have a material impact on our consolidated financial statements.
<p>Short-duration insurance contracts This authoritative guidance requires additional disclosures related to short-duration insurance contracts.</p>	December 31, 2016	The disclosure requirements of this guidance were adopted retrospectively.
<p>Net asset value per share as a practical expedient for fair value This authoritative guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient.</p>	January 1, 2016	The guidance was adopted retrospectively and did not have a material impact on our consolidated financial statements. See Note 10, Fair Value Measurements, for further details.
<p>Simplifying the presentation of debt issuance costs This authoritative guidance requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.</p>	January 1, 2016	The guidance was adopted retrospectively and did not have a material impact on our consolidated financial statements.
<p>Consolidations This authoritative guidance makes changes to both the variable interest</p>	January 1, 2016	The guidance was adopted using the modified retrospective approach. See Note 2, Variable

and voting interest consolidation models and eliminates the investment company deferral for portions of the variable interest model. The amendments in the standard impact the consolidation analysis for interests in investment companies and limited partnerships and similar entities.

Interest Entities, for further details.

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

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Principal Financial Group, Inc.
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(Unaudited)

Derivatives

Over-The-Counter Derivatives Cleared on Chicago Mercantile Exchange

We use certain over-the-counter (OTC) interest rate contracts that are subject to derivative clearing agreements. These agreements require the daily cash settlement of variation margin based on changes in the fair value of the derivative instrument. Prior to 2017, variation margin for all such interest rate contracts was treated as collateral, which was accounted for separately as an interest-bearing asset or liability. For reporting purposes, we did not offset fair value amounts recognized for the right to reclaim variation margin collateral or the obligation to return variation margin collateral against fair value amounts recognized for derivative instruments executed with the same counterparties under master netting agreements.

Effective January 2017, the Chicago Mercantile Exchange (CME) rulebook was amended to legally characterize variation margin payments for cleared OTC derivatives as settlements of the derivative exposure rather than collateral against the derivative exposure. The economic cash flows exchanged do not change and therefore hedge accounting is unchanged; however, the variation margin and derivative instrument are considered a single unit of account for accounting and presentation purposes. As settlements, variation margin receipts and payments are considered cash flows of the derivative and reduce the recognized asset or liability arising from the derivative's mark-to-market for balance sheet presentation, effectively resulting in the derivative having a fair value that approximates zero. As of December 31, 2016, our consolidated statements of financial position included \$528.0 million in other investments and \$527.7 million in other liabilities related to OTC interest rate contracts cleared with the CME. The balance of those line items was reduced by those amounts in January 2017 as a result of the CME rulebook amendment. The rulebook amendment did not have an impact on net income. Additionally, the change by the CME did not impact the accounting for our OTC derivatives not cleared with the CME.

Separate Accounts

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

Separate account assets and separate account liabilities include certain international retirement accumulation products where the segregated funds and associated obligation to the client are consolidated within our financial statements. We have determined that summary totals are the

most meaningful presentation for these funds.

As of September 30, 2017 and December 31, 2016, the separate accounts included a separate account valued at \$162.9 million and \$158.4 million, respectively, which primarily included shares of our stock that were allocated and issued to eligible participants of qualified employee benefit plans administered by us as part of the policy credits issued under our 2001 demutualization. These shares are included in both basic and diluted earnings per share calculations. In the consolidated statements of financial position, the separate account shares are recorded at fair value and are reported as separate account assets with a corresponding separate account liability to eligible participants of the qualified plan. Changes in fair value of the separate account shares are reflected in both the separate account assets and separate account liabilities and do not impact our results of operations.

2. Variable Interest Entities

We have relationships with various types of entities which may be VIEs. Certain VIEs are consolidated in our financial results. See Note 1, Nature of Operations and Significant Accounting Policies, under the caption Consolidation for further details of our consolidation accounting policies. We did not provide financial or other support to investees designated as VIEs for the periods ended September 30, 2017 and December 31, 2016.

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

Consolidated Variable Interest Entities

Grantor Trusts

We contributed undated subordinated floating rate notes to three grantor trusts. The trusts separated their cash flows by issuing an interest-only certificate and a residual certificate related to each note contributed. Each interest-only certificate entitles the holder to interest on the stated note for a specified term, while the residual certificate entitles the holder to interest payments subsequent to the term of the interest-only certificate and to all principal payments. We retained the interest-only certificates and the residual certificates were subsequently sold to third parties. We determined these grantor trusts are VIEs due to insufficient equity to sustain them. We determined we are the primary beneficiary as a result of our contribution of securities into the trusts and our significant continuing interest in the trusts.

Collateralized Private Investment Vehicles

We invest in synthetic and cash collateralized debt obligations, collateralized bond obligations, collateralized loan obligations and other collateralized structures, which are VIEs due to insufficient equity to sustain the entities (collectively known as collateralized private investment vehicles). The performance of the notes of these synthetic structures is primarily linked to a synthetic portfolio by derivatives; each note has a specific loss attachment and detachment point. The notes and related derivatives are collateralized by a pool of permitted investments. The investments are held by a trustee and can only be liquidated to settle obligations of the trusts. These obligations primarily include derivatives and the notes due at maturity or termination of the trusts. We determined we were the primary beneficiary for one of these synthetic entities because we acted as the investment manager of the underlying portfolio and we had the power to make decisions and to receive benefits and the obligation to absorb losses that could be potentially significant to the VIE. This synthetic entity matured in the first quarter of 2017.

Commercial Mortgage-Backed Securities

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

Mandatory Retirement Savings Funds

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

Principal International Hong Kong offers retirement pension schemes in which we provide trustee, administration and asset management services to employers and employees under the Hong Kong Mandatory Provident Fund (MPF) and Occupational Retirement Schemes Ordinance (ORSO) pension schemes. Each pension scheme has various guaranteed and non-guaranteed constituent funds, or investment options, in which customers can invest their money. The guaranteed funds provide either a guaranteed rate of return to the customer or a minimum guarantee on withdrawals under certain qualifying events. We determined the guaranteed funds are VIEs due to the fact the equity holders, as a group, lack the obligation to absorb expected losses due to the guarantee we provide. We concluded we are the primary beneficiary because we have the power to make decisions and to receive benefits and the obligation to absorb losses that could be potentially significant to the VIE. Therefore, we consolidate the underlying assets and liabilities of the funds and present as separate accounts or within the general account, depending on the terms of the guarantee.

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Principal Financial Group, Inc.
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(Unaudited)

Real Estate

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

Sponsored Investment Funds

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

Assets and Liabilities of Consolidated Variable Interest Entities

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

	September 30, 2017		December 31, 2016	
	Total assets	Total liabilities	Total assets	Total liabilities
		<i>(in millions)</i>		
Grantor trusts (1)	\$ 258.2	\$ 242.5	\$ 233.3	\$ 212.3
Collateralized private investment vehicle (2)			82.4	61.5
CMBS	10.1		12.5	
Mandatory retirement savings funds (3)	40,473.3	40,099.7	36,526.7	36,202.8
Real estate (4)	318.6	14.2	329.2	26.8
Sponsored investment funds (5)	144.2	1.7	114.3	0.9
Total	\$ 41,204.4	\$ 40,358.1	\$ 37,298.4	\$ 36,504.3

- (1) The assets of grantor trusts are primarily fixed maturities, available-for-sale. The liabilities are primarily other liabilities that reflect an embedded derivative of the forecasted transaction to deliver the underlying securities.
- (2) The assets of the collateralized private investment vehicle were primarily fixed maturities, trading. The liabilities included derivative liabilities and an obligation to redeem notes at maturity or termination of the trusts, which were reported in other liabilities.
- (3) The assets of the mandatory retirement savings funds include separate account assets and equity securities, trading. The liabilities include separate account liabilities and contractholder funds.
- (4) The assets of the real estate VIEs primarily include real estate, other investments and cash. Liabilities primarily include other liabilities.
- (5) The assets of sponsored investment funds are primarily fixed maturities and equity securities, which are reported in other investments, and cash. The consolidated statements of financial position included a \$50.1 million and \$58.8 million redeemable noncontrolling interest for sponsored investment funds as of September 30, 2017 and December 31, 2016, respectively.

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Principal Financial Group, Inc.
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Unconsolidated Variable Interest Entities

Invested Securities

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

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

As previously discussed, we invest in several types of collateralized private investment vehicles that are VIEs. These include synthetic and cash structures that we do not manage. We have determined we are not the primary beneficiary of these collateralized private investment vehicles primarily because we do not control the economic performance of the entities and were not involved with the design of the entities.

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

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

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

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

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Principal Financial Group, Inc.
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(Unaudited)

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

	Asset carrying value	(in millions)	Maximum exposure to loss (1)
September 30, 2017			
Fixed maturities, available-for-sale:			
Corporate	\$	405.1	\$ 337.3
Residential mortgage-backed pass-through securities		2,637.9	2,591.0
Commercial mortgage-backed securities		3,749.5	3,761.3
Collateralized debt obligations		1,239.2	1,249.3
Other debt obligations		5,375.9	5,351.2
Fixed maturities, trading:			
Residential mortgage-backed pass-through securities		15.9	15.9
Commercial mortgage-backed securities		0.7	0.7
Equity securities, trading		82.3	82.3
Other investments:			
Other limited partnership and fund interests		743.7	1,325.7
December 31, 2016			
Fixed maturities, available-for-sale:			
Corporate	\$	368.4	\$ 298.6
Residential mortgage-backed pass-through securities		2,834.7	2,798.0
Commercial mortgage-backed securities		4,096.5	4,153.2
Collateralized debt obligations		758.6	780.1
Other debt obligations		5,036.1	5,048.9
Fixed maturities, trading:			
Residential mortgage-backed pass-through securities		19.9	19.9
Commercial mortgage-backed securities		1.9	1.9
Collateralized debt obligations		10.6	10.6
Equity securities, trading		68.3	68.3
Other investments:			
Other limited partnership and fund interests		654.6	1,127.8

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

Money Market Fund

We are the investment manager for a money market mutual fund. This type of fund is exempt from assessment under any consolidation model due to a scope exception for money market funds registered under Rule 2a-7 of the Investment Company Act of 1940 or similar funds. As of September 30, 2017 and December 31, 2016, the fund we manage held \$0.7 billion and \$0.8 billion in total assets, respectively. We have no contractual obligation to contribute to the fund; however, we provide support through the waiver of fees and through expense reimbursements. The amount of fees waived and expenses reimbursed was insignificant.

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Principal Financial Group, Inc.
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3. Investments**Fixed Maturities and Equity Securities**

Fixed maturities include bonds, ABS, redeemable preferred stock and certain non-redeemable preferred securities. Equity securities include mutual funds, common stock, non-redeemable preferred stock and required regulatory investments. We classify fixed maturities and equity securities as either available-for-sale or trading at the time of the purchase and, accordingly, carry them at fair value. See Note 10, Fair Value Measurements, for methodologies related to the determination of fair value. Unrealized gains and losses related to available-for-sale securities, excluding those in fair value hedging relationships, are reflected in stockholders' equity, net of adjustments associated with deferred acquisition costs (DAC) and related actuarial balances, derivatives in cash flow hedge relationships and applicable income taxes. Unrealized gains and losses related to hedged portions of available-for-sale securities in fair value hedging relationships and mark-to-market adjustments on certain trading securities are reflected in net realized capital gains (losses). Mark-to-market adjustments related to certain securities carried at fair value with an investment objective to realize economic value through mark-to-market changes are reflected in net investment income.

The cost of fixed maturities is adjusted for amortization of premiums and accrual of discounts, both computed using the interest method. The cost of fixed maturities and equity securities classified as available-for-sale is adjusted for declines in value that are other than temporary. Impairments in value deemed to be other than temporary are primarily reported in net income as a component of net realized capital gains (losses), with noncredit impairment losses for certain fixed maturities, available-for-sale reported in other comprehensive income (OCI). For loan-backed and structured securities, we recognize income using a constant effective yield based on currently anticipated cash flows.

The amortized cost, gross unrealized gains and losses, other-than-temporary impairments in accumulated other comprehensive income (AOCI) and fair value of fixed maturities and equity securities available-for-sale were as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Other-than- temporary impairments in AOCI (1)
<i>(in millions)</i>					
September 30, 2017					
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ 1,427.3	\$ 37.4	\$ 7.0	\$ 1,457.7	\$
Non-U.S. governments	932.0	141.3	2.0	1,071.3	

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States and political subdivisions	6,354.6	322.8	21.8	6,655.6	
Corporate	34,660.1	2,357.1	128.9	36,888.3	9.4
Residential mortgage-backed pass-through securities	2,591.0	63.7	16.8	2,637.9	
Commercial mortgage-backed securities	3,761.3	34.0	45.8	3,749.5	58.5
Collateralized debt obligations	1,249.3	3.2	13.3	1,239.2	0.3
Other debt obligations	5,413.1	50.9	25.7	5,438.3	45.7
Total fixed maturities, available-for-sale	\$ 56,388.7	\$ 3,010.4	\$ 261.3	\$ 59,137.8	\$ 113.9
Total equity securities, available-for-sale	\$ 117.4	\$ 7.2	\$ 6.3	\$ 118.3	
December 31, 2016					
Fixed maturities, available-for-sale:					
U.S. government and agencies	\$ 1,426.7	\$ 17.2	\$ 10.9	\$ 1,433.0	\$
Non-U.S. governments	781.7	119.3	7.4	893.6	
States and political subdivisions	5,463.9	192.4	87.1	5,569.2	1.1
Corporate	32,699.7	1,843.5	350.8	34,192.4	17.2
Residential mortgage-backed pass-through securities	2,798.0	67.3	30.6	2,834.7	
Commercial mortgage-backed securities	4,153.2	31.2	87.9	4,096.5	77.5
Collateralized debt obligations	780.1	2.8	24.3	758.6	0.3
Other debt obligations	5,080.9	37.0	49.8	5,068.1	50.3
Total fixed maturities, available-for-sale	\$ 53,184.2	\$ 2,310.7	\$ 648.8	\$ 54,846.1	\$ 146.4
Total equity securities, available-for-sale	\$ 104.9	\$ 4.9	\$ 10.9	\$ 98.9	

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(1) Excludes \$120.1 million and \$120.9 million as of September 30, 2017 and December 31, 2016, respectively, of net unrealized gains on impaired fixed maturities, available-for-sale related to changes in fair value subsequent to the impairment date, which are included in gross unrealized gains and gross unrealized losses.

The amortized cost and fair value of fixed maturities available-for-sale as of September 30, 2017, by expected maturity, were as follows:

	Amortized cost		Fair value
	<i>(in millions)</i>		
Due in one year or less	\$	2,986.9	\$ 3,010.1
Due after one year through five years		11,894.1	12,308.5
Due after five years through ten years		9,865.0	10,256.6
Due after ten years		18,628.0	20,497.7
Subtotal		43,374.0	46,072.9
Mortgage-backed and other asset-backed securities		13,014.7	13,064.9
Total	\$	56,388.7	\$ 59,137.8

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

Net Realized Capital Gains and Losses

Net realized capital gains and losses on sales of investments are determined on the basis of specific identification. In general, in addition to realized capital gains and losses on investment sales and periodic settlements on derivatives not designated as hedges, we report gains and losses related to the following in net realized capital gains (losses): other-than-temporary impairments of securities and subsequent realized recoveries, mark-to-market adjustments on certain trading securities, mark-to-market adjustments on sponsored investment funds, fair value hedge and cash flow hedge ineffectiveness, mark-to-market adjustments on derivatives not designated as hedges, changes in the mortgage loan valuation allowance provision, impairments of real estate held for investment and impairments on equity method investments. Investment gains and losses on sales of certain real estate held for sale due to investment strategy and mark-to-market adjustments on certain securities carried at fair value with an investment objective to realize economic value through mark-to-market changes are reported as net investment income and are excluded from net realized capital gains (losses). The major components of net realized capital gains (losses) on investments were as follows:

For the three months ended

For the nine months ended

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	September 30,		September 30,	
	2017	2016	2017	2016
	<i>(in millions)</i>			
Fixed maturities, available-for-sale:				
Gross gains	\$ 2.1	\$ 15.3	\$ 12.3	\$ 65.4
Gross losses	(1.6)	(3.1)	(17.1)	(6.6)
Net impairment losses	(16.6)	(11.0)	(59.6)	(67.7)
Hedging, net	(1.2)	(9.1)	(17.2)	(2.7)
Fixed maturities, trading	(3.0)	5.6	(1.2)	15.7
Equity securities, available-for-sale:				
Net impairment losses		(0.3)		(1.7)
Equity securities, trading	14.8	21.6	51.2	17.4
Mortgage loans	1.2	1.4	0.9	4.0
Derivatives	(38.1)	(4.9)	(148.4)	152.8
Other (1)	719.0	28.7	743.2	37.9
Net realized capital gains	\$ 676.6	\$ 44.2	\$ 564.1	\$ 214.5

(1) See Note 3, Investments - Real Estate Transactions, for further details.

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Proceeds from sales of investments (excluding call and maturity proceeds) in fixed maturities, available-for-sale were \$163.2 million and \$490.4 million for the three months ended September 30, 2017 and 2016, and \$968.6 million and \$1,150.8 million for the nine months ended September 30, 2017 and 2016, respectively.

Other-Than-Temporary Impairments

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

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

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

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

For the three months ended September 30,		For the nine months ended September 30,	
2017	2016	2017	2016

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			<i>(in millions)</i>					
Fixed maturities, available-for-sale	\$	2.6	\$	(21.7)	\$	(27.1)	\$	(79.3)
Equity securities, available-for-sale				(0.3)				(1.7)
Total other-than-temporary impairment losses, net of recoveries from the sale of previously impaired securities		2.6		(22.0)		(27.1)		(81.0)
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from) OCI (1)		(19.2)		10.7				