PRINCIPAL FINANCIAL GROUP INC
Form 10-K
February 11, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

OR

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

For the transition period from _______ to _______

Commission file number 1-16725

PRINCIPAL FINANCIAL GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**711 High Street,** **Des Moines, Iowa 50392**	**42-1520346**
(State or other jurisdiction of incorporation or organization)	(Address of principal executive offices)	(I.R.S. Employer Identification Number)

(515) 247-5111

(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01	New York Stock Exchange
Series B Non-Cumulative Perpetual Preferred Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
Series A Non-Cumulative Perpetual Preferred Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No ý

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. ý

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of February 4, 2015, there were outstanding 294,110,248 shares of Common Stock, $0.01 par value per share of the Registrant.

The aggregate market value of the shares of the Registrant's common equity held by non-affiliates of the Registrant was $14,833,259,052 based on the closing price of $50.48 per share of Common Stock on the New York Stock Exchange on June 30, 2014.

Documents Incorporated by Reference

The information required to be furnished pursuant to Part III of this Form 10-K is set forth in, and is hereby incorporated by reference herein from, the Registrant's definitive proxy statement for the annual meeting of stockholders to be held on May 19, 2015, to be filed by the Registrant with the United States Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the year ended December 31, 2014.

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NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including the Management's Discussion and Analysis of Financial Condition and Results of Operations, contains statements which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements relating to trends in operations and financial results and the business and the products of the Registrant and its subsidiaries, as well as other statements including words such as "anticipate," "believe," "plan," "estimate," "expect," "intend" and other similar expressions. Forward-looking statements are made based upon management's current expectations and beliefs concerning future developments and their potential effects on us. Such forward-looking statements are not guarantees of future performance.

Actual results may differ materially from those included in the forward-looking statements as a result of risks and uncertainties. Those risks and uncertainties include, but are not limited to the risk factors listed in Item 1A. "Risk Factors."

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PART I

Item 1. Business

Principal Financial Group, Inc. ("PFG") is a global investment management leader offering businesses, individuals and institutional clients a wide range of financial products and services, including retirement, asset management and insurance through our diverse family of financial services companies. We had $519.3 billion in assets under management ("AUM") and approximately 19.7 million customers worldwide as of December 31, 2014.

We primarily focus on small and medium-sized businesses, which we define as companies with less than 1,000 employees, providing a broad array of retirement and employee benefit solutions to meet the needs of the business, the business owner and their employees. We are the leading provider of corporate defined contribution plans in the U.S., according to Spectrem Group. We are also the leading employee stock ownership plan consultant. In addition, we are a leading provider of nonqualified plans, defined benefit plans and plan termination annuities. We are also one of the largest providers of specialty benefits insurance product solutions.

We believe small and medium-sized businesses are an underserved market, offering attractive growth opportunities in the U.S. in retirement services and other employee benefits. We also believe there is a significant opportunity to leverage our U.S. retirement expertise into select international markets that have adopted or are moving toward private sector defined contribution pension systems. This opportunity is particularly compelling as aging populations around the world are driving increased demand for retirement accumulation, retirement asset management and retirement income management solutions.

Our Reportable Segments

We organize our businesses into the following reportable segments:

- Retirement and Investor Services;
- Principal Global Investors;
- Principal International and
- U.S. Insurance Solutions.

We also have a Corporate segment, which consists of the assets and activities that have not been allocated to any other segment.

See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 16, Segment Information" for financial results of our segments, including our operating revenues for our products and services described in each of the subsequent segment discussions.

Retirement and Investor Services Segment

Our asset accumulation activities in the U.S. date back to the 1940s when we first began providing pension plan products and services. We now offer a comprehensive portfolio of asset accumulation products and services for retirement savings and investment:

- To businesses of all sizes with a concentration on small and medium-sized businesses, we offer products and services for defined contribution pension plans, including 401(k) and 403(b) plans, defined benefit pension plans, nonqualified executive benefit plans and employee stock ownership plan ("ESOP") consulting services. For more basic investment needs, we offer SIMPLE Individual Retirement Accounts ("IRA") and payroll deduction plans;

To large institutional clients, we also offer investment-only products, including guaranteed investment contracts ("GICs") and funding agreements and

To employees of businesses and other individuals, we offer the ability to accumulate savings for retirement and other purposes through mutual funds, individual annuities and bank products.

We organize our Retirement and Investor Services ("RIS") operations into two business groupings:

Accumulation business includes full service accumulation, Principal Funds (our mutual fund business), individual annuities and bank and trust services; and

Guaranteed business includes investment only and full service payout.

Accumulation Business

Full Service Accumulation

Products

We offer a wide variety of investment and administrative products for defined contribution pension plans, including 401(k) and 403(b) plans, defined benefit pension plans, nonqualified executive benefit plans and ESOPs. A 403(b) plan is

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a plan described in Section 403(b) of the Internal Revenue Code that provides retirement benefits for employees of tax-exempt organizations and public schools.

Full service accumulation products respond to the needs of plan sponsors seeking both administrative and investment services for defined contribution plans or defined benefit plans. The investment component of both the defined contribution and defined benefit plans may be in the form of a general account, separate account, a mutual fund offering or a collective investment trust. In addition, defined contribution plans may also offer their own employer security as an investment option.

We deliver both administrative and investment services to our defined contribution plan and defined benefit plan customers through annuities and mutual funds. Group annuities and the underlying investment options are not required to be registered with the United States Securities and Exchange Commission ("SEC"). Our mutual fund offering is called Principal Advantage. It is a qualified plan product based on our series mutual fund, Principal Funds, Inc. ("PFI"). We offer investments covering the full range of stable value, equity, fixed income, real estate and international investment options managed by our Principal Global Investors segment as well as third party asset managers.

As of December 31, 2014, we provided full service accumulation products to (a) over 33,600 defined contribution pension plans, of which approximately 28,400 were 401(k) plans, including $117.3 billion in assets and covering 4.0 million eligible plan participants, and (b) to over 2,200 defined benefit pension plans, including $18.0 billion in assets and covering over 326,600 eligible plan participants. As of December 31, 2014, approximately 56% of our full service accumulation account values were managed by our Principal Global Investors segment. Third party asset managers provide asset management services with respect to the remaining assets. Of those third party assets, 27% is managed entirely by the third party asset managers, 10% is sub-advised and 7% represents employer securities.

Markets and Distribution

We offer our full service accumulation products and services to employer-sponsored pension plans, including qualified and nonqualified defined contribution plans and defined benefit plans. Our primary target market is plans sponsored by small and medium-sized businesses, which we believe remains under-penetrated. According to Spectrem Group, in 2013, only 22% of businesses with between 10 and 49 employees, 51% of businesses with between 50 and 99 employees, 55% of businesses with between 100 and 249 employees and 71% of businesses with between 250 and 500 employees offered a 401(k) plan. The same study indicates that 76% of employers with between 500 and 1,000 employees, 84% of employers with between 1,000 and 5,000 employees and 86% of employers with 5,000 or more employees offered a 401(k) plan in 2013.

We distribute our full service accumulation products and services nationally, primarily through a captive retirement services sales force. As of December 31, 2014, 119 retirement services sales representatives in 42 offices, operating as a wholesale distribution network, maintained relationships with over 14,400 independent brokers, consultants and agents. Retirement services sales representatives are an integral part of the sales process alongside the referring consultant or independent broker. We compensate retirement services sales representatives through a blend of salary and production-based incentives, while we pay independent brokers, consultants and agents a commission or fee.

As of December 31, 2014, we had a separate staff of over 290 service and education specialists located in the sales offices who play a key role in the ongoing servicing of pension plans by providing local services to our customers, such as reviewing plan performance, investment options and plan design; communicating the customers' needs and feedback to us and helping employees understand the benefits of their pension plans. The following summarizes our distribution channels:

- We distribute our annuity-based products through sales representatives, agents and brokers who are primarily state licensed individuals.

- Principal Advantage, our mutual fund-based product, is targeted at defined contribution plans through broker-dealer distribution channels. Principal Advantage gives us access to Financial Industry Regulatory Authority-registered distributors who are not traditional sellers of annuity-based products and broadens opportunities for us in the investment advisor and broker-dealer distribution channels.

- Principal Retirement Income Edge® is designed to create a coordinated experience from accumulation to income management for advisors to use with their individual clients and plan participants who are nearing or enjoying retirement. The Principal Retirement Income Edge® program provides education and planning tools as well as a wide variety of products such as annuities, mutual funds and bank products to provide personalized income management solutions.

Through our Retire Secure strategy we provide financial education and assistance to individual investors who are participants/members of employer-based accumulation solutions to help them achieve financial security.

We believe our approach to full service accumulation plan services distribution gives us a local sales and service presence that differentiates us from many of our competitors. We have also established a number of marketing and distribution relationships to increase the sales of our accumulation products.

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Principal Funds

We have been providing mutual funds to customers since 1969. We offer mutual funds to individuals, businesses and institutional investors for use within variable life and variable annuity contracts, for use in employer-sponsored pension plans, as a rollover investment option, and for general investment purposes.

Products and Services

Principal Funds plans to grow into a top advisor sold mutual fund company with a sales force focused on multiple channels. As of December 2014, as reported by the Strategic Insight, we are ranked 16th according to AUM (long-term funds) of the top 50 intermediary sold mutual funds. We provide accounting, compliance, corporate governance and product development for all mutual funds we organize.

Principal Funds, Inc. PFI is a series mutual fund that, as of December 31, 2014, offered 80 investment options. Five of this fund's R share classes act as the funding vehicles for Principal Advantage, the defined contribution product described above under "Retirement and Investor Services Segment-Full Service Accumulation-Products." This fund also offers three classes of shares to individuals. One of these three share classes is for IRA rollovers (J shares) and two are for general investment purposes (A and C shares). PFI offers four additional classes of shares: (1) I shares, which are offered primarily to specified institutional investors, (2) P shares, which are used primarily in adviser fee-based programs, (3) S shares, which are offered solely to clients of Spectrum Asset Management's Separately Managed Account business and (4) R-6, which are primarily offered to specified retirement plan clients. As of December 31, 2014, the fund had $112.1 billion of AUM. We report the results for this fund in Full Service Accumulation or Principal Funds based on the distribution channel associated with the AUM.

Principal Variable Contracts Funds, Inc. Principal Variable Contracts Funds, Inc. is a series mutual fund that, as of December 31, 2014, provided 39 investment options for variable annuity and variable life insurance contracts issued by Principal Life Insurance Company ("Principal Life") and other insurance companies not affiliated with Principal Life. As of December 31, 2014, this fund had AUM of $8.2 billion. AUM backing Principal Life variable annuity contracts is reported in Individual Annuities. AUM backing Principal Life variable life insurance contracts is reported in the U.S. Insurance Solutions segment.

Principal Managed Portfolio. Principal Managed Portfolio is an advisory product offered by one of our registered investment advisors, Princor Financial Services Corporation ("Princor"), which permits the client to invest primarily in mutual funds of Principal Funds, Inc. The other investments offered through the program are municipal bond funds comprising the fixed income component in the tax-sensitive non-qualified Model Portfolios and a limited number of mutual funds and Exchange Traded Funds ("ETFs") representing alternative asset classes and investment strategies. Clients are charged a quarterly asset-based fee on this product. As of December 31, 2014, Principal Managed Portfolio had accumulated $1.0 billion in assets.

Principal Advisory Select and Principal Dynamic Portfolios. These are advisory products offered by one of our registered investment advisors, Princor, which permits the client to invest in a broad array of investments. Clients are charged a quarterly asset-based fee on these products. As of December 31, 2014, these products had accumulated $3.0 billion in assets.

Principal Collective Investment Trust. These are pooled investment vehicles designed for retirement plans and maintained by a bank or trust company. Delaware Charter Guarantee &Trust Company currently offers the Principal Trust Target Date Fund series and the Principal Diversified Real Asset Collective Investment Trust. As of December 31, 2014, Principal Funds reported $394.6 million in assets from these products.

Markets and Distribution

Our markets for PFI's retail share classes are individuals seeking to accumulate savings for retirement and other purposes, as well as nonqualified individual savings plans utilizing payroll deductions. We also market PFI's retail share classes to participants in pension plans who are departing their plans and reinvesting their retirement assets into individual retirement accounts.

We sell PFI's share classes primarily through registered representatives from other broker-dealers; affiliated financial representatives; independent brokers registered with our securities broker-dealer, Princor; direct deposits from our employees and others and Principal Connection. As of December 31, 2014, 64 retail sales representatives across the United States, operating as a wholesale distribution network, maintained relationships with over 51,000 independent brokers, consultants and agents. Principal Connection is our direct response distribution channel for retail financial services products to individuals. Principal Connection's services are available over the phone, on the Internet or by mail. Princor recruits, trains and supervises registered representatives selling our products through Principal Connection.

Individual Annuities

Individual annuities offer a tax-deferred means of accumulating retirement savings, as well as a tax-efficient source of income during the payout period.

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Products

We offer both fixed and variable annuities to individuals and pension plans. Individual annuities may be categorized in two ways: (1) deferred, in which case assets accumulate until the contract is surrendered, the customer dies or the customer begins receiving benefits under an annuity payout option, or (2) payout, in which case payments are made for a fixed period of time or for life.

Fixed Deferred Annuities. Our individual fixed deferred annuities consist of both single premium deferred annuity contracts and flexible premium deferred annuity contracts ("FPDAs"). Some FPDA contracts limit the period of time deposits are allowed (e.g., only one year). For certain contracts, the principal amount is guaranteed. We credit the customer's account with a fixed interest rate for a specified number of years. Thereafter, we reset the interest rate credited to the contract based upon our discretion, subject to contractual minimums, by taking into account market and other conditions. We also offer a fixed deferred annuity where the interest credited is linked to an external equity index, subject to maximum and minimum values. Our major source of income from fixed deferred annuities is the spread between the investment income earned on the underlying general account assets and the interest rate credited to the contracts. We bear the investment risk because, while we credit customers' accounts with a stated interest rate, we cannot be certain the investment income we earn on our general account assets will exceed that rate. The Principal Global Investors segment manages the assets supporting these contracts.

Variable Deferred Annuities. Individual variable deferred annuities are savings vehicles through which the customer makes one or more deposits of varying amounts and intervals. Customers have the flexibility to allocate their deposits to mutual funds managed by the Principal Global Investors segment or unaffiliated third party asset managers. As of December 31, 2014, 89% of our $8.9 billion in variable annuity account balances was allocated to mutual funds and our general account, which are managed by the Principal Global Investors segment and 11% was allocated to mutual funds managed by unaffiliated third party asset managers. Generally speaking, the customers bear the investment risk and have the right to allocate their assets among various separate mutual funds. The value of the annuity fluctuates in accordance with the experience of the mutual funds chosen by the customer. Customers have the option to allocate all or a portion of their account to our general account, in which case we credit interest at rates we determine, subject to contractual minimums. Customers may elect a living benefit guarantee (commonly known in the industry as a guaranteed minimum withdrawal benefit, or "GMWB"). We bear the GMWB investment risk. Our goal is to hedge the GMWB investment risk through the use of sophisticated risk management techniques. As of December 31, 2014, $5.7 billion of the $8.9 billion of variable annuity account value had the GMWB rider. Our major source of revenue from variable annuities is mortality and expense fees we charge to the customer, generally determined as a percentage of the market value of the assets held in a separate investment sub-account. Account balances of variable annuity contracts with the GMWB rider were invested in separate account investment options as follows:

	December 31, 2014	December 31, 2013
	(in millions)	
Equity funds	**$ 381.4**	$ 469.6
Bond funds	**210.7**	256.9
Balanced funds	**5,019.0**	4,077.2
Money market funds	**7.0**	8.0
Specialty funds	**1.8**	
Total	**$ 5,619.9**	$ 4,811.7
Percent of total variable annuity account values	**63%**	59%

Fixed Income Annuities. Our individual fixed income annuities consist of single premium immediate annuity contracts ("SPIAs") and deferred income annuity contracts ("DIAs"). SPIAs and DIAs are products where the customer pays a premium in return for periodic benefit payments. SPIA payments begin immediately and DIA payments begin after a deferral period, during which a return-of-premium death benefit is included. Payments may be contingent upon the survival of one or two individuals or payments may be fixed, meaning payments are contractually guaranteed and do not depend on the continuing survival of any individual. Our major source of income from fixed immediate annuities is the spread between the investment income earned on the underlying general account assets and the interest rate implied in the calculation of annuity benefit payments. We bear the investment risk because we cannot be certain the investment income we earn on our general account assets will exceed the rate implied in the SPIA and DIA contracts. The Principal Global Investors segment manages the assets supporting these contracts.

Markets and Distribution

Our target markets for individual annuities include owners, executives and employees of small and medium-sized businesses and individuals seeking to accumulate and/or eventually receive distributions of assets for retirement. We market both fixed and variable annuities to individuals for both qualified and nonqualified retirement savings.

We sell our individual annuity products through our affiliated financial representatives, who accounted for 49%, 47% and 46% of annuity sales for the years ended December 31, 2014, 2013 and 2012, respectively. The remaining sales were made through banks, brokerage general agencies, mutual fund companies, Principal Connection and unaffiliated broker-dealer firms. Affiliated financial representatives continued to be the primary distribution channel of our variable

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deferred annuities. The majority of overall annuity sales, however, were from non-affiliated distribution channels, as a result of focused efforts to increase fixed annuity sales through non-affiliated distribution channels.

Bank and Trust Services

Bank and trust services include Principal Bank and Principal Trust Company. Principal Bank is a federal savings bank that began its activities in February 1998. As of December 31, 2014, Principal Bank had over 280,000 customers and approximately $2.2 billion in assets. Principal Bank operates under a limited purpose charter and may only accept deposits held in a fiduciary capacity and may not hold demand deposits, own commercial loans or originate loans. Delaware Charter Guarantee & Trust Company, dba Principal Trust Company, is a Delaware state-chartered non-deposit trust company that was chartered in 1899. As of December 31, 2014, Principal Trust Company served as trustee or custodian to over 229,000 accounts, which held assets of approximately $157.0 billion. The majority of the trust assets are affiliated and reported in Full Service Accumulation AUM.

Products

Principal Bank's products and services include IRAs that are primarily funded by moneys rolled over from qualified retirement plans. The IRAs hold savings accounts, money market accounts and certificates of deposit. The deposit products provide a relatively stable source of funding and liquidity for Principal Bank and are backed by purchases of investment securities and residential mortgage loans.

Principal Trust Company specializes in providing trust solutions for a full array of employee benefit plans and accounts including 401(k) and 403(b) plans, defined benefit pension plans, nonqualified executive benefit plans and ESOPs. Principal Trust Company also maintains collective investment funds and provides personal trust services.

Markets and Distribution

Principal Bank pursues asset retention strategies by offering bank products and services to participants rolling out of qualified retirement plans primarily serviced by affiliates of PFG. Principal Bank services customers through the telephone, mail and Internet.

Principal Trust Company offers directed trust services to qualified and non-qualified retirement plans serviced by the affiliates of PFG. Personal trust services are primarily available through affiliated financial representatives. Collective investment trust funds are offered to qualified retirement plan clients of our full service accumulation business as well as non-affiliated retirement plan recordkeepers.

Guaranteed Business

Investment Only

Products

The three primary products for which we provide investment only services are: GICs, funding agreements and other investment only products.

GICs and funding agreements pay a specified rate of return. The rate of return can be a floating rate based on an external market index or a fixed rate. Our investment only products contain provisions disallowing or limiting early surrenders, including penalties for early surrenders and minimum notice requirements.

Deposits to investment only products are predominantly in the form of single payments. As a result, the level of new deposits can fluctuate from one fiscal quarter to another. Assets invested in GICs and funding agreements generate a spread between the investment income earned by us and the amount credited to the customer. Our other investment only products consist of separate accounts invested in either equities or fixed income instruments. The Principal Global Investors segment manages the assets supporting investment only account values.

Markets and Distribution

We market GICs and funding agreements primarily to pension plan sponsors and other institutions. We also offer them as part of our full service accumulation products. We sell our GICs primarily to plan sponsors for funding of tax-qualified retirement plans. We sell our funding agreements directly to institutions that may or may not be pension funds and unconsolidated special purpose vehicles domiciled either in the U.S. or offshore for funding agreement-backed note programs. The funding agreements sold as part of these funding agreement-backed note programs work by having investors purchase debt obligations from the special purpose vehicle which, in turn, purchases the funding agreement from us with terms similar to those of the debt obligations. The strength of this market is dependent on debt capital market conditions. As a result, our sales through this channel can vary widely from one quarter to another. In addition to the special purpose vehicle selling the funding agreement-backed notes to U.S. and foreign institutional investors, the special purpose vehicle may also sell notes to U.S. retail investors through a SEC-registered shelf debt issuance program.

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Full Service Payout

Products

Full service payout products respond to the needs of pension plan participants who, upon retirement or termination of their employment, seek a guaranteed income stream. Plan participants who seek these services include those from pension plans we service, as well as pension plans other providers service. We primarily offer single premium group annuities, which are immediate or deferred annuities that provide a current or future specific income amount, fully guaranteed by us. These are available to defined contribution and defined benefit plan participants. We make regular payments to individuals, invest the underlying assets on their behalf and provide tax reporting to them. We also reinsure single premium immediate annuities issued by another insurer.

Single premium group annuities are traditionally used in conjunction with defined benefit plans, particularly those where the plan is being terminated. In such instances, the plan sponsor transfers all its obligations under the plan to an insurer by paying a single premium. Increasingly, these products are purchased by defined contribution plan participants who reach retirement age. Generally, plan sponsors restrict their purchases to insurance companies with superior or excellent financial quality ratings because the Department of Labor has mandated that annuities be purchased only from the "safest available" insurers.

Premium received from full service payout products are generally in the form of single payments. As a result, the level of new premiums can fluctuate depending on the number of retirements and large-scale annuity sales in a particular fiscal quarter. The Principal Global Investors segment manages the assets supporting full service payout account values.

Markets and Distribution

Our primary distribution channel for full service payout products is comprised of several specialized home office sales consultants working through consultants and brokers that specialize in this type of business. Our sales consultants also make sales directly to institutions. Our nationally dispersed retirement services sales representatives act as a secondary distribution channel for these products. Principal Connection also distributes full service payout products to participants in plans we service who are terminating employment or retiring.

Principal Global Investors Segment

Our Principal Global Investors segment manages assets for sophisticated investors around the world, using a multi-boutique strategy that enables the segment to provide an expanded range of diverse investment capabilities including equity, fixed income, real estate and other alternative investments. We also have experience in asset allocation, stable value management and other structured investment strategies. We focus on providing services to our other segments and third party institutional clients. We maintain offices in Australia, Brazil, Dubai, Germany, Hong Kong, Japan, Netherlands, Singapore, the United Kingdom and the United States.

We deliver our products and services through our network of specialized investment groups and boutiques including Principal Global Investors Equities; Principal Global Investors Fixed Income; Principal Real Estate Investors, LLC; Principal Enterprise Capital, LLC; Spectrum Asset Management, Inc.; Post Advisory Group, LLC; Columbus Circle Investors; Edge Asset Management, Inc.; Morley Financial Services, Inc.; Macro Currency Group; Finisterre Capital LLP; Origin Asset Management LLP; CIMB Principal Islamic Asset Management Sdn. Bhd.; Multi-Asset Advisors Group and Liongate Capital Management LLP. As of December 31, 2014, Principal Global Investors and its boutiques managed $314.0 billion in assets.

Products and Services

Our products and services are provided for a fee as defined by client mandates. Our fees are generally driven by AUM. We are diversified across the following primary asset classes.

Equity Investments. As of December 31, 2014, Principal Global Investors Equities along with Columbus Circle Investors, Edge Asset Management, Inc. and Origin Asset Management LLP managed $111.2 billion in global equity assets. Our equity capabilities encompass large-cap, mid-cap and small-cap stocks in developed and emerging markets worldwide. As of December 31, 2014, 45% of equity AUM was derived from our pension products, 33% from other products of PFG and the remaining 22% from third party institutional clients.

Fixed Income Investments. As of December 31, 2014, Principal Global Investors Fixed Income along with Spectrum Asset Management, Inc.; Post Advisory Group, LLC; Edge Asset Management, Inc. and Morley Financial Services, Inc. managed $130.2 billion in global fixed income assets. Collectively, our experience in fixed income management spans multiple economic and credit market cycles, and encompasses all major fixed income sectors and security types. Our research and risk management capabilities in worldwide debt markets provide a strong foundation for broadly diversified "multi-sector" portfolios, tailored to specific client objectives. As of December 31, 2014, 37% of these assets were derived from third party institutional clients, 32% from other products of PFG, and the remaining 31% from PFG pension products.

Real Estate Investments. Principal Global Investors, through its affiliates Principal Real Estate Investors, LLC and Principal Enterprise Capital, LLC, managed a portfolio of primarily U.S. commercial real estate assets of $57.3 billion as

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of December 31, 2014. Principal Real Estate Investors, LLC provides our clients with a broad range of real estate investment options including private real estate equity, commercial mortgages, bridge/mezzanine loans, commercial mortgage-backed securities ("CMBS") and real estate investment trust securities. As of December 31, 2014, 48% of the commercial real estate portfolio was derived from third party institutional clients, 29% from other products of PFG and the remaining 23% from PFG pension products.

Other Alternative Investments. We offer products and services through other alternative asset classes including managing currency mandates through our Macro Currency Group boutique and hedge fund mandates through the Liongate Capital Management LLP, Finisterre Capital LLP, and Columbus Circle Investors boutiques. As of December 31, 2014, we managed $13.5 billion with 96% derived from third party institutional clients and the remaining 4% of these assets derived from other PFG products.

Multi-Asset Advisors Group was established to provide advice on multi-asset strategies to global clients and to develop and manage customized multi-asset products to address specific client needs. Multi-Asset Advisors Group helps Principal Global Investors optimize our broad range of capabilities while enhancing our position as a thought leader and trusted advisor to large institutional clients.

Markets and Distribution

We employed 150 institutional sales, relationship management and client service professionals as of December 31, 2014, who worked with consultants and directly with large investors to acquire and retain third party institutional clients. As of December 31, 2014, Principal Global Investors and its boutiques had approximately 808 third party institutional clients with $114.0 billion of AUM in 49 countries.

Principal International Segment

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

The activities of our Principal International segment reflect our efforts to accelerate the growth of our AUM by capitalizing on the international trend toward private sector defined contribution pension systems and individual long-term savings. We offer pension accumulation products and services, mutual funds, asset management, income annuities and life insurance accumulation products.

Markets, Products and Distribution

Brazil. We offer pension accumulation and income annuity products through a co-managed joint venture, Brasilprev Seguros e Previdencia S.A. ("Brasilprev"). We own 25% of the economic interest and 50.01% of the voting shares. The partner is Banco do Brasil ("Banco"), the largest bank in Latin America which had approximately 5,500 Brazilian branches as of September 30, 2014. According to Federação Nacional de Previdência e Vida, Brasilprev ranked second in the Brazilian private pension market based upon managed assets as of November 30, 2014, and first in 2014 net sales.

Brasilprev has the exclusive distribution rights of its pension accumulation and annuity products through the Banco network until October 2032. Our joint venture provides products for the retirement needs of individuals and employers. Banco's employees sell these products directly to individual clients through its bank branches. In addition, our joint venture reaches corporate clients through two wholesale distribution channels: (1) a network of independent brokers who sell to the public and (2) Banco's corporate account executives who sell to existing and prospective corporate clients.

We offer mutual fund and asset management services through Claritas Administração de Recursos Ltda. ("Claritas"), an independent Brazilian mutual fund and asset management company. We own 62.7% of the economic interest, and the remainder is owned by employee-partners. The company manages equity funds, balanced funds, managed accounts and other strategies for affluent clients and institutions and sells through its multi-channel distribution network.

Chile. We offer a complete array of pension accumulation and income annuity products. We also offer mutual fund, asset management services and life insurance accumulation products.

We offer mandatory employee-funded pension and voluntary savings plans through Administradora de Fondos de Pensiones Cuprum S.A. ("Cuprum"). We own 97.96% of Cuprum, and the rest is publicly floated. Cuprum's products are sold through a proprietary sales network of approximately 710 sales employees as of December 31, 2014.

We offer income annuity and life insurance accumulation products through Principal Compañía de Seguros de Vida Chile S.A., our wholly owned life insurance company. The annuity products are distributed through a network of brokers and independent agents numbering approximately 335 as of December 31, 2014. Life insurance accumulation products are also offered to individuals through brokers and financial advisors.

We offer voluntary savings plans and mutual funds through Principal Administradora General de Fondos S.A., our wholly-owned mutual fund company. According to the Asociación de Adminstradoras de Fondos Mutuos de Chile, we ranked first in AUM for mutual fund companies offering these plans in Chile as of December 31, 2014. Products are distributed to retail clients through our proprietary sales force, financial advisors, brokerage houses and alliances with financial institutions.

We offer asset management services through Principal Asset Management Chile S.A. This wholly owned company sells its products through a proprietary sales force.

China. We offer mutual funds and asset management services to individuals and institutions through a joint venture, CCB Principal Asset Management Co., Ltd. We own 25% and China Construction Bank ("CCB") is the majority partner with 65% ownership. We sell mutual funds primarily through our partner bank, CCB. The bank provides extensive distribution capabilities for the joint venture in terms of brand awareness and the number of branch outlets, which number approximately 15,000 as of June 2014.

Hong Kong SAR. We offer both pension accumulation and mutual fund products to corporate and retail clients through wholly owned companies.

We offer Mandatory Provident Fund ("MPF") schemes to serve the mandatory retirement market. We target small and medium-sized employers and distribute products through a proprietary sales force that maintains relationships with third party intermediaries such as insurance companies, independent financial advisors, brokers, consultants and banks. We also target individual account holders who have changed jobs or are looking to consolidate their retirement accounts. We service MPF accounts and as of December 31, 2014, had 240,000 accounts. On November 7, 2014, we announced we will acquire AXA's MPF and Occupational Retirement Schemes Ordinance ("ORSO") business. The transaction is expected to close in third quarter 2015.

We sell mutual funds to retail customers seeking to accumulate assets for retirement and other long-term investment needs. Our mutual funds are distributed through a proprietary sales force that maintains relationships with third party intermediaries such as banks, insurance companies and independent financial advisors. To further grow our mutual fund business we expect to leverage our operations in the Hong Kong SAR to pursue potential opportunities created by the mutual recognition of fund products between Hong Kong and China. To date, the governments have not formally announced a start date for mutual recognition.

India. We offer mutual funds and asset management services to both retail and corporate customers through our joint venture Principal Pnb Asset Management Company Private Limited. We own 78.6% and the partner is Punjab National Bank (21.4%), a large Indian commercial bank with a network of approximately 6,100 branches. Mutual funds are sold through bank branches, proprietary sales offices, independent distributors and direct sales.

We also have a proprietary distribution company, Principal Retirement Advisors Private Limited, that focuses on promoting and advising on retirement and long-term investment products in these emerging markets.

Mexico. We offer pension accumulation, mutual funds, income annuities and asset management services through our wholly-owned companies.

We offer mandatory pension plans through Principal Afore, S.A. de C.V., Principal Grupo Financiero. We manage and administer individual retirement accounts under the mandatory privatized social security system for all employees in Mexico. As of December 31, 2014, we had approximately 3.7 million individual retirement accounts. We distribute products and services through a proprietary sales force of approximately 960 sales representatives as of December 31, 2014, as well as independent brokers who sell directly to individuals. In addition, we have an agreement for the exclusive distribution of Principal Afore's products through HSBC Bank's extensive network in Mexico through 2017.

We offer mutual funds and asset management services through Principal Fondos de Inversión, S.A. de C.V., Operadora de Fondos de Inversión, Principal Grupo Financiero. We distribute products and services through a sales force of approximately 60 employees and through distribution agreements with other financial entities. We offer both domestic and international products, typically sold directly to clients.

We also administer previously sold income annuities and life products.

Southeast Asia. We offer mutual funds, asset management services and pension accumulation products through our joint venture CIMB-Principal Asset Management Berhad ("CPAM"). We own 40% and the partner is CIMB Group, the second largest bank by assets in Malaysia with a strong presence in many Asian countries. CPAM ranked second in total unit trust assets managed and second in Islamic unit trust assets managed in the Malaysian asset management industry as of December 31, 2014. CPAM also manages a significant amount of institutional asset mandates.

The joint venture has wholly owned subsidiaries in Singapore (CIMB-Principal Asset Management (S) Pte. Ltd.), Indonesia (PT CIMB-Principal Asset Management) and Thailand (CIMB-Principal Asset Management Company Limited).

CPAM distributes conventional and Islamic mutual funds through the branches of its partner bank (approximately 1,000 bank branches throughout Malaysia, Indonesia, Thailand and Singapore) and through an agency sales force of approximately 6,900 agents selling to retail customers as of December 31, 2014. CPAM also distributes its mutual funds through third party institutions including other banks and security houses.

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As of December 31, 2014, CPAM ranked second in private retirement schemes managed in the new voluntary retirement market.

CIMB-Principal Asset Management Company Limited (Thailand) acquired Finansa Asset Management Limited on January 22, 2015. The acquisition will integrate both asset management firms and further enhance CIMB-Principal Asset Management's position as Thailand's leading asset management company. Finansa Asset Management Limited has approximately $1.0 billion of AUM.

U.S. Insurance Solutions Segment

Our U.S. Insurance Solutions segment offers individual and group insurance solutions. We focus on providing comprehensive insurance solutions for small and medium-sized businesses and their owners and executives. We organize our operations into two divisions: Individual Life Insurance and Specialty Benefits Insurance. However, we share key resources in our core areas such as strategic leadership, distribution, and marketing.

Individual Life Insurance

We began as an individual life insurer in 1879. Our U.S. operations administered approximately 557,000 individual life insurance policies with over $231 billion of individual life insurance in force as of December 31, 2014. We specialize in business insurance needs for small to medium-sized companies through our wide range of business and nonqualified solutions and also provide personal insurance.

Small and medium-sized companies are challenged with how to build quality benefits packages for executives, how to transition the company's ownership to a partner or family member and how to save for retirement. In addition, executives and other key employees often have personal insurance needs. These needs are the focus of our products within the individual life insurance arena.

Products and Services

Our Business Owner and Executive Solutions platform as well as our nonqualified deferred compensation offering combines administration and consulting to service our clients' needs. We target the business and personal insurance needs of owners and executives of small and medium-sized businesses with an increasing focus on providing insurance solutions for nonqualified executive benefits. In addition, we market our products to meet traditional retail insurance needs. We offer a variety of individual life insurance products, including universal life insurance, variable universal life insurance and term life insurance.

Universal and Variable Universal Life Insurance. Universal and variable universal life insurance products offer the policyholder the option of adjusting both the premium and the death benefit amounts of the insurance contract. Universal life insurance typically includes a cash value account that accumulates at a credited interest rate based on the investment returns of the block of business. Variable universal life insurance is credited with the investment returns of the various investment options selected. For the year ended December 31, 2014, 66% of individual life insurance annualized first year premium sales were generated from universal and variable universal life insurance products. Universal and variable universal life insurance represented 36% of individual life insurance in force as of December 31, 2014.

After a deduction for policy level expenses, we credit net deposits to an account maintained for the policyholder. For universal life contracts, the entire account balance is invested in the general account. Interest is credited to the policyholder's account based on the earnings on general account investments. For variable universal life contracts, the policyholder may allocate the account balance among our general account and a variety of mutual funds underlying the contract. Interest is credited on amounts allocated to the Principal Life general account in the same manner as for universal life. Net investment performance on mutual funds is allocated directly to the policyholder accounts; the policyholder bears the investment risk. Some of our universal life and variable universal life insurance contracts contain what are commonly referred to as "secondary" or "no-lapse" guarantee provisions. A no-lapse guarantee keeps the contract in force, even if the contractholder's account balance is insufficient to cover all of the contract charges, provided that the contractholder has continually paid a specified minimum premium.

Traditional Life Insurance. Traditional life insurance includes participating whole life, adjustable life products and non-participating term life insurance products. Participating products and non-participating term life insurance products represented 34% of our individual life insurance annualized first year premium sales for the year ended December 31, 2014, and 64% of individual life insurance in force as of December 31, 2014. Adjustable life insurance products provide a guaranteed benefit in return for the payment of a fixed premium and allow the policyholder to set the coverage period, premium and face amount combination. Term insurance products provide a guaranteed death benefit for a specified period of time in return for the payment of a fixed premium. Policyholder dividends are not paid on term insurance.

Specialty Benefits Insurance

Specialty benefits insurance, which includes group dental, vision, life and disability insurance and individual disability insurance, is an important component of the employee benefit offering at small and medium-sized businesses. We offer traditional employer sponsored and voluntary products for group dental, vision, life and disability. We also offer group dental, vision and disability on a fee-for-service basis.

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Products and Services

Group Dental and Vision Insurance. We began selling group dental and vision insurance in the late 1960s. Our plans provide partial reimbursement for dental and vision expenses. As of December 31, 2014, we had nearly 38,000 group dental and vision insurance policies in force covering over 1,016,000 employee lives. According to Life Insurance and Market Research Association ("LIMRA"), we were the 7th largest group dental insurer in terms of number of contracts/employer groups in force in 2013. In addition to indemnity and preferred provider organization dental offered on both an employer paid and voluntary basis, we offer a prepaid dental plan in Arizona through our Employers Dental Services, Inc. subsidiary. In 2012, we purchased a 100% interest in First Dental Health, a California based organization that includes a discount dental product nationally and a dental network of preferred providers primarily in California. Our indemnity vision product and our newly introduced managed care vision product are offered on both an employer paid and voluntary basis.

Group Life Insurance. Group life insurance was one of our first group products beginning in the early 1940s. Our group life insurance provides coverage to employees and their dependents for a specified period. As of December 31, 2014, we had nearly 50,000 group policies providing $121.3 billion of group life insurance in force to approximately 2.0 million employee lives. According to LIMRA, in 2013 we were ranked 4th in the U.S. in terms of the number of group life insurance contracts in force. We currently sell traditional group life insurance that does not provide for accumulation of cash values on both an employer paid and voluntary basis. Our group life insurance business remains focused on the traditional, annually renewable term product. Group term life and group universal life accounted for 98% and 2%, respectively, of our total group life insurance in force as of December 31, 2014. We no longer market group universal life insurance to new employer groups.

Group Disability Insurance. Group disability insurance has also been sold since the early 1940s. Our group disability insurance provides a benefit to insured employees who become disabled. In most instances, this benefit is in the form of a monthly income. Our group disability products include both short-term and long-term disability, offered on both an employer paid and voluntary basis. As of December 31, 2014, long-term disability represented 64% of total group disability premium, while short-term disability represented 36% of total group disability premium. In addition, we provide disability management services, also called rehabilitation services, to assist individuals in returning to work as quickly as possible following disability. We also work with disability claimants to improve the approval rate of Social Security benefits, thereby reducing payment of benefits by the amount of Social Security payments received. As of December 31, 2014, we served approximately 1.5 million employee lives under nearly 38,000 contracts. According to LIMRA, our group short-term disability business was ranked 6th and our group long-term disability business was ranked 4th in the U.S. as of December 31, 2013, in terms of number of contracts/employer groups in force. We recently expanded our product offering to include voluntary critical illness insurance. The insurance provides a lump-sum cash benefit to pay for additional expenses associated with the five most common critical illnesses.

Individual Disability Insurance. Individual disability insurance has been sold since the early 1950s. Our individual disability insurance products provide income protection to the insured member and/or business in the event of disability. In most instances, this benefit is in the form of a monthly income. In addition to income replacement, we offer products to pay business-related costs such as overhead expenses for a disabled business owner, buy-out costs for business owners purchasing a disabled owner's interest in the business, expenditures for replacement of a key person and business loan payments. We also offer a product to protect retirement savings in the event of disability. As of December 31, 2014, we served approximately 168,000 individual disability policyholders. According to LIMRA, our individual disability business was ranked 5th in the U.S. in terms of premium in force in the non-cancellable segment of the market and 7th overall, as of December 31, 2013.

Fee-for-Service. We offer administration of group dental, disability and vision benefits on a fee-for-service basis.

U.S. Insurance Solutions Markets and Distribution

For each of our products, administration and distribution channels are customized to meet customer needs and expectations for that product.

We sell our individual life and individual disability income products in all 50 states and the District of Columbia, primarily targeting owners and executives of small and medium-sized businesses. Small and medium-sized business sales represented 55% of individual life sales and 60% of individual disability sales for the year ended December 31, 2014. Much of our life insurance sales efforts focus on the Business Owner and Executive Solutions market. This strategy offers solutions to address business owner financial challenges such as exiting the business, business transition, retaining key employees and retirement planning. Key employees also have needs to supplement retirement income, survivor income, and business protection. We believe the Business Owner and Executive Solutions segment offers growth opportunities and we will continue to develop strategies to capitalize on this expanding market.

We distribute our individual life and individual disability insurance products through our affiliated financial representatives and independent brokers, as well as other marketing and distribution alliances. Affiliated financial representatives were responsible for 27% of individual life insurance sales based on first year annualized premium and 13% of individual disability sales for the year ended December 31, 2014. We had 1,211 affiliated financial representatives in 34 offices as of December 31, 2014. Although they are independent contractors, we have a close tie with affiliated financial representatives and we offer them benefits, training and access to tools and expertise. To meet the needs of the

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various marketing channels, particularly the independent brokers, we employ wholesale distributors Regional Vice Presidents for individual life and Regional Vice Presidents for individual disability. A key differentiator in the nonqualified executive benefit sale is our Regional Vice Presidents-Nonqualified Plans, who are not only wholesalers but also consultants and subject-matter experts providing point-of-sale support in closing cases.

We market our group life, disability, dental and vision insurance products to small and medium-sized businesses, primarily targeting our sales toward owners and human resources professionals. We sell our group life, disability, dental and vision products in all 50 states and the District of Columbia. We continually adapt our products and pricing to meet local market conditions. We market our fee-for-service capabilities to employers that self-insure their employees' dental, disability and vision benefits. We market our fee-for-service businesses in all 50 states and the District of Columbia.

The group insurance market continues to see a shift to voluntary/worksite products due to various pressures on employers. In keeping with this market change, which shifts the funding of such products from the employer to the employee, we continue to place an enhanced focus on our voluntary benefits platform. We believe the voluntary/worksite market presents growth opportunities, and we will continue to develop strategies to capitalize on this expanding market.

As of December 31, 2014, we had 115 sales representatives and 141 service representatives in 28 local markets. Our sales representatives accounted for 98% of our group insurance sales for the year ended December 31, 2014. The service representatives play a key role in servicing the case by providing local, responsive services to our customers and their brokers, such as renewing contracts, revising plans, solving administrative issues and communicating the customers' needs and feedback to us.

Corporate Segment

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

Competition

Competition in our segments is based on a number of factors including: scale, service, product features, price, investment performance, commission structure, distribution capacity, financial strength ratings and name recognition. We compete with a large number of financial services companies such as banks, mutual funds, broker-dealers, insurers and asset managers. Some of these companies offer a broader array of products, more competitive pricing, greater diversity of distribution sources, better brand recognition or, with respect to insurers, higher financial strength ratings. Some may also have greater financial resources with which to compete or may have better investment performance at various times. We believe we distinguish ourselves from our competitors through our:

- full service platform;
- strong customer relationships;
- focus on financial performance and
- expansive product portfolio.

Ratings

Insurance companies are assigned financial strength ratings by rating agencies based upon factors relevant to policyholders. Financial strength ratings are generally defined as opinions as to an insurer's financial strength and ability to meet ongoing obligations to policyholders. Information about ratings provides both industry participants and insurance consumers meaningful insights on specific insurance companies. Higher ratings generally indicate financial stability and a stronger ability to pay claims.

Principal Life and Principal National Life Insurance Company ("PNLIC") have been assigned the following insurer financial strength ratings:

Rating Agency	Financial Strength Rating	Rating Structure
A.M. Best Company, Inc.	A+ ("Superior") with a stable outlook	Second highest of 16 rating levels
Fitch Ratings Ltd.	AA ("Very Strong") with a stable outlook	Fourth highest of 19 rating levels
Moody's Investors Service	A1 ("Good") with a stable outlook	Fifth highest of 21 rating levels
Standard & Poor's	A+ ("Strong") with a stable outlook	Fifth highest of 24 rating levels

A.M. Best's ratings for insurance companies range from "A++" to "S". A.M. Best indicates that "A++" and "A+" ratings are assigned to those companies that in A.M. Best's opinion have superior ability to meet ongoing obligations to policyholders. Fitch's ratings for insurance companies range from "AAA" to "C". Fitch "AA" ratings indicate very strong capacity to meet policyholder and contractholder obligations on a timely basis. Moody's Investors Service ratings for insurance companies range from "Aaa" to "C". Moody's Investors Service indicates that "A" ratings are assigned to those

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companies that have demonstrated good financial security. Standard & Poor's ratings for insurance companies range from "AAA" to "NR". Standard & Poor's indicates that "A" ratings are assigned to those companies that have demonstrated strong financial security characteristics. In evaluating a company's financial and operating performance, these rating agencies review its profitability, leverage and liquidity, as well as its book of business, the adequacy and soundness of its reinsurance, the quality and estimated market value of its assets, the adequacy of its policy reserves, the soundness of its risk management programs, the experience and competency of its management and other factors. All of the four rating agencies maintain a 'stable' outlook on the U.S. life insurance sector. The rating agencies have indicated they expect gradually increasing interest rates will help stabilize earnings on spread businesses and rising equity markets will grow assets under management.

We believe our strong ratings are an important factor in marketing our products to our distributors and customers, as ratings information is broadly disseminated and generally used throughout the industry. Our ratings reflect each rating agency's opinion of our financial strength, operating performance and ability to meet our obligations to policyholders and are not evaluations directed toward the protection of investors. Such ratings are neither a rating of securities nor a recommendation to buy, hold or sell any security, including our common stock. For more information on ratings, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Financial Strength and Credit Ratings."

Regulation

Our businesses are subject to regulation and supervision by U.S. federal and state regulatory authorities as well as non-U.S. regulatory authorities for our operations outside the U.S., which can have a significant effect on our business. Our businesses are also affected by U.S. federal, state and local tax laws as well as tax laws for jurisdictions outside the U.S.

PFG, our parent holding company, is not licensed as an insurer, investment advisor, broker-dealer, bank or other regulated entity. However, because it is the holding company for all of our operations, it is subject to regulation of our regulated entities, including as an insurance holding company. We are subject to legal and regulatory requirements applicable to public companies, including public reporting and disclosure, securities trading, accounting and financial reporting and corporate governance.

U.S. Insurance Regulation

We are subject to the insurance holding company laws in the states where our insurance companies are domiciled. Principal Life and PNLIC are domiciled in Iowa and their principal insurance regulatory authority is the Insurance Division of the Department of Commerce of the State of Iowa. Our other U.S. insurance companies are principally regulated by the insurance departments of the states in which they are domiciled. These laws generally require each insurance company directly or indirectly owned by the holding company to register with the insurance department in the insurance company's state of domicile and to furnish financial and other information about the operations of the companies within the holding company system. Transactions affecting the insurers in the holding company system must be fair and at arm's length. Most states have insurance laws that require regulatory approval of a direct or indirect change in control of an insurer or an insurer's holding company and laws requiring prior notification of state insurance departments of a change in control of a non-domiciliary insurance company doing business in that state.

Annually, our U.S. insurance companies must submit an opinion from a board-appointed qualified actuary to state insurance regulators, where licensed, on whether the statutory assets held backing statutory reserves are sufficient to meet contractual obligations and related expenses of the insurer. If such an opinion cannot be rendered noting the sufficiency of assets, then the insurance company must set up additional statutory reserves drawing from available statutory surplus until such an opinion can be given.

State insurance departments have broad administrative powers over the insurance business, including insurance company licensing and examination, agent licensing, establishment of reserve requirements and solvency standards, premium rate regulation, admittance of assets to statutory surplus, policy form approval, unfair trade and claims practices regulation and other matters. State insurance statutes also typically place restrictions and limitations on the amount of dividends or other distributions payable by insurance company subsidiaries to their parent companies. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" for further details.

In order to enhance the regulation of insurer solvency, the National Association of Insurance Commissioners ("NAIC") has established risk-based capital standards. The standards require life insurers to submit a report to state regulators on an annual basis regarding their risk-based capital based upon four categories of risk: asset risk, insurance risk, interest rate risk and business risk. As of December 31, 2013, the statutory surplus of each of our U.S. life insurance companies exceeded the minimum level of risk-based capital requirements required before state insurance departments would take action against an insurer.

State and federal insurance and securities regulatory authorities and other state law enforcement agencies and attorneys general regularly make inquiries and conduct examinations or investigations regarding our compliance with, among other things, insurance laws and securities laws.

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Each state has insurance guaranty association laws under which insurers doing business in a state can be assessed, up to prescribed limits, in order to cover contractual benefit obligations of insolvent insurance companies. The guaranty associations levy assessments on each member insurer in a jurisdiction on the basis of the proportionate share of the premiums written by such insurer in the lines of business in which the insolvent insurer is engaged. Some jurisdictions permit the member insurers to recover the assessments paid through full or partial premium tax offsets.

Securities Regulation

Insurance and investment products such as variable annuities, variable life insurance and some funding agreements that constitute securities and mutual fund products are subject to securities laws and regulations, including state securities regulation as well as federal regulation under the SEC, the Financial Industry Regulatory Authority and other regulatory authorities. These regulations affect investment advice, sales and related activities for these products.

We also have entities which are registered as investment advisers with the SEC under the Investment Advisers Act of 1940.

Employee Retirement Income Security Act

As we provide products and services for U.S. employee benefit plans, we are subject to regulation under the Employee Retirement Income Security Act ("ERISA"). ERISA provisions include reporting and disclosure requirements and standards of conduct.

Banking Regulation

Principal Bank, a wholly owned subsidiary, is a federal savings bank regulated by the Office of the Comptroller of the Currency. Principal Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"), making the Bank subject to certain of the FDIC's regulations.

Environmental Regulation

As we own and operate real property, we are subject to federal, state and local environmental laws and could be subject to environmental liabilities and costs associated with required remediation of our properties. We routinely have environmental assessments performed for real estate being acquired or used as collateral for commercial mortgages we use for investment.

Regulation of International Businesses

Our international businesses are supervised by regulatory authorities in the jurisdictions in which they operate.

Risk Management

Like all financial services companies, we are exposed to a wide variety of financial, operational and other risks, as described in Item 1A. "Risk Factors." Effective enterprise risk management is, therefore, a key component of our business model. Enterprise risk management helps us to:

- identify and manage those risks that present profitable growth opportunities, and avoid those that do not and
- balance the sometimes competing demands of our various stakeholders, meet our customer obligations, satisfy regulatory requirements and optimize shareholder returns relative to the risks we take.

We utilize an integrated risk management framework to help us identify, assess, monitor, report and manage our risks within established limits and risk tolerances. The framework delivers important perspective that is used in strategic and tactical decision making and is adaptable to changes in our businesses and in the external environments in which we operate. Our approach also requires a commitment to continuous improvement and periodic validation.

Our governance structure includes Board of Director oversight, internal risk committees, a corporate risk management function and embedded risk professionals in all of our business units and functional areas. Our Board of Directors, Audit Committee, Finance Committee, Human Resource Committee and Nominating and Governance Committee provide oversight no less frequently than quarterly, addressing various aspects and assessments of our risk profile. Quarterly reports on risk topics and an annual enterprise-wide risk report are provided to the Board of Directors by the Corporate Chief Risk Officer.

Our internal risk committees meet on a regular and frequent basis to discuss various issues and reflect on profile status. Each business unit and key functional area has its own risk committee that is responsible for oversight of all risks within the unit. These committees typically include key corporate leaders. We also have committees that provide oversight around a certain risk or group of related risks across the organization. This matrix approach helps us maintain comprehensive risk coverage and preserve an integrated view of risks. Two committees reside at the top of our internal risk committee hierarchy. The Corporate Strategic Working Group provides enterprise-wide oversight around our strategic risk profile and the Enterprise Risk Management Committee, comprised of members from corporate senior management, exercises enterprise-wide oversight around all other risk profiles.

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The business units and functional areas are responsible for identifying, assessing, monitoring, reporting and managing their own risks. Chief Risk Officers embedded within each business unit or risk professionals in functional areas help align risk management practice with the strategies of the unit as well as with enterprise-wide objectives. The Corporate Chief Risk Officer and supporting staff are separate from the business units and provide objective oversight, framework enablement and aggregated risk analysis. Internal Audit provides independent assurance around effective risk management design and control execution.

We have established risk tolerances from an overall corporate perspective, a business unit perspective and for specific categories of risks. We monitor a variety of risk metrics on an ongoing basis and take the appropriate steps to help us stay within our established risk tolerances. Potentially significant actions are considered in terms of the possible impact on our risk profile, including but not limited to the capital required, the impact on near term and long-term earnings and the ability to meet our targets with respect to return on equity, liquidity, debt/capital, cash coverage, business risk and operational risk. Quarterly risk reporting provides a feedback loop between the business units and the Corporate Chief Risk Officer and includes, among other things, emerging risk outlooks or incident reporting, if necessary. We have developed a Business Continuity Management Program that identifies critical business functions and includes plans for their protection and recovery in the event of a disaster or other business interruption.

We regularly build upon our already strong risk management practices to incorporate updated modeling tools, processes and metrics, which we actively use to better understand and manage our business.

Employees

As of December 31, 2014, we had 14,873 employees. None of our employees are subject to collective bargaining agreements governing employment with us. We believe that our employee relations are satisfactory.

Internet Website

Our Internet website can be found at www.principal.com. We make available free of charge, on or through our Internet website, access to our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after such material is filed with or furnished to the SEC. Also available free of charge on our Internet website is our code of business conduct and ethics, corporate governance guidelines and charters for the Audit, Finance, Human Resources and Nominating and Governance committees of our Board of Directors. Also see Item 10. "Directors, Executive Officers and Corporate Governance."

Item 1A. Risk Factors

This section provides an overview of the risks that may impact our performance in the future.

Risks relating to economic conditions, market conditions and investments

Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs, as well as our access to capital and cost of capital.

Our results of operations, financial condition, cash flows and statutory capital position could be materially adversely affected by volatility, uncertainty and disruption in the capital and credit markets.

We maintain a level of cash and securities which, combined with expected cash inflows from investments and operations, is believed adequate to meet anticipated short-term and long-term benefit and expense payment obligations. However, withdrawal and surrender levels may differ from anticipated levels for a variety of reasons, such as changes in economic conditions or changes in our claims paying ability and financial strength ratings. For additional information regarding our exposure to interest rate risk and the impact of a downgrade in our financial strength ratings, see " Changes in interest rates or credit spreads or a sustained low interest rate environment may adversely affect our results of operations, financial condition and liquidity, and our net income can vary from period-to-period" and " A downgrade in our financial strength or credit ratings may increase policy surrenders and withdrawals, reduce new sales and terminate relationships with distributors, impact existing liabilities and increase our cost of capital, any of which could adversely affect our profitability and financial condition." In addition, mark-to-market adjustments on our derivative instruments may lead to fluctuations in our reported statutory capital. These fluctuations may result in the need for additional capital to maintain a targeted level of statutory capital relative to the NAIC's risk-based capital requirements. In the event our current internal sources of liquidity do not satisfy our needs, we may have to seek additional financing and, in such case, we may not be able to successfully obtain additional financing on favorable terms, or at all. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the volume of trading activities, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, as well as customers' or lenders' perception of our long- or short-term financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us.

Disruptions, uncertainty or volatility in the capital and credit markets may limit our access to capital required to operate our business, most significantly our insurance operations. Such market conditions may limit our ability to replace, in a timely manner, maturing liabilities; satisfy statutory capital requirements; fund redemption requests on insurance or other financial products; generate fee income and market-related revenue to meet liquidity needs and access the capital necessary to grow our business. As such, we may be forced to delay raising capital, issue shorter tenor securities than we prefer, utilize available internal resources or bear an unattractive cost of capital, which could decrease our profitability and significantly reduce our financial flexibility and liquidity.

In addition, we maintain credit facilities with various financial institutions as a potential source of excess liquidity. These facilities are in place to bridge timing in cash flows to minimize the cost of meeting our obligations, particularly during periods when alternative sources of liquidity are limited. Our ability to borrow funds under these facilities is conditioned on our satisfaction of covenants and other requirements contained in the facilities. Our failure to comply with these covenants, or the failure of lenders to fund their lending commitments, would restrict our ability to access these credit facilities and, consequently, could limit our flexibility in meeting our cash flow needs.

For further discussion on liquidity risk management, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources."

Conditions in the global capital markets and the economy generally may materially and adversely affect our business and results of operations.

Our results of operations are materially affected by conditions in the global capital markets and the economy generally, both in the U.S. and elsewhere around the world. Adverse economic conditions may result in a decline in our AUM and revenues and erosion of our profit margins. In addition, in the event of extreme prolonged market events and economic downturns, such as the recent global financial crisis, we could incur significant losses. Even in the absence of a market downturn, we are exposed to substantial risk of loss due to market volatility.

Factors such as consumer spending, business investment, government spending, the volatility and strength of the capital markets, investor and consumer confidence and inflation levels all affect the business and economic environment and, ultimately, the amount and profitability of our business. In an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment, negative investor sentiment and lower consumer spending, the demand for our financial and insurance products could be adversely affected. In addition, we may experience an elevated incidence of claims and lapses or surrenders of policies. Our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. In addition, reductions in employment levels of our existing employer customers may result in a reduction in membership levels and premium income for our specialty benefits products. Participants within the retirement plans for which we provide administrative services may elect to reduce or stop their payroll deferrals to these plans, which would reduce AUM and revenues. In addition, reductions in employment levels may result in a decline in employee deposits into retirement plans. Adverse changes in the economy could affect net income negatively and could have a material adverse effect on our business, results of operations and financial condition.

Continued volatility or declines in the equity, bond or real estate markets could reduce our AUM and may result in investors withdrawing from the markets or decreasing their rates of investment, all of which could reduce our revenues and net income.

Because the revenues of our asset management and accumulation businesses are, to a large extent, based on the value of AUM, a decline in domestic and global equity, bond or real estate markets will decrease our revenues. Turmoil in these markets could lead investors to withdraw from these markets, decrease their rates of investment or refrain from making new investments, which may reduce our net income, revenues and AUM. As we continue to shift toward a more fee-based business model, our revenues and net income may become more sensitive to fluctuations in the equity, bond, and real estate markets.

For further discussion on equity risk management, see Item 7A. "Quantitative and Qualitative Disclosures About Market Risk Equity Risk."

Changes in interest rates or credit spreads or a sustained low interest rate environment may adversely affect our results of operations, financial condition and liquidity, and our net income can vary from period-to-period.

In recent years, interest rates have remained at or near historically low levels. During periods of declining interest rates or sustained low interest rates, the interest rates we earn on our assets may be lower than the rates assumed in pricing our products, thereby reducing our profitability. For some of our products, such as GICs and funding agreements, we are unable to lower the rate we credit to customers in response to the lower return we will earn on our investments. In addition, guaranteed minimum interest rates on our life insurance and annuity products may constrain our ability to lower the rate we credit to customers. If interest rates remain low over a sustained period of time, this may result in increases in our reserves and unlocking of our deferred acquisition cost ("DAC") asset and other actuarial balances. During periods of declining interest rates, borrowers may prepay or redeem mortgages and bonds that we own, which would force us to reinvest the proceeds at lower interest rates. Furthermore, declining interest rates may reduce the rate of policyholder surrenders and withdrawals on our life insurance and annuity products, thus increasing the duration of the liabilities and creating asset and liability duration mismatches. Low interest rates may also result in increased hedging costs. Although we take measures to manage the economic risks of investing in a changing interest rate environment, we may not be able to mitigate the interest rate risk of our assets relative to our liabilities. Declining interest rates or a sustained low interest rate environment may also result in changes to the discount rate assumption used for valuing our pension and other postretirement benefit obligations, which could negatively impact our results of operations and financial condition. In addition, certain statutory capital and reserve requirements are based on formulas or models that consider interest rates and a prolonged period of low interest rates may increase the statutory capital we are required to hold as well as the amount of assets we must maintain to support statutory reserves.

Increases in market interest rates may also adversely affect our results of operations, financial condition, and liquidity. During periods of increasing market interest rates, we may offer higher crediting rates on our insurance and annuity products in order to keep these products competitive. Because returns on our portfolio of invested assets may not increase as quickly as current interest rates, we may have to accept lower spreads, thus reducing our profitability. Rapidly rising interest rates may also result in an increase in policy surrenders, withdrawals, and requests for policy loans as customers seek to achieve higher returns. In addition, rising interest rates would cause unrealized losses in our investment portfolio. Despite our efforts to reduce the impact of rising interest rates, we may be required to sell assets to raise the cash necessary to respond to an increase in surrenders, withdrawals and loans, thereby realizing capital losses on the assets sold. An increase in policy surrenders and withdrawals may also require us to accelerate amortization of our DAC asset relating to these products, which would further reduce our profitability. Rising interest rates may also cause a decline in the value of the fixed income assets that we manage, resulting in a reduction in our fee revenue.

We attempt to significantly reduce the impact of changes in interest rates on our results of operations and financial condition. We accomplish this reduction primarily by managing the duration of our assets relative to the duration of our liabilities. For further discussion on interest rate risk management, see Item 7A. "Quantitative and Qualitative Disclosures About Market Risk Interest Rate Risk".

Our exposure to credit spreads primarily relates to market price variability and reinvestment risk associated with changes in credit spreads. A widening of credit spreads would cause unrealized losses in our investment portfolio, would increase losses associated with credit-based derivatives we have sold that do not qualify or have not been designated for hedge accounting where we assume credit exposure and, if issuer credit spreads increase as a result of fundamental credit deterioration, would likely result in higher other-than-temporary impairments. Credit spread tightening will reduce net investment income associated with new purchases of fixed maturities. Credit spread tightening may also cause an increase in the reported value of certain liabilities that are valued using a discount rate that reflects our own credit spread. In addition, market volatility may make it difficult to value certain of our securities if trading becomes less frequent. As such, valuations may include assumptions or estimates that may have significant period-to-period changes from market volatility, which could have a material adverse effect on our results of operations or financial condition.

Our investment portfolio is subject to several risks that may diminish the value of our invested assets and the investment returns credited to customers, which could reduce our sales, revenues, AUM and net income.

An increase in defaults or write-downs on our fixed maturities portfolio may reduce our profitability.

We are subject to the risk that the issuers of the fixed maturities we own will default on principal and interest payments, particularly if a major downturn in economic activity occurs. As of December 31, 2014, our U.S. investment operations held $47.0 billion of fixed maturities, or 76% of total U.S. invested assets, of which approximately 8% were below investment grade, including $458.3 million, or 0.97% of our total fixed maturities which we classified as either "problem," "potential problem" or "restructured." See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations Investments U.S. Investment Operations Fixed Maturities."

Our U.S. fixed maturities portfolio includes securities collateralized by residential and commercial mortgage loans. As of December 31, 2014, our U.S. investment operations held $4.1 billion of residential mortgage-backed securities ("RMBS"), of which $2.8 billion are Government National Mortgage Association, Federal National Mortgage Association or Federal Home Loan Mortgage Corporation pass-through securities, and $4.0 billion of commercial mortgage-backed securities, which represent in combination 17% of our total fixed maturities portfolio. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations Investments U.S. Investment Operations Fixed Maturities." For residential mortgage-backed securities, prepayment speeds, changes in mortgage delinquency or recovery rates, credit rating changes by rating agencies, changes in property values underlying the loans and the quality of service provided by service providers on securities in our portfolios could lead to write-downs on these securities. For commercial mortgage-backed securities, changes in mortgage delinquency or default rates, interest rate movements, credit quality and vintage of the underlying loans, changes in property values underlying the loans and credit rating changes by rating agencies could result in write-downs of those securities.

Approximately $1.3 billion of our commercial mortgage-backed securities are scheduled to mature in 2017. We may be exposed to losses if borrowers in the underlying mortgages are unable to repay their loans at the time of maturity. Several mitigating factors have resulted in strong refinancing rates in 2013 and 2014. These factors include low interest rates, improving real estate fundamentals, and the availability of capital from the new issues and high yield debt markets. However, refinancing risks could increase over the next three years if we experience high interest rates that are not supported by commensurate economic growth or a slowdown in the economy that results in lower income growth and a decline in property values.

As of December 31, 2014, the international investment operations of our fully consolidated subsidiaries held $3.2 billion of fixed maturities, or 53%, of total international invested assets, of which 17% are government bonds. Some non-government bonds have been rated on the basis of the issuer's country credit rating. However, the ratings relationship between national ratings and global ratings is not linear with the U.S. The starting point for national ratings differs by country, which makes the assessment of credit quality more difficult. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations Investments International Investment Operations." An increase in defaults on our fixed maturities portfolio could harm our financial strength and reduce our profitability.

An increased rate of delinquency and defaults on our commercial mortgage loans, including balloon maturities with and without amortizing payments, may adversely affect our profitability.

Our commercial mortgage loan portfolio faces both delinquency and default risk. Commercial mortgage loans of $10.7 billion represented 15% of our total invested assets as of December 31, 2014. As of December 31, 2014, loans that were in the process of foreclosure totaled $0.0 million, or 0% of our commercial mortgage loan portfolio. The performance of our commercial mortgage loan investments, however, may fluctuate in the future. An increase in the delinquency rate of, and defaults under, our commercial mortgage loan portfolio could harm our financial strength and decrease our profitability.

As of December 31, 2014, approximately $8.8 billion, or 82%, of our U.S. investment operations commercial mortgage loans before valuation allowance had balloon payment maturities. A balloon maturity is a loan with all or a meaningful portion of the loan amount due at the maturity of the loan. The default rate on commercial mortgage loans with balloon payment maturities has historically been higher than for commercial mortgage loans with a fully amortizing loan structure. Since a significant portion of the principal is repaid at maturity, the amount of loss on a default is generally greater than fully amortizing commercial mortgage loans. An increase in defaults on balloon maturity loans as a result of the foregoing factors could harm our financial strength and decrease our profitability.

Mark-to-market adjustments on certain equity method investments and trading securities may reduce our profitability or cause volatility in our reported earnings.

Our investment portfolio includes certain equity method investments and trading securities that are reported at fair value on the consolidated statements of financial position, with changes in fair value reported in net investment income on the consolidated statements of operations. Mark-to-market adjustments on these investments may reduce our profitability or cause our net income to vary from period to period. We anticipate that acquisition and investment activities may increase the number and magnitude of these investments in the future.

We may have difficulty selling our privately placed fixed maturities, commercial mortgage loans and real estate investments because they are less liquid than our publicly traded fixed maturities.

We hold certain investments that may lack liquidity, such as privately placed fixed maturities, mortgage loans and real estate investments. These asset classes represented approximately 42% of the value of our invested assets as of December 31, 2014.

If we require significant amounts of cash on short notice, we may have difficulty selling these investments in a timely manner, be forced to sell them for less than we otherwise would have been able to realize or both. The reported value of our relatively illiquid types of investments, our investments in the asset classes described above and, at times, our high quality, generally liquid asset classes, do not necessarily reflect the lowest possible price for the asset. If we were forced to sell certain of our assets in the current market, there can be no assurance that we will be able to sell them for the prices at which we have recorded them and we may be forced to sell them at significantly lower prices.

The impairment of other financial institutions could adversely affect us.

We use derivative instruments to hedge various risks we face in our businesses. See Item 7A. "Quantitative and Qualitative Disclosures About Market Risk." We enter into a variety of derivative instruments, including interest rate swaps, interest rate options, swaptions, interest rate futures, currency swaps, currency forwards, equity options, equity futures, credit default swaps and total return swaps, with a number of counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, clearinghouses, exchanges and other institutions. For transactions where we are in-the-money, we are exposed to credit risk in the event of default of our counterparty. We establish collateral agreements with nominal thresholds for a large majority of our counterparties to limit our exposure. However, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure. With regard to our derivative exposure, we have over-collateralization requirements on the portion of collateral we hold, based on the risk profile of the assets posted as collateral. We also have exposure to these financial institutions in the form of unsecured debt instruments and equity investments. Such losses or impairments to the carrying value of these assets may materially and adversely affect our business and results of operations.

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Our requirements to post collateral or make payments related to declines in market value of specified assets may adversely affect our liquidity and expose us to counterparty credit risk.

Many of our derivative transactions with financial and other institutions specify the circumstances under which the parties are required to post collateral. The amount of collateral we may be required to post under these agreements may increase under certain circumstances, which could adversely affect our liquidity. In addition, under the terms of some of our transactions we may be required to make payment to our counterparties related to any decline in the market value of the specified assets. Such payments could have an adverse effect on our liquidity. Furthermore, with respect to any such payments, we will have unsecured risk to the counterparty as these amounts are not required to be segregated from the counterparty's other funds, are not held in a third party custodial account, and are not required to be paid to us by the counterparty until the termination of the transaction.

Environmental liability exposure may result from our commercial mortgage loan portfolio and real estate investments.

Liability under environmental protection laws resulting from our commercial mortgage loan portfolio and real estate investments may harm our financial strength and reduce our profitability. Under the laws of several states, contamination of a property may give rise to a lien on the property to secure recovery of the costs of cleanup. In some states, this kind of lien has priority over the lien of an existing mortgage against the property, which would impair our ability to foreclose on that property should the related loan be in default. In addition, under the laws of some states and under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, we may be liable for costs of addressing releases or threatened releases of hazardous substances that require remedy at a property securing a mortgage loan held by us, if our agents or employees have become sufficiently involved in the hazardous waste aspects of the operations of the related obligor on that loan, regardless of whether or not the environmental damage or threat was caused by the obligor. We also may face this liability after foreclosing on a property securing a mortgage loan held by us. This may harm our financial strength and decrease our profitability.

Regional concentration of our commercial mortgage loan portfolio in California may subject us to losses attributable to economic downturns or catastrophes in that state.

Commercial mortgage lending in the state of California accounted for 19%, or $2.1 billion, of our U.S. investment operations commercial mortgage loan portfolio before valuation allowance as of December 31, 2014. Due to this concentration of commercial mortgage loans in California, we are exposed to potential losses resulting from the risk of an economic downturn in California as well as to catastrophes, such as earthquakes, that may affect the region. While we generally do not require earthquake insurance for properties on which we make commercial mortgage loans, we do take into account property specific engineering reports, construction type and geographical concentration by fault lines in our investment underwriting guidelines. If economic conditions in California deteriorate or catastrophes occur, we may in the future experience delinquencies or defaults on the portion of our commercial mortgage loan portfolio located in California, which may harm our financial strength and reduce our profitability.

Gross unrealized losses may be realized or result in future impairments, resulting in a reduction in our net income.

Fixed maturities that are classified as available-for-sale ("AFS") are reported on the consolidated statements of financial position at fair value. Unrealized gains or losses on AFS securities are recognized as a component of accumulated other comprehensive income ("AOCI") and are, therefore, excluded from net income. Our U.S. investment operations had gross unrealized losses on fixed maturities of $0.3 billion pre-tax as of December 31, 2014, and the component of gross unrealized losses for securities trading down 20% or more for over six months was approximately $0.1 billion pre-tax. The accumulated change in fair value of the AFS securities is recognized in net income when the gain or loss is realized upon the sale of the asset or in the event that the decline in fair value is determined to be other than temporary (referred to as an other-than-temporary impairment). Realized losses or impairments may have a material adverse impact on our net income in a particular quarterly or annual period.

Fluctuations in foreign currency exchange rates could adversely impact our profitability and financial condition.

Principal International writes policies denominated in various local currencies and generally invests the associated assets in local currencies. For diversification purposes, assets backing the products may be partially invested in non-local currencies, and the associated foreign currency exchange risk is hedged or managed to specific risk tolerances. Although our investment and hedging strategies limit the effect of currency exchange rate fluctuation on local operating results, fluctuations in such rates affect the translation of these results into our consolidated financial statements. For further discussion on foreign currency exchange risk, see Item 7A. "Quantitative and Qualitative Disclosures About Market Risk Foreign Currency Risk."

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Risks relating to estimates, assumptions and valuations

Our valuation of investments and the determinations of the amount of allowances and impairments taken on our investments may include methodologies, estimations and assumptions which are subject to differing interpretations and, if changed, could materially adversely affect our results of operations or financial condition.

Fixed maturities, equity securities and derivatives reported at fair value on our consolidated statements of financial position represented the majority of our total cash and invested assets. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair value estimates are made based on available market information and judgments about the financial instrument at a specific point in time. Considerable judgment is often required to develop estimates of fair value, and the use of different assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

For additional information on our valuation methodology, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 14, Fair Value Measurements."

During periods of market disruption including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be difficult to value certain securities, for example collateralized mortgage obligations and collateralized debt obligations, if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that become illiquid due to the current financial environment. In such cases, the valuation process may require more subjectivity and management judgment. As such, valuations may include inputs and assumptions that are less observable or require greater estimation as well as valuation methods that require greater estimation, which could result in values that are different from the value at which the investments may be ultimately sold. Further, rapidly changing credit and equity market conditions could materially impact the valuation of securities as reported within our consolidated financial statements and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on our results of operations or financial condition.

The determination of the amount of allowances and impairments vary by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. There can be no assurance that our management has accurately assessed the level of impairments taken and allowances reflected in our financial statements. Furthermore, additional impairments may need to be taken or allowances provided for in the future. Historical trends may not be indicative of future impairments or allowances.

Additionally, our management considers a wide range of factors about the instrument issuer and uses their best judgment in evaluating the cause of the decline in the estimated fair value of the instrument and in assessing the prospects for recovery. Inherent in management's evaluation of the instrument are assumptions and estimates about the operations of the issuer and its future earnings potential. For further information regarding our impairment methodology, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations Investments U.S. Investment Operations Fixed Maturities."

Any impairments of or valuation allowances against our deferred tax assets could adversely affect our results of operations and financial condition.

Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates expected to be in effect during the years in which the basis differences reverse. We are required to evaluate the recoverability of our deferred tax assets each quarter and establish a valuation allowance, if necessary, to reduce our deferred tax assets to an amount that is more-likely-than-not to be realizable. In determining the need for a valuation allowance, we consider many factors, including future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in prior carryback years and implementation of any feasible and prudent tax planning strategies management would employ to realize the tax benefit.

Inherent in the provision for income taxes are estimates regarding the deductibility of certain items, the timing of income and expense recognition and the current or future realization of operating losses, capital losses and certain tax credits. In the event these estimates differ from our prior estimates due to the receipt of new information, we may be required to significantly change the provision for income taxes recorded in the consolidated financial statements. Any such change could significantly affect the amounts reported in the consolidated financial statements in the year these estimates change. A further significant decline in value of assets incorporated into our tax planning strategies could lead to an increase of our valuation allowance on deferred tax assets having an adverse effect on current and future results.

We may face losses if our actual experience differs significantly from our pricing and reserving assumptions.

Our profitability depends significantly upon the extent to which our actual experience is consistent with the assumptions used in setting prices for our products and establishing liabilities for future insurance and annuity policy benefits and claims. The premiums that we charge and the liabilities that we hold for future policy benefits are based on assumptions reflecting a number of factors, including the amount of premiums that we will receive in the future, rate of return on assets we purchase with premiums received, expected claims, mortality, morbidity, lapse rates and expenses. However, due to the nature of the underlying risks and the high degree of uncertainty associated with the determination of the liabilities for unpaid policy benefits and claims, we cannot determine precisely the amounts we will ultimately pay to settle these liabilities. As a result, we may experience volatility in the level of our profitability and our reserves from period-to-period. To the extent that actual experience is less favorable than our underlying assumptions, we could be required to increase our liabilities, which may harm our financial strength and reduce our profitability.

For example, if mortality rates are higher than our pricing assumptions, we will be required to make greater claims payments on our life insurance policies than we had projected. However, this risk may be partially offset by our payout annuity business, where an increase in mortality rates will result in a decrease in benefit payments, and our use of third party reinsurance. Our results of operations may also be adversely impacted by an increase in morbidity rates.

Our results of operations may also be adversely impacted if our actual investment earnings differ from our pricing and reserve assumptions. Changes in economic conditions may lead to changes in market interest rates or changes in our investment strategies, either of which could cause our actual investment earnings to differ from our pricing and reserve assumptions.

For additional information on our insurance reserves, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations   Critical Accounting Policies and Estimates   Insurance Reserves."

The pattern of amortizing our DAC and other actuarial balances on our universal life-type insurance contracts, participating life insurance policies and certain investment contracts may change, impacting both the level of the DAC and other actuarial balances and the timing of our net income.

Amortization of the DAC asset and other actuarial balances depends on the actual and expected profits generated by the lines of business that incurred the expenses. Expected profits are dependent on assumptions regarding a number of factors including investment returns, benefit payments, expenses, mortality and policy lapse. Due to the uncertainty associated with establishing these assumptions, we cannot, with precision, determine the exact pattern of profit emergence. As a result, amortization of these balances will vary from period-to-period. To the extent that actual experience emerges less favorably than expected, or our expectation for future profits decreases, the DAC asset and other actuarial balances may be adjusted, reducing our profitability in the current period.

For additional information, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation   Critical Accounting Policies and Estimates   Deferred Acquisition Costs and Other Actuarial Balances."

Legal, regulatory and tax risks

We may not be able to protect our intellectual property and may be subject to infringement claims.

We rely on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. Although we use a broad range of measures to protect our intellectual property rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, patents, trade secrets and know-how or to determine their scope, validity or enforceability, which represents a diversion of resources that may be significant in amount and may not prove successful. The loss of intellectual property protection or the inability to secure or enforce the protection of our intellectual property assets could have a material adverse effect on our business and our ability to compete.

We also may be subject to costly litigation in the event that another party alleges our operations or activities infringe upon such other party's intellectual property rights. Third parties may have, or may eventually be issued, patents or other protections that could be infringed by our products, methods, processes or services or could otherwise limit our ability to offer certain product features. Any party that holds such a patent could make a claim of infringement against us. We may also be subject to claims by third parties for breach of copyright, trademark, license usage rights, or misappropriation of trade secret rights. Any such claims and any resulting litigation could result in significant liability for damages. If we were found to have infringed or misappropriated a third party patent or other intellectual property rights, we could incur substantial liability, and in some circumstances could be enjoined from providing certain products or services to our customers or utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licenses, or alternatively could be required to enter into costly licensing arrangements with third parties, all of which could have a material adverse effect on our business, results of operations and financial condition.

Our ability to pay stockholder dividends and meet our obligations may be constrained by the limitations on dividends Iowa insurance laws impose on Principal Life.

We are an insurance holding company whose assets include all of the outstanding shares of the common stock of Principal Life and other subsidiaries. Our ability to pay dividends to our stockholders and meet our obligations, including paying operating expenses and any debt service, depends upon the receipt of dividends from Principal Life. Iowa insurance laws impose limitations on the ability of Principal Life to pay dividends to us. Any inability of Principal Life to pay dividends to us in the future may cause us to be unable to pay dividends to our stockholders and meet our other obligations. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" for a discussion of regulatory restrictions on Principal Life's ability to pay us dividends.

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Changes in laws or regulations may reduce our profitability.

Changes in regulations may reduce our profitability.

Our insurance business is subject to comprehensive state regulation and supervision throughout the U.S. and in the international markets in which we operate. We are also impacted by federal legislation and administrative policies in areas such as employee benefit plan regulation, financial services regulations and federal taxation. The primary purpose of state regulation of the insurance business is to protect policyholders, not stockholders. The laws of the various states establish insurance departments with broad powers to regulate such matters as:

- licensing companies to transact business,
- licensing agents,
- admitting statutory assets,
- mandating a number of insurance benefits,
- regulating premium rates,
- approving policy forms,
- regulating unfair trade and claims practices,
- establishing statutory reserve requirements and solvency standards,
- regulating insurer use of affiliated reinsurance companies,
- fixing maximum interest rates on life insurance policy loans and minimum rates for accumulation of surrender values,
- restricting various transactions between affiliates and
- regulating the types, amounts and valuation of investments.

State insurance regulators, federal regulators and the NAIC continually reexamine existing laws and regulations, and may impose changes in the future.

State insurance guaranty associations have the right to assess insurance companies doing business in their state for funds to help pay the obligations of insolvent insurance companies to policyholders and claimants. Because the amount and timing of an assessment is beyond our control, the liabilities we have established for these potential assessments may not be adequate. In addition, regulators may change their interpretation or application of existing laws and regulations. Changes in laws or regulations or the interpretation thereof could significantly increase our compliance costs and adversely affect our profitability and financial strength.

Federal legislation and administrative policies in areas such as employee benefit plan regulation, financial services regulation and federal taxation can reduce our profitability. We provide products and services to certain employee benefit plans that are subject to ERISA or the

Internal Revenue Code of 1986, as amended. The U.S. Congress has, from time to time, considered legislation relating to changes in ERISA to permit application of state law remedies, such as consequential and punitive damages, in lawsuits for wrongful denial of benefits, which, if adopted, could increase our liability for damages in future litigation. Additionally, in 2010, the Department of Labor issued a proposed regulation that would, if adopted, significantly broaden the circumstances under which a person or entity would be deemed a fiduciary by virtue of providing investment advice with respect to ERISA plans or IRAs. In September, 2011, the Department of Labor announced that it will re-propose these regulations; a new proposal is expected in 2015. New interpretations of existing laws and the passage of new legislation may harm our ability to sell new policies and increase our claims exposure on policies we issued previously. In addition, reductions in contribution levels to defined contribution plans may decrease our profitability.

The NAIC is developing a principles-based reserving ("PBR") approach for life insurance and annuity products. The PBR framework for individual life insurance is expected to become effective in 2017, but could take effect as early as 2016; the effective date for the group and individual annuity PBR framework is not yet known. Under the PBR framework, reserves would reflect a combination of company experience and prescribed assumptions and methodologies. Our preliminary analysis indicates that the life PBR approach may increase the volatility of our statutory reserves.

The NAIC Model Regulation entitled "Valuation of Life Insurance Policies," commonly known as "Regulation XXX", establishes statutory reserve requirements for term life insurance policies and universal life insurance policies with secondary guarantees. Actuarial Guideline 38 ("AG38") clarifies the application of Regulation XXX with respect to certain universal life insurance policies with secondary guarantees. We have implemented reinsurance transactions utilizing affiliated reinsurers to mitigate the capital impact of Regulation XXX and AG38 on our term and universal life insurance business. The NAIC recently adopted Actuarial Guideline 48 ("AG48"), which established a new regulatory requirement for Regulation XXX and AG38 reserves ceded to reinsurers, including affiliated reinsurers. The new guideline will limit the amount of statutory reserves that can be financed through affiliated reinsurance transactions. The new guidance will apply prospectively to new policies issued and new reinsurance financing transactions entered into on or after January 1, 2015. AG48 may diminish our ability to mitigate the capital impact of

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Regulation XXX and AG38, potentially impacting the types, amounts and pricing of products offered by our U.S. insurance subsidiaries. Additionally, our ability to enter into new reserve financing transactions would continue to be dependent on the cost and forms of financing available in the market and our ability to obtain required regulatory approvals. For additional information regarding our use of affiliated reinsurance transactions, see Item 8, "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 15, Statutory Insurance Financial Information."

The NAIC has proposed an expansion of its risk-based capital ("RBC") formula to include a component for operational risk. The new requirement is expected to be effective in 2016. We anticipate that the operational risk component will increase our RBC requirements; however, the magnitude of the increase is not yet known, as the factors are still being developed. The NAIC is also considering revising some of the existing factors used in the RBC calculations and introducing an RBC stress testing requirement. These revisions may further increase our RBC requirements.

Our international businesses are also subject to comprehensive regulation and supervision from central and/or local governmental authorities in each country in which we operate. New interpretations of existing laws and regulations or the adoption of new laws and regulations may harm our international businesses and reduce our profitability in those businesses. Changes to capital requirements are currently included in draft proposals in Chile, Brazil and Mexico. India has recently made significant increases in the capital requirements for a mutual fund business.

In addition, the International Association of Insurance Supervisors (the "IAIS") has proposed a common framework for the supervision of Internationally Active Insurance Groups ("IAIGs"), which is scheduled to be effective in 2019. Under the proposed framework, IAIGs would be supervised on a group-wide basis across national boundaries and each IAIG would be required to conduct its own risk and solvency assessment to monitor and manage its overall solvency. The IAIS is also developing a risk-based global Insurance Capital Standard ("ICS"), which would apply to IAIGs. In addition, in October 2014 the IAIS issued Basic Capital Requirements ("BCR"), which will apply to Global Systemically Important Insurers ("G-SIIs"), along with a yet to be developed Higher Loss Absorbency ("HLA") requirement. We currently are not designated as an IAIG or a G-SII. However, it is possible that we may be so designated in the future, in which case we may be subject to supervision and capital requirements beyond those applicable to any competitors who are not classified as an IAIG or G-SII. In addition, the ICS and BCR framework may influence applicable capital requirements in the jurisdictions in which we operate, potentially leading to an increase in our capital requirements.

Changes in tax laws could increase our tax costs and reduce sales of our insurance, annuity and investment products.

Current federal income tax laws generally permit the tax-deferred accumulation of earnings on the premiums paid by the holders of annuities and life insurance products. Taxes, if any, are payable on income attributable to a distribution under the contract for the year in which the distribution is made. The U.S. Congress has, from time to time, considered legislation that would reduce or eliminate the benefit of such deferral of taxation on the accretion of value within life insurance and nonqualified annuity contracts. Enactment of this legislation, including a simplified "flat tax" income structure with an exemption from taxation for investment income, could result in fewer sales of our insurance, annuity and investment products. In addition, changes in the federal estate tax laws could negatively affect the demand for the types of life insurance used in estate planning.

In addition, we benefit from certain tax items, including but not limited to, tax-exempt bond interest, dividends-received deductions, tax credits (such as foreign tax credits) and insurance reserve deductions. From time to time, the U.S. Congress, as well as foreign, state and local governments, considers legislation that could reduce or eliminate the benefits associated with these tax items. If such legislation is adopted, our profitability could be negatively impacted. We continue to evaluate the impact that potential tax reform, which lacks sufficient detail and is relatively uncertain, may have on our future results of operations and financial condition.

Changes in federal, state and foreign securities laws may reduce our profitability.

Our asset management and accumulation and life insurance businesses are subject to various levels of regulation under federal, state and foreign securities laws. These laws and regulations are primarily intended to protect investors in the securities markets or investment advisory or brokerage clients and generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the conduct of business for failure to comply with such laws and regulations. Changes to these laws or regulations or the interpretation thereof that restrict the conduct of our business could significantly increase our compliance costs and reduce our profitability.

Financial services regulatory reform may reduce our profitability, impact how we do business or limit our ability to engage in certain capital expenditures.

On July 21, 2010, the Dodd-Frank Act became law. The Dodd-Frank Act makes extensive changes to the laws regulating financial services firms and requires various federal agencies to adopt a broad range of new implementation rules and regulations, including regulations surrounding the use of derivatives. The federal agencies were given significant discretion in drafting the implementation rules and regulations, and consequently, some of the impacts of the Dodd-Frank Act are not fully known yet. It is likely that new margining aspects of the law will increase hedging costs for the company and possibly cause fundamental shifts to the way risks are hedged.

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Changes in accounting standards may reduce the transparency of our reported profitability and financial condition.

Accounting standards are subject to change and can reduce the transparency of our reported profitability. See Item 8, "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 1, Nature of Operations and Significant Accounting Policies". The Financial Accounting Standards Board is currently working on several key projects. These projects could result in significant changes to U.S. generally accepted accounting principles ("U.S. GAAP"), including the accounting standards for insurance contracts. There is still significant uncertainty surrounding the effective dates and transition methods for the proposed changes. If adopted, the proposed changes in accounting standards could reduce the transparency of our financial results and therefore may make it more difficult for investors and regulators to accurately assess our financial condition and profitability. In addition, the required adoption of new accounting standards may result in significant incremental costs associated with initial implementation and on-going compliance.

Results of litigation and regulatory investigations may affect our financial strength or reduce our profitability.

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; life and disability insurance; and our investment activities.

We are, from time to time, also involved in various governmental, regulatory and administrative proceedings and inquiries. We have received regulatory inquiries from certain state insurance regulators and other officials relating to compliance with unclaimed property laws and the use of data available on the U.S. Social Security Administration's Death Master File (or a similar database) to identify instances where benefits under life insurance policies, annuities and retained asset accounts are payable. It is possible that other jurisdictions may pursue similar inquiries and that such inquiries may result in payments to beneficiaries, escheatment of funds deemed abandoned under state laws and changes to procedures for the identification and escheatment of abandoned property.

These factors may affect our financial strength or reduce our profitability. For further discussion on litigation and regulatory investigation risk, see Item 3. "Legal Proceedings," Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 12, Contingencies, Guarantees and Indemnifications" under the caption, "Litigation and Regulatory Contingencies" and Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 10, Income Taxes."

From time to time we may become subject to tax audits, tax litigation or similar proceedings, and as a result we may owe additional taxes, interest and penalties in amounts that may be material.

We are subject to income taxes in the United States as well as many other jurisdictions. In determining our provisions for income taxes and our accounting for tax-related matters in general, we are required to exercise judgment. We regularly make estimates where the ultimate tax determination is uncertain. The final determination of any tax audit, appeal of the decision of a taxing authority, tax litigation or similar proceedings may be materially different from that reflected in our historical financial statements. The assessment of additional taxes, interest and penalties could be materially adverse to our current and future results of operations and financial condition.

Applicable laws and our certificate of incorporation and by-laws may discourage takeovers and business combinations that some stockholders might consider in their best interests.

State laws and our certificate of incorporation and by-laws may delay, defer, prevent, or render more difficult a takeover attempt that some stockholders might consider in their best interests. For instance, they may prevent our stockholders from receiving the benefit from any premium to the market price of our common stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging takeover attempts in the future.

State laws and our certificate of incorporation and by-laws may also make it difficult for stockholders to replace or remove our management. These provisions may facilitate management entrenchment, which may delay, defer or prevent a change in our control, which may not be in the best interests of our stockholders.

The following provisions, included in our certificate of incorporation and by-laws, may also have anti-takeover effects and may delay, defer or prevent a takeover attempt that some stockholders might consider in their best interests. In particular, our certificate of incorporation and by-laws:

permit our Board of Directors to issue one or more series of preferred stock;

divide our Board of Directors into three classes;

limit the ability of stockholders to remove directors;

prohibit stockholders from filling vacancies on our Board of Directors;

prohibit stockholders from calling special meetings of stockholders;

impose advance notice requirements for stockholder proposals and nominations of directors to be considered at stockholder meetings and require the approval of at least 75% of the voting power of our outstanding common stock for the amendment of our by-laws and provisions of our certificate of incorporation governing:

- the classified board,
- the director's discretion in determining what he or she reasonably believes to be in the best interests of Principal Financial Group, Inc.,
- the liability of directors,
- the removal of directors by shareholders,
- the prohibition on stockholder actions by written consent and
- the supermajority voting requirements.

In addition, Section 203 of the General Corporation Law of the State of Delaware may limit the ability of an "interested stockholder" to engage in business combinations with us. An interested stockholder is defined to include persons owning 15% or more of our outstanding voting stock.

Risks relating to our business

Competition from companies that may have greater financial resources, broader arrays of products, higher ratings and stronger financial performance may impair our ability to retain existing customers, attract new customers and maintain our profitability.

We believe that our ability to compete is based on a number of factors including scale, service, product features, price, investment performance, commission structure, distribution capacity, financial strength ratings and name recognition. We compete with a large number of financial services companies such as banks, mutual funds, broker-dealers, insurers and asset managers, many of which have advantages over us in one or more of the above competitive factors.

Each of our segments faces strong competition. The primary competitors for our Retirement and Investor Services and Principal Global Investors segments are asset managers, banks, broker-dealers and insurers. Our ability to increase and retain AUM is directly related to the performance of our investments as measured against market averages and the performance of our competitors. Even when securities prices are generally rising, performance can be affected by investment styles. Also, there is a risk that we may not be able to attract and retain the top talent needed to compete in our industry.

Competition for our Principal International segment comes primarily from local financial services firms and other international companies operating on a stand-alone basis or in partnership with local firms.

Our U.S. Insurance Solutions segment competes with other insurance companies.

A downgrade in our financial strength or credit ratings may increase policy surrenders and withdrawals, reduce new sales and terminate relationships with distributors, impact existing liabilities and increase our cost of capital, any of which could adversely affect our profitability and financial condition.

A.M. Best, Fitch, Moody's Investors Services and Standard & Poor's publish financial strength ratings on U.S. life insurance companies that are indicators of an insurance company's ability to meet contractholder and policyholder obligations. These rating agencies also assign credit ratings on non-life insurance entities, such as PFG and Principal Financial Services, Inc. ("PFS"). Credit ratings are indicators of a debt issuer's ability to meet the terms of debt obligations in a timely manner, and are important factors in overall funding profile and ability to access external capital.

Ratings are important factors in establishing the competitive position of insurance companies and maintaining public confidence in products being offered. A ratings downgrade, or the potential for such a downgrade, could, among other things:

- materially increase the number of surrenders for all or a portion of the net cash values by the owners of policies and contracts we have issued, and materially increase the number of withdrawals by policyholders of cash values from their policies;
- result in the termination of our relationships with broker-dealers, banks, agents, wholesalers and other distributors of our products and services;
- reduce new sales, particularly with respect to full service payout product and general account GICs and funding agreements purchased by pension plans and other institutions;
- cause some of our existing liabilities to be subject to acceleration, additional collateral support, changes in terms, or creation of additional financial obligations and
- increase our cost of capital and limit our access to the capital markets.

Any of these consequences could adversely affect our profitability and financial condition.

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Guarantees within certain of our products that protect policyholders may decrease our earnings or increase the volatility of our results of operations or financial position under U.S. GAAP if our hedging or risk management strategies prove ineffective or insufficient.

Certain of our variable annuity products include guaranteed minimum death benefits and/or guaranteed minimum withdrawal benefits. Periods of significant and sustained downturns in equity markets, increased equity volatility or reduced interest rates could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction to net income. We use derivative instruments to mitigate changes in the liability exposure related to interest rate, equity market and volatility movements, and the volatility of net income associated with these liabilities. While we believe that these and other actions have mitigated the overall economic risks related to these benefits, we remain liable for the guaranteed benefits in the event that derivative counterparties are unable or unwilling to pay. The liability exposure and volatility of net income may also be influenced by changes in market credit spreads reflecting our own creditworthiness, for which we do not attempt to hedge. In addition, we are subject to the risk that hedging and other management procedures prove ineffective or that unanticipated policyholder behavior or mortality, combined with adverse market events, produces economic losses beyond the scope of the risk management techniques employed. These, individually or collectively, may have a material adverse effect on net income, financial condition or liquidity. We are also subject to the risk that the cost of hedging these guaranteed minimum benefits increases as implied volatilities increase and/or interest rates decrease, resulting in a reduction to net income.

If we are unable to attract and retain qualified employees and sales representatives and develop new distribution sources, our results of operations, financial condition and sales of our products may be adversely impacted.

Our continued success is largely dependent on our ability to attract and retain qualified employees. We face intense competition in attracting and retaining key employees, including investment, marketing, finance, legal, compliance and other professionals. If we are unable to attract and retain qualified employees, our results of operations and financial condition may be adversely impacted.

We distribute our asset accumulation, asset management and life and specialty benefit insurance products and services through a variety of distribution channels, including our own internal sales representatives, independent brokers, banks, broker-dealers and other third party marketing organizations. We must attract and retain sales representatives to sell our products. Strong competition exists among financial services companies for efficient sales representatives. We compete with other financial services companies for sales representatives primarily on the basis of our financial position, support services and compensation and product features. If we are unable to attract and retain sufficient sales representatives to sell our products, our ability to compete and revenues from new sales would suffer.

Our ability to increase and retain AUM is directly related to the performance of our investments as measured against market averages and the performance of our competitors. If we are unable to attract and retain qualified portfolio managers, we may face reduced sales and increased cash outflows in our asset accumulation and asset management businesses.

Our international businesses face political, legal, operational and other risks that could reduce our profitability in those businesses.

Our international businesses face political, legal, operational and other risks that we do not face in our operations in the U.S. We face the risk of discriminatory regulation, nationalization or expropriation of assets, price controls and exchange controls or other restrictions that prevent us from transferring funds from these operations out of the countries in which they operate or converting local currencies we hold into U.S. dollars or other currencies. Some of our international businesses are, and are likely to continue to be, in emerging or potentially volatile markets. In addition, we rely on local staff, including local sales forces, in these countries where there is a risk that we may encounter labor problems with local staff, especially in countries where workers' associations and trade unions are strong. Some of our international businesses are joint ventures in which we hold a minority interest. In these joint ventures, we lack complete management and operational control over the operations, which may limit our ability to take action to protect or increase the value of our investment in the joint venture.

We may need to fund deficiencies in our Closed Block assets.

In connection with its conversion in 1998 into a stock life insurance company, Principal Life established an accounting mechanism, known as a "Closed Block" for the benefit of participating ordinary life insurance policies that had a dividend scale in force on July 1, 1998. Dividend scales are the actuarial formulas used by life insurance companies to determine amounts payable as dividends on participating policies based on experience factors relating to, among other things, investment results, mortality, lapse rates, expenses, premium taxes and policy loan interest and utilization rates. The Closed Block was designed to provide reasonable assurance to policyholders included in the Closed Block that, after the conversion, assets would be available to maintain the aggregate dividend scales in effect for 1997 if the experience underlying such scales were to continue.

We allocated assets to the Closed Block as of July 1, 1998, in an amount such that we expected their cash flows, together with anticipated revenues from the policies in the Closed Block, to be sufficient to support the Closed Block

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business, including payment of claims, certain direct expenses, charges and taxes and to provide for the continuation of aggregate dividend scales in accordance with the 1997 policy dividend scales if the experience underlying such scales continued, and to allow for appropriate adjustments in such scales if the experience changed. We bear the costs of administrative expenses associated with Closed Block policies and, accordingly, these costs were not funded as part of the assets allocated to the Closed Block. Any increase in such costs in the future will be borne by us. As of December 31, 2014, Closed Block assets and liabilities were $4,188.1 million and $4,818.1 million, respectively.

We will continue to pay guaranteed benefits under the policies included in the Closed Block, in accordance with their terms. The Closed Block assets, cash flows generated by the Closed Block assets and anticipated revenues from policies included in the Closed Block may not be sufficient to provide for the benefits guaranteed under these policies. If they are not sufficient, we must fund the shortfall. Even if they are sufficient, we may choose for business reasons to support dividend payments on policies in the Closed Block with our general account funds.

The Closed Block assets, cash flows generated by the Closed Block assets and anticipated revenues from policies in the Closed Block will benefit only the holders of those policies. In addition, to the extent that these amounts are greater than the amounts estimated at the time we funded the Closed Block, dividends payable in respect of the policies included in the Closed Block may be greater than they would have been in the absence of a Closed Block. Any excess net income will be available for distribution over time to Closed Block policyholders but will not be available to our stockholders. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 6, Closed Block" for further details.

A pandemic, terrorist attack, military action or other catastrophic event could adversely affect our net income.

Our mortality and morbidity experience could be adversely impacted by a catastrophic event. In addition, a severe catastrophic event may cause significant volatility in global financial markets, disruptions to commerce and reduced economic activity. The resulting macroeconomic conditions could adversely affect our cash flows, as well as the value and liquidity of our invested assets. We may also experience operational disruptions if our employees are unable or unwilling to come to work due to a pandemic or other catastrophe. We have developed extensive contingency plans to minimize the risk of operational disruptions. In addition, our use of reinsurance reduces our exposure to adverse mortality experience. Despite these measures, we may still be exposed to losses in the event of a pandemic, terrorist attack, military action or other catastrophe.

Our reinsurers could default on their obligations or increase their rates, which could adversely impact our net income and financial condition.

We cede life, disability and health insurance to other insurance companies through reinsurance. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 1, Nature of Operations and Significant Accounting Policies." However, we remain liable to the policyholder, even if the reinsurer defaults on its obligations with respect to the ceded business. In addition, a reinsurer's insolvency may cause us to lose our reserve credits on the ceded business, in which case we would be required to establish additional reserves.

The premium rates that we charge are based, in part, on the assumption that reinsurance will be available at a certain cost. Most of our reinsurance contracts contain provisions which limit the reinsurer's ability to increase rates on in-force business; however, some do not. If a reinsurer raises the rates that it charges on a block of in-force business, our profitability may be negatively impacted if we are not able to pass the increased costs on to the customer. If reinsurers raise the rates that they charge on new business, we may be forced to raise the premiums that we charge, which could have a negative impact on our competitive position.

To mitigate the risks associated with the use of reinsurance, we carefully select our reinsurers, and we monitor their ratings and financial condition on a regular basis. We also spread our business among several reinsurers, in order to diversify our risk exposure.

We face risks arising from acquisitions of businesses.

We have engaged in acquisitions of businesses in the past, and expect to continue to do so in the future. We face a number of risks arising from acquisition transactions, including difficulties in integrating the acquired business into our operations, difficulties in assimilating and retaining employees and intermediaries, difficulties in retaining the existing customers of the acquired entity, unforeseen liabilities that arise in connection with the acquired business and unfavorable market conditions that could negatively impact our growth expectations for the acquired business. These risks may prevent us from realizing the expected benefits from acquisitions and could result in the impairment of goodwill and/or intangible assets recognized at the time of acquisition.

For additional information on our goodwill and other intangible assets, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Goodwill and Other Intangible Assets."

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A computer system failure or security breach could disrupt our business, damage our reputation and adversely impact our profitability.

We rely on computer systems to conduct business, including customer service, marketing and sales activities, customer relationship management and producing financial statements. While we have policies, procedures, automation and backup plans designed to prevent or limit the effect of failure, our computer systems may be vulnerable to disruptions or breaches as the result of natural disasters, man-made disasters, criminal activity, pandemics, or other events beyond our control. The failure of our computer systems for any reason could disrupt our operations, result in the loss of customer business and adversely impact our profitability.

We retain confidential information on our computer systems, including customer information and proprietary business information. Any compromise of the security of our computer systems that results in the disclosure of personally identifiable customer information could damage our reputation, expose us to litigation, increase regulatory scrutiny and require us to incur significant technical, legal and other expenses.

Loss of key vendor relationships or failure of a vendor to protect information of our customers or employees could adversely affect our business or result in losses.

We rely on services and products provided by many vendors in the United States and abroad. These include, for example, vendors of computer hardware and software and vendors of services. In the event that one or more of our vendors suffers a bankruptcy or otherwise becomes unable to continue to provide products or services, or fails to protect personal information of our customers or employees, we may suffer operational impairments, reputational damage and financial losses.

Our financial results may be adversely impacted by global climate changes.

Atmospheric concentrations of carbon dioxide and other greenhouse gases have increased dramatically since the industrial revolution, resulting in a gradual increase in global average temperatures and an increase in the frequency and severity of natural disasters. These trends are expected to continue in the future and have the potential to impact nearly all sectors of the economy to varying degrees. Our initial research indicates that climate change does not pose an imminent or significant threat to our operations or business, but we will continue to monitor new developments in the future.

Potential impacts may include the following:

Changes in temperatures and air quality may adversely impact our mortality and morbidity rates. For example, increases in the level of pollution and airborne allergens may cause an increase in upper respiratory and cardiovascular diseases, leading to increased claims in our insurance businesses. However, the risk of increased mortality on our life insurance business may be partly offset by our payout annuity business, where an increase in mortality results in a decrease in benefit payments.

Climate change may impact asset prices, as well as general economic conditions. For example, rising sea levels may lead to decreases in real estate values in coastal areas. Additionally, government policies to slow climate change (e.g., setting limits on carbon emissions) may have an adverse impact on sectors such as utilities, transportation and manufacturing. Changes in asset prices may impact the value of our fixed income, real estate and commercial mortgage investments. We manage our investment risks by maintaining a well-diversified portfolio, both geographically and by sector. We also monitor our investments on an ongoing basis, allowing us to adjust our exposure to sectors and/or geographical areas that face severe risks due to climate change.

A natural disaster that affects one of our office locations could disrupt our operations and pose a threat to the safety of our employees. However, we have extensive Business Continuity and Disaster Recovery planning programs in place to help mitigate this risk.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2014, we owned 32 properties in our home office complex in Des Moines, Iowa, and in various other locations. Of these 32 properties, 17 are office buildings, 1 is a warehouse facility, 11 are parking lots and ramps, 1 is a park/green space, 1 is a childcare center and 1 is a power generation plant. Of the office and warehouse space, we occupy approximately 92% of the 2.6 million square feet of space in these buildings. The balance of the space in these buildings is rented to commercial tenants or is occupied by the property management company servicing these properties. We lease office space for various offices located throughout the U.S. and internationally. We believe that our owned and leased properties are suitable and adequate for our current business operations.

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Item 3. Legal Proceedings

Disclosure concerning material legal proceedings can be found in Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 12, Contingencies, Guarantees and Indemnifications" under the caption, "Litigation and Regulatory Contingencies" and Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 10, Income Taxes" under the caption, "Other Tax Information," which are incorporated here by this reference.

Executive Officers of the Registrant

The following information is furnished with respect to our executive officers, each of whom is elected by and serves at the pleasure of the Board of Directors.

Timothy M. Dunbar, 57, has been Executive Vice President and Chief Investment Officer of the Company and Principal Life since January 2014. Prior to that date, he served as Senior Vice President of the Company and Principal Life since 2011, and Chief Investment Officer of the Company and Principal Life since January 2013. Prior to that date, Mr. Dunbar was in charge of Strategy and Finance for the Company and Principal Life in 2011 and 2012, overseeing the business management and strategic direction of the capital markets, corporate strategy and corporate treasury areas. He retains his responsibility for capital markets. Mr. Dunbar previously served as the executive director and head of equities for Principal Global Investors from 2004 until 2011.

Gregory B. Elming, 54, has been Senior Vice President and Chief Risk Officer of the Company and Principal Life since March 2011. Prior to that time, he was Senior Vice President and Controller of the Company and Principal Life since 2007.

Ralph C. Eucher, 62, has been Executive Vice President of the Company and Principal Life since March 2013, responsible for global human resources, corporate real estate and aviation operations. Prior to that time, he was Senior Vice President of the Company and Principal Life since 2002, overseeing human resources and corporate real estate since 2008.

Daniel J. Houston, 53, has been a director of the Company and Principal Life and President and Chief Operating Officer of the Company and Principal Life since November 2014. Prior to that date, he served as President, Retirement, Insurance and Financial Services of the Company and Principal Life since 2010. He was President, Retirement and Investor Services of the Company and Principal Life from February 2008 until January 2010, and was Executive Vice President, Retirement and Investor Services of the Company and Principal Life from June 2006 to February 2008.

Terrance J. Lillis, 62, has been Executive Vice President and Chief Financial Officer of the Company and Principal Life since February 2014. Prior to that date, he was Senior Vice President and Chief Financial Officer of the Company and Principal Life since August 2008 and Senior Vice President of the Company and Principal Life since May 2008.

James P. McCaughan, 61, who heads the Principal Global Investors segment of our operations, has been President, Principal Global Investors of the Company and Principal Life since December 2003.

Gary P. Scholten, 57, has been Executive Vice President and Chief Information Officer of the Company and Principal Life since February 2014. Prior to that date, he was Senior Vice President and Chief Information Officer of the Company and Principal Life since November 2002. From 1998 to 2002, he was Vice President of retail information services of Principal Life.

Karen E. Shaff, ***60,*** has been Executive Vice President and General Counsel of the Company and Principal Life since February 2004 and, in addition, Secretary of the Company and Principal Life since January 2014. Prior thereto, she was Senior Vice President and General Counsel of the Company since April 2001, and Senior Vice President and General Counsel of Principal Life since January 2000.

Luis Valdes, 57, has been the head of the Principal International segment of our operations since March 2012, has been President, Principal International of the Company and Principal Life since March 2011. Prior to his current position, he was Senior Vice President and President PFG Latin America of the Company and Principal Life since March 2010, and was Vice President Principal International of Principal Life from 2000 until March 2010.

Larry D. Zimpleman, 63, has been a Director of the Company and Principal Life since 2006 and Chairman and Chief Executive Officer of the Company and Principal Life since November 2014. Prior to that date, he was Chairman, President and Chief Executive Officer of the Company and Principal Life since May 2009 and was President and Chief Executive Officer of the Company and Principal Life from May 2008 to May 2009. Prior thereto, he was President and Chief Operating Officer of the Company and Principal Life from May 2006 to May 2008. He was President, Retirement and Investor Services of the Company and Principal Life from December 2003 through May 2006. Mr. Zimpleman served as chairman of the board and a director of the Principal Funds from December 2001 to December 2008.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock began trading on the New York Stock Exchange ("NYSE") under the symbol "PFG" on October 23, 2001. Prior to such date, there was no established public trading market for our common stock. On February 4, 2015, there were 338,536 stockholders of record of our common stock.

The following table presents the high and low prices per share for our common stock on the NYSE for the periods indicated and the dividends declared per share during such periods.

	High	Low	Dividends declared
2014			
First quarter	**$ 49.83**	**$ 41.20**	**$ 0.28**
Second quarter	**$ 50.74**	**$ 42.90**	**$ 0.32**
Third quarter	**$ 55.07**	**$ 48.82**	**$ 0.34**
Fourth quarter	**$ 54.31**	**$ 46.49**	**$ 0.34**
2013			
First quarter	$ 34.58	$ 28.75	$ 0.23
Second quarter	$ 39.05	$ 32.59	$ 0.23
Third quarter	$ 44.94	$ 36.75	$ 0.26
Fourth quarter	$ 50.97	$ 41.45	$ 0.26

Future dividend decisions will be based on and affected by a number of factors, including our results and financial requirements and the impact of regulatory restrictions. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" for a discussion of regulatory restrictions on Principal Life's ability to pay dividends.

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

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced programs	Maximum dollar value of shares that may yet be purchased under the programs (in millions) (2)
January 1, 2014 - January 31, 2014	**14,659**	**$ 49.31**		**$ 55.0**
February 1, 2014 - February 28, 2014	**590,027**	**$ 44.46**	**566,027**	**$ 229.8**
March 1, 2014 - March 31, 2014	**1,343,197**	**$ 45.87**	**1,027,200**	**$ 182.5**
April 1, 2014 - April 30, 2014	**604,545**	**$ 45.69**	**604,524**	**$ 154.9**
May 1, 2014 - May 31, 2014	**114,533**	**$ 46.40**	**114,300**	**$ 149.6**
June 1, 2014 - June 30, 2014	**572,400**	**$ 48.66**	**572,180**	**$ 121.8**
July 1, 2014 - July 31, 2014	**518,363**	**$ 51.33**	**517,372**	**$ 95.2**
August 1, 2014 - August 31, 2014	**558,812**	**$ 51.19**	**545,000**	**$ 67.3**
September 1, 2014 - September 30, 2014	**332,482**	**$ 53.90**	**321,074**	**$ 49.9**
October 1, 2014 - October 31, 2014		**$**		**$ 49.9**
November 1, 2014 - November 30, 2014	**2,989**	**$ 52.00**		**$ 49.9**
December 1, 2014 - December 31, 2014	**981**	**$ 50.59**		**$ 49.9**
Total	**4,652,988**		**4,267,677**	

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

(2)

In February 2013, our Board of Directors authorized a repurchase program of up to $150.0 million of our outstanding common stock, which was completed in March 2014. In February 2014, our Board of Directors authorized a repurchase program of up to $200.0 million of our outstanding common stock.

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Item 6. Selected Financial Data

The following table sets forth certain selected historical consolidated financial information. We derived the consolidated financial information (except for amounts referred to as "Other Supplemental Data") for each of the years ended December 31, 2014, 2013 and 2012 and as of December 31, 2014 and 2013 from our audited consolidated financial statements and notes to the financial statements included in this Form 10-K. We derived the consolidated financial information (except for amounts referred to as "Other Supplemental Data") for the years ended December 31, 2011 and 2010 and as of December 31, 2012, 2011 and 2010 from our audited consolidated financial statements not included in this Form 10-K. The following summary of consolidated financial information (except for amounts referred to as "Other Supplemental Data") has been prepared in accordance with U.S. GAAP.

In order to fully understand our consolidated financial information, please also see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and the notes to the financial statements included in this Form 10-K. The results for past accounting periods are not necessarily indicative of the results to be expected for any future accounting period.

	As of or for the year ended December 31,				
	2014 (1)	**2013 (1)**	**2012 (1)**	**2011**	**2010**
	($ in millions, except per share data and as noted)				
Income Statement Data:					
Revenue:					
Premiums and other considerations	**$ 3,722.9**	$ 3,154.1	$ 3,219.4	$ 2,891.0	$ 3,555.5
Fees and other revenues	**3,482.1**	3,222.2	2,626.7	2,526.7	2,337.1
Net investment income	**3,257.9**	3,138.4	3,254.9	3,375.3	3,495.8
Net realized capital gains (losses)	**14.7**	(225.2)	114.1	(122.3)	(190.2)
Total revenues	**$ 10,477.6**	$ 9,289.5	$ 9,215.1	$ 8,670.7	$ 9,198.2
Income from continuing operations, net of related income taxes	**$ 1,176.4**	$ 936.1	$ 825.4	$ 674.5	$ 670.5
Net income	**$ 1,176.4**	$ 936.1	$ 825.4	$ 674.5	$ 670.5
Earnings per Share Data:					
Income from continuing operations, net of related income taxes, per share:					
Basic	**$ 3.70**	$ 2.99	$ 2.60	$ 1.92	$ 1.93
Diluted	**$ 3.65**	$ 2.95	$ 2.58	$ 1.91	$ 1.92
Net income per share:					
Basic	**$ 3.70**	$ 2.99	$ 2.60	$ 1.92	$ 1.93
Diluted	**$ 3.65**	$ 2.95	$ 2.58	$ 1.91	$ 1.92
Dividends declared per common share	**$ 1.28**	$ 0.98	$ 0.78	$ 0.70	$ 0.55
Balance Sheet Data:					
Total assets	**$ 219,087.0**	$ 208,191.4	$ 161,830.2	$ 147,271.5	$ 144,591.3
Long-term debt	**$ 2,531.2**	$ 2,601.4	$ 2,671.3	$ 1,564.8	$ 1,583.7
Series A preferred stock	**$**	$	$	$	$
Series B preferred stock	**$ 0.1**	$ 0.1	$ 0.1	$ 0.1	$ 0.1
Total stockholders' equity	**$ 10,232.0**	$ 9,777.0	$ 9,703.4	$ 9,306.2	$ 9,246.8
Other Supplemental Data:					
AUM ($ in billions)	**$ 519.3**	$ 483.2	$ 403.0	$ 335.0	$ 318.8

(1) For a discussion of items materially affecting the comparability of 2014, 2013 and 2012, please see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations Transactions Affecting Comparability of Results of Operations."

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following analysis discusses our financial condition as of December 31, 2014, compared with December 31, 2013, and our consolidated results of operations for the years ended December 31, 2014, 2013 and 2012, and, where appropriate, factors that may affect our future financial performance. The discussion should be read in conjunction with our audited consolidated financial statements and the related notes to the financial statements and the other financial information included elsewhere in this Form 10-K.

Forward-Looking Information

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

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Actual results may differ materially from those included in the forward-looking statements as a result of risks and uncertainties. Those risks and uncertainties include, but are not limited to the risk factors listed in Item 1A. "Risk Factors."

Overview

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

Retirement and Investor Services is organized into the Accumulation business, which includes full service accumulation, Principal Funds (our mutual fund business), individual annuities and bank and trust services; and the Guaranteed business, which includes investment only and full service payout. We offer a comprehensive portfolio of asset accumulation products and services for retirement savings and investment:

To businesses of all sizes with a concentration on small and medium-sized businesses, we offer products and services for defined contribution pension plans, including 401(k) and 403(b) plans, defined benefit pension plans, nonqualified executive benefit plans and ESOP consulting services. For more basic investment needs, we offer SIMPLE IRA and payroll deduction plans;

To large institutional clients, we also offer investment-only products, including GICs and funding agreements and

To employees of businesses and other individuals, we offer the ability to accumulate savings for retirement and other purposes through mutual funds, individual annuities and bank products.

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

Principal International offers pension accumulation products and services, mutual funds, asset management, income annuities and life insurance accumulation products through operations in Brazil, Chile, China, Hong Kong SAR, India, Mexico and Southeast Asia.

U.S. Insurance Solutions provides individual life insurance as well as specialty benefits insurance in the U.S. Our individual life insurance products include universal and variable universal life insurance and traditional life insurance. Our specialty benefits insurance products include group dental and vision insurance, individual and group disability insurance and group life insurance.

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

Economic Factors and Trends

Positive market performance and net customer cash flows led to increases in our Retirement and Investor Services segment's account values and our Principal Global Investors segment's AUM. Since account values and AUM are the base by which these businesses generate revenues, the increase in account values and AUM has contributed to the overall improvement of our profits.

In our Principal International segment, we continued to grow our business organically through our existing subsidiaries and joint ventures and through strategic acquisitions. Local currency AUM, a key indicator of earnings growth for the segment, increased significantly as a result of positive net customer cash flows and market performance. The financial results for the Principal International segment are also impacted by fluctuations of the foreign currency to U.S. dollar exchange rates for the countries in which we have business.

The U.S. Insurance Solutions segment has been impacted by lower interest rates for the past few years as well as decreases in our long-term interest rate assumptions. The current low interest rate environment has caused spread compression, whereas the decrease in long-term interest rate assumptions has led to higher reserves and lower profit margins in the segment.

Profitability

Our profitability depends in large part upon our:

- amount of AUM;
- spreads we earn that result from the difference between what we earn and what we credit to policyholders;
- ability to generate fee revenues by providing administrative and investment management services;

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ability to price our insurance products at a level that enables us to earn a margin over the cost of providing benefits and the related expenses;

ability to manage our investment portfolio to maximize investment returns and minimize risks such as interest rate changes or defaults or impairments of invested assets;

ability to effectively hedge fluctuations in foreign currency to U.S. dollar exchange rates on certain transactions and

ability to manage our operating expenses.

Critical Accounting Policies and Estimates

The increasing complexity of the business environment and applicable authoritative accounting guidance requires us to closely monitor our accounting policies. Our significant accounting policies are described in Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 1, Nature of Operations and Significant Accounting Policies." We have identified critical accounting policies that are complex and require significant judgment and estimates about matters that are inherently uncertain. A summary of our critical accounting policies is intended to enhance the reader's ability to assess our financial condition and results of operations and the potential volatility due to changes in estimates and changes in guidance. The identification, selection and disclosure of critical accounting estimates and policies have been discussed with the Audit Committee of the Board of Directors.

Valuation and Impairment of Fixed Income Investments

Fixed Maturities. Fixed maturities include bonds, asset-backed securities ("ABS"), redeemable preferred stock and certain non-redeemable preferred securities. We classify our fixed maturities as either AFS or trading and, accordingly, carry them at fair value in the consolidated statements of financial position. The fair values of our public fixed maturities are primarily based on market prices from third party pricing vendors. We have regular interactions with these vendors to ensure we understand their pricing methodologies and to confirm they are utilizing observable market information. In addition, 23% of our invested asset portfolio as of December 31, 2014, was invested in fixed maturities that are private placement assets, where there are no readily available market quotes to determine the fair market value. The majority of these assets are valued using a spread pricing matrix that utilizes observable market inputs. Securities are grouped into pricing categories that vary by sector, rating and average life. Each pricing category is assigned a risk spread based on studies of observable public market data from the investment professionals assigned to specific security classes. The expected cash flows of the security are then discounted back at the current Treasury curve plus the appropriate risk spread. Certain market events that could impact the valuation of securities include issuer credit ratings, business climate, management changes, litigation and government actions among others. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 14, Fair Value Measurements" for further discussion.

If we are unable to price a fixed maturity security using prices from third party pricing vendors or other sources specific to the asset class, we may obtain a broker quote or utilize an internal pricing model specific to the asset utilizing relevant market information to the extent available and where at least one significant unobservable input is utilized. As of December 31, 2014, less than 1% of our fixed maturities were valued using internal pricing models.

A rate increase of 100 basis points would produce a total value of approximately $47.2 billion, as compared to the recorded amount of $49.7 billion related to our fixed maturity, AFS financial assets with interest rate risk held by us as of December 31, 2014. For additional information see Item 7A. "Quantitative and Qualitative Disclosures About Market Risk Interest Rate Risk".

The $1,004.3 million increase in net unrealized gains from U.S. investment operations for the year ended December 31, 2014, can primarily be attributed to an approximate 53 basis points decrease in interest rates.

Fixed maturities classified as AFS are subject to impairment reviews. When evaluating fixed maturities for impairment, we consider relevant facts and circumstances in evaluating whether a credit or interest-related impairment is other than temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in value; (3) the financial position and access to capital of the issuer, including the current and future impact of any specific events; (4) for structured securities, the adequacy of the expected cash flows and (5) our intent to sell a security or whether it is more likely than not we will be required to sell the security before recovery of its amortized cost which, in some cases, may extend to maturity. To the extent we determine that a security is deemed to be other than temporarily impaired, an impairment loss is recognized. See item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 4, Investments Other-Than-Temporary Impairments" for further discussion.

There are a number of significant risks and uncertainties inherent in the process of monitoring impairments and determining if an impairment is other than temporary. These risks and uncertainties include: (1) the risk that our assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer; (2) the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated; (3) the risk that our investment professionals are making decisions based on fraudulent or misstated information in the financial statements provided by issuers and (4) the risk that new information

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obtained by us or changes in other facts and circumstances lead us to change our intent to not sell the security prior to recovery of its amortized cost. Any of these situations could result in a charge to net income in a future period. At December 31, 2014, we had $7,877.6 million in AFS fixed maturities with gross unrealized losses totaling $338.8 million. Included in the gross unrealized losses are losses attributable to both movements in market interest rates as well as movement in credit spreads. Net income would be reduced by approximately $338.8 million, on a pre-tax basis, if all the securities in an unrealized loss position were deemed to be other than temporarily impaired and our intent was to sell all such securities.

Mortgage Loans. Mortgage loans consist primarily of commercial mortgage loans on real estate. As of December 31, 2014, the carrying value of our commercial mortgage loans was $10,696.9 million. Commercial mortgage loans on real estate are generally reported at cost adjusted for amortization of premiums and accrual of discounts, computed using the interest method and net of valuation allowances.

Commercial mortgage loans on real estate are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to contractual terms of the loan agreement. When we determine that a loan is impaired, a valuation allowance is established equal to the difference between the carrying amount of the mortgage loan and the estimated value reduced by the cost to sell. Estimated value is based on either the present value of the expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or fair value of the collateral. Subsequent changes in the estimated value are reflected in the valuation allowance. Amounts on loans deemed to be uncollectible are charged off and removed from the valuation 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. For more detailed information concerning mortgage loan valuation allowances and impairments, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 4, Investments Mortgage Loan Valuation Allowance."

We have a large experienced commercial real estate staff centrally located in Des Moines, which includes commercial mortgage underwriters, loan closers, loan servicers, engineers, appraisers, credit analysts, research staff, legal staff, information technology personnel and portfolio managers. Experienced commercial real estate senior management adheres to a disciplined process in reviewing all transactions for approval on a consistent basis. The typical new commercial mortgage loan at origination averages 51% loan-to-value with a 2.6 times debt service coverage ratio and is internally rated A on a bond equivalent basis. Our entire commercial mortgage loan portfolio, excluding mortgage loans held in our Principal Global Investors segment, averages 48% loan-to-value ratio with a 2.6 times debt service coverage ratio. The large equity cushion and strong debt service coverage in our commercial mortgage loan investments will help insulate us from stress during times of weak commercial real estate fundamentals.

Derivatives

We primarily use derivatives to hedge or reduce exposure to market risks. The fair values of exchange-traded derivatives are determined through quoted market prices. The fair value of derivative instruments cleared through centralized clearinghouses are determined through market prices published by the clearinghouses. The fair values of non-cleared over-the-counter derivative instruments are determined using either pricing valuation models that utilize market observable inputs or broker quotes. On an absolute fair value basis, 74% of our over-the-counter derivative assets and liabilities are valued using pricing valuation models, 6% are valued using broker quotes, and the remaining 20% are valued using clearinghouse prices. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 14, Fair Value Measurements" for further discussion. The fair values of our derivative instruments can be impacted by changes in interest rates, foreign exchange rates, credit spreads, equity indices and volatility, as well as other contributing factors.

We also issue certain annuity contracts and other insurance contracts that include embedded derivatives that have been bifurcated from the host contract. They are valued using a combination of historical data and actuarial judgment. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 14, Fair Value Measurements" for further discussion. We include our assumption for own non-performance risk in the valuation of these embedded derivatives. As our credit spreads widen or tighten, the fair value of the embedded derivative liabilities decrease or increase, leading to an increase or decrease in net income. If the current market credit spreads reflecting our own creditworthiness move to zero (tighten), the reduction to net income would be approximately $69.6 million, net of DAC and income taxes, based on December 31, 2014, reported amounts. In addition, the policyholder behavior assumptions used in the valuation of embedded derivatives include risk margins, which increase the fair value of the embedded derivative liabilities.

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The accounting for derivatives is complex and interpretations of the applicable accounting standards continue to evolve. Judgment is applied in determining the availability and application of hedge accounting designations and the appropriate accounting treatment. Judgment and estimates are used to determine the fair value of some of our derivatives. Volatility in net income can result from changes in fair value of derivatives that do not qualify or are not designated for hedge accounting and changes in fair value of embedded derivatives.

Deferred Acquisition Costs and Other Actuarial Balances

Incremental direct costs of contract acquisition as well as certain costs directly related to acquisition activities (underwriting, policy issuance and processing, medical and inspection and sales force contract selling) for the successful acquisition of new and renewal insurance policies and investment contract business are capitalized to the extent recoverable. Commissions and other incremental direct costs of contract acquisition for the acquisition of long-term service contracts are also capitalized to the extent recoverable. Maintenance costs and acquisition costs that are not deferrable are charged to net income as incurred.

Amortization Based on Estimated Gross Profits. DAC for universal life-type insurance contracts, participating life insurance policies and certain investment contracts are amortized over the expected lifetime of the policies in relation to estimated gross profits ("EGPs"). As of December 31, 2014, these policies accounted for 68% of our total DAC balance. In addition to DAC, the following actuarial balances are also amortized in relation to EGPs.

Sales inducement asset Sales inducements are amounts that are credited to the contractholder's account balance as an inducement to purchase the contract. Like DAC, the cost of the sales inducement is capitalized and amortized over the expected life of the contract, in proportion to EGPs.

Unearned revenue liability An unearned revenue liability is established when we collect fees or other policyholder assessments that represent compensation for services to be provided in future periods. These revenues are deferred and then amortized over the expected life of the contract, in proportion to EGPs.

Reinsurance asset or liability For universal-life type products that are reinsured, a reinsurance asset or liability is established to spread the expected net reinsurance costs or profits in proportion to the EGPs on the underlying business.

We also have additional benefit reserves that are established for annuity or universal life-type contracts that provide benefit guarantees, or for contracts that are expected to produce profits followed by losses. The liabilities are accrued in relation to estimated contract assessments.

We define EGPs to include assumptions relating to mortality, morbidity, lapses, investment yield and expenses as well as the change in our liability for certain guarantees and the difference between actual and expected reinsurance premiums and recoveries, depending on the nature of the contract. We develop an estimate of EGPs at issue and each valuation date. As actual experience emerges, the gross profits may vary from those expected either in magnitude or timing, in which case a true-up to actual occurs as a charge or credit to current net income. In addition, we are required to revise our assumptions regarding future experience if actual experience or other evidence suggests that earlier estimates should be revised; we refer to this as unlocking. Both actions, reflecting actual experience and changing future estimates, can change both the current amount and the future amortization pattern of the DAC asset and related actuarial balances.

For individual variable life insurance, individual variable annuities and group annuities that have separate account U.S. equity investment options, we utilize a mean reversion methodology (reversion to the mean assumption), a common industry practice, to determine the future domestic equity market growth rate assumption used for the calculation of EGPs. If actual annualized U.S. equity market performance varies from our 8% long-term assumption, we assume different performance levels in the short-term such that the mean return is equal to the long-term assumption over the mean reversion period. However, our mean reversion process generally limits assumed returns to a range of 4 - 12% during the mean reversion period.

Amortization Based on Estimated Gross Revenues. DAC and certain of the actuarial balances on a portion of our universal life products are amortized in proportion to estimated gross revenues rather than EGPs. Estimated gross revenues include similar assumptions as the revenue component of EGPs and the changes of future estimates and reflection of actual experience is done in the same manner as EGPs discussed above. As of December 31, 2014, these policies accounted for 6% of our total DAC balance.

Amortization Based on Premium-Paying Period. DAC of non-participating term life insurance and individual disability policies are amortized over the premium-paying period of the related policies using assumptions consistent with those used in computing policyholder liabilities. Once these assumptions are made for a given policy or group of policies, they will not be changed over the life of the policy unless a loss recognition event occurs. As of December 31, 2014, these policies accounted for 19% of our total DAC balance.

Amortization Based on Service Period. DAC of long-term service contracts are amortized in proportion to the revenue recognized or straight-line if no pattern of revenue recognition can be reasonably predicted. We amortize capitalized costs of long-term service contracts on a straight-line basis over the expected contract life. As of December 31, 2014, these contracts accounted for 7% of our total DAC balance.

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Internal Replacements. We review policies for modifications that result in the exchange of an existing contract for a new contract. If the new contract is determined to be an internal replacement that is substantially changed from the replaced contract, any unamortized DAC and related actuarial balances are written off and acquisition costs related to the new contract are capitalized as appropriate. If the new contract is substantially unchanged, we continue to amortize the existing DAC and related actuarial balances.

Recoverability. DAC and sales inducement assets are subject to recoverability testing at the time of policy issue and loss recognition testing on an annual basis, or when an event occurs that may warrant loss recognition. If loss recognition or impairment is necessary, the asset balances are written off to the extent that it is determined that future policy premiums and investment income or gross profits are not adequate to cover related losses and expenses.

Sensitivities. As of December 31, 2014, the net balance of DAC and related actuarial balances, excluding balances affected by changes in other comprehensive income ("OCI"), was a $1,958.2 million asset. We perform sensitivity analyses to assess the impact that certain assumptions have on our DAC and related actuarial balances. The following table shows the estimated immediate impact of various assumption changes on our DAC and related actuarial balances.

	Estimated impact to net income (1) *(in millions)*
Reducing the future equity return assumption by 1%	**$ (7)**
Reducing the long-term general account net investment returns assumption by 0.5% (2)	**(56)**
A one-time, 10% drop in equity market values	**(11)**

(1) Reflects the net impact of changes to the DAC asset, sales inducement asset, unearned revenue liability, reinsurance asset or liability, additional benefit reserves and related taxes. Includes the impact on net income of changes in DAC and related balances for our equity method subsidiaries. The DAC and related balances of the equity method subsidiaries are not included in the total DAC balance listed above as they are not fully consolidated.

(2) Net investment return represents net investment income plus net realized capital gains (losses).

Goodwill and Other Intangible Assets

Goodwill and other intangible assets include the cost of acquired subsidiaries in excess of the fair value of the net tangible assets recorded in connection with acquisitions. Goodwill and intangible assets with indefinite lives are not amortized; rather, we test the carrying value for impairment at least annually. Goodwill is tested at the reporting unit level, which is a business one level below the operating segment. We formally conduct our annual goodwill and other intangible asset impairment testing during the third quarter. Under certain circumstances, interim impairment tests may be required if events occur or circumstances change that would more-likely-than-not reduce the fair value of a reporting unit below its carrying value.

The operating segments and associated reporting units at which we perform our testing are as follows:

Retirement and Investor Services	Accumulation business and Guaranteed business
Principal Global Investors	Equity Investments, Fixed Income Investments, Real Estate Investments and Other Alternative Investments
Principal International	countries in which Principal International does business
U.S. Insurance Solutions	Individual Life Insurance and Specialty Benefits Insurance
Corporate	Corporate subsidiaries

U.S. GAAP permits entities to first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative impairment test of the two-step goodwill impairment test. Similarly, U.S. GAAP permits entities to first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of an intangible asset with an indefinite life is less than its carrying amount to determine whether it is necessary to perform a quantitative assessment. For 2014 testing we began to utilize the qualitative approach on a limited basis for intangible assets with indefinite lives. In our assessment we concluded that it was not necessary to perform a quantitative impairment analysis. In all cases during 2014, we continued to perform a two-step test in our evaluation of the carrying value of goodwill.

In Step 1 of the evaluation, the fair value of each reporting unit is determined and compared to the carrying value of the reporting unit. If the fair value is greater than the carrying value, then the carrying value of the reporting unit is deemed to be recoverable, and Step 2 is not required. After completion of our Step 1 analysis, it was determined that fair values exceeded the carrying amounts for all businesses one level below the operating segment and we do not currently have any business at risk of failing the Step 1 goodwill impairment test. If the fair value estimate had been less than the carrying value, it is an indicator that impairment may exist, and Step 2 would be required. In Step 2, the reporting unit's goodwill implied fair value is determined. The reporting unit's fair value as determined in Step 1 is assigned to all of its net assets (recognized and unrecognized) as if the reporting unit were acquired in a business combination as of the date of the impairment test. If the implied fair value of the reporting unit's goodwill is lower than its carrying amount, goodwill is impaired and written down to its implied fair value.

The determination of fair value for our reporting units is primarily based on an income approach whereby we use discounted cash flows for each reporting unit. When available, and as appropriate, we use market approaches or other valuation techniques to corroborate discounted cash flow results. The discounted cash flow model used for each reporting unit is based on either income or distributable cash flow, depending on the reporting unit being valued. We use different discount rates based upon the weighted average cost of capital adjusted for risks associated with the operations.

For the income model, we determine fair value based on the present value of the most recent income projections for each reporting unit and calculate a terminal value utilizing a terminal growth rate. The significant assumptions in the operating income model include: income projections, including the underlying assumptions; discount rate and terminal growth rate.

For the distributable cash flow model, we determine fair value based on the present value of projected statutory net income and changes in required capital to determine distributable income for the respective reporting unit. The significant assumptions in the distributable cash flow model include: required capital levels; income projections, including the underlying assumptions; discount rate; new business projection period and new business production growth.

Intangible assets with useful lives are amortized as related benefits emerge and are reviewed periodically for indicators of impairment in value. If facts and circumstances suggest possible impairment, the sum of the estimated undiscounted future cash flows expected to result from the use of the asset is compared to the current carrying value of the asset. If the undiscounted future cash flows are less than the carrying value, an impairment loss is recognized for the excess of the carrying amount of assets over their fair value. For those assets amortized as related benefits emerge, the most significant assumptions involved in the estimation of future benefits include surrender/lapse rates, interest margins and mortality.

The most significant goodwill and other intangible assets within our 2014 consolidated statement of financial position resulted from our 2013 acquisition of Cuprum, whereby we recorded $631.8 million of goodwill, and from our 2006 purchase of WM Advisors, Inc., whereby we acquired $608.0 million of investment management contracts which are considered an indefinite-lived intangible. We cannot predict certain future events that might adversely affect the reported value of goodwill and other intangible assets that totaled $1,007.4 million and $1,323.5 million, respectively, as of December 31, 2014. Such events include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on our customer base, interest rate movements, declines in the equity markets, the legal environment in which the businesses operate or a material negative change in our relationships with significant customers. For further information see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 1, Nature of Operations and Significant Accounting Policies," and "Note 2, Goodwill and Other Intangible Assets."

Insurance Reserves

Reserves are liabilities representing estimates of the amounts that will come due, at some point in the future, to or on behalf of our policyholders. U.S. GAAP, allowing for some degree of managerial judgment, prescribes the methods of establishing reserves.

Future policy benefits and claims include reserves for individual traditional and group life insurance, disability and health insurance and individual and group annuities that provide periodic income payments, which are computed using assumptions of mortality, morbidity, lapse, investment performance and expense. These assumptions are based on our experience and are periodically reviewed against industry results to ensure actuarial credibility. For long duration insurance contracts, once these assumptions are made for a given policy or group of policies, they will not be changed over the life of the policy. However, significant changes in experience or assumptions may require us to provide for expected future losses on a product by establishing premium deficiency reserves. Premium deficiency reserves may also be established for short duration contracts to provide for expected future losses. Our reserve levels are reviewed throughout the year using internal analysis including, among other things, experience studies, claim development analysis and annual statutory asset adequacy analysis. To the extent experience indicates potential loss recognition, we recognize losses on certain lines of business. The ultimate accuracy of the assumptions on these long-tailed insurance products cannot be determined until the obligation of the entire block of business on which the assumptions were made is extinguished. Short-term variances of actual results from the assumptions used in the computation of the reserves are reflected in current period net income and can impact quarter-to-quarter net income.

Future policy benefits and claims also include reserves for incurred but unreported health, disability and life insurance claims. We recognize claims costs in the period the service was provided to our policyholders. However, claims costs incurred in a particular period are not known with certainty until after we receive, process and pay the claims. We determine the amount of this liability using actuarial methods based on historical claim payment patterns as well as emerging cost trends, where applicable, to determine our estimate of claim liabilities. We also look back to assess how our prior periods' estimates developed. To the extent appropriate, changes in such development are recorded as a change to current period claim expense. Historically, the amount of the claim reserve adjustment made in subsequent reporting periods for prior period estimates have been within a reasonable range given our normal claim fluctuations.

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Benefit Plans

The reported expense and liability associated with pension and other postretirement benefit plans requires the use of assumptions. Numerous assumptions are made regarding the discount rate, expected long-term rate of return on plan assets, turnover, expected compensation increases, health care claim costs, health care cost trends, retirement rates and mortality. The discount rate and the expected return on plan assets have the most significant impact on the level of expense.

The assumed discount rate is determined by projecting future benefit payments inherent in the Projected Benefit Obligation and discounting those cash flows using a spot yield curve for high quality corporate bonds. Our assumed discount rate for the 2014 year-end was 4.00%. Typically a 0.25% decrease in the discount rate would increase the pension benefits Projected Benefit Obligation and the Net Periodic Pension Cost ("NPPC") by approximately $122.0 million and $5.7 million, respectively. Typically a 0.25% decrease in the discount rate would increase the other postretirement benefits Accumulated Postretirement Benefit Obligation by approximately $4.0 million and would have a nominal impact on the Net Periodic Benefit Cost ("NPBC"). Typically a 0.25% increase in the discount rate would result in decreases in benefit obligations and expenses at a level generally commensurate with those noted above.

The assumed long-term rate of return on plan assets is set at the long-term rate expected to be earned based on the long-term investment policy of the plans and the various classes of the invested funds. Historical and future expected returns of multiple asset classes were analyzed to develop a risk-free real rate of return and risk premiums for each asset class. The overall long-term rate for each asset class was developed by combining a long-term inflation component, the real risk free rate of return and the associated risk premium. A weighted average rate was developed based on long-term returns for each asset class, the plan's target asset allocation policy and the tax structure of the trusts. For the 2014 NPPC and 2014 NPBC, a 6.75% and 5.36% weighted average long-term rate of return was used, respectively. For the 2015 NPPC and 2015 NPBC, a 7.20% and 5.36% weighted average long-term rate of return assumption, respectively, will be used. Typically a 0.25% decrease in the assumed long-term rate of return would increase the NPPC by approximately $5.6 million and the NPBC by approximately $1.6 million. Typically a 0.25% increase in this rate would result in a decrease to expense at the same levels. The assumed return on plan assets is based on the fair market value of plan assets as of December 31, 2014.

The compensation increase assumption is generally set at a rate consistent with current and expected long-term compensation and salary policy, including inflation. Actuarial gains and losses are amortized using a straight-line amortization method over the average remaining service period of employees, which is approximately 7 years for pension costs and approximately 10 years for other postretirement benefit costs. Prior service costs are amortized on a weighted average basis over approximately 3 years for pension and 2 years for other postretirement benefit costs. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 11, Employee and Agent Benefits" for further discussion.

Income Taxes

We provide for income taxes based on our estimate of the liability for taxes due. Our tax accounting represents management's best estimate of various events and transactions, such as completion of tax audits or establishment of, or changes to, a valuation allowance associated with certain deferred tax assets, which could affect our estimates and effective income tax rate in a particular quarter or annual period. Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates expected to be in effect during the years in which the basis differences reverse. We are required to evaluate the recoverability of our deferred tax assets each quarter and establish a valuation allowance, if necessary, to reduce our deferred tax assets to an amount that is more-likely-than-not to be realizable. In determining the need for a valuation allowance, we consider many factors, including future reversals of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in prior carryback years and implementation of any feasible and prudent tax planning strategies management would employ to realize the tax benefit.

Inherent in the provision for income taxes are estimates regarding the deductibility of certain items, the timing of income and expense recognition and the current or future realization of operating losses, capital losses and certain tax credits. In the event these estimates differ from our prior estimates due to the receipt of new information, we may be required to significantly change the provision for income taxes recorded in the consolidated financial statements. Any such change could significantly affect the amounts reported in the consolidated financial statements in the year these estimates change. A further significant decline in value of assets incorporated into our tax planning strategies could lead to an increase of our valuation allowance on deferred tax assets having an adverse effect on current and future results. In management's judgment, total deferred income tax assets are more-likely-than-not to be realized.

In addition, the amount of income taxes paid is subject to audits in the U.S. as well as various state and foreign jurisdictions. Tax benefits are recognized for book purposes when the more-likely-than-not threshold is met with regard to the validity of an uncertain tax position. Once this threshold is met, for each uncertain tax position we recognize in earnings the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement with the Internal Revenue Service or other income taxing authorities for audits ongoing or not yet commenced.

We had $298.3 million and $329.9 million of current income tax receivables associated with outstanding audit issues reported as other assets in our consolidated statements of financial position as of December 31, 2014 and 2013, respectively. We believe that we have adequate defenses against, or sufficient provisions for, the contested issues, but final resolution of contested issues could take several years while legal remedies are pursued. Consequently, we do not anticipate the ultimate resolution of audits ongoing or not yet commenced to have a material impact on our net income.

Transactions Affecting Comparability of Results of Operations

Acquisitions

We entered into acquisition agreements for the following businesses.

AXA Hong Kong Pension Business. On November 7, 2014, we announced we will acquire AXA's MPF and ORSO pension business in Hong Kong for approximately $335.0 million. As part of the transaction, we will enter into an exclusive 15-year distribution agreement with AXA to provide co-branded pension products through AXA's extensive agency network in Hong Kong. The transaction is expected to close third quarter 2015, subject to regulatory approvals. Upon approval, we will more than double the AUM in our Hong Kong pension business to $6.0 billion.

Columbus Circle Investors. On September 30, 2014, we acquired an additional 24.65% interest in Columbus Circle Investors from the minority shareholder partners. We now own 95% of Columbus Circle Investors and are contracted to purchase the remaining 5% from the minority shareholder partners in two installments in March 2015 and March 2016. Columbus Circle Investors is consolidated within our Principal Global Investors segment.

Liongate Capital Management LLP and Liongate Limited. On May 1, 2013, we finalized the purchase of a 55% interest in Liongate Capital Management LLP and Liongate Limited ("Liongate"), a global alternative investment boutique based in London and New York. Liongate is focused on managing portfolios of hedge funds. The purchase price was $44.0 million. Liongate had $1.4 billion in AUM at the time of acquisition and is accounted for on the equity method within the Principal Global Investors segment. In the fourth quarter of 2014, we impaired our investment in Liongate.

Cuprum. On February 4, 2013, we finalized the purchase of Cuprum, a premier pension manager in Chile. As a result of the public tender offer, we initially acquired a 91.55% ownership stake in Cuprum for a purchase price of $1.3 billion. Cuprum had $34.3 billion in AUM at the time of acquisition and is consolidated within the Principal International segment.

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

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

Other

Actuarial Assumption Updates. We periodically review and update actuarial assumptions that are inputs to the models for DAC and other actuarial balances and make model refinements as necessary. During the third quarter of 2014, assumption updates and model refinements were made resulting in an unlocking of DAC and other actuarial balances that increased total company net income by $45.3 million for the year ended December 31, 2014. During the third quarter of 2012, assumption updates and model refinements were made resulting in an unlocking of DAC and other actuarial balances that decreased total company net income by $85.2 million for the year ended December 31, 2012. Our review and update in 2013 did not result in a material impact to net income.

We updated our actuarial models to reflect the lower interest rate environment in our U.S. operations in 2012. The updates to our long-term interest rate assumptions and related refinements to the interest rate component of our actuarial models resulted in an unlocking that negatively impacted operating earnings. The negative unlocking from the lower interest rates was partially offset by the positive impact from the increased expected persistency in our individual annuities business. The net negative segment operating earnings impact was $66.3 million, which was comprised of $55.2 million for our U.S. Insurance Solutions segment and $11.1 million for our Retirement and Investor Services segment.

In addition to the interest rate assumption update, we updated other assumptions and made model refinements that resulted in a net negative unlocking and a $12.9 million decrease to operating earnings in total for the Retirement and Investor Services and U.S. Insurance Solutions segments for the year ended December 31, 2012.

Within our individual life insurance business, we updated actuarial assumptions as mentioned above, which impacted several line items within our income statement. The following table presents the impact on the individual life insurance income statement line items for the years ended December 31, 2014 and 2012. The impact for the year ended December 31, 2013, was not material.

	For the year ended December 31,	
	2014	**2012**
	(in millions)	
Operating earnings	**$ 39.0**	$ (62.9)
Fee revenues	**3.1**	13.5
Benefits, claims and settlement expenses	**(131.6)**	67.2
Operating expenses	**74.7**	43.0

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

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

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

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

Foreign currency exchange rate fluctuations create variances in our financial statement line items but have not had a material impact on our consolidated financial results. Principal International segment operating earnings were negatively impacted $31.7 million for the year ended December 31, 2014, as a result of fluctuations in foreign currency to U.S. dollar exchange rates. For a discussion of our approaches to managing foreign currency exchange rate risk, see Item 7A. "Quantitative and Qualitative Disclosures About Market Risk Foreign Currency Risk."

Stock-Based Compensation Plans

For information related to our Stock-Based Compensation Plans, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 17, Stock-Based Compensation Plans."

Effects of Inflation

The impact of inflation has not had a material effect on our annual consolidated results of operations over the past three years. However, we may be materially affected by inflation in the future.

Employee and Agent Benefits Expense

The 2014 annual defined benefit pension expense for substantially all of our employees and certain agents was $85.0 million pre-tax, which was a $58.3 million decrease from the 2013 pre-tax pension expense of $143.3 million. This decrease is primarily due to an increase in the discount rate from 4.00% for 2013 to 4.90% for 2014, and also due to better actual asset returns than expected. Also, the expected long-term return on plan assets used to develop the 2014 expense decreased to 6.75% from 7.50% used in 2013 and partially offset the decrease caused by the other expense components.

The 2015 annual defined benefit pension expense for substantially all of our employees and certain agents is expected to be $123.3 million pre-tax, which is a $38.3 million increase from the 2014 pre-tax pension expense of $85.0 million. This increase is due to a decrease in the discount rate from 4.90% for 2014 to 4.00% for 2015 and a change in the mortality assumptions. Offsetting these increases were a better than expected asset return in 2014 and an increase in the expected long-term return on plan assets to 7.20% for 2015 from 6.75% used in 2014.

The 2014 annual OPEB plan expense (income) for employees and certain agents was $(48.3) million pre-tax, which is a $1.3 million increase from the 2013 pre-tax OPEB income of $(47.0) million. The expense difference is primarily due to better actual asset returns used to develop the 2014 expense (income), which was partially offset by a decrease in the weighted average expected long-term return in 2014, which decreased to 5.36% from 5.62%.The weighted average expected long-term return on plan assets was based on weighted average expected long-term asset returns for the medical, life and long-term care plan. The expected rate of return for the life plans was reduced to 5.00% to reflect the after-tax return on the plan assets resulting from the decision to have taxes paid by the trust instead of Principal Life. The discount rate used to develop the 2014 expense (income) increased to 4.90%, up from 4.00% used in 2013.

The 2015 annual OPEB plan expense (income) for employees and certain agents is expected to be $(44.7) million pre-tax, which is a $3.6 million decrease from the 2014 pre-tax OPEB income of $(48.3) million. The weighted average expected long-term return on plan assets used to develop the expense (income) in 2015 was 5.36%, which was based on weighted average expected long-term asset returns for the medical, life and long-term care plan. The discount rate used to develop the 2015 expense (income) decreased to 4.00%, down from 4.90% used in 2014. The mortality table was changed for the calculation of the OPEB liabilities as well, but it had little impact.

Impact of Low Interest Rate Environment

The exposure from the low interest rates is reflected in a reduction in the spreads between the investment income we earn and the interest we credit to our customers. Some of our products, primarily our fixed deferred annuity, general account group annuity and universal life insurance products, include guaranteed minimum interest rates. During periods of low or declining interest rates, borrowers may prepay or redeem mortgages and fixed maturities that are invested to support our product obligations, which would force us to reinvest the proceeds at lower interest rates. The resulting lower net investment income may make it more difficult for us to maintain our desired spread and thereby reduce our profitability. See Item 7A. "Quantitative and Qualitative Disclosures About Market Risk Interest Rate Risk" for a presentation of the differences between the interest rates being credited to contractholders and the respective guaranteed minimum interest rates.

Some of our universal life insurance contracts contain secondary guarantees, which keep the contract in force, even if the contractholder's account balance is insufficient to cover all of the contract charges, provided that the contractholder has continually paid a specified minimum premium. It is possible that more of these secondary guarantees could be triggered, possibly increasing our policyholder obligation and thereby reducing our profitability.

Declining or low interest rates could impact the discount rate assumption used for the purposes of valuing reserves and our pension and other postretirement benefit obligations. A decrease in the discount rate could result in higher reserves as well as lower margins and an increase in the annual pension and other postretirement benefit expense.

Our expectation of EGPs is an important consideration in determining the amortization of DAC and other actuarial balances. To the extent a low interest rate environment impacts our assumptions regarding future EGPs, an unlocking of DAC and other actuarial balances could occur, decreasing net income.

Lastly, lower net investment income could result in the establishment of a premium deficiency reserve for certain of our insurance products.

We anticipate that a sustained low interest rate environment would reduce the growth in net income.

Recent Accounting Changes

For recent accounting changes, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 1, Nature of Operations and Significant Accounting Policies" under the caption, "Recent Accounting Pronouncements."

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Results of Operations

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

	For the year ended December 31,			Increase (decrease)	
	2014	**2013**	**2012**	**2014 vs. 2013**	**2013 vs. 2012**
			(in millions)		
Revenues:					
Premiums and other considerations	**$ 3,722.9**	$ 3,154.1	$ 3,219.4	$ 568.8	$ (65.3)
Fees and other revenues	**3,482.1**	3,222.2	2,626.7	259.9	595.5
Net investment income	**3,257.9**	3,138.4	3,254.9	119.5	(116.5)
Net realized capital gains (losses), excluding impairment losses on available-for-sale securities	**92.7**	(109.2)	232.7	201.9	(341.9)
Net other-than-temporary impairment (losses) recoveries on available-for-sale securities	**23.8**	(91.5)	(135.9)	115.3	44.4
Other-than-temporary impairment losses on fixed maturities available-for-sale reclassified to (from) other comprehensive income	**(101.8)**	(24.5)	17.3	(77.3)	(41.8)
Net impairment losses on available-for-sale securities	**(78.0)**	(116.0)	(118.6)	38.0	2.6
Net realized capital gains (losses)	**14.7**	(225.2)	114.1	239.9	(339.3)
Total revenues	**10,477.6**	9,289.5	9,215.1	1,188.1	74.4
Expenses:					
Benefits, claims and settlement expenses	**5,231.0**	4,683.6	5,123.9	547.4	(440.3)
Dividends to policyholders	**177.4**	189.0	197.7	(11.6)	(8.7)
Operating expenses	**3,574.3**	3,292.9	2,933.5	281.4	359.4
Total expenses	**8,982.7**	8,165.5	8,255.1	817.2	(89.6)
Income before taxes	**1,494.9**	1,124.0	960.0	370.9	164.0
Income taxes	**318.5**	187.9	134.6	130.6	53.3
Net income	**1,176.4**	936.1	825.4	240.3	110.7
Net income attributable to noncontrolling interest	**32.3**	23.4	18.8	8.9	4.6
Net income attributable to Principal Financial Group, Inc.	**1,144.1**	912.7	806.6	231.4	106.1
Preferred stock dividends	**33.0**	33.0	33.0		
Net income available to common stockholders	**$ 1,111.1**	$ 879.7	$ 773.6	$ 231.4	$ 106.1

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Net Income Available to Common Stockholders

Net income available to common stockholders increased primarily due to double digit earnings growth in all of the segments, lower net realized capital losses associated with derivatives not designated as hedging instruments and gains on fixed maturities. These increases were partially offset by an increase in net deferred tax liabilities resulting from the third quarter 2014 enactment of tax legislation in Chile and the impact of a court ruling on some uncertain tax positions in the second quarter of 2014.

Total Revenues

Premiums increased $539.0 million for the Retirement and Investor Services segment primarily due to growth in our payout annuity block of business.

Fee revenues increased $227.1 million for the Retirement and Investor Services segment primarily due to higher fees stemming from an increase in average account values, which resulted from positive equity market performance and growth in the business.

Net investment income increased due to higher inflation-based investment returns on average invested assets and cash as a result of higher inflation in Chile and favorable market changes on our mandatory investment in the pension funds of our Chilean pension company. These increases were partially offset by the weakening of the Chilean peso against the U.S. dollar and lower yields on average invested assets and cash in our U.S. operations. For additional information, see "Investments Investment Results."

Net realized capital gains (losses) can be volatile due to other-than-temporary impairments of invested assets, mark-to-market adjustments of certain invested assets and our decision to sell invested assets. Net realized capital gains (losses) improved due to lower losses on derivatives not designated as hedging instruments and gains on fixed maturities. For additional information, see "Investments Investment Results."

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Total Expenses

Benefits, claims and settlement expenses increased $463.5 million for the Retirement and Investor Services segment primarily due to an increase in reserves resulting from growth in our payout annuity block of business.

Operating expenses increased $161.8 million for the Retirement and Investor Services segment primarily due to higher sub-advisory fee costs stemming from an increase in average account values, which resulted from positive equity market performance, an increase in non-deferrable distribution costs and an increase in DAC amortization related to individual annuities. Operating expenses increased $115.0 million for the U.S. Insurance Solutions segment primarily due to DAC unlocking associated with actuarial model and assumption updates in 2014.

Income Taxes

The effective income tax rates were 21% and 17% for the years ended December 31, 2014 and 2013, respectively. The effective income tax rate for the year ended December 31, 2014 was lower than the U.S. corporate income tax rate of 35% ("U.S. statutory rate") primarily due to income tax deductions allowed for corporate dividends received, the presentation of taxes on our share of earnings generated from equity method investments reflected in net investment income and tax credits, partially offset by an increase in net deferred tax liabilities resulting from the third quarter 2014 enactment of tax legislation in Chile. The effective income tax rate for the year ended December 31, 2013, was lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received, the presentation of taxes on our share of earnings generated from equity method investments in net investment income and lower tax rates of foreign jurisdictions. The effective income tax rate increased to 21% from 17% for the years ended December 31, 2014 and 2013, respectively, primarily due to an increase in net deferred tax liabilities resulting from the third quarter 2014 enactment of tax legislation in Chile.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Net Income Available to Common Stockholders

Net income available to common stockholders increased primarily due to higher earnings in our Retirement and Investor Services segment stemming from positive equity market performance and growth in the business. This increase was partially offset by an after-tax increase in net realized capital losses due to the net after-tax gain in 2012 associated with the merger of Catalyst Health Solutions, Inc.

Total Revenues

Premiums decreased $117.1 million for the Retirement and Investor Services segment primarily due to lower sales of single premium group annuities with life contingencies. The single premium product, which is typically used to fund defined benefit plan terminations, can generate large premiums from very few customers and therefore premiums tend to vary from period to period. Partially offsetting this decrease was a $47.2 million increase for the U.S. Insurance Solutions segment primarily due to growth as a result of solid sales and stable employment and salary trends in our specialty benefits insurance business.

Fee revenues increased $280.8 million for the Retirement and Investor Services segment primarily due to higher fees stemming from an increase in average account values, which resulted from positive equity market performance and growth in the business. Fee revenues also increased $187.5 million for the Principal International segment primarily due to the acquisition of a Chilean pension company. In addition, fees increased $126.4 million for the Principal Global Investors segment due to higher management fee revenues as a result of increased AUM and increased performance fee revenue.

Net investment income decreased due to lower investment yields on our invested assets and cash in our U.S. operations and lower inflation-based investment returns on average invested assets and cash as a result of the weakening of certain Latin American currencies against the U.S. dollar. These decreases were partially offset by the acquisition of a Chilean pension company and higher average invested assets in Chile. For additional information, see "Investments Investment Results."

Net realized capital gains (losses) can be volatile due to other-than-temporary impairments of invested assets, mark-to-market adjustments of certain invested assets and our decision to sell invested assets. We had net realized capital losses in 2013 as compared to net realized capital gains in 2012 due to a gain associated with the merger of Catalyst Health Solutions, Inc. and the subsequent disposition of our remaining interest in the surviving corporation in the third quarter of 2012 and increased losses on derivatives not designated as hedging instruments. For additional information, see "Investments Investment Results."

Total Expenses

Benefits, claims and settlement expenses decreased $325.7 million for the Retirement and Investor Services segment primarily due to a decrease in change in reserves resulting from lower sales of single premium group annuities with life contingencies. Benefits, claims and settlement expenses also decreased $109.5 million for the U.S. Insurance Solutions segment primarily due to the change in basis for amortizing DAC and other actuarial balances in the first quarter of 2012

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and the unlocking associated with a change in our long-term interest rate assumptions and model refinements in the third quarter of 2012 partially offset by higher mortality and growth in 2013.

Operating expenses increased $157.6 million for the Retirement and Investor Services segment primarily due to higher staff related costs, an increase in non-deferrable distribution costs resulting from growth in the business and higher sub-advisory fees stemming from positive equity market performance. Operating expenses increased $125.1 million for the U.S. Insurance Solutions segment primarily due to the change in basis for amortizing DAC and other actuarial balances in the first quarter of 2012 partially offset by unlocking associated with a change in our long-term interest rate assumptions and model refinements in the third quarter of 2012. In addition, operating expenses increased $113.4 million for the Principal International segment primarily due to the acquisition of a Chilean pension company and higher overall compensation expenses due to growth.

Income Taxes

The effective income tax rates were 17% and 14% for the years ended December 31, 2013 and 2012, respectively. The effective income tax rate for the year ended December 31, 2013 was lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received, the presentation of taxes on our share of earnings generated from equity method investments in net investment income and lower tax rates of foreign jurisdictions. The effective income tax rate for the year ended December 31, 2012, was lower than the U.S. statutory rate primarily due to income tax deductions allowed for corporate dividends received, the presentation of taxes on our share of earnings generated from equity method investments in net investment income and the interest exclusion from taxable income. The effective income tax rate increased to 17% from 14% for the years ended December 31, 2013 and 2012, respectively, primarily due to an increase in income before taxes with no proportionate change in permanent tax differences.

Results of Operations by Segment

For results of operations by segment see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 16, Segment Information."

Retirement and Investor Services Segment

Retirement and Investor Services Trends

Several key factors impact revenue and earnings growth in the Retirement and Investor Services ("RIS") segment. These factors include: the ability of our distribution channels to generate new sales and retain existing business; pricing decisions that take account of competitive conditions, persistency, investment returns, mortality trends, and operating expense levels; investment management performance; equity market returns and interest rate changes. Profitability ultimately depends on our ability to price products and invest assets at a level that enables us to earn a margin over the cost of providing benefits and the expense of acquiring and administering those products.

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

The following table presents the RIS segment net revenue for the years indicated:

	For the year ended December 31,			Increase (decrease)	
	2014	**2013**	**2012**	**2014 vs. 2013**	**2013 vs. 2012**
			(in millions)		
Net revenue:					
Accumulation	**$ 2,558.4**	$ 2,336.1	$ 2,044.1	$ 222.3	$ 292.0
Guaranteed	**199.1**	184.2	155.1	14.9	29.1
Total Retirement and Investor Services	**$ 2,757.5**	$ 2,520.3	$ 2,199.2	$ 237.2	$ 321.1

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Retirement and Investor Services Segment Summary Financial Data

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

	For the year ended December 31,			Increase (decrease)	
	2014	**2013**	**2012**	**2014 vs. 2013**	**2013 vs. 2012**
			(in millions)		
Operating revenues:					
Premiums and other considerations	**$ 1,584.5**	$ 1,045.5	$ 1,162.6	$ 539.0	$ (117.1)
Fees and other revenues	**2,033.1**	1,806.0	1,525.5	227.1	280.5
Net investment income	**1,905.7**	1,996.1	2,146.8	(90.4)	(150.7)
Total operating revenues	**5,523.3**	4,847.6	4,834.9	675.7	12.7
Expenses:					
Benefits, claims and settlement expenses, including dividends to policyholders	**2,765.8**	2,327.3	2,635.7	438.5	(308.4)
Operating expenses	**1,728.9**	1,630.3	1,474.1	98.6	156.2
Total expenses	**4,494.7**	3,957.6	4,109.8	537.1	(152.2)
Operating earnings before income taxes	**1,028.6**	890.0	725.1	138.6	164.9
Income taxes	**200.5**	195.6	150.0	4.9	45.6
Operating earnings	**$ 828.1**	$ 694.4	$ 575.1	$ 133.7	$ 119.3

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Operating Earnings

Operating earnings increased $123.6 million in our Accumulation business primarily due to higher fees stemming from an increase in average account values, which resulted from positive equity market performance and growth in the business.

Net Revenue

Net revenue increased $222.3 million in our Accumulation business primarily due to higher fees stemming from an increase in average account values, which resulted from positive equity market performance and growth in the business.

Operating Expenses

Operating expenses increased $98.7 million in our Accumulation business primarily due to higher sub-advisory fee costs stemming from an increase in average account values, which resulted from positive equity market performance, an increase in non-deferrable distribution costs and an increase in DAC amortization related to individual annuities.

Income Taxes

The effective income tax rates for the segment were 19% and 22% for the years ended December 31, 2014 and 2013, respectively. The effective income tax rate for the year ended December 31, 2014, was lower than the U.S. statutory rate primarily as a result of income tax deductions allowed for corporate dividends received and tax credits. The effective income tax rate for the year ended December 31, 2013, was lower than the U.S. statutory rate primarily as a result of income tax deductions allowed for corporate dividends received and the interest exclusion from taxable income. The effective tax rate decreased to 19% from 22% for the years ended December 31, 2014 and 2013, respectively, primarily due to an increase in income tax deductions allowed for corporate dividends received and tax credits in 2014.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Operating Earnings

Operating earnings increased $102.0 million in our Accumulation business primarily due to positive equity market performance and growth in the business, which was partially offset by an increase in staff related costs and higher non-deferrable commissions and sub-advisory fees.

Net Revenue

Net revenue increased $292.0 million in our Accumulation business primarily due to higher fees stemming from an increase in average account values, which resulted from positive equity market performance and growth in the business.

Operating Expenses

Operating expenses increased $154.3 million in our Accumulation business primarily due to higher staff related costs, including pension and other postretirement benefits. In addition, operating expenses increased due to an increase in non-deferrable distribution costs resulting from growth in the business and higher sub-advisory fees stemming from positive equity market performance.

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Income Taxes

The effective income tax rates for the segment were 22% and 21% for the years ended December 31, 2013 and 2012, respectively. The effective income tax rates were lower than the U.S. statutory rate primarily as a result of income tax deductions allowed for corporate dividends received and the interest exclusion from taxable income.

Principal Global Investors Segment

Principal Global Investors Trends

Our overall AUM increased $21.9 billion in 2014 due to continued strong portfolio management as well as positive market performance. We also continue to expand our global presence and experience success in winning institutional asset management mandates and other deposits.

The following table provides a summary of Principal Global Investors' affiliated and third party AUM as of the years indicated:

As of	Affiliated AUM	Third Party AUM	Total AUM
		(in billions)	
December 31, 2014	**$ 200.0**	**$ 114.0**	**$ 314.0**
December 31, 2013	182.7	109.4	292.1
December 31, 2012	165.0	98.2	263.2

Principal Global Investors Segment Summary Financial Data

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

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

	For the year ended December 31,		
	2014	**2013**	**2012**
		(in billions)	
AUM, beginning of period	**$ 292.1**	$ 263.2	$ 227.8
Net cash flow (1)	**2.5**	4.2	11.7
Investment performance (2)	**19.1**	26.3	24.2
Operations acquired (3)		1.4	
Other (4)	**0.3**	(3.0)	(0.5)
AUM, end of period	**$ 314.0**	$ 292.1	$ 263.2

(1) Positive net cash flows are primarily due to continued strong distribution results.

(2) Variations in investment performance are primarily the result of fluctuations in market performance over time.

(3) Reflects acquisition of Liongate in May 2013.

(4) Includes the transfer of cash needed for the Cuprum acquisition in 2013.

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

	For the year ended December 31,			Increase (decrease)	
	2014	**2013**	**2012**	**2014 vs. 2013**	**2013 vs. 2012**
			(in millions)		
Operating revenues:					
Fees and other revenues	**$ 715.6**	$ 702.2	$ 575.8	$ 13.4	$ 126.4
Net investment income	**10.3**	17.0	15.4	(6.7)	1.6
Total operating revenues	**725.9**	719.2	591.2	6.7	128.0
Expenses:					
Total expenses	**533.7**	544.5	456.2	(10.8)	88.3
Operating earnings before income taxes and noncontrolling interests	**192.2**	174.7	135.0	17.5	39.7
Income taxes	**63.8**	55.5	43.5	8.3	12.0
Operating earnings attributable to noncontrolling interests	**12.4**	16.6	10.3	(4.2)	6.3
Operating earnings	**$ 116.0**	$ 102.6	$ 81.2	$ 13.4	$ 21.4

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Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Operating Earnings

Operating earnings increased due to higher management fee revenue as a result of increased AUM as well as our increased ownership in Columbus Circle Investors. These increases were offset, in part, by a decrease in performance fees primarily seen in our alternative strategies.

Income Taxes

The effective income tax rates for the segment were 33% and 32% for the years ended December 31, 2014 and 2013, respectively. The effective income tax rates were lower than the U.S. statutory rate, primarily due to inclusion of income attributable to noncontrolling interest in pre-tax operating earnings without inclusion of the income taxes reported by us as the controlling interest.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Operating Earnings

Operating earnings increased due to higher management fee revenue as a result of increased AUM. In addition, operating earnings increased due to higher performance fee revenue in our real estate and alternative strategies. These increases were partially offset by higher staff related costs, many of which are aligned with both the expansion of our business and increased performance based revenue.

Income Taxes

The effective income tax rate for the segment was 32% for both the years ended December 31, 2013 and 2012. The effective income tax rate was lower than the U.S. statutory rate primarily due to inclusion of income attributable to noncontrolling interest in pre-tax operating earnings without inclusion of the income taxes reported by us as the controlling interest.

Principal International Segment

Principal International Trends

Our Principal International businesses focus on countries with growing middle classes, favorable demographics and increasing long-term savings, ideally with defined contribution retirement markets. With variations depending upon the specific country, we have targeted these markets for sales of retirement and related products and services, including mutual funds, asset management, income annuities and life insurance accumulation products to businesses and individuals.

We have pursued our international strategy through a combination of acquisitions, start-up operations and joint ventures, which require infusions of capital consistent with our strategy of long-term growth and profitability.

Principal International Segment Summary Financial Data

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

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

	For the year ended December 31,		
	2014	2013	2012
	(in billions)		
AUM, beginning of period	**$ 104.5**	$ 69.3	$ 52.8
Net cash flow (1)	**13.1**	8.5	9.3
Investment performance (2)	**11.0**	3.6	7.2
Operations acquired (3)		34.3	2.0
Effect of exchange rates	**(13.5)**	(11.1)	(1.8)
Other	**(0.5)**	(0.1)	(0.2)
AUM, end of period	**$ 114.6**	$ 104.5	$ 69.3

(1) Positive net cash flows are primarily due to continued strong distribution results.

(2) Variations in investment performance are primarily the result of fluctuations in market performance over time.

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

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

	For the year ended December 31,			Increase (decrease)	
	2014	2013	2012	2014 vs. 2014	2013 vs. 2012
	(in millions)				
Net revenue	**$ 662.6**	$ 582.6	$ 375.8	$ 80.0	$ 206.8

Net revenue increased primarily due to the acquisition and growth of our Chilean pension company and favorable market changes on our mandatory investment in the pension funds in Chile. These increases were partially offset by the weakening of the Chilean peso against the U.S. dollar.

The following table presents certain summary financial data relating to the Principal International segment for the years indicated:

	For the year ended December 31,			Increase (decrease)	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
	(in millions)				
Operating revenues:					
Premiums and other considerations	**$ 225.7**	$ 291.6	$ 284.6	$ (65.9)	$ 7.0
Fees and other revenues	**438.9**	404.4	216.9	34.5	187.5
Net investment income	**610.8**	454.0	441.2	156.8	12.8
Total operating revenues	**1,275.4**	1,150.0	942.7	125.4	207.3
Expenses:					
Benefits, claims and settlement expenses	**612.8**	567.4	566.9	45.4	0.5
Operating expenses	**361.8**	333.9	220.9	27.9	113.0
Total expenses	**974.6**	901.3	787.8	73.3	113.5

Operating earnings before income taxes and noncontrolling interests	**300.8**	248.7	154.9	52.1	93.8
Income taxes	**30.3**	28.0	0.6	2.3	27.4
Operating earnings attributable to noncontrolling interests	**2.5**	5.5	0.2	(3.0)	5.3
Operating earnings	**$ 268.0**	$ 215.2	$ 154.1	$ 52.8	$ 61.1

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Operating Earnings

Operating earnings increased primarily due to the acquisition and growth of our Chilean pension company and favorable market changes on our mandatory investment in the pension funds of our Chilean pension company. These increases are partially offset by the weakening of the Chilean peso against the U.S. dollar.

Operating Revenues

Premiums decreased $65.9 million in Chile primarily due to the weakening of the Chilean peso against the U.S. dollar and lower sales of single premium annuities with life contingencies.

Fees and other revenues increased primarily due to the acquisition and growth of our pension company in Chile partially offset by the weakening of the Chilean peso against the U.S. dollar.

Net investment income increased primarily due to the higher inflation-based investment returns on average invested assets and cash as a result of higher inflation in Chile and favorable market changes on our mandatory investment in the pension funds of our Chilean pension company partially offset by the weakening of the Chilean peso against the U.S. dollar.

Total Expenses

Benefits, claims and settlement expenses increased $43.7 million in Chile primarily due to higher inflation-based interest crediting rates to customers partially offset by lower sales of single premium annuities with life contingencies and the weakening of the Chilean peso against the U.S. dollar.

Operating expenses increased primarily due to the acquisition and growth of our Chilean pension company and higher Principal International infrastructure costs partially offset by the weakening of the Chilean peso against the U.S. dollar.

Income Taxes

The effective income tax rates for the segment were 10% and 11% for the years ended December 31, 2014 and 2013, respectively. The effective income tax rates were lower than the U.S. statutory rate primarily due to the presentation of taxes on our share of earnings generated from our equity method investments reflected in net investment income and lower tax rates of foreign jurisdictions.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Operating Earnings

Operating earnings increased primarily due to the Chilean pension company acquisition partially offset by the weakening of the Brazilian real and Chilean peso against the U.S. dollar and the one-time impact of the tax regulation changes enacted in 2013 in Mexico.

Operating Revenues

Premiums increased $7.0 million in Chile primarily due to higher sales of single premium annuities with life contingencies partially offset by the weakening of the Chilean peso against the U.S. dollar.

Fees and other revenues increased primarily due to the Chilean pension company acquisition.

Net investment income increased primarily due to the Chilean pension company acquisition and higher average invested assets in Chile partially offset by the weakening of the Chilean peso and Brazilian real against the U.S. dollar.

Total Expenses

Benefits, claims and settlement expenses increased $0.7 million in Chile primarily due to higher sales of single premium annuities with life contingencies partially offset by the weakening of the Chilean peso against the U.S. dollar.

Operating expenses increased primarily due to the Chilean pension company acquisition and higher overall compensation expenses due to growth.

Income Taxes

The effective income tax rates for the segment were 11% and 0% for the years ended December 31, 2013 and 2012, respectively. The effective income tax rates were lower than the U.S. statutory rate primarily due to the presentation of taxes on our share of earnings generated from our equity method investments reflected in net investment income and lower tax rates of foreign jurisdictions. The effective income tax rate increased to 11% from 0% for the years ended December 31, 2013 and 2012, respectively, primarily due to the Chilean pension company acquisition, which increased our distribution of operating earnings from our consolidated entities compared to our equity method investments, coupled with tax regulation changes in Mexico.

U.S. Insurance Solutions Segment

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

U.S. Insurance Solutions Insurance Trends

Premiums and fees are a key metric for growth in the U.S. Insurance Solutions segment. We receive premiums on our traditional life insurance products as well as on our specialty benefits insurance products. Fees are generated from our universal life and variable universal life insurance products as well as our specialty benefits fee-for-service products.

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Premiums and fees are influenced by economic, industry and regulatory trends. Due to the declining interest rate environment in recent years, we have intentionally increased sales of non-interest sensitive traditional products in our individual life insurance business. Premiums and fees in our specialty benefits insurance business have increased due to improved sales and retention, as well as recovery in underlying salaries and membership growth in existing group contracts.

The following table presents the U.S. Insurance Solutions segment premiums and fees for the years indicated:

	For the year ended December 31,			Increase (decrease)	
	2014	2013	2012 (1)	2014 vs. 2013	2013 vs. 2012
	(in millions)				
Premium and fee revenues:					
Individual life insurance	**$ 935.7**	$ 907.1	$ 856.8	$ 28.6	$ 50.3
Specialty benefits insurance	**1,591.4**	1,492.7	1,443.6	98.7	49.1

(1) Premiums and fees for the year ended December 31, 2012, reflects a $46.6 million reduction due to unlocking of unearned revenue associated with the change in basis for amortizing DAC and other actuarial balances in the first quarter of 2012, partially offset by an increase of $13.5 million due to unearned revenue unlocking associated with a change in long-term interest rate assumptions and model refinements in the third quarter of 2012.

U.S. Insurance Solutions Segment Summary Financial Data

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

	For the year ended December 31,			Increase (decrease)	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
	(in millions)				
Operating revenues:					
Premiums and other considerations	**$ 1,913.8**	$ 1,816.5	$ 1,769.3	$ 97.3	$ 47.2
Fees and other revenues (1)	**613.1**	583.1	531.1	30.0	52.0
Net investment income	**735.7**	706.8	694.3	28.9	12.5
Total operating revenues	**3,262.6**	3,106.4	2,994.7	156.2	111.7
Expenses:					
Benefits, claims and settlement expenses (1)	**1,842.9**	1,836.2	1,937.7	6.7	(101.5)
Dividends to policyholders	**176.2**	187.5	195.8	(11.3)	(8.3)
Operating expenses (1)	**899.4**	792.1	661.7	107.3	130.4
Total expenses	**2,918.5**	2,815.8	2,795.2	102.7	20.6
Operating earnings before income taxes and noncontrolling interests	**344.1**	290.6	199.5	53.5	91.1
Income taxes	**112.8**	94.0	61.3	18.8	32.7
Operating earnings	**$ 231.3**	$ 196.6	$ 138.2	$ 34.7	$ 58.4

(1) For further details related to the impact associated with the actuarial assumption updates and the change in basis for amortizing DAC and other actuarial balances on results for 2014 and 2012 and see "Transactions Affecting Comparability of Results of Operations Actuarial Assumption Updates" and "Individual Life Insurance Amortization".

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Operating Earnings

Operating earnings increased $25.8 million in our individual life insurance business primarily due to favorable unlocking associated with actuarial model and assumption updates in 2014 and higher prepayment fees, partially offset by higher mortality. Operating earnings increased $8.9 million in our specialty benefits insurance business primarily due to growth in the business and lower frequency and severity of dental claims.

Operating Revenues

Premiums and fees increased $98.7 million in our specialty benefits insurance business primarily due to growth as a result of strong sales and retention, as well as improving employment and salary trends. Premiums and fees increased $28.6 million in our individual life insurance business primarily due to strong sales and retention.

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

Total Expenses

Benefits, claims and settlement expenses increased $61.4 million in our specialty benefits insurance business primarily due to growth in the business partially offset by lower frequency and severity of dental claims. Benefits, claims and settlement expenses decreased $54.7 million in our individual life insurance business primarily due to favorable

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unlocking associated with actuarial model and assumption updates in 2014, partially offset by higher mortality and growth in the business.

Operating expenses increased $82.6 million in our individual life insurance business primarily due to DAC unlocking associated with actuarial model and assumption updates in 2014. Operating expenses increased $24.7 million in our specialty benefits insurance business primarily due to growth in the business.

Income Taxes

The effective income tax rates for the segment were 33% and 32% for the years ended December 31, 2014 and 2013, respectively. The effective income tax rates were lower than the U.S. statutory rate primarily due to interest exclusion from taxable income and income tax deductions allowed for corporate dividends received.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Operating earnings increased $42.1 million in our individual life insurance business primarily due to unfavorable unlocking associated with a change in our long-term interest rate assumptions and model refinements in 2012, partially offset by higher mortality in 2013. Operating earnings increased $16.3 million in our specialty benefits business primarily due to lower frequency and severity of dental claims and growth in our business partially offset by higher staff-related costs, including pension and postretirement benefit expense.

Operating Revenues

Premiums increased $50.7 million in our specialty benefits insurance business due to growth as a result of solid sales in the block of business and stable employment and salary trends.

Fees and other revenues increased $53.8 million in our individual life insurance business due to unlocking of unearned revenue associated with a change in basis for amortizing DAC and other actuarial balances in the first quarter of 2012 and growth in the block of business. This increase was partially offset by a decrease in fees and other revenues due to unlocking associated with a change in our long-term interest rate assumptions and model refinements in the third quarter of 2012.

Total Expenses

Benefits, claims and settlement expenses decreased $99.8 million in our individual life insurance business primarily due to the change in basis for amortizing DAC and other actuarial balances in the first quarter of 2012 and the unlocking associated with a change in our long-term interest rate assumptions and model refinements in the third quarter of 2012. This decrease was partially offset by higher mortality and growth in 2013.

Operating expenses increased $102.6 million in our individual life insurance business primarily due to the change in basis for amortizing DAC and other actuarial balances in the first quarter of 2012 partially offset by unlocking associated with a change in our long-term interest rate assumptions and model refinements in the third quarter of 2012. In addition, operating expenses increased $28.0 million in our specialty benefits insurance business primarily due to growth in the block of business and higher staff related costs, including pension and other postretirement benefits.

Income Taxes

The effective income tax rates for the segment were 32% and 31% for the years ended December 31, 2013 and 2012, respectively. The effective income tax rates were lower than the U.S. statutory rate as a result of the interest exclusion from taxable income and income tax deductions allowed for corporate dividends received.

Corporate Segment

Corporate Segment Summary Financial Data

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

	For the year ended December 31,	Increase (decrease)

	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
			(in millions)		
Operating revenues:					
Total operating revenues	**$ (232.4)**	$ (215.8)	$ (188.1)	$ (16.6)	$ (27.7)
Expenses:					
Total expenses	**(67.8)**	(17.8)	(11.7)	(50.0)	(6.1)
Operating loss before income taxes, preferred stock dividends and noncontrolling interest	**(164.6)**	(198.0)	(176.4)	33.4	(21.6)
Income tax benefits	**(89.6)**	(83.2)	(69.6)	(6.4)	(13.6)
Preferred stock dividends	**33.0**	33.0	33.0		
Operating earnings attributable to noncontrolling interest	**17.5**	1.1		16.4	1.1
Operating loss	**$ (125.5)**	$ (148.9)	$ (139.8)	$ 23.4	$ (9.1)

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Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Operating Loss

The operating loss decreased primarily due to increased tax benefits in 2014, lower interest expense on corporate debt and litigation settlement expenses in 2013.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Operating Loss

The operating loss increased primarily due to higher interest expense associated with the debt issuances that occurred in the latter half of 2012.

Liquidity and Capital Resources

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

Liquidity

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

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

We perform rigorous liquidity stress testing to ensure our asset portfolio includes sufficient high quality liquid assets that could be utilized to bolster our liquidity position under increasingly stressed market conditions. These assets could be utilized as collateral for secured borrowing transactions with various third parties, or by selling the securities in the open market if needed.

We also manage liquidity risk by limiting the sales of liabilities with features such as puts or other options that can be exercised against the company at inopportune times. For example, as of December 31, 2014, approximately $8.8 billion, or 99%, of our institutional guaranteed investment contracts and funding agreements cannot be redeemed by contractholders prior to maturity. Our individual annuity liabilities also contain surrender charges and other provisions limiting early surrenders.

The following table summarizes the withdrawal characteristics of our domestic general account investment-type insurance contracts as of December 31, 2014.

	Contractholder funds	Percentage
	(in millions)	
Not subject to discretionary withdrawal	$ 9,799.0	34.3%
Subject to discretionary withdrawal with adjustments:		
Specified surrender charges	6,451.5	22.6
Market value adjustments	5,217.2	18.3
Subject to discretionary withdrawal without adjustments	7,072.0	24.8
Total domestic investment-type insurance contracts	$ 28,539.7	100.0%

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Universal life insurance and certain traditional life insurance policies are also subject to discretionary withdrawals by policyholders. However, life insurance policies tend to be less susceptible to withdrawal than our investment-type insurance contracts because policyholders may be subject to a new underwriting process in order to obtain a new life insurance policy. In addition, our life insurance liabilities include surrender charges to discourage early surrenders.

As of December 31, 2014 and December 31, 2013, we had short-term credit facilities with various financial institutions in an aggregate amount of $1,005.0 million and $1,105.0 million, respectively. As of December 31, 2014 and December 31, 2013, we had $28.0 million and $150.6 million, respectively, of outstanding borrowings, with no assets pledged as support as of December 31, 2014. During the first quarter of 2014, we refinanced $1,000.0 million of our revolving credit facilities. The facilities, effective March 28, 2014, were decreased to $900.0 million. The facilities include a $400.0 million 5-year facility with PFG, PFS and Principal Life as co-borrowers that matures March 2019; a $300.0 million 364-day facility with Principal Life as borrower that matures March 2015; and a $200.0 million 3-year credit facility with PFG, PFS, Principal Life and Principal Financial Services V (UK) LTD as co-borrowers, maturing March 2017. The revolving credit facilities are committed and provide 100% back-stop support for our commercial paper program. The 5-year and 364-day facilities are supported by seventeen banks and the 3-year facility is supported by fifteen banks, most of which have other relationships with us. In addition to the revolving credit facilities, Principal International Chile has the capacity to access up to $60.0 million in unsecured lines of credit offered by Chilean financial institutions and Principal Life has a $45.0 million unsecured line of credit. Due to the financial strength and the strong relationships we have with these providers, we are comfortable there is a very low risk the financial institutions would be unable or unwilling to fund these facilities.

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

Under Iowa laws, Principal Life may pay dividends only from the earned surplus arising from its business and must receive the prior approval of the Insurance Commissioner of the State of Iowa ("the Commissioner") to pay stockholder dividends or make any other distribution if such distributions would exceed certain statutory limitations. Iowa law gives the Commissioner discretion to disapprove requests for distributions in excess of these limits. Extraordinary dividends are those, together with dividends or other distributions made within the preceding twelve months, that exceed the greater of (i) 10% of Principal Life's statutory policyholder surplus as of the previous year-end or (ii) the statutory net gain from operations from the previous calendar year. Based on December 31, 2014 statutory results, the dividend limitation for Principal Life is approximately $615.2 million in 2015.

In 2014, total stockholder dividends paid by Principal Life to its parent were $850.0 million, of which $400.0 million was extraordinary and was approved by the Commissioner. As of December 31, 2014, we had $651.5 million of cash and liquid assets in the holding companies readily deployable for holding company obligations.

In 2013, Principal Life distributed paid-in and contributed surplus in the amount of $150.0 million to its parent company, which was extraordinary and was approved by the Commissioner. In addition, total stockholder dividends paid by Principal Life to its parent were $80.0 million, which were extraordinary and were approved by the Commissioner.

In 2012, total stockholder dividends paid by Principal Life to its parent were $700.0 million, which were extraordinary and were approved by the Commissioner.

Operations. Our primary consolidated cash flow sources are premiums from insurance products, pension and annuity deposits, asset management fee revenues, administrative services fee revenues, income from investments and proceeds from the sales or maturity of investments. Cash outflows consist primarily of payment of benefits to policyholders and beneficiaries, income and other taxes, current operating expenses, payment of dividends to policyholders, payments in connection with investments acquired, payments made to acquire subsidiaries, payments relating to policy and contract surrenders, withdrawals, policy loans, interest payments and repayment of short-term debt and long-term debt. Our investment strategies are generally intended to provide adequate funds to pay benefits without forced sales of investments. For a discussion of our investment objectives, strategies and a discussion of duration matching, see "Investments" as well as Item 7A. "Quantitative and Qualitative Disclosures About Market Risk Interest Rate Risk."

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

Net cash provided by operating activities was $3,102.9 million, $2,221.2 million and $3,080.8 for the years ended December 31, 2014, 2013 and 2012, respectively. As an insurance business, we typically generate positive cash flows from operating activities, as premiums collected from our insurance products and income received from our investments

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exceed acquisition costs, benefits paid, redemptions and operating expenses. These positive cash flows are then invested to support the obligations of our insurance products and required capital supporting these products. Our cash flows from operating activities are affected by the timing of premiums, fees, and investment income received and expenses paid. The increase in cash provided by operating activities in 2014 compared to 2013 was primarily due to growth in the business, fluctuations in receivables and payables associated with the timing of settlements as well as sales of certain real estate. The decrease in cash provided by operating activities in 2013 compared to 2012 was primarily due to fluctuations in receivables and payables associated with the timing of settlements as well as decreased cash flows from trading securities.

Net cash used in investing activities was $1,172.7 million, $1,226.3 million and $1,611.3 million for the years ended December 31, 2014, 2013 and 2012, respectively. Cash used in investing activities in 2014 compared to 2013 was relatively flat as increased net purchases of investments in 2014 primarily offset the first quarter 2013 acquisition of Cuprum. The decrease in cash used in investing activities in 2013 compared to 2012 was primarily the result of fewer net purchases of investments in 2013. This decrease was largely offset by the first quarter 2013 acquisition of Cuprum.

Net cash used in financing activities was $2,438.1 million, $2,800.3 million and $126.2 million for the years ended December 31, 2014, 2013 and 2012, respectively. The decrease in cash used in financing activities in 2014 compared to 2013 was primarily due to fewer net withdrawals of investment contracts. Cash used in financing activities increased in 2014 compared to 2013 for cash used to acquire noncontrolling interests in Columbus Circle Investors and Cuprum, treasury stock acquired and dividends to common stockholders. The increase in cash used in financing activities in 2013 compared to 2012 was primarily due to net repayments of debt in 2013, as compared to net borrowings in 2012, as well as an increase in net withdrawals of investment contracts. Additionally, cash used in financing activities increased in 2013 due to the transfer of certain Principal Bank deposits as part of the bank's transformation to a limited purpose trust institution.

Shelf Registration. On May 7, 2014, our shelf registration statement was filed with the SEC and became effective. The shelf registration replaces the shelf registration that had been in effect since May 2011. Under our current shelf registration, we have the ability to issue in unlimited amounts, unsecured senior debt securities or subordinated debt securities, junior subordinated debt, preferred stock, common stock, warrants, depository shares, stock purchase contracts and stock purchase units of PFG, trust preferred securities of three subsidiary trusts and guarantees by PFG of these trust preferred securities. Our wholly owned subsidiary, PFS, may guarantee, fully and unconditionally or otherwise, our obligations with respect to any non-convertible securities, other than common stock, described in the shelf registration. For information on senior notes issued from our shelf registration, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 9, Debt."

Preferred Stock Dividend Restrictions and Payments. For preferred stock dividend restriction and payment information, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 13, Stockholders' Equity."

Short-Term Debt and Long-Term Debt. For debt information, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 9, Debt."

Stockholders' Equity. Proceeds from the issuance of our common stock were $77.5 million, $125.8 million and $28.9 million in 2014, 2013 and 2012, respectively.

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

	For the year ended December 31,		
	2014	**2013**	**2012**
		(in millions)	
Dividends to stockholders	**$ 376.6**	$ 288.4	$ 231.3
Repurchase of common stock	**222.7**	153.6	272.7
Total cash returned to stockholders	**$ 599.3**	$ 442.0	$ 504.0
Number of shares repurchased	**4.7**	4.4	10.5

For additional stockholders' equity information, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 13, Stockholders' Equity."

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Capitalization

The following table summarizes our capital structure:

	December 31, 2014	December 31, 2013
	(in millions)	
Debt:		
Short-term debt	**$ 28.0**	$ 150.6
Long-term debt	**2,531.2**	2,601.4
Total debt	**2,559.2**	2,752.0
Equity excluding AOCI	**10,133.6**	9,501.0
Total capitalization excluding AOCI	**$ 12,692.8**	$ 12,253.0
Debt to equity excluding AOCI	**25%**	29%
Debt to capitalization excluding AOCI	**20%**	22%

On March 1, 2014, Principal Life redeemed the $100.0 million surplus notes, due 2044, in whole at a redemption price equal to 102.3% of par, which was approved by the Commissioner.

Contractual Obligations

The following table presents payments due by period for long-term contractual obligations as of December 31, 2014.

		Payments due in year ending			
Contractual obligations (1)	**Total payments**	**2015**	**2016 - 2017**	**2018 - 2019**	**2020 and thereafter**
			(in millions)		
Contractholder funds (2)	**$ 64,074.4**	**$ 5,913.3**	**$ 11,836.7**	**$ 8,071.6**	**$ 38,252.8**
Future policy benefits and claims (3)	**42,784.8**	**2,352.2**	**3,871.1**	**3,715.5**	**32,846.0**
Long-term debt (4)	**2,531.2**		**299.8**	**350.0**	**1,881.4**
Certificates of deposit (5)	**636.8**	**333.8**	**219.6**	**83.1**	**0.3**
Other long-term liabilities (6)	**1,928.9**	**1,435.5**	**166.5**	**146.4**	**180.5**
Capital leases (7)	**15.5**	**6.3**	**7.9**	**0.8**	**0.5**
Long-term debt interest (4)	**1,883.1**	**127.4**	**257.6**	**223.1**	**1,275.0**
Operating leases (8)	**200.8**	**43.7**	**72.3**	**33.6**	**51.2**
Purchase obligations (9)	**734.6**	**706.8**	**24.6**	**3.2**	
Total contractual obligations	**$ 114,790.1**	**$ 10,919.0**	**$ 16,756.1**	**$ 12,627.3**	**$ 74,487.7**

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(1) Excludes short-term liabilities, other policyholder funds, taxes and short-term debt as these are not long-term and/or not contractual in nature. Also excludes obligations under our pension and other postretirement benefit plans as we do not anticipate contributions will be needed to satisfy the minimum funding requirements of ERISA for our qualified pension plan. In addition, separate account liabilities are excluded. Separate account liabilities represent the fair market value of funds that are separately administered by us. Generally, the separate account contract owner, rather than us, bears the investment risk of these funds. The separate account liabilities are legally segregated and are not subject to claims that arise out of any other business of ours. Net deposits, net investment income and realized and unrealized capital gains and losses on the separate accounts are not reflected in the consolidated statements of operations. The separate account obligations will be fully funded by cash flows from the separate account assets.

(2) Includes GICs, funding agreements, individual fixed annuities, universal life insurance and other investment-type insurance contracts. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 8, Insurance Liabilities" for additional information.

Amounts included in the contractholder funds line item reflect estimated cash payments to be made to policyholders. The sum of the cash outflows shown for all years in the table exceeds the corresponding liability amount included in our consolidated statements of financial position as of December 31, 2014. The liability amount in our consolidated statements of financial position reflects either the account value (in the case of individual fixed annuities, universal life insurance and GICs) or the par value plus accrued interest and other adjustments (in the case of funding agreements and other investment-type insurance contracts).

(3)

Amounts included in the future policy benefits and claims line item reflect estimated cash payments to be made to policyholders. The sum of the cash outflows shown for all years in the table exceeds the corresponding liability amount included in our consolidated statements of financial position as of December 31, 2014. The liability amount in our consolidated statements of financial position reflects estimated cash payments to policyholders, reductions for expected future premiums, assumptions with regard to the timing of cash payments and discounting for interest.

(4)

For long-term debt information, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 9, Debt."

(5)

Amounts included in the certificates of deposit line item reflect estimated cash payments to be made, including expected interest payments. Certificates of deposit are reported as other liabilities on our consolidated statements of financial position.

(6)

Amounts included in the other long-term liabilities line item are contractual, non-cancelable and long-term in nature. The total payments primarily relate to savings deposits as well as premium associated with purchased option contracts where payments are made over the life of the contract. This line item excludes accruals, short-term items and items not contractual in nature.

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(7) Amounts included in the capital leases line item represent future minimum lease payments due under capital leases for buildings and hardware storage equipment. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 12, Contingencies, Guarantees and Indemnifications" for additional information.

(8) Amounts included in the operating leases line item represent payments due under various operating leases for office space, data processing equipment and office furniture and equipment. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 12, Contingencies, Guarantees and Indemnifications" for additional information.

(9) Purchase obligations include material contracts where we have a non-cancelable commitment to purchase goods and services in addition to commitments to originate loans and purchase investments.

Pension and Other Postretirement Plan Funding

We have defined benefit pension plans covering substantially all of our U.S. employees and certain agents. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 11, Employee and Agent Benefits" for a complete discussion of these plans and their effect on the consolidated financial statements.

We report the net funded status of our pension and other postretirement plans in the consolidated statements of financial position. The net funded status represents the differences between the fair value of plan assets and the projected benefit obligation for pension plans and other postretirement benefit plans. The measurement of the net funded status can vary based upon the fluctuations in the fair value of the plan assets and the actuarial assumptions used for the plans as discussed below. The net underfunded status of the pension and other postretirement benefit obligation was $371.7 million pre-tax and $42.2 million pre-tax as of December 31, 2014 and 2013, respectively. Nonqualified pension plan assets are not included as part of the funding status mentioned above. The nonqualified pension plan assets are held in Rabbi trusts for the benefit of all nonqualified plan participants. The assets held in a Rabbi trust are available to satisfy the claims of general creditors only in the event of bankruptcy. Therefore, these assets are fully consolidated in our consolidated statements of financial position and are not reflected in our funded status as they do not qualify as plan assets under U.S. GAAP. The market value of assets held in these trusts was $329.6 million and $304.3 million as of December 31, 2014 and 2013, respectively.

Our funding policy for the qualified pension plan is to fund the plan annually in an amount at least equal to the minimum annual contributions required under ERISA and, generally, not greater than the maximum amount that can be deducted for federal income tax purposes. We do not anticipate contributions will be needed to satisfy the minimum funding requirements of ERISA for our qualified pension plan. At this time, it is too early to estimate the amount that may be contributed, but it is possible that we may fund the plans in 2015 up to $150 million. This includes funding for both our qualified and nonqualified pension plans. We may contribute to our other postretirement benefit plans in 2015 pending further analysis.

Contractual Commitments

In connection with our banking business, we have made additional commitments to extend credit, which are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. A majority of these commitments are lines of credit and are expected to expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash funding requirements. We evaluate each customer's creditworthiness on a case-by-case basis. The total commitments to fund loans were $6.5 million as of December 31, 2014.

We have made commitments to provide liquidity for certain benefit plans transitioning to us from another provider. As funds from the plans become available, they will be used to pay down outstanding balances. As of December 31, 2014, the amount of unfunded commitments was $18.2 million.

We have made commitments to fund certain limited partnerships in which we are a limited partner. As of December 31, 2014, the amount of unfunded commitments was $236.4 million. We are only required to fund additional equity under these commitments when called upon to do so by the general partner; therefore, these commitments are not liabilities on our consolidated statements of financial position.

Off-Balance Sheet Arrangements

Variable Interest Entities. We have relationships with various types of special purpose entities and other entities where we have a variable interest as described in Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 3, Variable Interest Entities." We have made commitments to fund certain limited partnerships, as previously discussed in "Contractual

Commitments", some of which are classified as unconsolidated variable interest entities.

Guarantees and Indemnifications. As of December 31, 2014, there have been no significant changes to guarantees and indemnifications since December 31, 2013. For guarantee and indemnification information, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 12, Contingencies, Guarantees and Indemnifications" under the caption, "Guarantees and Indemnifications."

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Financial Strength and Credit Ratings

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

In January 2015, A.M. Best completed its annual review, and affirmed the ratings of PFG and its subsidiaries. Principal Life's financial strength rating was affirmed at 'A+'. The outlook remains 'stable' for all ratings. Principal Life's ratings reflect our diversified revenue sources, consistent operating earnings and solid balance sheet. The ratings also reflect our position as a leading provider of defined contribution plans, defined benefit plans, plan termination annuities and nonqualified plans in the United States.

In June 2014, Fitch affirmed PFG's credit ratings and the financial strength ratings of Principal Life and Principal National Life Insurance Company at 'AA ', noting our strong capitalization and stable, balanced operating profitability. The outlook was revised to 'stable' from 'negative' reflecting the contribution of Cuprum to overall profitability, which exceeded expectations, and gradually declining financial leverage.

In April 2014, Standard & Poor's ("S&P") affirmed the financial strength rating of Principal Life and Principal National Life Insurance Company at 'A+'. The outlook remains 'stable' for all ratings. Principal Life's enterprise risk management rating was affirmed as 'Strong'. The affirmation reflects S&P's view that we have a very strong competitive position supported by a respected brand, diversified and sophisticated product portfolio, strong distribution relationships and increasing global reach. Further, S&P cites our financial flexibility reflecting strong earnings and fixed-charge coverage and proven access to capital markets and credit facilities.

All four of the rating agencies maintain a 'stable' outlook on the U.S. life insurance sector. The rating agencies acknowledge that interest rates remain at historically low levels, and with prospects for higher rates uncertain, the resulting slow-growth economy continues to act as a headwind and has prevented strong industry growth. However, the agencies have also cited that the U.S. life insurance industry has maintained strong risk-adjusted capital, generated steady U.S. GAAP and statutory earnings, improved balance sheet fundamentals and enhanced risk-focused decision making since the financial crisis. The rating agencies have indicated they expect gradually increasing interest rates will help stabilize earnings on spread businesses and rising equity markets will grow assets under management.

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

	A.M. Best	Fitch	Standard & Poor's	Moody's
Principal Financial Group				
Senior Unsecured Debt (1)	a		BBB+	Baa2
Preferred Stock (2)	bbb		BBB	Ba1
Principal Financial Services				
Senior Unsecured Debt	a		BBB+	Baa1
Commercial Paper	AMB-1		A-2	P-2
Principal Life Insurance Company				
Insurer Financial Strength	A+	AA	A+	A1
Issuer Credit Rating	aa			
Commercial Paper	AMB-1+		A-1+	P-1
Enterprise Risk Management Rating			Strong	
Principal National Life Insurance Company				
Insurer Financial Strength	A+	AA	A+	A1

(1) Moody's has rated Principal Financial Group's senior debt issuance "Baa1"

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

Impacts of Income Taxes

For income tax information, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 10, Income Taxes."

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels for disclosure purposes. The fair value hierarchy gives the highest priority (Level 1) to quoted prices in active markets for identical assets or liabilities and gives the lowest priority (Level 3) to unobservable inputs. An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 14, Fair Value Measurements" for further details, including a reconciliation of changes in Level 3 fair value measurements.

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As of December 31, 2014, 39% of our net assets (liabilities) were Level 1, 58% were Level 2 and 3% were Level 3. Excluding separate account assets as of December 31, 2014, 2% of our net assets (liabilities) were Level 1, 97% were Level 2 and 1% were Level 3.

As of December 31, 2013, 37% of our net assets (liabilities) were Level 1, 60% were Level 2 and 3% were Level 3. Excluding separate account assets as of December 31, 2013, 1% of our net assets (liabilities) were Level 1, 98% were Level 2 and 1% were Level 3.

Changes in Level 3 Fair Value Measurements

Net assets (liabilities) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2014, were $6,350.1 million as compared to $5,885.5 million as of December 31, 2013. The increase was primarily related to gains on other invested assets and real estate included in our separate account assets. The increase was partially offset by losses on bifurcated embedded derivatives in investment-type insurance contracts.

Net assets (liabilities) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of December 31, 2013, were $5,885.5 million as compared to $4,987.4 million as of December 31, 2012. The increase was primarily related to gains on other invested assets and real estate included in our separate account assets, as well as gains on bifurcated embedded derivatives in investment-type insurance contracts and derivative liabilities.

Investments

We had total consolidated assets as of December 31, 2014, of $219,087.0 million, of which $68,433.8 million were invested assets. The rest of our total consolidated assets are comprised primarily of separate account assets for which we do not bear investment risk. Because we generally do not bear any investment risk on assets held in separate accounts, the discussion and financial information below does not include such assets.

Overall Composition of Invested Assets

Invested assets as of December 31, 2014, were predominantly high quality and broadly diversified across asset class, individual credit, industry and geographic location. Asset allocation is determined based on cash flow and the risk/return requirements of our products. As shown in the following table, the major categories of invested assets are fixed maturities and commercial mortgage loans. The remainder is invested in other investments, residential mortgage loans, real estate and equity securities. In addition, policy loans are included in our invested assets.

	December 31, 2014		December 31, 2013	
	Carrying amount	% of total	Carrying amount	% of total
		($ in millions)		
Fixed maturities:				
Public	**$ 34,863.2**	**51%**	$ 33,999.7	51%
Private	**15,412.2**	**23**	15,320.5	23
Equity securities	**963.2**	**1**	827.4	1
Mortgage loans:				
Commercial	**10,696.9**	**15**	10,299.0	15
Residential	**1,114.7**	**2**	1,234.6	2
Real estate held for sale	**174.0**		182.3	
Real estate held for investment	**1,170.6**	**2**	1,089.3	2
Policy loans	**829.2**	**1**	859.7	1
Other investments	**3,209.8**	**5**	2,944.4	5
Total invested assets	**68,433.8**	**100%**	66,756.9	100%
Cash and cash equivalents	**1,863.9**		2,371.8	
Total invested assets and cash	**$ 70,297.7**		$ 69,128.7	

Investment Results

Net Investment Income

The following table presents the yield and investment income, excluding net realized capital gains and losses, for our invested assets for the years indicated. We calculate annualized yields using a simple average of asset classes at the beginning and end of the reporting period. The yields for available-for-sale fixed maturities and available-for-sale equity

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securities are calculated using amortized cost and cost, respectively. All other yields are calculated using carrying amounts.

	For the year ended December 31,						Increase (decrease)			
	2014		2013		2012		2014 vs. 2013		2013 vs. 2012	
	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
	($ in millions)									
Fixed maturities	**4.9%**	**$ 2,311.7**	4.9%	$ 2,343.8	5.1%	$ 2,485.0	%	$ (32.1)	(0.2)%	$ (141.2)
Equity securities	**7.6**	**68.4**	4.5	27.4	3.5	15.2	3.1	41.0	1.0	12.2
Mortgage loans commercial	**5.2**	**541.4**	5.3	541.2	5.7	559.6	(0.1)	0.2	(0.4)	(18.4)
Mortgage loans residential	**7.6**	**89.5**	5.5	70.3	5.7	76.2	2.1	19.2	(0.2)	(5.9)
Real estate	**7.9**	**103.8**	5.0	61.2	6.3	71.4	2.9	42.6	(1.3)	(10.2)
Policy loans	**5.8**	**49.4**	5.8	49.9	6.1	53.7		(0.5)	(0.3)	(3.8)
Cash and cash equivalents	**0.3**	**6.5**	0.4	14.0	0.3	9.6	(0.1)	(7.5)	0.1	4.4
Other investments	**5.3**	**164.1**	3.4	106.8	2.1	65.4	1.9	57.3	1.3	41.4
Total before investment expenses	**4.9**	**3,334.8**	4.7	3,214.6	4.9	3,336.1	0.2	120.2	(0.2)	(121.5)
Investment expenses	**(0.1)**	**(76.9)**	(0.1)	(76.2)	(0.1)	(81.2)		(0.7)		5.0
Net investment income	**4.8%**	**$ 3,257.9**	4.6%	$ 3,138.4	4.8%	$ 3,254.9	0.2%	$ 119.5	(0.2)%	$ (116.5)

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Net investment income increased due to higher inflation-based investment returns on average invested assets and cash as a result of higher inflation in Chile and favorable market changes on our mandatory investment in the pension funds of our Chilean pension company. These increases were partially offset by the weakening of the Chilean peso against the U.S dollar and lower yields on average invested assets and cash in our U.S. operations.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Net investment income decreased due to lower investment yields on our invested assets and cash in our U.S. operations and lower inflation-based investment returns on average invested assets and cash as a result of the weakening of certain Latin American currencies against the U.S. dollar. These decreases were partially offset by the acquisition of a Chilean pension company and higher average invested assets in Chile.

Net Realized Capital Gains (Losses)

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

	For the year ended December 31,			Increase (decrease)	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
	(in millions)				
Fixed maturities, available-for-sale credit impairments (1)	**$ (87.1)**	$ (113.8)	$ (118.2)	$ 26.7	$ 4.4
Commercial mortgages credit impairments	**1.3**	(3.7)	(11.0)	5.0	7.3
Other credit impairments	**(0.6)**	(12.4)	(40.8)	11.8	28.4
Fixed maturities, available-for-sale and trading noncredit	**67.5**	5.6	23.8	61.9	(18.2)
Derivatives and related hedge activities (2)	**(11.2)**	(124.4)	(38.0)	113.2	(86.4)
Other gains (losses)	**44.8**	23.5	298.3	21.3	(274.8)
Net realized capital gains (losses)	**$ 14.7**	$ (225.2)	$ 114.1	$ 239.9	$ (339.3)

(1) Includes credit impairments as well as losses on sales of fixed maturities to reduce credit risk, net of realized credit recoveries on the sale of previously impaired securities. Credit gains on sales, excluding associated foreign currency fluctuations that are included in derivatives and related hedging activities, were a net gain of $0.9 million, $2.1 million and $0.0 million for the years ended December 31, 2014, 2013 and 2012, respectively.

(2) Includes fixed maturities, available-for-sale impairment-related net gains of $0.0 million, $0.2 million and $0.0 million for the years ended December 31, 2014, 2013 and 2012, respectively, which were hedged by derivatives reflected in this line.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Net realized capital losses on fixed maturities, available-for-sale credit impairments decreased primarily due to net gains versus losses on corporate fixed maturities as a result of recoveries.

Net realized capital gains on fixed maturities, available-for-sale and trading noncredit increased primarily due to sales of long dated structured securities and gains on trading securities related to changes in interest rates, credit spreads and exchange rates.

Net realized capital losses on derivatives and related hedge activities decreased due to gains versus losses on the GMWB embedded derivatives, including changes in the spread reflecting our own creditworthiness, and related hedging

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instruments and on interest rate swap derivatives not designated as hedging instruments due to changes in interest rates. This was partially offset by increased losses on currency forwards and currency swaps due to changes in exchange rates.

Other net realized capital gains increased due to higher gains on sales of real estate investments and joint venture real estate and foreign currency translation losses on cash held for the Cuprum acquisition that was completed in first quarter 2013. This was partially offset by an impairment of Liongate, an equity method investment, in fourth quarter 2014.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

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

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

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

U.S. Investment Operations

Of our invested assets, $62,327.9 million were held by our U.S. operations as of December 31, 2014. Our U.S. invested assets are managed primarily by our Principal Global Investors segment. Our primary investment objective is to maximize after-tax returns consistent with acceptable risk parameters. We seek to protect policyholders' benefits by optimizing the risk/return relationship on an ongoing basis, through asset/liability matching, reducing the credit risk, avoiding high levels of investments that may be redeemed by the issuer, maintaining sufficiently liquid investments and avoiding undue asset concentrations through diversification. We are exposed to two primary sources of investment risk:

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

Our ability to manage credit risk is essential to our business and our profitability. We devote considerable resources to the credit analysis of each new investment. We manage credit risk through industry, issuer and asset class diversification. Our Investment Committee, appointed by our Board of Directors, is responsible for establishing all investment policies and approving or authorizing all investments, except the Executive Committee of the Board must approve any investment transaction exceeding $500.0 million. As of December 31, 2014, there are thirteen members on the Investment Committee, two of whom are members of our Board of Directors. The remaining members are senior management members representing various areas of our company.

We purchase credit default swaps to hedge certain credit exposures in our investment portfolio and total return swaps and futures to hedge a portion of our investment portfolio from credit losses. We economically hedged credit exposure in our portfolio by purchasing credit default swaps with a notional amount of $288.7 million and $334.3 million, total return swaps of $90.0 million and $90.0 million, and futures of $10.5 million and $9.1 million as of December 31, 2014 and December 31, 2013, respectively. We sell credit default swaps to offer credit protection to investors when entering into synthetic replicating transactions. When selling credit protection, if there is an event of default by the referenced name, we are obligated to pay the counterparty the referenced amount of the contract and receive in return the referenced security. For further information on credit derivatives sold, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 5, Derivative Financial Instruments" under the caption, "Credit Derivatives Sold."

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

The amortized cost and weighted average yield, calculated using amortized cost, of non-structured fixed maturity securities that will be callable at the option of the issuer, excluding securities with a make-whole provision, were $1,119.1 million and 4.3%, respectively, as of December 31, 2014 and $768.0 million and 4.5%, respectively, as of December 31, 2013. In addition, the amortized cost and weighted average yield of residential mortgage-backed pass-through securities, residential collateralized mortgage obligations, and asset-backed securities home equity with material prepayment risk were $4,319.0 million and 3.3%, respectively, as of December 31, 2014 and $4,155.1 million and 3.6%, respectively, as of December 31, 2013.

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

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

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

Our use of derivatives exposes us to counterparty risk, or the risk that the counterparty fails to perform the terms of the derivative contract. We actively manage this risk by:

- obtaining approval of all new counterparties by the Investment Committee;
- establishing exposure limits that take into account non-derivative exposure we have with the counterparty as well as derivative exposure;
- performing similar credit analysis prior to approval on each derivatives counterparty that we do when lending money on a long-term basis;
- diversifying our risk across numerous approved counterparties;
- implementing credit support annex (collateral) agreements ("CSAs") for over-the-counter derivative transactions or similar agreements with a majority of our counterparties to further limit counterparty exposures, which provide for netting of exposures;
- limiting exposure to A credit or better for over-the-counter derivative counterparties without CSAs;

conducting stress-test analysis to determine the maximum exposure created during the life of a prospective transaction;

daily monitoring of counterparty credit ratings, exposures and associated collateral levels and

trading mandatorily cleared contracts through centralized clearinghouses.

We manage our exposure on a net basis, whereby we net positive and negative exposures for each counterparty with agreements in place. For further information on derivative exposure, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 4, Investments" under the caption, "Balance Sheet Offsetting."

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

	Weighted average loan-to-value ratio		**Debt service coverage ratio**	
	December 31, 2014	**December 31, 2013**	**December 31, 2014**	**December 31, 2013**
New mortgages	**51%**	49%	**2.6X**	2.8X
Entire mortgage portfolio	**48%**	50%	**2.6X**	2.5X

Our investment decisions and objectives are a function of the underlying risks and product profiles of each primary business operation. In addition, we diversify our product portfolio offerings to include products that contain features that

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will protect us against fluctuations in interest rates. Those features include adjustable crediting rates, policy surrender charges and market value adjustments on liquidations. For further information on our management of interest rate risk, see Item 7A. "Quantitative and Qualitative Disclosures About Market Risk Interest Rate Risk."

Overall Composition of U.S. Invested Assets

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

	December 31, 2014		December 31, 2013	
	Carrying amount	**% of total**	**Carrying amount**	**% of total**
		($ in millions)		
Fixed maturities:				
Public	**$ 31,618.0**	**51%**	$ 30,638.2	51%
Private	**15,410.1**	**25**	15,319.3	25
Equity securities	**300.5**		272.3	
Mortgage loans:				
Commercial	**10,657.2**	**17**	10,253.8	17
Residential	**507.2**	**1**	565.4	1
Real estate held for sale	**171.8**		179.5	
Real estate held for investment	**1,168.6**	**2**	1,086.9	2
Policy loans	**806.5**	**1**	834.9	1
Other investments	**1,688.0**	**3**	1,495.7	3
Total invested assets	**62,327.9**	**100%**	60,646.0	100%
Cash and cash equivalents	**1,762.5**		2,266.8	
Total invested assets and cash	**$ 64,090.4**		$ 62,912.8	

Fixed Maturities

Fixed maturities include bonds, ABS, redeemable preferred stock and certain nonredeemable preferred securities. Included in the privately placed category as of December 31, 2014 and December 31, 2013, were $10.3 billion and $10.3 billion, respectively, of securities subject to certain holding periods and resale restrictions pursuant to Rule 144A of the Securities Act of 1933.

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

	December 31, 2014		December 31, 2013	
	Carrying amount	**Percent of total**	**Carrying amount**	**Percent of total**
		($ in millions)		
U.S. government and agencies	**$ 1,121.8**	**2%**	$ 780.5	2%
States and political subdivisions	**4,329.4**	**9**	3,796.0	8
Non-U.S. governments	**446.6**	**1**	523.6	1
Corporate public	**16,834.6**	**37**	16,882.6	37
Corporate private	**12,262.9**	**26**	12,483.5	27
Residential mortgage-backed pass-through securities	**2,839.6**	**6**	2,871.1	6
Commercial mortgage-backed securities	**3,977.0**	**8**	4,028.2	9
Residential collateralized mortgage obligations	**1,306.2**	**3**	992.1	2
Asset-backed securities	**3,910.0**	**8**	3,599.9	8

Total fixed maturities	**$**	**47,028.1**	**100%**	$	45,957.5	100%

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

CMBS provide varying levels of credit protection, diversification and reduced event risk depending on the securities owned and composition of the loan pool. CMBS are predominantly comprised of large pool securitizations that are diverse by property type, borrower and geographic dispersion. The risks to any CMBS deal are determined by the credit quality of the underlying loans and how those loans perform over time. Another key risk is the vintage of the underlying loans and the state of the markets during a particular vintage. In the CMBS market, there is a material difference in the outlook for the performance of loans originated in 2004 and earlier relative to loans originated in 2005 through 2008. For loans originated prior to 2005, underwriting assumptions were more conservative regarding required debt service coverage and loan-to-value ratios. For the 2005 through 2008 vintages, real estate values peaked and the underwriting expectations were that values would continue to increase, which makes those loan values more sensitive to market declines. The 2009 through 2014 vintages represent a return to debt service coverage ratios and loan-to-value ratios that more closely resemble loans originated prior to 2005.

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

The international exposure held in our U.S. operation's fixed maturities portfolio was 25% of total fixed maturities as of December 31, 2014 and 26% as of December 31, 2013. It is comprised of corporate and foreign government fixed maturities. The following table presents the carrying amount of our international exposure for our U.S. operation's fixed maturities portfolio for the years indicated.

	December 31, 2014	December 31, 2013
	(in millions)	
European Union, excluding UK	**$ 3,717.9**	$ 3,925.1
United Kingdom	**2,467.5**	2,656.1
Asia-Pacific	**1,564.8**	1,542.9
Australia/New Zealand	**1,285.6**	1,285.3
Latin America	**989.9**	951.0
Europe, non-European Union	**855.6**	1,042.8
Middle East and Africa	**365.3**	411.6
Other (1)	**276.7**	241.3
Total	**$ 11,523.3**	$ 12,056.1

(1) Includes exposure from 1 country and various supranational organizations as of both December 31, 2014, and December 31, 2013.

International fixed maturities are determined by the country of domicile of the parent entity of an individual asset. All international fixed maturities held by our U.S. operations are either denominated in U.S. dollars or have been swapped into U.S. dollar equivalents. Our international investments are analyzed internally by country and industry credit investment professionals. We control concentrations using issuer and country level exposure benchmarks, which are based on the credit quality of the issuer and the country. Our investment policy limits total international fixed maturities investments and we are within those internal limits. Exposure to Canada is not included in our international exposure. As of December 31, 2014 and December 31, 2013, our investments in Canada totaled $1,478.3 million and $1,486.5 million, respectively.

Fixed Maturities Credit Concentrations. One aspect of managing credit risk is through industry, issuer and asset class diversification. Our credit concentrations are managed to established limits. The following table presents our top ten exposures as of December 31, 2014.

	Amortized cost
	(in millions)
General Electric Co	**$ 216.4**
People's Republic of China	**173.4**
Berkshire Hathaway Inc.	**169.9**
AT&T Inc.	**168.6**
Duke Energy Corporation	**149.5**
Verizon Communications Inc.	**142.1**
MetLife, Inc.	**136.0**
Mars, Incorporated	**132.6**
PG&E Corporation	**129.7**
HSBC Holdings plc	**124.8**
Total top ten exposures	**$ 1,543.0**

Fixed Maturities Valuation and Credit Quality. Valuation techniques for the fixed maturities portfolio vary by security type and the availability of market data. The use of different pricing techniques and their assumptions could produce different financial results. See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 14, Fair Value Measurements" for further details regarding our pricing methodology. Once prices are determined, they are reviewed by pricing analysts for reasonableness based on asset class and observable market data. Investment analysts who are familiar with specific securities review prices for reasonableness through direct interaction with external sources, review of recent trade activity or use of internal models. All fixed maturities placed on the "watch list" are periodically analyzed by investment analysts or analysts that focus on troubled securities ("Workout Group"). This group then meets with the Chief Investment Officer and the Portfolio Managers to determine reasonableness of

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prices. The valuation of impaired bonds for which there is no quoted price is typically based on the present value of the future cash flows expected to be received. Although we believe these values reasonably reflect the fair value of those securities, the key assumptions about risk premiums, performance of underlying collateral (if any) and other market factors involve qualitative and unobservable inputs.

The Securities Valuation Office ("SVO") of the NAIC monitors the bond investments of insurers for regulatory capital and reporting purposes and, when required, assigns securities to one of six investment categories. For certain bonds, the NAIC designations closely mirror the Nationally Recognized Statistical Rating Organizations' ("NRSRO") credit ratings. For most corporate bonds, NAIC designations 1 and 2 include bonds considered investment grade by such rating organizations. Bonds are considered investment grade when rated "Baa3" or higher by Moody's, or "BBB " or higher by S&P. NAIC designations 3 through 6 are referred to as below investment grade. Bonds are considered below investment grade when rated "Ba1" or lower by Moody's, or "BB+" or lower by S&P.

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

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

		December 31, 2014			December 31, 2013		
NAIC Rating	**Rating Agency Equivalent**	**Amortized cost**	**Carrying amount**	**Percent of carrying amount**	**Amortized cost**	**Carrying amount**	**Percent of carrying amount**
				($ in millions)			
1	AAA/AA/A	**$ 28,364.4**	**$ 30,140.6**	**64%**	$ 27,137.0	$ 28,096.1	61%
2	BBB	**12,291.8**	**13,184.7**	**28**	13,808.3	14,587.8	32
3	BB	**2,902.0**	**2,879.3**	**6**	2,439.9	2,444.0	5
4	B	**659.1**	**637.3**	**2**	554.6	512.6	1
5	CCC and lower	**147.8**	**120.0**		216.4	179.7	1
6	In or near default	**74.7**	**66.2**		217.3	137.3	
	Total fixed maturities	**$ 44,439.8**	**$ 47,028.1**	**100%**	$ 44,373.5	$ 45,957.5	100%

Fixed maturities include 71 securities with an amortized cost of $524.8 million, gross gains of $21.6 million, gross losses of $1.0 million and a carrying amount of $545.4 million as of December 31, 2014, that are still pending a review and assignment of a rating by the SVO. Due to the timing of when fixed maturities are purchased, legal documents are filed and the review by the SVO is completed, there will always be securities in our portfolio that are unrated over a reporting period. In these instances, an equivalent rating is assigned based on our fixed income analyst's assessment.

Commercial Mortgage-Backed Securities. As of December 31, 2014, based on amortized cost, 58% of our CMBS portfolio had ratings of A or higher and 40% was issued prior to 2005 and after 2008.

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

	December 31, 2014											
	AAA		**AA**		**A**		**BBB**		**BB+ and Below**		**Total**	
	Amortized cost	**Carrying amount**	**Amortized cost**	**Carrying amount**	**Amortized cost**	**Carrying amount**	**Amortized cost**	**Carrying amount**	**Amortized cost**	**Carrying amount**	**Amortized cost**	**Carrying amount**
						(in millions)						
2003 & Prior	**$ 14.4**	**$ 15.1**	**$ 9.8**	**$ 10.5**	**$ 4.8**	**$ 5.2**	**$ 28.7**	**$ 33.5**	**$ 39.8**	**$ 43.6**	**$ 97.5**	**$ 107.9**
2004	**2.8**	**3.3**	**39.1**	**39.8**	**31.6**	**33.4**	**25.8**	**27.3**	**29.9**	**30.3**	**129.2**	**134.1**
2005	**205.5**	**208.3**	**63.3**	**64.7**	**28.7**	**29.6**	**85.2**	**86.4**	**139.0**	**125.2**	**521.7**	**514.2**
2006	**80.1**	**82.2**	**45.2**	**46.2**	**85.8**	**88.6**	**150.9**	**155.1**	**126.9**	**115.7**	**488.9**	**487.8**

2007	**41.0**	**42.4**	**102.3**	**111.2**	**156.0**	**169.7**	**213.8**	**226.8**	**665.9**	**670.5**	**1,179.0**	**1,220.6**
2008	**22.0**	**23.3**	**26.7**	**29.1**			**44.6**	**45.5**	**55.5**	**61.2**	**148.8**	**159.1**
2009	**70.2**	**73.0**	**45.6**	**47.4**	**18.4**	**19.2**					**134.2**	**139.6**
2010	**64.7**	**68.4**	**41.3**	**42.7**							**106.0**	**111.1**
2011	**76.5**	**77.0**	**136.8**	**139.0**	**2.2**	**2.2**					**215.5**	**218.2**
2012	**214.8**	**218.3**	**143.3**	**145.4**	**3.5**	**3.5**					**361.6**	**367.2**
2013	**201.4**	**200.7**	**72.8**	**73.0**			**15.6**	**15.7**	**10.3**	**10.4**	**300.1**	**299.8**
2014	**168.1**	**169.5**	**44.8**	**44.9**	**3.0**	**3.0**					**215.9**	**217.4**
Total (1)	**$ 1,161.5**	**$ 1,181.5**	**$ 771.0**	**$ 793.9**	**$ 334.0**	**$ 354.4**	**$ 564.6**	**$ 590.3**	**$ 1,067.3**	**$ 1,056.9**	**$ 3,898.4**	**$ 3,977.0**

(1) The CMBS portfolio included agency CMBS with a $415.5 million amortized cost and a $420.4 million carrying amount.

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	December 31, 2013											
	AAA		AA		A		BBB		BB+ and Below		Total	
	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount	Amortized cost	Carrying amount
	(in millions)											
2003 & Prior	$ 19.2	$ 20.0	$ 10.0	$ 11.3	$ 0.7	$ 0.7	$ 27.8	$ 31.7	$ 72.4	$ 71.2	$ 130.1	$ 134.9
2004	29.4	29.7	61.6	63.2	43.1	44.3	31.6	33.2	71.1	63.4	236.8	233.8
2005	306.8	321.2	52.1	55.6	39.2	40.2	116.1	118.8	158.0	133.7	672.2	669.5
2006	99.7	104.4	27.5	29.1	67.5	72.1	128.4	134.4	131.8	111.8	454.9	451.8
2007	67.7	70.3	73.8	83.1	141.4	156.2	225.3	245.0	848.8	732.3	1,357.0	1,286.9
2008	10.9	11.4	43.6	49.0			18.4	19.2	67.3	72.1	140.2	151.7
2009	81.5	85.5	74.3	77.9	18.6	19.7					174.4	183.1
2010	63.7	69.6	56.1	57.6							119.8	127.2
2011	98.7	99.1	119.4	119.7							218.1	218.8
2012	220.7	219.2	152.3	151.7							373.0	370.9
2013	141.7	138.8	61.6	60.8							203.3	199.6
Total (1)	$ 1,140.0	$ 1,169.2	$ 732.3	$ 759.0	$ 310.5	$ 333.2	$ 547.6	$ 582.3	$ 1,349.4	$ 1,184.5	$ 4,079.8	$ 4,028.2

(1) The CMBS portfolio included agency CMBS with a $421.6 million amortized cost and a $423.1 million carrying amount.

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

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

	December 31, 2014	December 31, 2013
	($ in millions)	
Total fixed maturities (public and private)	**$ 47,028.1**	$ 45,957.5
Problem fixed maturities (1)	**$ 297.0**	$ 417.1
Potential problem fixed maturities	**161.3**	157.0
Total problem, potential problem and restructured fixed maturities	**$ 458.3**	$ 574.1

Total problem, potential problem and restructured fixed maturities as a percent of total fixed maturities	**0.97%**	1.25%

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

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

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

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

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determine that a security is deemed to be other than temporarily impaired, an impairment loss is recognized. For additional details, see Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 4, Investments."

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

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

The net realized loss relating to other-than-temporary credit impairments and credit related sales of fixed maturities was $83.7 million, $111.8 million, and $118.2 million for the years ended December 31, 2014, 2013, and 2012, respectively.

Fixed Maturities Available-for-Sale

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

	December 31, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
		(in millions)		
Finance Banking	$ 3,734.8	$ 148.0	$ 92.4	$ 3,790.4
Finance Brokerage	282.3	22.0		304.3
Finance Finance Companies	210.0	7.7	0.5	217.2
Finance Financial Other	403.8	55.8	0.2	459.4
Finance Insurance	2,218.5	277.1	2.0	2,493.6
Finance REITS	816.8	47.1	2.3	861.6
Industrial Basic Industry	1,527.2	82.7	12.4	1,597.5
Industrial Capital Goods	1,543.1	144.4	2.5	1,685.0
Industrial Communications	2,302.0	268.8	9.9	2,560.9
Industrial Consumer Cyclical	1,332.2	78.4	3.1	1,407.5
Industrial Consumer Non-Cyclical	3,045.4	213.9	3.6	3,255.7
Industrial Energy	2,853.1	238.7	39.4	3,052.4
Industrial Other	386.0	23.1	0.2	408.9
Industrial Technology	1,061.9	40.8	2.0	1,100.7
Industrial Transportation	924.8	66.8	2.2	989.4
Utility Electric	2,627.2	266.1	5.3	2,888.0
Utility Natural Gas	243.2	19.9	0.1	263.0
Utility Other	253.0	19.6		272.6
Government guaranteed	1,226.0	130.3	10.3	1,346.0
Total corporate securities	26,991.3	2,151.2	188.4	28,954.1
Residential mortgage-backed pass-through securities	2,687.0	124.5	6.3	2,805.2
Commercial mortgage-backed securities	3,896.9	141.5	62.9	3,975.5
Residential collateralized mortgage obligations	1,229.5	25.6	5.0	1,250.1
Asset-backed securities Home equity (1)	312.0	14.6	15.1	311.5
Asset-backed securities All other	3,041.9	17.3	4.4	3,054.8
Collateralized debt obligations Credit	52.4		18.0	34.4
Collateralized debt obligations CMBS	3.2	0.1		3.3
Collateralized debt obligations Loans	465.6	3.4	2.6	466.4

Total mortgage-backed and other asset-backed securities		**11,688.5**		**327.0**		**114.3**		**11,901.2**
U.S. government and agencies		**1,085.6**		**39.1**		**2.9**		**1,121.8**
States and political subdivisions		**3,916.8**		**291.3**		**4.1**		**4,204.0**
Non-U.S. governments		**357.2**		**90.8**		**1.4**		**446.6**
Total fixed maturities, available-for-sale	**$**	**44,039.4**	**$**	**2,899.4**	**$**	**311.1**	**$**	**46,627.7**

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

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	December 31, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
	(in millions)			
Finance Banking	$ 4,053.6	$ 172.5	$ 113.7	$ 4,112.4
Finance Brokerage	233.0	15.4	1.2	247.2
Finance Finance Companies	159.2	9.3		168.5
Finance Financial Other	496.4	56.6	1.1	551.9
Finance Insurance	2,432.8	193.3	7.7	2,618.4
Finance REITS	861.9	45.9	7.0	900.8
Industrial Basic Industry	1,539.9	80.2	14.4	1,605.7
Industrial Capital Goods	1,612.2	119.4	5.4	1,726.2
Industrial Communications	2,043.4	153.1	13.7	2,182.8
Industrial Consumer Cyclical	1,591.3	110.7	6.9	1,695.1
Industrial Consumer Non-Cyclical	3,117.2	189.0	17.2	3,289.0
Industrial Energy	2,885.6	231.7	21.8	3,095.5
Industrial Other	382.7	20.8	1.6	401.9
Industrial Technology	995.9	47.6	5.1	1,038.4
Industrial Transportation	829.5	41.7	8.6	862.6
Utility Electric	2,731.9	178.2	34.6	2,875.5
Utility Natural Gas	198.6	13.4	2.9	209.1
Utility Other	281.0	18.7	1.8	297.9
Government guaranteed	1,269.9	113.7	6.8	1,376.8
Total corporate securities (1)	27,716.0	1,811.2	271.5	29,255.7
Residential mortgage-backed pass-through securities	2,779.2	91.1	46.7	2,823.6
Commercial mortgage-backed securities	4,078.0	170.6	222.2	4,026.4
Residential collateralized mortgage obligations	983.6	19.2	10.7	992.1
Asset-backed securities Home equity (2)	344.8	12.0	21.6	335.2
Asset-backed securities All other	2,829.1	20.6	9.2	2,840.5
Collateralized debt obligations Credit	54.5		31.1	23.4
Collateralized debt obligations CMBS	36.7	2.7	2.0	37.4
Collateralized debt obligations Loans	300.7	3.3	1.4	302.6
Total mortgage-backed and other asset-backed securities	11,406.6	319.5	344.9	11,381.2
U.S. government and agencies	818.2	12.7	50.4	780.5
States and political subdivisions	3,622.8	120.9	85.7	3,658.0
Non-U.S. governments	451.4	73.3	1.1	523.6
Total fixed maturities, available-for-sale	$ 44,015.0	$ 2,337.6	$ 753.6	$ 45,599.0

(1) Reclassifications have been made to prior periods to conform to the current period presentation.

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

Of the $311.1 million in gross unrealized losses as of December 31, 2014, there were $1.4 million in losses attributed to securities scheduled to mature in one year or less, $40.6 million attributed to securities scheduled to mature between one to five years, $48.3 million attributed to securities scheduled to mature between five to ten years, $106.5 million attributed to securities scheduled to mature after ten years and $114.3 million related to mortgage-backed and other ABS that are not classified by maturity year. As of December 31, 2014, we were in a $2,588.3 million net unrealized gain position as compared to a $1,584.0 million net unrealized gain position as of December 31, 2013. The $1,004.3 million increase in net unrealized gains for the year ended December 31, 2014, can primarily be attributed to an approximate 53 basis points decrease in interest rates.

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

We invest in privately placed fixed maturities to enhance the overall value of the portfolio, increase diversification and obtain higher yields than are possible with comparable quality public market securities. Generally, private placements provide broader access to management information, strengthened negotiated protective covenants, call protection features and, where applicable, a higher level of collateral. They are, however, generally not freely tradable because of restrictions imposed by federal and state securities laws and illiquid trading markets.

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

	December 31, 2014				December 31, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount	Amortized cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
	(in millions)							
Investment grade:								
Public	$ 27,534.4	$ 2,049.3	$ 103.6	$ 29,480.1	$ 27,611.6	$ 1,560.3	$ 377.6	$ 28,794.3
Private	12,785.6	763.6	40.2	13,509.0	13,023.7	666.8	110.9	13,579.6
Below investment grade:								
Public	1,931.3	37.4	90.0	1,878.7	1,744.3	54.7	141.9	1,657.1
Private	1,788.1	49.1	77.3	1,759.9	1,635.4	55.8	123.2	1,568.0
Total fixed maturities, available-for-sale	$ 44,039.4	$ 2,899.4	$ 311.1	$ 46,627.7	$ 44,015.0	$ 2,337.6	$ 753.6	$ 45,599.0

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

	December 31, 2014					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	$ 1,753.2	$ 18.6	$ 969.0	$ 6.8	$ 2,722.2	$ 25.4
Greater than three to six months	200.9	4.1	375.7	4.4	576.6	8.5
Greater than six to nine months	111.4	1.1	142.3	3.0	253.7	4.1
Greater than nine to twelve months	7.5	0.2	60.0	0.3	67.5	0.5
Greater than twelve to twenty-four months	1,046.0	20.2	408.6	11.9	1,454.6	32.1
Greater than twenty-four to thirty-six months	96.8	2.6	21.6	0.3	118.4	2.9
Greater than thirty-six months	436.4	56.8	186.3	13.5	622.7	70.3
Total fixed maturities, available-for-sale	$ 3,652.2	$ 103.6	$ 2,163.5	$ 40.2	$ 5,815.7	$ 143.8

	December 31, 2013					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	$ 2,047.4	$ 19.5	$ 983.5	$ 9.0	$ 3,030.9	$ 28.5
Greater than three to six months	190.6	4.1	230.5	6.0	421.1	10.1
Greater than six to nine months	3,605.4	227.0	1,222.5	52.8	4,827.9	279.8
Greater than nine to twelve months	172.7	13.2	54.8	2.9	227.5	16.1
Greater than twelve to twenty-four months	187.0	19.8	39.3	3.0	226.3	22.8
Greater than twenty-four to thirty-six months	39.2	2.7	42.8	1.0	82.0	3.7

Greater than thirty-six months		523.2		91.3		286.9		36.2		810.1		127.5
Total fixed maturities, available-for-sale	$	6,765.5	$	377.6	$	2,860.3	$	110.9	$	9,625.8	$	488.5

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

	December 31, 2014					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	$ 478.0	$ 14.8	$ 298.1	$ 8.3	$ 776.1	$ 23.1
Greater than three to six months	111.8	4.1	274.1	15.9	385.9	20.0
Greater than six to nine months	8.2	0.8	52.4	0.7	60.6	1.5
Greater than nine to twelve months			94.8	2.8	94.8	2.8
Greater than twelve to twenty-four months	21.2	0.8	66.7	8.1	87.9	8.9
Greater than twenty-four to thirty-six months	0.5		0.4	0.4	0.9	0.4
Greater than thirty-six months	280.6	69.5	151.7	41.1	432.3	110.6
Total fixed maturities, available-for-sale	$ 900.3	$ 90.0	$ 938.2	$ 77.3	$ 1,838.5	$ 167.3

	December 31, 2013					
	Public		Private		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	$ 157.6	$ 2.3	$ 103.8	$ 2.7	$ 261.4	$ 5.0
Greater than three to six months	23.2	0.8	50.5	0.4	73.7	1.2
Greater than six to nine months	79.6	2.2	104.0	4.4	183.6	6.6
Greater than nine to twelve months		0.1	19.4	0.4	19.4	0.5
Greater than twelve to twenty-four months			12.4	1.4	12.4	1.4
Greater than twenty-four to thirty-six months	41.8	2.8	12.5	3.3	54.3	6.1
Greater than thirty-six months	452.5	133.7	275.5	110.6	728.0	244.3
Total fixed maturities, available-for-sale	$ 754.7	$ 141.9	$ 578.1	$ 123.2	$ 1,332.8	$ 265.1

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

	December 31, 2014					
	Problem, potential problem and restructured		All other fixed maturity securities		Total	
	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses	Carrying amount	Gross unrealized losses
	(in millions)					
Three months or less	$	$	$ 107.4	$ 32.4	$ 107.4	$ 32.4
Greater than three to six months			1.5	1.0	1.5	1.0

Greater than six to nine months	**7.6**	**5.2**	**0.5**	**0.2**	**8.1**	**5.4**
Greater than nine to twelve months				**0.2**		**0.2**
Greater than twelve months	**46.3**	**31.4**	**189.1**	**68.8**	**235.4**	**100.2**
Total fixed maturities, available-for-sale	**$ 53.9**	**$ 36.6**	**$ 298.5**	**$ 102.6**	**$ 352.4**	**$ 139.2**

	December 31, 2013					
	Problem, potential problem and restructured		**All other fixed maturity securities**		**Total**	
	Carrying amount	**Gross unrealized losses**	**Carrying amount**	**Gross unrealized losses**	**Carrying amount**	**Gross unrealized losses**
	(in millions)					
Three months or less	$ 0.7	$ 0.2	$ 28.3	$ 9.3	$ 29.0	$ 9.5
Greater than three to six months			4.1	1.6	4.1	1.6
Greater than six to nine months	13.3	4.1	1.4	0.9	14.7	5.0
Greater than nine to twelve months			5.0	1.9	5.0	1.9
Greater than twelve months	127.7	169.7	271.3	108.6	399.0	278.3