PRINCIPAL FINANCIAL GROUP INC
Form 10-Q
May 02, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2019

OR

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

1-16725

(Commission file number)

PRINCIPAL FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**42-1520346**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

711 High Street, Des Moines, Iowa 50392

(Address of principal executive offices)

(515) 247-5111

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock	PFG	Nasdaq Global Select Market

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 ý No o

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

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 the 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 ý Accelerated filer o Non-accelerated filer o Smaller reporting company o Emerging growth company o

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. o

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

The total number of shares of the registrant s Common Stock, $0.01 par value, outstanding as of April 24, 2019, was 278,548,135.

PRINCIPAL FINANCIAL GROUP, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Principal Financial Group, Inc.

Consolidated Statements of Financial Position

	March 31, 2019 (Unaudited)	December 31, 2018
	(in millions)	
Assets		
Fixed maturities, available-for-sale (2019 and 2018 include $98.9 million and $94.5 million related to consolidated variable interest entities)	**$ 63,123.0**	$ 60,108.5
Fixed maturities, trading	**668.9**	636.1
Equity securities (2019 and 2018 include $811.3 million and $774.8 million related to consolidated variable interest entities)	**1,864.1**	1,843.7
Mortgage loans	**15,597.5**	15,336.9
Real estate (2019 and 2018 include $376.1 million and $364.0 million related to consolidated variable interest entities)	**1,736.7**	1,729.7
Policy loans	**798.5**	801.4
Other investments (2019 and 2018 include $590.7 million and $457.9 million related to consolidated variable interest entities and $25.3 million and $23.6 million measured at fair value under the fair value option)	**4,755.2**	4,310.3
Total investments	**88,543.9**	84,766.6
Cash and cash equivalents	**2,259.7**	2,977.5
Accrued investment income	**679.6**	636.2
Premiums due and other receivables	**1,641.1**	1,413.1
Deferred acquisition costs	**3,616.5**	3,693.5
Property and equipment	**933.2**	767.3
Goodwill	**1,110.6**	1,100.0
Other intangibles	**1,310.3**	1,315.1
Separate account assets (2019 and 2018 include $39,544.7 million and $37,183.3 million related to consolidated variable interest entities)	**157,942.8**	144,987.9
Other assets	**1,382.2**	1,378.9
Total assets	**$ 259,419.9**	$ 243,036.1
Liabilities		
Contractholder funds (2019 and 2018 include $395.8 million and $396.0 million related to consolidated variable interest entities)	**$ 39,649.3**	$ 39,699.7
Future policy benefits and claims	**36,891.2**	35,664.8
Other policyholder funds	**939.1**	888.4
Short-term debt	**43.9**	42.9
Long-term debt (2019 and 2018 include $62.9 million and $58.4 million related to consolidated variable interest entities)	**3,266.4**	3,259.6
Income taxes currently payable	**22.3**	25.3
Deferred income taxes	**1,318.7**	958.4
Separate account liabilities (2019 and 2018 include $39,544.7 million and $37,183.3 million related to consolidated variable interest entities)	**157,942.8**	144,987.9
Other liabilities (2019 and 2018 include $154.8 million and $104.9 million related to consolidated variable interest entities)	**6,046.3**	5,661.9
Total liabilities	**246,120.0**	231,188.9
Redeemable noncontrolling interest (2019 and 2018 include $460.2 million and $325.7 million related to consolidated variable interest entities)	**537.7**	391.2

Stockholders equity				
Common stock, par value $0.01 per share 2,500.0 million shares authorized, 478.5 million and 476.7 million shares issued, and 278.2 million and 279.5 million shares outstanding in 2019 and 2018		**4.8**		4.8
Additional paid-in capital		**10,090.8**		10,060.7
Retained earnings		**10,571.9**		10,290.2
Accumulated other comprehensive loss		**(418.9)**		(1,565.1)
Treasury stock, at cost (200.3 million and 197.2 million shares in 2019 and 2018)		**(7,554.2)**		(7,400.6)
Total stockholders equity attributable to Principal Financial Group, Inc.		**12,694.4**		11,390.0
Noncontrolling interest		**67.8**		66.0
Total stockholders equity		**12,762.2**		11,456.0
Total liabilities and stockholders equity	**$**	**259,419.9**	$	243,036.1

See accompanying notes.

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Principal Financial Group, Inc.

Consolidated Statements of Operations

(Unaudited)

	For the three months ended March 31,	
	2019	**2018**
	(in millions, except per share data)	
Revenues		
Premiums and other considerations	**$ 1,724.9**	$ 995.2
Fees and other revenues	**973.5**	1,011.3
Net investment income	**961.0**	902.2
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	**91.3**	(15.2)
Net other-than-temporary impairment (losses) recoveries on available-for-sale securities	**(9.6)**	1.3
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from) other comprehensive income	**2.8**	(11.2)
Net impairment losses on available-for-sale securities	**(6.8)**	(9.9)
Net realized capital gains (losses)	**84.5**	(25.1)
Total revenues	**3,743.9**	2,883.6
Expenses		
Benefits, claims and settlement expenses	**2,195.1**	1,411.1
Dividends to policyholders	**30.1**	30.5
Operating expenses	**992.7**	985.0
Total expenses	**3,217.9**	2,426.6
Income before income taxes	**526.0**	457.0
Income taxes	**73.9**	54.5
Net income	**452.1**	402.5
Net income attributable to noncontrolling interest	**22.2**	5.4
Net income attributable to Principal Financial Group, Inc.	**$ 429.9**	$ 397.1
Earnings per common share		
Basic earnings per common share	**$ 1.54**	$ 1.37
Diluted earnings per common share	**$ 1.53**	$ 1.36

See accompanying notes.

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Principal Financial Group, Inc.

Consolidated Statements of Comprehensive Income

(Unaudited)

	For the three months ended March 31,	
	2019	**2018**
	(in millions)	
Net income	**$ 452.1**	$ 402.5
Other comprehensive income (loss), net:		
Net unrealized gains (losses) on available-for-sale securities	**1,104.3**	(805.5)
Noncredit component of impairment losses on fixed maturities, available-for-sale	**(2.5)**	9.3
Net unrealized losses on derivative instruments	**(4.5)**	(14.4)
Foreign currency translation adjustment	**37.9**	65.8
Net unrecognized postretirement benefit obligation	**11.5**	8.7
Other comprehensive income (loss)	**1,146.7**	(736.1)
Comprehensive income (loss)	**1,598.8**	(333.6)
Comprehensive income attributable to noncontrolling interest	**22.7**	6.3
Comprehensive income (loss) attributable to Principal Financial Group, Inc.	**$ 1,576.1**	$ (339.9)

See accompanying notes.

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Principal Financial Group, Inc.

Consolidated Statements of Stockholders Equity

(Unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Noncontrolling interest	Total stockholders equity
				(in millions)			
Balances as of January 1, 2018	$ 4.7	$ 9,925.2	$ 9,482.9	$ 165.5	$ (6,729.0)	$ 72.6	$ 12,921.9
Common stock issued		32.5					32.5
Stock-based compensation		23.2	(1.5)			(0.6)	21.1
Treasury stock acquired, common					(199.6)		(199.6)
Dividends to common stockholders			(147.3)				(147.3)
Distributions to noncontrolling interest						(8.0)	(8.0)
Contributions from noncontrolling interest						0.1	0.1
Adjustments to redemption amount of redeemable noncontrolling interest		0.9					0.9
Effects of implementation of accounting change related to equity investments, net			1.0	(1.0)			
Effects of implementation of accounting change related to revenue recognition, net			(65.0)	25.6		(0.3)	(39.7)
Effects of implementation of accounting change related to intra-entity asset transfer taxes, net			8.7				8.7
Effects of implementation of accounting change related to the reclassification of certain tax effects, net			(77.6)	77.6			
Net income (1)			397.1			4.6	401.7
Other comprehensive loss (1)				(737.0)		0.5	(736.5)
Balances as of March 31, 2018	$ 4.7	$ 9,981.8	$ 9,598.3	$ (469.3)	$ (6,928.6)	$ 68.9	$ 12,255.8
Balances as of January 1, 2019	**$ 4.8**	**$ 10,060.7**	**$ 10,290.2**	**$ (1,565.1)**	**$ (7,400.6)**	**$ 66.0**	**$ 11,456.0**
Common stock issued		**5.8**					**5.8**
Stock-based compensation		**26.8**	**(2.0)**				**24.8**
Treasury stock acquired, common					**(153.6)**		**(153.6)**
Dividends to common stockholders			**(150.2)**				**(150.2)**
Distributions to noncontrolling interest						**(1.3)**	**(1.3)**
Contributions from noncontrolling interest						**0.8**	**0.8**
Adjustments to redemption amount of redeemable noncontrolling interest		**(2.5)**					**(2.5)**
Effects of implementation of accounting change related to leases, net			**4.0**				**4.0**
Net income (1)			**429.9**			**1.9**	**431.8**
Other comprehensive income (1)				**1,146.2**		**0.4**	**1,146.6**
Balances as of March 31, 2019	**$ 4.8**	**$ 10,090.8**	**$ 10,571.9**	**$ (418.9)**	**$ (7,554.2)**	**$ 67.8**	**$ 12,762.2**

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

See accompanying notes.

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Principal Financial Group, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	For the three months ended March 31,	
	2019	**2018**
	(in millions)	
Operating activities		
Net income	$ **452.1**	$ 402.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized capital (gains) losses	**(84.5)**	25.1
Depreciation and amortization expense	**51.0**	50.6
Amortization of deferred acquisition costs and contract costs	**58.9**	73.0
Additions to deferred acquisition costs and contract costs	**(108.3)**	(107.3)
Stock-based compensation	**24.9**	21.6
Income from equity method investments, net of dividends received	**(8.8)**	(34.7)
Changes in:		
Accrued investment income	**(43.4)**	(25.4)
Net cash flows for trading securities and equity securities with operating intent	**0.2**	(107.0)
Premiums due and other receivables	**(189.8)**	(57.0)
Contractholder and policyholder liabilities and dividends	**929.9**	300.2
Current and deferred income taxes	**65.9**	45.8
Real estate acquired through operating activities	**(9.2)**	(30.6)
Real estate sold through operating activities	**1.5**	46.4
Other assets and liabilities	**28.6**	143.6
Other	**7.4**	(0.3)
Net adjustments	**724.3**	344.0
Net cash provided by operating activities	**1,176.4**	746.5
Investing activities		
Fixed maturities available-for-sale and equity securities with intent to hold:		
Purchases	**(2,886.7)**	(3,330.8)
Sales	**342.6**	1,273.5
Maturities	**1,548.9**	1,555.0
Mortgage loans acquired or originated	**(625.1)**	(643.0)
Mortgage loans sold or repaid	**382.4**	331.8
Real estate acquired	**(10.5)**	(14.7)
Real estate sold		56.5
Net purchases of property and equipment	**(29.4)**	(26.0)
Purchase of interests in subsidiaries, net of cash acquired		(113.9)
Net change in other investments	**(213.3)**	(68.3)
Net cash used in investing activities	**(1,491.1)**	(979.9)
Financing activities		
Issuance of common stock	**5.8**	32.5
Acquisition of treasury stock	**(153.6)**	(199.6)
Payments for financing element derivatives	**(6.5)**	(19.3)
Dividends to common stockholders	**(150.2)**	(147.3)
Issuance of long-term debt	**6.7**	18.0
Principal repayments of long-term debt	**(0.3)**	(0.3)
Net proceeds from short-term borrowings	**0.1**	38.0
Investment contract deposits	**1,872.2**	1,783.0
Investment contract withdrawals	**(1,947.4)**	(1,535.5)
Net increase (decrease) in banking operation deposits	**(35.4)**	124.1
Other	**5.5**	4.7
Net cash provided by (used in) financing activities	**(403.1)**	98.3
Net decrease in cash and cash equivalents	**(717.8)**	(135.1)
Cash and cash equivalents at beginning of period	**2,977.5**	2,470.8
Cash and cash equivalents at end of period	$ **2,259.7**	$ 2,335.7
Supplemental disclosure of non-cash activities:		

Lease assets established upon adoption of accounting guidance	**$**	**168.8**	$
Lease liabilities established upon adoption of accounting guidance	**$**	**164.0**	$

See accompanying notes.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements
March 31, 2019
(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 months ended March 31, 2019, are not necessarily indicative of the results that may be expected for the year ended December 31, 2019. These interim unaudited consolidated financial statements should be read in conjunction with our annual audited financial statements as of December 31, 2018, included in our Form 10-K for the year ended December 31, 2018, filed with the United States Securities and Exchange Commission (SEC). The accompanying consolidated statement of financial position as of December 31, 2018, 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 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)
March 31, 2019
(Unaudited)

Recent Accounting Pronouncements

Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
Standards not yet adopted:		
Targeted improvements to the accounting for long-duration insurance contracts This authoritative guidance updates certain requirements in the accounting for long-duration insurance and annuity contracts. 1. The assumptions used to calculate the liability for future policy benefits on traditional and limited-payment contracts will be reviewed and updated periodically. Cash flow assumptions will be reviewed at least annually and updated when necessary with the impact recognized in net income. Discount rate assumptions are prescribed as the current upper-medium grade (low credit risk) fixed income instrument yield and will be updated quarterly with the impact recognized in other comprehensive income (OCI). 2. Market risk benefits, which are certain market-based options or guarantees associated with deposit or account balance contracts, will be measured at fair value. The periodic change in fair value related to instrument-specific credit risk will be recognized in OCI while the remaining change in fair value will be recognized in net income. 3. Deferred acquisition costs (DAC) for all insurance and annuity contracts will be amortized on a constant basis over the expected term of the related contracts. 4. Additional disclosures are required, including disaggregated rollforwards of significant insurance liabilities and other account balances and disclosures about significant inputs, judgments, assumptions and methods used in measurement.	January 1, 2021	Our implementation and evaluation process to date includes, but is not limited to, identifying and documenting contracts and contract features in scope of the guidance; identifying the actuarial models, systems and processes to be updated; evaluating our systems solutions for implementing the new guidance and evaluating our key accounting policies. As we progress through our implementation, we will be able to better assess the impact to our consolidated financial statements; however, we expect this guidance to significantly change how we account for many of our insurance and annuity products.

The guidance for the liability for future policy benefits for traditional and limited-payment contracts and DAC will be applied on a modified retrospective basis; that is, to contracts in force as of the beginning of the earliest period presented based on their existing carrying amounts. An entity may elect to apply the changes retrospectively. The guidance for market risk benefits will be applied retrospectively. Early adoption is permitted.		

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2019
(Unaudited)

Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
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.	January 1, 2020	We are currently evaluating the impact this guidance will have on our consolidated financial statements, but do not expect it to have a material impact on our consolidated financial statements. We expect the guidance will reduce complexity and costs associated with performing a Step 2 test, should one be needed in the future. However, the impact on the outcome of any such future impairment assessment will be dependent on modeling factors that are not currently determinable.
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.	January 1, 2020	Our implementation and evaluation process to date includes, but is not limited to, identifying financial assets within scope of the guidance, developing and refining CECL models for the relevant assets, preparing quarterly estimates of the cumulative effect of adoption, and drafting the required financial statement disclosures. We believe estimated credit losses under the CECL model will generally result in earlier loss recognition for loans and other receivables.
Standards adopted:		
Implementation costs in a cloud computing arrangement that is a service contract This authoritative guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This guidance can be applied either retrospectively or prospectively and early adoption is permitted.	January 1, 2019	The effective date of the guidance is January 1, 2020; however, we elected to early-adopt this guidance on a prospective basis, effective January 1, 2019. This guidance did not have a material impact on our consolidated financial statements.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2019
(Unaudited)

Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
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 using a modified retrospective approach, which includes certain optional practical expedients that may be elected. We elected the alternative transition method, which allows entities to initially apply the new standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption.	January 1, 2019	We adopted the guidance using the modified retrospective approach and comparative periods were not restated. Further details are included under the caption Adoption of Lease Guidance and in Note 8, Contingencies, Guarantees, Indemnifications and Leases.
Targeted improvements to accounting for hedging activities This authoritative guidance updated 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 included the expansion of hedging 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 included new disclosures.	January 1, 2019	This guidance did not have a material impact on our consolidated financial statements. See Note 4, Derivative Financial Instruments, for further details.
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.	January 1, 2019	This guidance did not have a material impact on our consolidated financial statements.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2019
(Unaudited)

Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
Reclassification of certain tax effects from accumulated other comprehensive income This authoritative guidance permits a reclassification from accumulated other comprehensive income (AOCI) to retained earnings for the stranded tax effects resulting from U.S. tax legislation enacted on December 22, 2017, which is referred to as the Tax Cuts and Jobs Act (U.S. tax reform). The amount of that reclassification includes the change in corporate income tax rate, as well as an election to include other income tax effects related to the application of U.S. tax reform. The guidance also requires disclosures about stranded tax effects.	January 1, 2018	The effective date of the guidance was January 1, 2019; however, we elected to early adopt the guidance. The guidance was applied at the beginning of the period of adoption and comparative periods were not restated. We reclassified the stranded tax effects in AOCI resulting from U.S. tax reform, which includes the change in corporate income tax rate and an election to reclassify the tax effects of the one-time deemed repatriation tax. A reclassification of $77.6 million was recorded as an increase to AOCI and a decrease to retained earnings.
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.	January 1, 2018	We adopted the guidance using the modified retrospective approach. The guidance did not have a material impact on our consolidated financial statements. A cumulative effect adjustment of $39.7 million was recorded as a decrease to total stockholders equity. See Note 12, Revenues from Contracts with Customers, for further details.
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.	January 1, 2018	We adopted the guidance using the modified retrospective approach. A cumulative effect adjustment of $8.7 million was recorded as an increase to retained earnings. In addition, other assets and deferred income taxes decreased $21.1 million and $29.8 million, respectively, due to the adoption of this guidance.

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Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
March 31, 2019
(Unaudited)

Description	Date of adoption	Effect on our consolidated financial statements or other significant matters
Financial instruments - recognition and measurement This authoritative guidance addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The guidance eliminated the classification of equity securities into different categories (trading or available-for-sale) and requires equity investments to be measured at fair value with changes in the fair value recognized through net income. The guidance also updated certain financial instrument disclosures and eliminated the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments that are measured at amortized cost on the balance sheet.	January 1, 2018	We adopted this guidance using the modified retrospective approach. A cumulative effect adjustment of $1.0 million was recorded as a decrease to AOCI and a corresponding increase to retained earnings. The guidance did not have a material impact on our consolidated financial statements. See Note 3, Investments, for further details.
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.	January 1, 2018	The guidance did not have a material impact on our consolidated financial statements.
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.	January 1, 2018	The guidance did not have a material impact on our consolidated financial statements.
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	January 1, 2018	The guidance did not have a material impact on our consolidated financial statements.

assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the 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.		

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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Adoption of Lease Guidance

On January 1, 2019, we adopted the guidance using the modified retrospective approach with the cumulative effect of initially applying the standard recognized at the date of adoption. We elected the package of practical expedients permitted under the transition guidance. In addition, we elected the hindsight practical expedient to determine the lease term for existing leases. We have agreements with lease and non-lease components, which we account for as a combined unit of account for all classes.

The impact of the guidance to our consolidated financial statements primarily related to the establishment of additional assets and liabilities of $168.8 million and $164.0 million, respectively. The difference between the additional assets and liabilities, net of deferred tax impacts, was recorded as a cumulative effect adjustment to retained earnings and increased total stockholders equity by $4.0 million.

Results of reporting periods beginning January 1, 2019, are presented under the new guidance, while prior period amounts are not adjusted and continue to be reported in accordance with our prior accounting. The guidance did not have a material impact on our consolidated statements of operations and did not impact earnings per common share.

Derivatives

Overview

Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices or the values of securities. Derivatives generally used by us include swaps, options, futures and forwards. Derivative positions are either assets or liabilities in the consolidated statements of financial position and are measured at fair value, generally by obtaining quoted market prices or through the use of pricing models. See Note 10, Fair Value Measurements, for policies related to the determination of fair value. Fair values can be affected by changes in interest rates, foreign exchange rates, financial indices, values of securities, credit spreads, and market volatility and liquidity.

Accounting and Financial Statement Presentation

We designate derivatives as either:

(a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, including those denominated in a foreign currency (fair value hedge);

(b) a hedge of a forecasted transaction or the exposure to variability of cash flows to be received or paid related to a recognized asset or liability, including those denominated in a foreign currency (cash flow hedge);

(c) a hedge of a net investment in a foreign operation or

(d) a derivative not designated as a hedging instrument.

Our accounting for the ongoing changes in fair value of a derivative depends on the intended use of the derivative and the designation, as described above, and is determined when the derivative contract is entered into or at the time of redesignation. Hedge accounting is used for derivatives that are specifically designated in advance as hedges and that reduce our exposure to an indicated risk by having a high correlation between changes in the value of the derivatives and the items being hedged at both the inception of the hedge and throughout the hedge period.

Fair Value Hedges. When a derivative is designated as a fair value hedge and is determined to be highly effective, changes in its fair value, along with changes in the fair value of the hedged asset, liability or firm commitment attributable to the hedged risk, are reported in the same income statement line item that is used to report the earnings effect of the hedged item. For fair value hedges of fixed maturities, available-for-sale, these changes in fair value are reported in net investment income. Prior to 2019, these changes in fair value were recorded in net realized capital gains (losses). A fair value hedge determined to be highly effective may still result in a mismatch between the change in the fair value of the hedging instrument and the change in the fair value of the hedged item attributable to the hedged risk.

Cash Flow Hedges. When a derivative is designated as a cash flow hedge and is determined to be highly effective, changes in its fair value are recorded as a component of OCI. At the time the variability of cash flows being hedged impacts

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net income, the related portion of deferred gains or losses on the derivative instrument is reclassified and reported in net income.

Net Investment in a Foreign Operation Hedge. When a derivative is used as a hedge of a net investment in a foreign operation, its change in fair value, to the extent effective as a hedge, is recorded as a component of OCI. If the foreign operation is sold or upon complete or substantially complete liquidation, the deferred gains or losses on the derivative instrument are reclassified into net income.

Non-Hedge Derivatives. If a derivative does not qualify or is not designated for hedge accounting, all changes in fair value are reported in net income without considering the changes in the fair value of the economically associated assets or liabilities.

Hedge Documentation and Effectiveness Testing. At inception, we formally document all relationships between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking various hedge transactions. This process includes associating all derivatives designated as fair value or cash flow hedges with specific assets or liabilities on the consolidated statements of financial position or with specific firm commitments or forecasted transactions. Effectiveness of the hedge is formally assessed at inception and throughout the life of the hedging relationship. Even if a hedge is determined to be highly effective, the hedge may still result in a mismatch between the change in the fair value of the hedging instrument and the change in the fair value of the hedged item attributable to the hedged risk.

We use qualitative and quantitative methods to assess hedge effectiveness. Qualitative methods may include monitoring changes to terms and conditions and counterparty credit ratings. Quantitative methods may include statistical tests including regression analysis and minimum variance and dollar offset techniques.

Termination of Hedge Accounting. We prospectively discontinue hedge accounting when (1) the criteria to qualify for hedge accounting is no longer met, e.g., a derivative is determined to no longer be highly effective in offsetting the change in fair value or cash flows of a hedged item; (2) the derivative expires, is sold, terminated or exercised or (3) we remove the designation of the derivative being the hedging instrument for a fair value or cash flow hedge.

If it is determined that a derivative no longer qualifies as an effective hedge, the derivative will continue to be carried on the consolidated statements of financial position at its fair value, with changes in fair value recognized prospectively in net realized capital gains (losses). The

asset or liability under a fair value hedge will no longer be adjusted for changes in fair value pursuant to hedging rules and the existing basis adjustment is amortized to the consolidated statements of operations line associated with the asset or liability. The component of AOCI related to discontinued cash flow hedges that are no longer highly effective is amortized to the consolidated statements of operations consistent with the net income impacts of the original hedged cash flows. If a cash flow hedge is discontinued because it is probable the hedged forecasted transaction will not occur, the deferred gain or loss is immediately reclassified from AOCI into net income.

Embedded Derivatives. We purchase and issue certain financial instruments and products that contain a derivative that is embedded in the financial instrument or product. We assess whether this embedded derivative is clearly and closely related to the asset or liability that serves as its host contract. If we deem that the embedded derivative s terms are not clearly and closely related to the host contract, and a separate instrument with the same terms would qualify as a derivative instrument, the derivative is bifurcated from that contract and held at fair value on the consolidated statements of financial position, with changes in fair value reported in net income.

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.

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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 March 31, 2019 and December 31, 2018, the separate accounts included a separate account valued at $102.7 million and $94.9 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 March 31, 2019 and December 31, 2018.

Consolidated Variable Interest Entities

Grantor Trust

We contributed undated subordinated floating rate notes to a grantor trust. The trust separated its 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 the grantor trust is a VIE due to insufficient equity to sustain it. We determined we are the primary beneficiary as a result of our contribution of securities into the trust and our significant continuing interest in the trust.

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 mortgage loans 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 and Occupational Retirement Schemes Ordinance 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.

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.

We also invest in certain series of another investment fund. These series are VIEs as the equity holders of each series lack the power to direct the most significant activities of the VIE. We determined we are the primary beneficiary of these series as our interest is more than insignificant and collectively we have the power to direct the most significant activities of the fund.

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:

	March 31, 2019		December 31, 2018	
	Total assets	Total liabilities	Total assets	Total liabilities
		(in millions)		
Grantor trust (1)	**$ 99.6**	**$ 94.9**	$ 95.0	$ 89.4
CMBS	**5.9**		6.4	
Mandatory retirement savings funds (2)	**40,311.8**	**39,940.5**	37,915.7	37,579.3
Real estate (3)	**389.9**	**70.7**	379.2	70.6
Sponsored investment funds (4)	**697.8**	**52.4**	526.5	3.6
Total	**$ 41,505.0**	**$ 40,158.5**	$ 38,922.8	$ 37,742.9

(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 mandatory retirement savings funds include separate account assets and equity securities. The liabilities include separate account liabilities and contractholder funds.

(3) The assets of the real estate VIEs primarily include real estate and cash. Liabilities primarily include long-term debt and other liabilities.

(4) The assets of sponsored investment funds are primarily fixed maturities and equity securities, certain of which are reported with other investments, and cash. The consolidated statements of financial position included a $460.2 million and $325.7 million redeemable noncontrolling interest for sponsored investment funds as of March 31, 2019 and December 31, 2018, respectively.

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Unconsolidated Variable Interest Entities

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 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.

We invest in 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. We have determined we are not the primary beneficiary of these entities primarily because we do not control the economic performance of the entities and were not involved with the design of the entities or because we do not have a potentially significant variable interest in the entities for which we are the asset manager.

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, invest in and have other interests 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.

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

	Asset carrying value	Maximum exposure to loss (1)
	(in millions)	
March 31, 2019		
Fixed maturities, available-for-sale:		
Corporate	**$ 239.3**	**$ 224.9**
Residential mortgage-backed pass-through securities	**2,484.5**	**2,471.5**
Commercial mortgage-backed securities	**4,242.1**	**4,234.0**
Collateralized debt obligations (2)	**2,765.7**	**2,786.7**
Other debt obligations	**7,545.3**	**7,523.3**
Fixed maturities, trading:		
Residential mortgage-backed pass-through securities	**318.8**	**318.8**
Commercial mortgage-backed securities	**18.5**	**18.5**
Collateralized debt obligations (2)	**20.3**	**20.3**
Other debt obligations	**12.3**	**12.3**
Equity securities	**110.0**	**110.0**
Other investments:		
Other limited partnership and fund interests (3)	**802.3**	**1,428.9**
December 31, 2018		
Fixed maturities, available-for-sale:		
Corporate	$ 235.3	$ 222.6
Residential mortgage-backed pass-through securities	2,460.6	2,488.5
Commercial mortgage-backed securities	3,945.6	4,023.1
Collateralized debt obligations (2)	2,420.8	2,451.3
Other debt obligations	7,153.2	7,196.6
Fixed maturities, trading:		
Residential mortgage-backed pass-through securities	322.6	322.6
Commercial mortgage-backed securities	13.8	13.8
Collateralized debt obligations (2)	11.8	11.8
Other debt obligations	9.7	9.7
Equity securities	103.9	103.9
Other investments:		
Other limited partnership and fund interests (3)	737.5	1,432.2

(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. Our risk of loss is limited to our carrying value plus any unfunded commitments and/or guarantees and similar provisions 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.

(2) Primarily consists of collateralized loan obligations backed by secured corporate loans.

(3) As of March 31, 2019 and December 31, 2018, the maximum exposure to loss for other limited partnership and fund interests includes $129.7 million and $132.2 million, respectively, of debt within certain of our managed international real estate funds that is fully secured by assets whose value exceeds the amount of the debt, but also includes recourse to the investment manager.

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Money Market Funds

We are the investment manager for certain money market mutual funds. These types of funds are 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 March 31, 2019 and December 31, 2018, money market mutual funds we manage held $3.6 billion and $3.0 billion in total assets, respectively. We have no contractual obligation to contribute to these funds; however, we provide support through the waiver of fees and through expense reimbursements. The amount of fees waived and expenses reimbursed was insignificant.

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 as either available-for-sale or trading at the time of the purchase and, accordingly, carry them at fair value. Equity securities are also carried at fair value. See Note 10, Fair Value Measurements, for methodologies related to the determination of fair value. Unrealized gains and losses related to fixed maturities, available-for-sale, excluding those in fair value hedging relationships, are reflected in stockholders equity, net of adjustments associated with DAC and related actuarial balances, derivatives in cash flow hedge relationships and applicable income taxes. Mark-to-market adjustments on equity securities, unrealized gains and losses related to hedged portions of fixed maturities, available-for-sale in fair value hedging relationships prior to 2019 and mark-to-market adjustments on certain fixed maturities, trading are reflected in net realized capital gains (losses). Beginning in 2019, unrealized gains and losses related to hedged portions of fixed maturities, available-for-sale in fair value hedging relationships are reflected in net investment income. 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 amortized cost of fixed maturities includes cost adjusted for amortization of premiums and discounts, computed using the interest method. The amortized cost of fixed maturities, available-for-sale is adjusted for changes in fair value of the hedged portions of securities in fair value hedging relationships and declines in value that are other than temporary. Impairments in value deemed to be other than temporary are primarily reported in net income as a component of net realized capital gains (losses), with noncredit impairment losses for certain fixed maturities, available-for-sale reported in other comprehensive income (OCI). For loan-backed and structured securities, we recognize income using a constant effective yield based on currently anticipated cash flows.

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Other-than-temporary impairments in AOCI (1)
			(in millions)		
March 31, 2019					
Fixed maturities, available-for-sale:					
U.S. government and agencies	**$ 1,467.0**	**$ 40.6**	**$ 9.2**	**$ 1,498.4**	**$**
Non-U.S. governments	**876.4**	**90.9**	**3.9**	**963.4**	
States and political subdivisions	**6,301.7**	**351.8**	**27.2**	**6,626.3**	
Corporate	**35,242.7**	**1,985.4**	**258.9**	**36,969.2**	**0.5**
Residential mortgage-backed pass-through securities	**2,471.5**	**38.1**	**25.1**	**2,484.5**	
Commercial mortgage-backed securities	**4,234.0**	**51.6**	**43.5**	**4,242.1**	**19.2**
Collateralized debt obligations (2)	**2,786.7**	**0.2**	**21.2**	**2,765.7**	**1.4**
Other debt obligations	**7,551.3**	**69.1**	**47.0**	**7,573.4**	**35.3**
Total fixed maturities, available-for-sale	**$ 60,931.3**	**$ 2,627.7**	**$ 436.0**	**$ 63,123.0**	**$ 56.4**
December 31, 2018					
Fixed maturities, available-for-sale:					
U.S. government and agencies	$ 1,441.6	$ 16.4	$ 17.0	$ 1,441.0	$
Non-U.S. governments	833.4	71.7	14.6	890.5	
States and political subdivisions	6,125.0	196.0	95.3	6,225.7	
Corporate	35,134.6	1,249.9	845.2	35,539.3	
Residential mortgage-backed pass-through securities	2,488.5	21.9	49.8	2,460.6	
Commercial mortgage-backed securities	4,023.1	17.1	94.6	3,945.6	16.3
Collateralized debt obligations (2)	2,451.3		30.5	2,420.8	1.2
Other debt obligations	7,228.3	39.4	82.7	7,185.0	36.1
Total fixed maturities, available-for-sale	$ 59,725.8	$ 1,612.4	$ 1,229.7	$ 60,108.5	$ 53.6

(1) Excludes $65.1 million and $64.2 million as of March 31, 2019 and December 31, 2018, 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.

(2) Primarily consists of collateralized loan obligations backed by secured corporate loans.

The amortized cost and fair value of fixed maturities, available-for-sale as of March 31, 2019, by expected maturity, were as follows:

	Amortized cost	Fair value
	(in millions)	
Due in one year or less	**$ 2,659.9**	**$ 2,676.8**
Due after one year through five years	**10,451.4**	**10,643.0**
Due after five years through ten years	**10,617.3**	**10,899.6**
Due after ten years	**20,159.2**	**21,837.9**
Subtotal	**43,887.8**	**46,057.3**
Mortgage-backed and other asset-backed securities	**17,043.5**	**17,065.7**
Total	**$ 60,931.3**	**$ 63,123.0**

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

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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 equity securities, mark-to-market adjustments on certain fixed maturities, trading, mark-to-market adjustments on sponsored investment funds, 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 March 31,	
	2019	2018
	(in millions)	
Fixed maturities, available-for-sale:		
Gross gains	**$ 2.5**	$ 4.3
Gross losses	**(1.5)**	(26.7)
Net impairment losses	**(6.8)**	(9.9)
Hedging, net (1)		(5.1)
Fixed maturities, trading (2)	**14.2**	(10.7)
Equity securities (3)	**21.0**	(2.0)
Mortgage loans	**0.3**	0.4
Derivatives (1)	**5.0**	9.4
Other	**49.8**	15.2
Net realized capital gains (losses)	**$ 84.5**	$ (25.1)

(1) Upon adoption of authoritative guidance effective January 1, 2019, the change in fair value of fixed maturities, available-for-sale and the change in fair value of derivative hedging instruments in fair value hedging relationships are reported in net investment income with the earnings effect of fixed maturities, available-for-sale. Prior to 2019, the change in fair value of fixed maturities, available-for-sale and the change in fair value of derivative hedging instruments in fair value hedging relationships were reported in net realized capital gains (losses). See Note 4, Derivative Financial Instruments, for further details.

(2) Unrealized gains (losses) on fixed maturities, trading still held at the reporting date were $14.2 million and $(10.7) million for the three months ended March 31, 2019 and 2018, respectively.

(3) Unrealized gains (losses) on equity securities still held at the reporting date were $19.8 million and $(5.0) million for the three months ended March 31, 2019 and 2018, respectively. This excludes $22.5 million and $0.0

million of unrealized gains (losses) on equity securities still held at the reporting date for the three months ended March 31, 2019 and 2018, respectively, that were reported in net investment income.

Proceeds from sales of investments (excluding call and maturity proceeds) in fixed maturities, available-for-sale were $163.0 million and $1,211.8 million for the three months ended March 31, 2019 and 2018, respectively.

Other-Than-Temporary Impairments

We have a process in place to identify fixed maturity 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

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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 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. To the extent we determine a security is deemed to be other than temporarily impaired, an impairment loss is recognized.

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 fixed maturities, available-for-sale, were as follows:

	For the three months ended March 31,	
	2019	**2018**
	(in millions)	
Net other-than-temporary impairment losses (recoveries)	**$ (9.6)**	$ 1.3
Other-than-temporary impairment losses on fixed maturities, available-for-sale reclassified to (from) OCI (1)	**2.8**	(11.2)
Net impairment losses on fixed maturities, available-for-sale	**$ (6.8)**	$ (9.9)

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

We estimate the amount of the credit loss component of a fixed maturity security impairment as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating rate security. The methodology and assumptions for establishing the best estimate cash flows vary depending on the type of security. The ABS cash flow estimates are based on security specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity and prepayment speeds and structural support, including subordination and guarantees. The corporate security cash flow estimates are derived from scenario-based outcomes of expected corporate restructurings or liquidations using bond specific facts and circumstances including timing, security interests and loss severity.

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

	For the three months ended March 31, 2019	2018
	(in millions)	
Beginning balance	**$ (117.5)**	$ (124.3)
Credit losses for which an other-than-temporary impairment was not previously recognized	**(2.0)**	(4.6)
Credit losses for which an other-than-temporary impairment was previously recognized	**(4.3)**	(9.8)
Reduction for credit losses previously recognized on fixed maturities now sold, paid down or intended to be sold	**20.4**	7.3
Net reduction for positive changes in cash flows expected to be collected and amortization (1)	**1.1**	2.2
Ending balance	**$ (102.3)**	$ (129.2)

(1) Amounts are recognized in net investment income.

Gross Unrealized Losses for Available-for-Sale Securities

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

	March 31, 2019					
	Less than twelve months		Greater than or equal to twelve months		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
	(in millions)					
Fixed maturities, available-for-sale:						
U.S. government and agencies	**$ 1.1**	**$ —**	**$ 399.4**	**$ 9.2**	**$ 400.5**	**$ 9.2**
Non-U.S. governments	**5.8**	**0.2**	**146.3**	**3.7**	**152.1**	**3.9**
States and political subdivisions	**42.3**	**3.7**	**1,142.8**	**23.5**	**1,185.1**	**27.2**
Corporate	**1,539.9**	**40.8**	**8,035.9**	**218.1**	**9,575.8**	**258.9**
Residential mortgage-backed pass-						

through securities		**1.3**				**1,137.7**		**25.1**		**1,139.0**		**25.1**
Commercial mortgage-backed securities		**185.7**		**3.0**		**1,704.5**		**40.5**		**1,890.2**		**43.5**
Collateralized debt obligations (1)		**1,921.6**		**12.8**		**406.9**		**8.4**		**2,328.5**		**21.2**
Other debt obligations		**246.1**		**1.4**		**3,252.4**		**45.6**		**3,498.5**		**47.0**
Total fixed maturities, available-for-sale	**$**	**3,943.8**	**$**	**61.9**	**$**	**16,225.9**	**$**	**374.1**	**$**	**20,169.7**	**$**	**436.0**

(1) Primarily consists of collateralized loan obligations backed by secured corporate loans.

Of the total amounts, Principal Life s consolidated portfolio represented $19,889.5 million in available-for-sale fixed maturities with gross unrealized losses of $428.5 million. Of the available-for-sale fixed maturities within Principal Life s consolidated portfolio in a gross unrealized loss position, 95% were investment grade (rated AAA through BBB-) with an average price of 98 (carrying value/amortized cost) as of March 31, 2019. Gross unrealized losses in our fixed maturities portfolio decreased during the three months ended March 31, 2019, primarily due to tightening of credit spreads and a decrease in interest rates.

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For those securities that had been in a continuous unrealized loss position for less than twelve months, Principal Life s consolidated portfolio held 362 securities with a carrying value of $3,897.5 million and unrealized losses of $60.3 million reflecting an average price of 98 as of March 31, 2019. Of this portfolio, 86% was investment grade (rated AAA through BBB-) as of March 31, 2019, with associated unrealized losses of $43.8 million. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

For those securities that had been in a continuous unrealized loss position greater than or equal to twelve months, Principal Life s consolidated portfolio held 2,194 securities with a carrying value of $15,992.0 million and unrealized losses of $368.2 million. The average credit rating of this portfolio was A+ with an average price of 98 as of March 31, 2019. Of the $368.2 million in unrealized losses, the corporate sector accounts for $213.1 million in unrealized losses with an average price of 97 and an average credit rating of A-. The remaining unrealized losses also include $39.9 million within the commercial mortgage-backed securities sector with an average price of 98 and an average credit rating of AA+. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

Because we expected to recover our amortized cost, it was not our intent to sell the fixed maturity available-for-sale securities with unrealized losses and it was not more likely than not that we would be required to sell these securities before recovery of the amortized cost, which may be at maturity, we did not consider these investments to be other-than-temporarily impaired as of March 31, 2019.

	December 31, 2018					
	Less than twelve months		Greater than or equal to twelve months		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
	(in millions)					
Fixed maturities, available-for-sale:						
U.S. government and agencies	$ 101.8	$ 1.6	$ 500.3	$ 15.4	$ 602.1	$ 17.0
Non-U.S. governments	210.2	4.7	191.5	9.9	401.7	14.6
States and political subdivisions	1,359.9	33.9	1,590.3	61.4	2,950.2	95.3
Corporate	13,198.4	476.0	6,865.0	369.2	20,063.4	845.2
Residential mortgage-backed pass-through securities	236.7	1.0	1,410.2	48.8	1,646.9	49.8
Commercial mortgage-backed securities	790.3	11.6	2,223.2	83.0	3,013.5	94.6
Collateralized debt obligations (1)	2,233.3	24.0	162.6	6.5	2,395.9	30.5
Other debt obligations	985.5	4.9	3,665.1	77.8	4,650.6	82.7
Total fixed maturities, available-for-sale	$ 19,116.1	$ 557.7	$ 16,608.2	$ 672.0	$ 35,724.3	$ 1,229.7

(1) Primarily consists of collateralized loan obligations backed by secured corporate loans.

Of the total amounts, Principal Life s consolidated portfolio represented $35,051.9 million in available-for-sale fixed maturities with gross unrealized losses of $1,202.9 million. Of the available-for-sale fixed maturities within Principal Life s consolidated portfolio in a gross unrealized loss position, 95% were investment grade (rated AAA through BBB-) with an average price of 97 (carrying value/amortized cost) as of December 31, 2018. Gross unrealized losses in our fixed maturities portfolio increased during the year ended December 31, 2018, primarily due to widening of credit spreads and an increase in interest rates.

For those securities that had been in a continuous unrealized loss position for less than twelve months, Principal Life s consolidated portfolio held 2,076 securities with a carrying value of $18,764.0 million and unrealized losses of $541.3 million reflecting an average price of 97 as of December 31, 2018. Of this portfolio, 92% was investment grade (rated AAA through BBB-) as of December 31, 2018, with associated unrealized losses of $473.7 million. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

For those securities that had been in a continuous unrealized loss position greater than or equal to twelve months, Principal Life s consolidated portfolio held 2,335 securities with a carrying value of $16,287.9 million and unrealized losses of $661.6 million. The average credit rating of this portfolio was AA- with an average price of 96 as of December 31, 2018. Of the

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$661.6 million in unrealized losses, the corporate sector accounts for $360.4 million in unrealized losses with an average price of 95 and an average credit rating of A-. The remaining unrealized losses also include $82.2 million within the commercial mortgage-backed securities sector with an average price of 96 and an average credit rating of AA+. The unrealized losses on these securities can primarily be attributed to changes in market interest rates and changes in credit spreads since the securities were acquired.

Because we expected to recover our amortized cost, it was not our intent to sell the fixed maturity available-for-sale securities with unrealized losses and it was not more likely than not that we would be required to sell these securities before recovery of the amortized cost, which may be at maturity, we did not consider these investments to be other-than-temporarily impaired as of December 31, 2018.

Net Unrealized Gains and Losses on Available-for-Sale Securities and Derivative Instruments

The net unrealized gains and losses on investments in available-for-sale securities, the noncredit component of impairment losses on fixed maturities available-for-sale and the net unrealized gains and losses on derivative instruments in cash flow hedge relationships are reported as separate components of stockholders equity. The cumulative amount of net unrealized gains and losses on available-for-sale securities and derivative instruments in cash flow hedge relationships net of adjustments related to DAC and related actuarial balances, policyholder liabilities, noncontrolling interest and applicable income taxes was as follows:

	March 31, 2019	December 31, 2018
	(in millions)	
Net unrealized gains on fixed maturities, available-for-sale (1)	**$ 2,217.6**	$ 400.8
Noncredit component of impairment losses on fixed maturities, available-for-sale	**(56.4)**	(53.6)
Net unrealized gains on derivative instruments	**107.7**	118.5
Adjustments for assumed changes in amortization patterns	**(90.3)**	30.3
Adjustments for assumed changes in policyholder liabilities	**(590.4)**	(293.7)
Net unrealized gains on other investments and noncontrolling interest adjustments	**77.7**	68.8
Provision for deferred income taxes	**(361.3)**	(63.8)
Net unrealized gains on available-for-sale securities and derivative instruments	**$ 1,304.6**	$ 207.3

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

Mortgage Loans

Mortgage loans consist of commercial and residential mortgage loans. We evaluate risks inherent in our commercial mortgage loans in two classes: (1) brick and mortar property loans, including mezzanine loans, where we analyze the property s rent payments as support for the loan, and (2) credit tenant loans (CTL), where we rely on the credit analysis of the tenant for the repayment of the loan. We evaluate risks inherent in our residential mortgage loan portfolio in two classes: (1) first lien mortgages and (2) home equity mortgages. The carrying amount of our mortgage loan portfolio was as follows:

	March 31, 2019	**December 31, 2018**
	(in millions)	
Commercial mortgage loans	**$ 14,274.2**	$ 13,996.3
Residential mortgage loans	**1,350.9**	1,368.0
Total amortized cost	**15,625.1**	15,364.3
Valuation allowance	**(27.6)**	(27.4)
Total carrying value	**$ 15,597.5**	$ 15,336.9

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We periodically purchase mortgage loans as well as sell mortgage loans we have originated. Mortgage loans purchased and sold were as follows:

	For the three months ended March 31, 2019	2018
	(in millions)	
Commercial mortgage loans:		
Purchased	**$ 12.9**	$ —
Sold	**0.5**	—
Residential mortgage loans:		
Purchased	**33.2**	112.2
Sold	**10.9**	23.6

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

	March 31, 2019		December 31, 2018	
	Amortized cost	Percent of total	Amortized cost	Percent of total
	($ in millions)			
Geographic distribution				
New England	**$ 636.5**	**4.5 %**	$ 640.6	4.6 %
Middle Atlantic	**3,997.5**	**28.1**	3,927.3	28.0
East North Central	**605.7**	**4.2**	592.8	4.2
West North Central	**203.6**	**1.4**	205.8	1.5
South Atlantic	**2,205.1**	**15.4**	2,206.5	15.8
East South Central	**419.5**	**2.9**	422.5	3.0
West South Central	**1,309.7**	**9.2**	1,213.8	8.7
Mountain	**1,004.4**	**7.0**	968.6	6.9
Pacific	**3,624.9**	**25.4**	3,567.6	25.5
International	**267.3**	**1.9**	250.8	1.8
Total	**$ 14,274.2**	**100.0 %**	$ 13,996.3	100.0 %
Property type distribution				
Office	**$ 4,579.7**	**32.2 %**	$ 4,625.8	33.0 %
Retail	**2,218.1**	**15.5**	2,305.6	16.5
Industrial	**2,305.2**	**16.1**	2,312.9	16.5
Apartments	**4,654.7**	**32.6**	4,250.5	30.4
Hotel	**98.9**	**0.7**	99.8	0.7
Mixed use/other	**417.6**	**2.9**	401.7	2.9
Total	**$ 14,274.2**	**100.0 %**	$ 13,996.3	100.0 %

Our residential mortgage loan portfolio is composed of first lien mortgages with an amortized cost of $1,336.8 million and $1,352.9 million and home equity mortgages with an amortized cost of $14.1 million and $15.1 million as of March 31, 2019 and December 31, 2018, respectively. Our first lien loans are concentrated in Chile and the United States. Our residential home equity mortgages are concentrated in the United States and are generally second lien mortgages comprised of closed-end loans and lines of credit.

Mortgage Loan Credit Monitoring

Commercial Credit Risk Profile Based on Internal Rating

We actively monitor and manage our commercial mortgage loan portfolio. All commercial mortgage loans are analyzed regularly and substantially all are internally rated, based on a proprietary risk rating cash flow model, in order to monitor the financial quality of these assets. The model stresses expected cash flows at various levels and at different points in time depending on the durability of the income stream, which includes our assessment of factors such as location (macro and

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micro markets), tenant quality and lease expirations. Our internal rating analysis presents expected losses in terms of an S&P Global (S&P) bond equivalent rating. As the credit risk for commercial mortgage loans increases, we adjust our internal ratings downward with loans in the category B+ and below having the highest risk for credit loss. Internal ratings on commercial mortgage loans are updated at least annually and potentially more often for certain loans with material changes in collateral value or occupancy and for loans on an internal watch list .

Commercial mortgage loans that require more frequent and detailed attention are identified and placed on an internal watch list . Among the criteria that would indicate a potential problem are significant negative changes in ratios of loan to value or contract rents to debt service, major tenant vacancies or bankruptcies, borrower sponsorship problems, late payments, delinquent taxes and loan relief/restructuring requests.

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

	March 31, 2019		
	Brick and mortar	**CTL**	**Total**
		(in millions)	
A- and above	**$ 12,997.3**	**$ 82.3**	**$ 13,079.6**
BBB+ thru BBB-	**1,019.1**	**101.8**	**1,120.9**
BB+ thru BB-	**68.1**		**68.1**
B+ and below	**5.6**		**5.6**
Total	**$ 14,090.1**	**$ 184.1**	**$ 14,274.2**

	December 31, 2018		
	Brick and mortar	**CTL**	**Total**
		(in millions)	
A- and above	$ 12,735.2	$ 84.3	$ 12,819.5
BBB+ thru BBB-	977.3	105.7	1,083.0
BB+ thru BB-	88.3		88.3
B+ and below	5.5		5.5
Total	$ 13,806.3	$ 190.0	$ 13,996.3

Residential Credit Risk Profile Based on Performance Status

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

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

	March 31, 2019		
	First liens	**Home equity**	**Total**
		(in millions)	
Performing	**$ 1,324.0**	**$ 10.1**	**$ 1,334.1**
Non-performing	**12.8**	**4.0**	**16.8**
Total	**$ 1,336.8**	**$ 14.1**	**$ 1,350.9**

	December 31, 2018		
	First liens	**Home equity**	**Total**
		(in millions)	
Performing	$ 1,340.3	$ 10.8	$ 1,351.1
Non-performing	12.6	4.3	16.9
Total	$ 1,352.9	$ 15.1	$ 1,368.0

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Non-Accrual Mortgage Loans

Commercial and residential mortgage loans are placed on non-accrual status if we have concern regarding the collectability of future payments or if a loan has matured without being paid off or extended. Factors considered may include conversations with the borrower, loss of major tenant, bankruptcy of borrower or major tenant, decreased property cash flow for commercial mortgage loans or number of days past due and other circumstances for residential mortgage loans. Based on an assessment as to the collectability of the principal, a determination is made to apply any payments received either against the principal, against the valuation allowance or according to the contractual terms of the loan. When a loan is placed on non-accrual status, the accrued unpaid interest receivable is reversed against interest income. Accrual of interest resumes after factors resulting in doubts about collectability have improved. Residential first lien mortgages in the Chilean market are carried on accrual for a longer period of delinquency than domestic loans, as assessment of collectability is based on the nature of the loans and collection practices in that market.

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

	March 31, 2019	December 31, 2018
	(in millions)	
Residential:		
First liens	$ **9.6**	$ 10.1
Home equity	**4.0**	4.3
Total	$ **13.6**	$ 14.4

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

	March 31, 2019						
	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	Recorded investment 90 days or more and accruing
				(in millions)			
Commercial-brick and mortar	$	$	$	$	$ **14,090.1**	$ **14,090.1**	$
Commercial-CTL					**184.1**	**184.1**	
Residential-first liens	**36.9**	**10.7**	**11.8**	**59.4**	**1,277.4**	**1,336.8**	**3.2**
Residential-home equity	**0.6**	**0.2**	**0.5**	**1.3**	**12.8**	**14.1**	
Total	$ **37.5**	$ **10.9**	$ **12.3**	$ **60.7**	$ **15,564.4**	$ **15,625.1**	$ **3.2**

December 31, 2018

Recorded

	30-59 days past due	60-89 days past due	90 days or more past due	Total past due	Current	Total loans	investment 90 days or more and accruing
				(in millions)			
Commercial-brick and mortar	$	$	$	$	$ 13,806.3	$ 13,806.3	$
Commercial-CTL					190.0	190.0	
Residential-first liens	44.3	8.4	12.1	64.8	1,288.1	1,352.9	2.5
Residential-home equity	0.8	0.6	0.4	1.8	13.3	15.1	
Total	$ 45.1	$ 9.0	$ 12.5	$ 66.6	$ 15,297.7	$ 15,364.3	$ 2.5

Mortgage Loan Valuation Allowance

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

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estimated value reduced by the cost to sell. Estimated value is based on either the present value of the expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price or fair value of the collateral. Subsequent changes in the estimated value are reflected in the valuation allowance. Amounts on loans deemed to be uncollectible are charged off and removed from the valuation allowance. The change in the valuation allowance provision is included in net realized capital gains (losses) on our consolidated statements of operations.

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

We review our commercial mortgage loan portfolio and analyze the need for a valuation allowance for any loan that is delinquent for 60 days or more, in process of foreclosure, restructured, on the internal watch list or that currently has a valuation allowance. In addition to establishing allowance levels for specifically identified impaired commercial mortgage loans, management determines an allowance for all other loans in the portfolio for which historical experience and current economic conditions indicate certain losses exist. These loans are segregated by risk rating level with an estimated loss ratio applied against each risk rating level. The loss ratio is generally based upon historical loss experience for each risk rating level as adjusted for certain current environmental factors management believes to be relevant.

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

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

	Commercial	Residential	Total
		(in millions)	
For the three months ended March 31, 2019			
Beginning balance	**$ 24.3**	**$ 3.1**	**$ 27.4**
Provision	**0.4**	**(0.8)**	**(0.4)**
Charge-offs		**(0.1)**	**(0.1)**
Recoveries		**0.7**	**0.7**
Ending balance	**$ 24.7**	**$ 2.9**	**$ 27.6**
Allowance ending balance by basis of impairment method:			
Individually evaluated for impairment	**$**	**$ 1.4**	**$ 1.4**
Collectively evaluated for impairment	**24.7**	**1.5**	**26.2**
Allowance ending balance	**$ 24.7**	**$ 2.9**	**$ 27.6**
Loan balance by basis of impairment method:			
Individually evaluated for impairment	**$**	**$ 8.1**	**$ 8.1**
Collectively evaluated for impairment	**14,274.2**	**1,342.8**	**15,617.0**
Loan ending balance	**$ 14,274.2**	**$ 1,350.9**	**$ 15,625.1**
For the three months ended March 31, 2018			
Beginning balance	$ 25.8	$ 6.9	$ 32.7
Provision	0.8	(1.0)	(0.2)
Charge-offs		(0.5)	(0.5)
Recoveries		1.0	1.0
Ending balance	$ 26.6	$ 6.4	$ 33.0
Allowance ending balance by basis of impairment method:			
Individually evaluated for impairment	$	$ 4.3	$ 4.3
Collectively evaluated for impairment	26.6	2.1	28.7
Allowance ending balance	$ 26.6	$ 6.4	$ 33.0
Loan balance by basis of impairment method:			
Individually evaluated for impairment	$	$ 12.1	$ 12.1
Collectively evaluated for impairment	13,169.9	1,337.3	14,507.2
Loan ending balance	$ 13,169.9	$ 1,349.4	$ 14,519.3

Impaired Mortgage Loans

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

	March 31, 2019		
	Recorded investment	**Unpaid principal balance**	**Related allowance**
		(in millions)	
With no related allowance recorded:			
Residential-first liens	**$ 0.9**	**$ 0.9**	**$**
With an allowance recorded:			
Residential-first liens	**2.1**	**2.2**	
Residential-home equity	**5.1**	**6.1**	**1.4**
Total:			
Residential	**$ 8.1**	**$ 9.2**	**$ 1.4**

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	December 31, 2018		
	Recorded investment	Unpaid principal balance	Related allowance
		(in millions)	
With no related allowance recorded:			
Residential-first liens	$ 1.6	$ 1.6	$
With an allowance recorded:			
Residential-first liens	2.2	2.2	
Residential-home equity	5.4	6.5	1.4
Total:			
Residential	$ 9.2	$ 10.3	$ 1.4

	Average recorded investment	Interest income recognized
	(in millions)	
For the three months ended March 31, 2019		
With no related allowance recorded:		
Residential-first liens	**$ 1.3**	**$**
With an allowance recorded:		
Residential-first liens	**2.2**	
Residential-home equity	**5.3**	
Total:		
Residential	**$ 8.8**	**$**
For the three months ended March 31, 2018		
With no related allowance recorded:		
Residential-first liens	$ 0.9	$
With an allowance recorded:		
Residential-first liens	4.0	
Residential-home equity	7.4	0.1
Total:		
Residential	$ 12.3	$ 0.1

Mortgage Loan Modifications

Our commercial and residential mortgage loan portfolios can include loans that have been modified. We assess loan modifications on a case-by-case basis to evaluate whether a TDR has occurred. When we have commercial mortgage loan TDRs, they are modified to delay or reduce principal payments and to reduce or delay interest payments. The commercial mortgage loan modifications result in delayed cash receipts, a decrease in interest income and loan rates that are considered below market. When we have residential mortgage loan TDRs, they include modifications of interest-only payment periods, delays in principal balloon payments and interest rate reductions. Residential mortgage loan modifications result in delayed or decreased cash receipts and a decrease in interest income.

When we have commercial mortgage loan TDRs, they are reserved for in the mortgage loan valuation allowance at the estimated fair value of the underlying collateral reduced by the cost to sell.

When we have residential mortgage loan TDRs, they are specifically reserved for in the mortgage loan valuation allowance if losses result from the modification. Residential mortgage loans that have defaulted or have been discharged through bankruptcy are reduced to the expected collectible amount.

We did not have any significant loans that were modified and met the criteria of a TDR for the three months ended March 31, 2019 and 2018.

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Securities Posted as Collateral

As of March 31, 2019 and December 31, 2018, we posted $3,847.2 million and $3,761.3 million, respectively, in commercial mortgage loans and residential first lien mortgages to satisfy collateral requirements associated with our obligation under funding agreements with Federal Home Loan Bank of Des Moines (FHLB Des Moines). In addition, as of March 31, 2019 and December 31, 2018, we posted $2,543.5 million and $2,402.5 million, respectively, in fixed maturities, available-for-sale and trading securities to satisfy collateral requirements primarily associated with a reinsurance arrangement, our derivative credit support annex (collateral) agreements, Futures Commission Merchant (FCM) agreements, a lending arrangement and our obligation under funding agreements with FHLB Des Moines. Since we did not relinquish ownership rights on these instruments, they are reported as mortgage loans, fixed maturities, available-for-sale and fixed maturities, trading, respectively, on our consolidated statements of financial position. Of the securities posted as collateral, as of March 31, 2019 and December 31, 2018, $136.6 million and $124.2 million, respectively, could be sold or repledged by the secured party.

Balance Sheet Offsetting

Financial assets subject to master netting agreements or similar agreements were as follows:

	Gross amount of recognized assets (1)	Gross amounts not offset in the consolidated statements of financial position		Net amount
		Financial instruments (2)	Collateral received	
		(in millions)		
March 31, 2019				
Derivative assets	**$ 210.7**	**$ (75.1)**	**$ (132.1)**	**$ 3.5**
Reverse repurchase agreements	**69.6**		**(69.6)**	
Total	**$ 280.3**	**$ (75.1)**	**$ (201.7)**	**$ 3.5**
December 31, 2018				
Derivative assets	$ 186.3	$ (70.5)	$ (108.1)	$ 7.7
Reverse repurchase agreements	53.0		(53.0)	
Total	$ 239.3	$ (70.5)	$ (161.1)	$ 7.7

(1) The gross amount of recognized derivative and reverse repurchase agreement assets are reported with other investments and cash and cash equivalents, respectively, on the consolidated statements of financial position. The

above excludes $9.2 million and $7.7 million of derivative assets as of March 31, 2019 and December 31, 2018, respectively, that are not subject to master netting agreements or similar agreements. The gross amounts of derivative and reverse repurchase agreement assets are not netted against offsetting liabilities for presentation on the consolidated statements of financial position.

(2) Represents amount of offsetting derivative liabilities that are subject to an enforceable master netting agreement or similar agreement that are not netted against the gross derivative assets for presentation on the consolidated statements of financial position.

Financial liabilities subject to master netting agreements or similar agreements were as follows:

	Gross amount of recognized liabilities (1)	Gross amounts not offset in the consolidated statements of financial position		Net amount
		Financial instruments (2)	Collateral pledged	
		(in millions)		
March 31, 2019				
Derivative liabilities	**$ 166.1**	**$ (75.1)**	**$ (67.2)**	**$ 23.8**
December 31, 2018				
Derivative liabilities	$ 153.4	$ (70.5)	$ (52.3)	$ 30.6

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(1) The gross amount of recognized derivative liabilities is reported with other liabilities on the consolidated statements of financial position. The above excludes $137.8 million and $138.3 million of derivative liabilities as of March 31, 2019 and December 31, 2018, respectively, which are primarily embedded derivatives that are not subject to master netting agreements or similar agreements. The gross amounts of derivative liabilities are not netted against offsetting assets for presentation on the consolidated statements of financial position.

(2) Represents amount of offsetting derivative assets that are subject to an enforceable master netting agreement or similar agreement that are not netted against the gross derivative liabilities for presentation on the consolidated statements of financial position.

The financial instruments that are subject to master netting agreements or similar agreements include right of setoff provisions. Derivative instruments include provisions to setoff positions covered under the agreements with the same counterparties and provisions to setoff positions outside of the agreements with the same counterparties in the event of default by one of the parties. Derivative instruments also include collateral or variation margin provisions, which are generally settled daily with each counterparty. See Note 4, Derivative Financial Instruments, for further details.

Repurchase and reverse repurchase agreements include provisions to setoff other repurchase and reverse repurchase balances with the same counterparty. Repurchase and reverse repurchase agreements also include collateral provisions with the counterparties. For reverse repurchase agreements we require the counterparties to pledge collateral with a value greater than the amount of cash transferred. We have the right but do not sell or repledge collateral received in reverse repurchase agreements. Repurchase agreements are structured as secured borrowings for all counterparties. We pledge fixed maturities available-for-sale, which the counterparties have the right to sell or repledge. Interest incurred on repurchase agreements is reported as part of operating expenses on the consolidated statements of operations. Net proceeds related to repurchase agreements are reported as a component of financing activities on the consolidated statements of cash flows. We did not have any outstanding repurchase agreements as of March 31, 2019 and December 31, 2018.

4. Derivative Financial Instruments

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

Types of Derivative Instruments

Interest Rate Contracts

Interest rate risk is the risk we will incur economic losses due to adverse changes in interest rates. Sources of interest rate risk include the difference between the maturity and interest rate changes of assets with the liabilities they support, timing differences between the pricing of liabilities and the purchase or procurement of assets and changing cash flow profiles from original projections due to prepayment options embedded within asset and liability contracts. We use various derivatives to manage our exposure to fluctuations in interest rates.

Interest rate swaps are contracts in which we agree with other parties to exchange, at specified intervals, the difference between fixed rate and/or floating rate interest amounts based upon designated market rates or rate indices and an agreed upon notional principal amount. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by any party. Cash is paid or received based on the terms of the swap. We use interest rate swaps primarily to more closely match the interest rate characteristics of assets and liabilities and to mitigate the risks arising from timing mismatches between assets and liabilities (including duration mismatches). We also use interest rate swaps to hedge against changes in the value of assets we anticipate acquiring and other anticipated transactions and commitments. Interest rate swaps are used to hedge against changes in the value of the guaranteed minimum withdrawal benefit (GMWB) liability. The GMWB rider on our variable annuity products provides for guaranteed minimum withdrawal benefits regardless of the actual performance of various equity and/or fixed income funds available with the product.

Interest rate options, including interest rate caps and interest rate floors, which can be combined to form interest rate collars, are contracts that entitle the purchaser to pay or receive the amounts, if any, by which a specified market rate exceeds a cap strike interest rate, or falls below a floor strike interest rate, respectively, at specified dates. We use interest rate options to manage prepayment risks in our assets and minimum guaranteed interest rates and lapse risks in our liabilities.

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A swaption is an option to enter into an interest rate swap at a future date. We purchase swaptions to hedge interest rate exposure for certain assets and liabilities. Swaptions not only hedge against the downside risk, but also allow us to take advantage of any upside benefits.

In exchange-traded futures transactions, we agree to purchase or sell a specified number of contracts, the values of which are determined by the values of designated classes of securities, and to post variation margin on a daily basis in an amount equal to the difference in the daily market values of those contracts. We enter into exchange-traded futures with regulated futures commissions merchants who are members of a trading exchange. We have used exchange-traded futures to reduce market risks from changes in interest rates and to alter mismatches between the assets in a portfolio and the liabilities supported by those assets.

Foreign Exchange Contracts

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 maturity and equity securities, and our international operations, including expected cash flows and potential acquisition and divestiture activity. We use various derivatives to manage our exposure to fluctuations in foreign currency exchange rates.

Currency swaps are contracts in which we agree with other parties to exchange, at specified intervals, a series of principal and interest payments in one currency for that of another currency. Generally, the principal amount of each currency is exchanged at the beginning and termination of the currency swap by each party. The interest payments are primarily fixed-to-fixed rate; however, they may also be fixed-to-floating rate or floating-to-fixed rate. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by one counterparty for payments made in the same currency at each due date. We use currency swaps to reduce market risks from changes in currency exchange rates with respect to investments or liabilities denominated in foreign currencies that we either hold or intend to acquire or sell.

Currency forwards are contracts in which we agree with other parties to deliver or receive a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. We use currency forwards to reduce market risks from changes in currency exchange rates with respect to investments or liabilities denominated in foreign currencies that we either hold or intend to acquire or sell. We sometimes use currency forwards to hedge the currency risk associated with a business combination or to hedge certain net equity investments in or expected cash flows from our foreign operations.

Currency options are contracts that give the holder the right, but not the obligation to buy or sell a specified amount of the identified currency within a limited period of time at a contracted price. The contracts are net settled in cash, based on the differential in the current foreign exchange rate and the strike price. Purchased and sold options can be combined to form a foreign currency collar where we receive a payment if the foreign exchange rate is below the purchased option strike price and make a payment if the foreign exchange rate is above the sold option strike price. We use currency options to hedge expected cash flows from our foreign operations.

Equity Contracts

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

We purchase equity call spreads (option collars) to hedge the equity participation rates promised to contractholders in conjunction with our fixed deferred annuity and universal life products that credit interest based on changes in an external equity index. We use exchange-traded futures and equity put options to hedge against changes in the value of the GMWB liability related to the GMWB rider on our variable annuity product. The premium associated with certain options is paid quarterly over the life of the option contract.

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Credit Contracts

Credit risk relates to the uncertainty associated with the continued ability of a given obligor to make timely payments of principal and interest. We use credit default swaps to enhance the return on our investment portfolio by providing comparable exposure to fixed income securities that might not be available in the primary market. They are also used to hedge credit exposures in our investment portfolio. Credit derivatives are used to sell or buy credit protection on an identified name or names on an unfunded or synthetic basis in return for receiving or paying a quarterly premium. The premium generally corresponds to a referenced name s credit spread at the time the agreement is executed. In cases where we sell protection, we also buy a quality cash bond to match against the credit default swap, thereby entering into a synthetic transaction replicating a cash security. When selling protection, if there is an event of default by the referenced name, as defined by the agreement, we are obligated to pay the counterparty the referenced amount of the contract and receive in return the referenced security in a principal amount equal to the notional value of the credit default swap.

Other Contracts

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

We offer group annuity contracts that have guaranteed separate accounts as an investment option. We also offer funds with embedded fixed-rate guarantees as investment options in our defined contribution plans in Hong Kong.

We have structured investment relationships with trusts we have determined to be VIEs, which are consolidated in our financial statements. The notes issued by these trusts include obligations to deliver an underlying security to residual interest holders and the obligations contain an embedded derivative of the forecasted transaction to deliver the underlying security.

We have fixed deferred annuities and universal life products that credit interest based on changes in an external equity index. We also have certain variable annuity products with a GMWB rider, which 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 fully exhausted. Declines in the equity markets may increase our exposure to benefits under contracts with the GMWB. We economically hedge the exposure in these contracts, as previously explained.

Exposure

Our risk of loss is typically limited to the fair value of our derivative instruments and not to the notional or contractual amounts of these derivatives. We are also exposed to credit losses in the event of nonperformance of the counterparties. Our current credit exposure is limited to the value of derivatives that have become favorable to us. This credit risk is minimized by purchasing such agreements from financial institutions with high credit ratings and by establishing and monitoring exposure limits. We also utilize various credit enhancements, including collateral and credit triggers to reduce the credit exposure to our derivative instruments.

Derivatives may be exchange-traded or they may be privately negotiated contracts, which are usually referred to as over-the-counter (OTC) derivatives. Certain of our OTC derivatives are cleared and settled through central clearing counterparties (OTC cleared), while others are bilateral contracts between two counterparties (bilateral OTC). Our derivative transactions are generally documented under International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements. Management believes that such agreements provide for legally enforceable set-off and close-out netting of exposures to specific counterparties. Under such agreements, in connection with an early termination of a transaction, we are permitted to set off our receivable from a counterparty against our payables to the same counterparty arising out of all included transactions. For reporting purposes, we do not offset fair value amounts of bilateral OTC derivatives for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparties under master netting agreements. OTC cleared derivatives have variation margin that is legally characterized as settlement of the derivative exposure, which reduces their fair value in the consolidated statements of financial position.

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We posted $118.0 million and $106.6 million in cash and securities under collateral arrangements as of March 31, 2019 and December 31, 2018, respectively, to satisfy collateral and initial margin requirements associated with our derivative credit support agreements and FCM agreements.

Certain of our derivative instruments contain provisions that require us to maintain an investment grade rating from each of the major credit rating agencies on our debt. If the ratings on our debt were to fall below investment grade, it would be in violation of these provisions and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value, inclusive of accrued interest, of all derivative instruments with credit-risk-related contingent features that were in a liability position without regard to netting under derivative credit support annex agreements as of March 31, 2019 and December 31, 2018, was $133.6 million and $109.7 million, respectively. Cleared derivatives have contingent features that require us to post excess margin as required by the FCM. The terms surrounding excess margin vary by FCM agreement. With respect to derivatives containing collateral triggers, we posted collateral and initial margin of $118.0 million and $106.6 million as of March 31, 2019 and December 31, 2018, respectively, in the normal course of business, which reflects netting under derivative agreements. If the credit-risk-related contingent features underlying these agreements were triggered on March 31, 2019, we would be required to post an additional $25.4 million of collateral to our counterparties.

As of March 31, 2019 and December 31, 2018, we had received $100.5 million and $79.5 million, respectively, of cash collateral associated with our derivative credit support annex agreements and FCM agreements, for which we recorded a corresponding liability reflecting our obligation to return the collateral.

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

	March 31, 2019	December 31, 2018
	(in millions)	
Notional amounts of derivative instruments		
Interest rate contracts:		
Interest rate swaps	**$ 34,783.8**	$ 34,393.7
Interest rate options	**1,127.0**	1,126.9
Interest rate futures	**181.0**	260.0
Swaptions	**62.0**	
Foreign exchange contracts:		
Currency forwards	**874.8**	863.6
Currency swaps	**863.5**	898.6
Currency options	**604.3**	525.2
Equity contracts:		
Equity options	**1,549.0**	1,522.5
Equity futures	**350.0**	491.7
Credit contracts:		
Credit default swaps	**390.0**	420.0
Other contracts:		
Embedded derivatives	**9,471.1**	9,452.3
Total notional amounts at end of period	**$ 50,256.5**	$ 49,954.5
Credit exposure of derivative instruments		
Interest rate contracts:		
Interest rate swaps	**$ 126.3**	$ 95.4
Interest rate options	**19.1**	16.3
Swaptions	**0.1**	
Foreign exchange contracts:		
Currency swaps	**62.0**	71.2
Currency forwards	**1.0**	2.8
Currency options	**0.9**	1.9
Equity contracts:		
Equity options	**17.7**	7.7
Credit contracts:		
Credit default swaps	**1.5**	2.4
Total gross credit exposure	**228.6**	197.7
Less: collateral received	**158.8**	122.9
Net credit exposure	**$ 69.8**	$ 74.8

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

	Derivative assets (1)		Derivative liabilities (2)	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
		(in millions)		
Derivatives designated as hedging instruments				
Interest rate contracts	**$**	$	**$ 18.3**	$ 16.1
Foreign exchange contracts	**33.0**	37.6	**17.4**	13.5
Total derivatives designated as hedging instruments	**$ 33.0**	$ 37.6	**$ 35.7**	$ 29.6
Derivatives not designated as hedging instruments				
Interest rate contracts	**$ 137.6**	$ 108.0	**$ 17.4**	$ 22.6
Foreign exchange contracts	**30.2**	38.4	**61.4**	72.9
Equity contracts	**17.7**	7.7	**52.6**	27.6
Credit contracts	**1.4**	2.3	**1.5**	4.4
Other contracts			**135.3**	134.6
Total derivatives not designated as hedging instruments	**186.9**	156.4	**268.2**	262.1
Total derivative instruments	**$ 219.9**	$ 194.0	**$ 303.9**	$ 291.7

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

(2) The fair value of derivative liabilities is reported with other liabilities on the consolidated statements of financial position, with the exception of certain embedded derivative liabilities. Embedded derivatives with a net liability fair value of $40.5 million and $45.2 million as of March 31, 2019 and December 31, 2018, respectively, are reported with contractholder funds on the consolidated statements of financial position.

Credit Derivatives Sold

When we sell credit protection, we are exposed to the underlying credit risk similar to purchasing a fixed maturity security instrument. Our credit derivative contracts sold reference a single name or reference security (referred to as single name credit default swaps). These instruments are either referenced in an OTC credit derivative transaction or embedded within an investment structure that has been fully consolidated into our financial statements.

These credit derivative transactions are subject to events of default defined within the terms of the contract, which normally consist of bankruptcy, failure to pay, or modified restructuring of the reference entity and/or issue. If a default event occurs for a reference name or security, we are obligated to pay the counterparty an amount equal to the notional amount of the credit derivative transaction. As a result, our maximum future payment is equal to the notional amount of the credit derivative. In certain cases, we also may have purchased credit protection with identical underlyings to certain of our sold protection transactions. As of March 31, 2019 and December 31, 2018, we did not purchase credit protection relating to our sold protection transactions. In certain circumstances, our potential loss could also be reduced by any amount recovered in the default proceedings of the underlying credit name.

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The following tables show our credit default swap protection sold by types of contract, types of referenced/underlying asset class and external agency rating for the underlying reference security. The maximum future payments are undiscounted and have not been reduced by the effect of any offsetting transactions, collateral or recourse features described above.

	March 31, 2019			
	Notional amount	Fair value	Maximum future payments	Weighted average expected life (in years)
		(in millions)		
Single name credit default swaps				
Corporate debt				
AAA	**$ 10.0**	**$**	**$ 10.0**	**0.5**
A	**15.0**	**0.1**	**15.0**	**0.7**
BBB	**165.0**	**0.5**	**165.0**	**1.7**
BB	**10.0**		**10.0**	**0.2**
CCC	**10.0**	**(0.7)**	**10.0**	**0.6**
Government/municipalities				
AA	**20.0**	**0.1**	**20.0**	**0.7**
Sovereign				
A	**10.0**	**0.1**	**10.0**	**0.5**
BBB	**55.0**	**0.5**	**55.0**	**1.1**
Total credit default swap protection sold	**$ 295.0**	**$ 0.6**	**$ 295.0**	**1.3**

	December 31, 2018			
	Notional amount	Fair value	Maximum future payments	Weighted average expected life (in years)
		(in millions)		
Single name credit default swaps				
Corporate debt				
AAA	$ 10.0	$ 0.1	$ 10.0	0.7
A	15.0	0.1	15.0	1.0
BBB	190.0	0.4	190.0	1.7
BB	10.0		10.0	0.5
CCC	15.0	(3.6)	15.0	0.9
Government/municipalities				
AA	20.0	0.2	20.0	1.0
Sovereign				
A	10.0	0.1	10.0	0.7
BBB	55.0	0.4	55.0	1.3
Total credit default swap protection sold	$ 325.0	$ (2.3)	$ 325.0	1.4

Fair Value and Cash Flow Hedges

Fair Value Hedges

We use fixed-to-floating rate interest rate swaps to more closely align the interest rate characteristics of certain assets and have used them to align the interest rate characteristics of certain liabilities. In general, these swaps are used in asset and liability management to modify duration, which is a measure of sensitivity to interest rate changes.

The net interest effect of interest rate swap transactions for derivatives in fair value hedges is recorded as an adjustment to income or expense of the underlying hedged item in our consolidated statements of operations.

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The following amounts were recorded on the consolidated statements of financial position related to cumulative basis adjustments for fair value hedges. The amortized cost includes the amortized cost basis and the fair value hedging basis adjustment.

Line item in the consolidated statements of financial position in which the hedged item is included	Amortized cost of hedged item		Cumulative amount of fair value hedging basis adjustment included in the amortized cost of the hedged item	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
	(in millions)			
Fixed maturities, available-for-sale:				
Active hedging relationships	**$ 139.2**	$ 137.0	**$ 14.8**	$ 12.4
Discontinued hedging relationships	**279.1**	298.9	**12.0**	13.3
Total fixed maturities, available-for-sale in active or discontinued hedging relationships	**$ 418.3**	$ 435.9	**$ 26.8**	$ 25.7

Cash Flow Hedges

We utilized floating-to-fixed rate interest rate swaps to eliminate the variability in cash flows of recognized financial assets and liabilities and forecasted transactions.

We enter into currency exchange swap agreements to convert both principal and interest payments of certain foreign denominated assets and liabilities into U.S. dollar denominated fixed-rate instruments to eliminate the exposure to future currency volatility on those items.

The net interest effect of interest rate swap and currency swap transactions for derivatives in cash flow hedges is recorded as an adjustment to income or expense of the underlying hedged item in our consolidated statements of operations.

The maximum length of time we are hedging our exposure to the variability in future cash flows for forecasted transactions, excluding those related to the payments of variable interest on existing financial assets and liabilities, is 1.3 years. As of March 31, 2019, we had $0.0 million of net gains reported in AOCI on the consolidated statements of financial position related to active hedges of forecasted transactions. If a hedged forecasted transaction is no longer probable of occurring, cash flow hedge accounting is discontinued. If it is probable that the hedged forecasted transaction will not occur, the deferred gain or loss is immediately reclassified from AOCI into net income.

The following table shows the effect of derivatives in cash flow hedging relationships on the consolidated statements of financial position.

Derivatives in cash flow hedging relationships	Related hedged item	Amount of gain (loss) recognized in AOCI on derivatives for the three months ended March 31, 2019	2018
		(in millions)	
Interest rate contracts	Fixed maturities, available-for-sale	**$ (4.2)**	$ (4.6)
Foreign exchange contracts	Fixed maturities, available-for-sale	**(8.6)**	(18.8)
Foreign exchange contracts	Investment contracts		(0.1)
Total		**$ (12.8)**	$ (23.5)

We expect to reclassify net gains of $21.9 million from AOCI into net income in the next 12 months, which includes both net deferred gains on discontinued hedges and net losses on periodic settlements of active hedges. Actual amounts may vary from this amount as a result of market conditions.

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Effect of Fair Value and Cash Flow Hedges on Consolidated Statements of Operations

The following tables show the effect of derivatives in fair value and cash flow hedging relationships and the related hedged items on the consolidated statements of operations.

	For the three months ended March 31, 2019			
	Net investment income related to hedges of fixed maturities, available-for-sale	Net realized capital gains related to hedges of fixed maturities, available-for-sale	Benefits, claims and settlement expenses related to hedges of investment contracts	Operating expenses related to hedges of debt
	(in millions)			
Total amounts of consolidated statement of operations line items in which the effects of fair value and cash flow hedges are reported	$ 961.0	$ 84.5	$ 2,195.1	$ 992.7
Losses on fair value hedging relationships:				
Interest rate contracts:				
Gain recognized on hedged item	$ 2.4	$	$	$
Loss recognized on derivatives	(2.5)			
Amortization of hedged item basis adjustments	(1.3)			
Amounts related to periodic settlements on derivatives	(0.8)			
Total loss recognized for fair value hedging relationships	$ (2.2)	$	$	$
Gains (losses) on cash flow hedging relationships:				
Interest rate contracts:				
Gain (loss) reclassified from AOCI on derivatives	$ 5.1	$	$	$ (2.8)
Foreign exchange contracts:				
Amounts related to periodic settlements on derivatives	1.6			
Total gain (loss) recognized for cash flow hedging relationships	$ 6.7	$	$	$ (2.8)

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	For the three months ended March 31, 2018			
	Net investment income related to hedges of fixed maturities, available-for-sale	Net realized capital gains (losses) related to hedges of fixed maturities, available-for-sale	Benefits, claims and settlement expenses related to hedges of investment contracts	Operating expenses related to hedges of debt
	(in millions)			
Total amounts of consolidated statement of operations line items in which the effects of fair value and cash flow hedges are reported	$ 902.2	$ (25.1)	$ 1,411.1	$ 985.0
Losses on fair value hedging relationships:				
Interest rate contracts:				
Loss recognized on hedged item	$	$ (5.5)	$	$
Gain recognized on derivatives		5.4		
Amortization of hedged item basis adjustments	(1.8)			
Amounts related to periodic settlements on derivatives	(2.0)			
Total loss recognized for fair value hedging relationships	$ (3.8)	$ (0.1)	$	$
Gains (losses) on cash flow hedging relationships:				
Interest rate contracts:				
Gain (loss) reclassified from AOCI on derivatives	$ 5.4	$	$	$ (2.6)
Gain reclassified from AOCI into net income as a result that a forecasted transaction is no longer probable of occurring		0.1		
Foreign exchange contracts:				
Loss reclassified from AOCI on derivatives		(0.4)		
Amounts related to periodic settlements on derivatives	1.6		(0.1)	
Total gain (loss) recognized for cash flow hedging relationships	$ 7.0	$ (0.3)	$ (0.1)	$ (2.6)

Derivatives Not Designated as Hedging Instruments

Our use of futures, certain swaptions and swaps, option collars, options and forwards are effective from an economic standpoint, but they have not been designated as hedges for financial reporting purposes. As such, periodic changes in the market value of these instruments, which includes mark-to-market gains and losses as well as periodic and final settlements, primarily flow directly into net realized capital gains (losses) on the consolidated statements of operations.

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

Derivatives not designated as hedging instruments	Amount of gain (loss) recognized in net income on derivatives for the three months ended March 31, 2019	2018
	(in millions)	
Interest rate contracts	**$ 67.3**	$ (48.0)
Foreign exchange contracts	**4.6**	8.8
Equity contracts	**(75.0)**	(15.2)
Credit contracts	**1.3**	0.1
Other contracts	**4.7**	63.7
Total	**$ 2.9**	$ 9.4

5. Insurance Liabilities

Liability for Unpaid Claims

The liability for unpaid claims is reported in future policy benefits and claims within our consolidated statements of financial position. Activity associated with unpaid claims was as follows:

	For the three months ended March 31, 2019	2018
	(in millions)	
Balance at beginning of period	**$ 2,252.7**	$ 2,130.5
Less: reinsurance recoverable	**404.3**	375.8
Net balance at beginning of period	**1,848.4**	1,754.7
Incurred:		
Current year	**325.5**	312.8
Prior years	**25.1**	(0.1)
Total incurred	**350.6**	312.7
Payments:		
Current year	**162.9**	146.9
Prior years	**157.6**	145.8
Total payments	**320.5**	292.7
Net balance at end of period	**1,878.5**	1,774.7
Plus: reinsurance recoverable	**397.5**	378.5
Balance at end of period	**$ 2,276.0**	$ 2,153.2

Amounts not included in the rollforward above:				
Claim adjustment expense liabilities	**$**	**54.7**	$	51.5

Incurred liability adjustments relating to prior years, which affected current operations during 2019 and 2018, resulted in part from developed claims for prior years being different than were anticipated when the liabilities for unpaid claims were originally estimated. These trends have been considered in establishing the current year liability for unpaid claims.

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6. Income Taxes

Effective Income Tax Rate

Our provision for income taxes may not have the customary relationship of taxes to income. A reconciliation between the U.S. corporate income tax rate and the effective income tax rate was as follows:

	For the three months ended March 31,	
	2019	2018
U.S. corporate income tax rate	**21 %**	21 %
Dividends received deduction	**(5)**	(4)
Tax credits	**(2)**	(3)
Impact of equity method presentation	**(1)**	(1)
Settled benefit from charitable contribution of capital gain property		(2)
Other	**1**	1
Effective income tax rate	**14 %**	12 %

7. Employee and Agent Benefits

Components of Net Periodic Benefit Cost

	Pension benefits For the three months ended March 31,		Other postretirement benefits For the three months ended March 31,	
	2019	2018	2019	2018
		(in millions)		
Service cost	**$ 16.8**	$ 18.3	**$**	$
Interest cost	**32.8**	29.9	**0.9**	0.9
Expected return on plan assets	**(35.5)**	(39.2)	**(8.3)**	(8.4)
Amortization of prior service benefit	**(0.9)**	(0.9)	**(0.3)**	(3.5)
Recognized net actuarial (gain) loss	**16.9**	16.9		(0.3)
Net periodic benefit cost (income)	**$ 30.1**	$ 25.0	**$ (7.7)**	$ (11.3)

The components of net periodic benefit cost including the service cost component are included in operating expenses on the consolidated statements of operations.

Contributions

Our funding policy for our qualified pension plan is to fund the plan annually in an amount at least equal to the minimum annual contribution required under the Employee Retirement Income Security Act (ERISA) and, generally, not greater than the maximum amount that can be deducted for federal income tax purposes. It is too early to determine, but we do not anticipate that we will be required to fund a minimum required contribution under ERISA. Regardless, it is possible that we may fund the qualified and nonqualified pension plans in 2019 for a combined total of up to $25.0 million. During the three months ended March 31, 2019, we contributed $5.7 million to these plans.

8. Contingencies, Guarantees, Indemnifications and Leases

Litigation and Regulatory Contingencies

We are regularly involved in litigation, both as a defendant and as a plaintiff, but primarily as a defendant. Litigation naming us as a defendant ordinarily arises out of our business operations as a provider of asset management and accumulation products and services, individual life insurance, specialty benefits insurance and our investment activities. Some of the lawsuits may be class actions, or purport to be, and some may include claims for unspecified or substantial punitive and treble damages.

We may discuss such litigation in one of three ways. We accrue a charge to income and disclose legal matters for which the chance of loss is probable and for which the amount of loss can be reasonably estimated. We may disclose

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contingencies for which the chance of loss is reasonably possible and provide an estimate of the possible loss or range of loss or a statement that such an estimate cannot be made. Finally, we may voluntarily disclose loss contingencies for which the chance of loss is remote in order to provide information concerning matters that potentially expose us to possible losses.

In addition, regulatory bodies such as state insurance departments, the SEC, the Financial Industry Regulatory Authority (FINRA), the Department of Labor (DOL) and other regulatory agencies in the U.S. and in international locations in which we do business, regularly make inquiries and conduct examinations or investigations concerning our compliance with, among other things, insurance laws, securities laws, ERISA and laws governing the activities of broker-dealers. We receive requests from regulators and other governmental authorities relating to industry issues and may receive additional requests, including subpoenas and interrogatories, in the future.

As of March 31, 2019, we had no litigation or regulatory contingencies for which we believe disclosure is appropriate.

Guarantees and Indemnifications

In the normal course of business, we have provided guarantees to third parties primarily related to former subsidiaries and joint ventures. The terms of these agreements range in duration and often are not explicitly defined. The maximum exposure under these agreements as of March 31, 2019, was approximately $122.0 million. At inception, the fair value of such guarantees was insignificant. In addition, we believe the likelihood is remote that material payments will be required. Therefore, any liability accrued within our consolidated statements of financial position is insignificant. Should we be required to perform under these guarantees, we generally could recover a portion of the loss from third parties through recourse provisions included in agreements with such parties, the sale of assets held as collateral that can be liquidated in the event performance is required under the guarantees or other recourse generally available to us; therefore, such guarantees would not result in a material adverse effect on our business or financial position. While the likelihood is remote, such outcomes could materially affect net income in a particular quarter or annual period. Furthermore, in connection with contingent funding agreements, we are required to purchase any principal and interest strips of U.S. Treasury securities that are due and not paid from the associated unconsolidated trusts. The maximum exposure under these agreements as of March 31, 2019, was $750.0 million.

We manage mandatory privatized social security funds in Chile. By regulation, we have a required minimum guarantee on the funds relative return. Because the guarantee has no limitation with respect to duration or amount, the maximum exposure of the guarantee in the future is indeterminable.

We are also subject to various other indemnification obligations issued in conjunction with divestitures, acquisitions and financing transactions whose terms range in duration and often are not explicitly defined. Certain portions of these indemnifications may be capped, while other portions are not subject to such limitations; therefore, the overall maximum amount of the obligation under the indemnifications cannot be reasonably estimated. At inception, the fair value of such indemnifications was insignificant. In addition, we believe the likelihood is remote that material payments will be required. Therefore, any liability accrued within our consolidated statements of financial position is insignificant.

While we are unable to estimate with certainty the ultimate legal and financial liability with respect to these indemnifications, we believe that performance under these indemnifications would not result in a material adverse effect on our business or financial position. While the likelihood is remote, performance under these indemnifications could materially affect net income in a particular quarter or annual period.

Leases

As a lessee, we lease office space, data processing equipment, office furniture and office equipment under various operating leases. We also lease buildings and hardware storage equipment under finance leases. Lease assets and liabilities are recognized at the commencement of a lease based on the present value of lease payments over the lease term. We generally use our incremental borrowing rate based on the information available at the lease commencement date to determine the present value of lease payments. Lease term may include options to extend or terminate the lease when it is reasonably certain we will exercise the option. Leases with an initial term of twelve months or less are not recorded on the consolidated statements of financial position. We recognize lease expense for leases on a straight-line basis over the lease term. Some of our lease agreements include payments for property taxes, insurance, utilities or common area maintenance, which are not based on an index or rate. These payments are recognized in net income in the period in which the obligation has occurred.

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We sublease certain office space to third parties, which are primarily operating leases. We record sublease income on a straight-line basis over the lease term.

The lease assets and liabilities were as follows:

		March 31, 2019 *(in millions)*
Assets		
Operating lease assets (1)	$	161.3
Finance lease assets (1)		35.4
Total lease assets	$	196.7
Liabilities		
Operating lease liabilities (2)	$	169.5
Finance lease liabilities (2)		35.6
Total lease liabilities	$	205.1

(1) Operating and finance lease assets are primarily reported within property and equipment on the consolidated statements of financial position.

(2) Operating and finance lease liabilities are reported within other liabilities on the consolidated statements of financial position.

The lease cost was as follows:

		For the three months ended March 31, 2019 *(in millions)*
Finance lease cost (1):		
Amortization of right-of-use assets	$	3.5
Interest on lease liabilities		0.3
Operating lease cost (1)		13.4
Other lease cost (1) (2)		2.8
Sublease income (3)		(0.4)
Total lease cost	$	19.6

(1) Finance, operating and other lease costs are primarily included in operating expenses on the consolidated statements of operations.

(2) Other lease cost primarily reflects variable and short-term lease costs.

(3) Sublease income is included in fees and other revenues on the consolidated statements of operations.

The following represents payments due by period for lease obligations:

	Operating leases	Finance leases	Total
		(in millions)	
For the twelve months ending March 31:			
2020	**$ 47.6**	**$ 14.4**	$ **62.0**
2021	**40.2**	**12.3**	**52.5**
2022	**30.2**	**8.6**	**38.8**
2023	**23.1**	**1.3**	**24.4**
2024	**13.4**	**0.3**	**13.7**
2025 and thereafter	**30.2**	**0.2**	**30.4**
Total lease payments	**184.7**	**37.1**	**221.8**
Less: interest	**15.2**	**1.5**	**16.7**
Present value of lease liabilities	**$ 169.5**	**$ 35.6**	$ **205.1**

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The weighted-average remaining lease term and weighted-average discount rates were as follows:

	For the three months ended March 31, 2019
Weighted-average remaining lease term (in years):	
Operating leases	**6.6**
Finance leases	**2.9**
Weighted-average discount rate:	
Operating leases	**3.3%**
Finance leases	**2.9%**

9. Stockholders Equity

Common Stock Dividends

	For the three months ended March 31,	
	2019	**2018**
Dividends declared per common share	**$ 0.54**	$ 0.51

Reconciliation of Outstanding Common Shares

	For the three months ended March 31,	
	2019	**2018**
	(in millions)	
Beginning balance	**279.5**	289.0
Shares issued	**1.8**	1.9
Treasury stock acquired	**(3.1)**	(3.2)
Ending balance	**278.2**	287.7

In February 2016, our Board of Directors authorized a share repurchase program of up to $400.0 million of our outstanding common stock, which was completed in February 2018. In May 2017, our Board of Directors authorized a share repurchase program of up to $250.0 million of our outstanding common stock, which was completed in April 2018. In May 2018, our Board of Directors authorized a share repurchase program of up to $300.0 million of our outstanding common stock, which was completed in December 2018. In November 2018, our Board of

Directors authorized a share repurchase program of up to $500.0 million of our outstanding common stock. In the first quarter of 2019, we suspended purchases of the remaining $295.3 million available under the November 2018 authorization. Shares repurchased under these programs are accounted for as treasury stock, carried at cost and reflected as a reduction to stockholders equity.

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Other Comprehensive Income (Loss)

	For the three months ended March 31, 2019		
	Pre-Tax	Tax	After-Tax
		(in millions)	
Net unrealized gains on available-for-sale securities during the period	$ 1,817.0	$ (392.5)	$ 1,424.5
Reclassification adjustment for losses included in net income (1)	8.7	(1.7)	7.0
Adjustments for assumed changes in amortization patterns	(122.1)		