

“

I started saving too soon. I've  
invested too much. And life  
is going just as I planned,

said no one ever.

”



Principal Financial Group 2016 Annual Report



Truth is, most people have more to do to become financially secure. Getting there isn't easy. Especially when life doesn't always go according to plan.

That's why it's time for a reality check. Only by meeting people where they are can we help them find balance between living for today and saving for tomorrow.

With the right help and support, progress is always possible. That's the reality and the promise of what we do.

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For all our progress and success, there's still more to do.

Dan Houston, chairman, president and chief executive officer

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From the chairman, president and chief executive officer

## To our shareholders

In so many ways, 2016 was an exceptional year for Principal.

Our diversified, integrated businesses delivered a record \$1.3 billion in net income available to common stockholders and operating earnings.

We continued to attract and retain customers, delivering more than \$19 billion in positive net cash flows, as many of our industry peers experienced net redemptions. Strong flows helped us increase assets under management (AUM) \$64 billion or 12 percent in 2016, to \$592 billion at year-end.

As an asset manager focused on long-term investment strategies, we remain pleased with our performance, with more than 75 percent of our investment options<sup>1</sup> in the top two Morningstar quartiles for the three- and five-year periods as of year-end.

Reflecting strong ongoing capital generation and balanced deployment, we returned more than \$720 million to shareholders through common stock dividends and share buybacks; and we made meaningful investments across our businesses to expand and enhance our customer solution set and distribution reach.

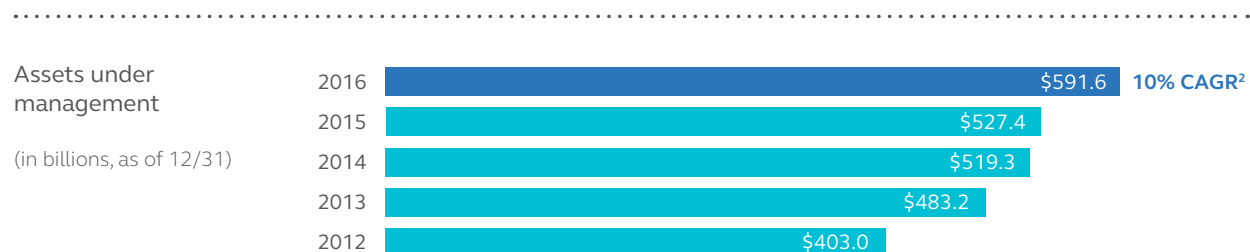
### Reality check

For all our progress and success, there's still more to do. More because customer preferences shift, competition increases and the regulatory environment evolves. More because the world is in a state of accelerating change.

In the face of so much disruption, there's no time like the present for a reality check. To acknowledge that yesterday's formula for success could become obsolete. To recognize that for all our strengths, we have challenges. To rethink and refine our strategic focus.

There's no time like the present to assess the balance: between strategy and execution; between expense discipline and investment; between a proud past and a future that requires constant innovation.

## Continued strong growth



<sup>1</sup>Principal mutual funds, separate accounts and collective investment trusts.

<sup>2</sup>Compounded annual growth rate; 12/31/2012 – 12/31/2016.

And there's no time like the present to ask ourselves some foundational questions:

### Question #1: Are we putting the customer first?

Absolutely. We remain focused on meeting customer needs and solving their problems by delivering new investment options and digital solutions.

We launched a dozen new funds for retirement, retail and institutional investors. Our global product strategy remains purposeful and driven by customer demand. It contemplates:

- Growth in emerging market middle class populations, which drives demand for retirement and other long-term savings strategies.
- Global aging and longer life expectancies, which drives demand for income solutions, including guaranteed income offerings.
- The need for portfolio diversification, regardless of generation or geography.

Our strategy also contemplates increasing investor demand for downside risk protection and lower cost investment options. Five of our 2016 investment launches were strategic beta offerings designed to enhance returns and minimize risk, relative to a standard market index, in a cost-effective manner.

We made our funds more accessible to investors through placements on third party platforms, model portfolios and recommended lists. In total, we had nearly 60 placements in 2016, adding more than 30 different funds to 22 different distribution platforms.

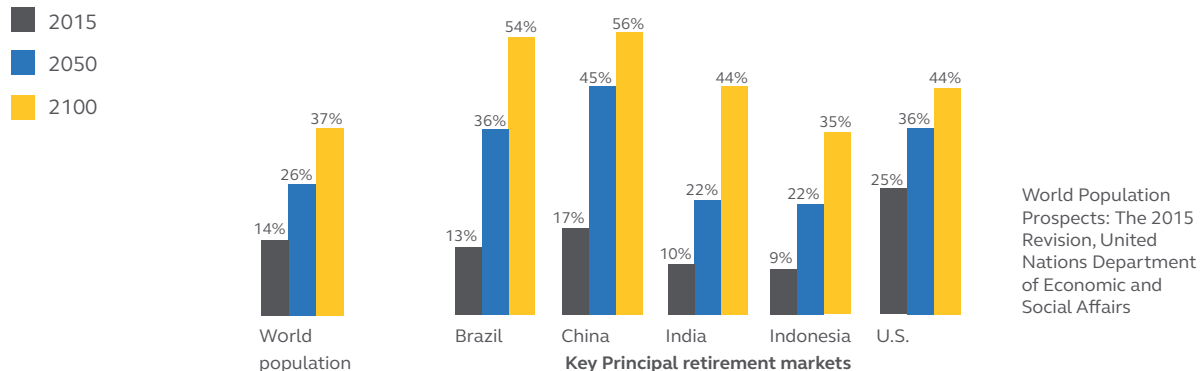
We also remain focused on delivering easier, faster, more convenient digital solutions – designed to help more people save and protect their assets, and to address future generations' purchasing preferences.

Our online life and disability insurance purchasing portal helps potential customers calculate coverage needs, get a price quote and obtain assistance to complete the sales process. Early results are promising. Beyond strong interest in our site and good lead generation, we're converting more than 25 percent of our leads into sales – including nearly \$140 million in life insurance face amount.

Our enhanced Accelerated Underwriting process automatically assesses risk, and eliminates intrusive steps like lab testing and medical exams for some 50 percent of eligible applicants. Ultimately, we can reduce the time it takes to issue a policy by nearly two-thirds, a benefit to customers and advisors alike.

## The need for solutions in an aging world

Percent of population 60 years and older

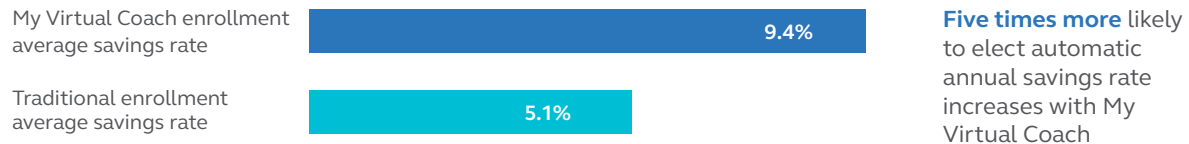




## Better customer outcomes

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80+ percent higher retirement savings rate with My Virtual Coach



We also continued to enhance Principal PlanWorks, our comprehensive approach to workplace retirement readiness that combines best-in-class plan design and participant experience to help people better prepare for retirement. Using our interactive education and enrollment resource, My Virtual Coach, enrollees saved, on average, at a rate more than four percentage points higher than those using traditional enrollment, and were five times as likely to elect automatic annual savings rate increases.

Importantly, we also rolled out our refreshed global brand in 2016 to better represent how we help people in all stages of life achieve financial success. The brand underscores our commitment to meeting the needs of underserved markets, including small- and medium-sized businesses in the U.S. and emerging markets in Latin America and Asia. And it reflects our intensified focus on making it easier for everyone – individuals, business owners, institutional clients and advisors – to do business with us.

### Question #2: Are we attracting, retaining and developing talent?

At 92 percent, our employee retention in 2016 was top quartile among financial services companies. Much of our success reflects the work we do, every day, to build on a strong culture.

Our core value of integrity continues to define who we are and how we do business. A strong belief system guides us to do the right things, and to value honesty, transparency, fairness, responsibility and respect. In 2016, we were again recognized by Ethisphere Institute as one of the World's Most Ethical Companies, based on criteria including ethics, compliance, corporate citizenship and governance.

Reflecting our commitment to learning and development, diversity and inclusion, employee recognition and open communications, we also received multiple “best places to work” awards, including: *Pensions & Investments* Best Places to Work in Money Management; *Computerworld's* Best Places to Work in IT and National Association of Female Executives Top Companies for Executive Women.

With a strong foundation in place, we continued to make progress:

- With cultural imperatives designed to encourage entrepreneurialism and innovation; empower employees to make decisions and take action; drive greater collaboration across our businesses; and intensify our focus overall on helping customers achieve their financial goals.
- Transforming our workspace to create a more collaborative, technology-enabled and environmentally-friendly workplace, and an environment designed to help our people be more productive.

- Advancing our strategic objective of having the right talent in the right place at the right time. Data analytics is helping us better understand success criteria, assess talent and leadership effectiveness, and create development opportunities to prepare our people for future roles.

### Question #3: Are we effectively managing enterprise risks?

Yes. In some cases, risk management is about risk avoidance. Protecting customer assets, data and privacy is and will always be priority one for Principal.

In other cases, we mitigate risk through diversification – by product offering, by geography and by asset class. An important development in this area occurred when we signed a Memorandum of Understanding with China Construction Bank (CCB), the second largest bank in the world, to develop a new asset management and pension partnership.

Principal and China Construction Bank jointly created CCB Principal Asset Management Company in 2005, and it is now the sixth largest fund management company in China. The new agreement enhances our existing long-term relationship, and creates significant opportunities for future growth and to further diversify our sources of revenue and earnings.

Another key to effective risk management is evolving risk practices as regulations, markets, products, competition and the overall business environment changes. As examples:

- Our new enterprise-wide risk and control self-assessment tools position our businesses to deepen their risk assessments and enhance risk reporting.
- We continued to review and plan for “low for long,” negative and rising interest rate scenarios, and continued to evolve our foreign currency risk management program.
- New resources allow us to better address a wider array of operational risks such as vendor management, and human resource and IT risk management.

### Question #4: Are we being good stewards of shareholder capital?

To me, being a good steward of capital means creating long-term value for shareholders. Over the past five years, we’ve more than doubled our market capitalization, and returned more than \$1.8 billion to shareholders through our common stock dividend.

In 2016, we used capital to restructure our debt – improving our interest coverage and reducing our leverage ratios, and better positioning us to capitalize on future opportunities. We used share repurchase for anti-dilutive purposes, as well as to opportunistically reduce share count. And we increased our quarterly common stock dividend three times, as we continue to progress toward a 40 percent payout ratio.

Most importantly, we continued to deploy capital to generate organic growth. Our investments remained focused on adding new product and service solutions and improving the customer experience. Ultimately, organic growth is the key to increasing our deployable free cash flow. In turn, we increase our capacity to re-invest in existing businesses, to expand our capabilities and increase scale through M&A, and to return capital to shareholders.



## Returning capital to shareholders

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Total common stock dividends paid (in millions)



**\$1.8 billion** in common stock dividends paid to shareholders, 2012-2016.

Creating shareholder value is a balancing act that requires discipline and flexibility. Over the long-term, we'll continue to focus our capital deployment on three things – above market growth in earnings per share, solid expansion of our return on equity, and an above market yield from our common stock dividend.

### Reality check: there's always more to do

Technology continues to change not only how people buy and pay, but how they save and invest. We're using data to not only better understand our customers, but also where demand is headed.

As we study companies that are using technology to create best in class customer experiences, we see some common threads. These companies make their customers feel valued. They deliver something different, something better; something that meets a need or solves a problem.

I believe the biggest unsolved problem in financial services is that too many people, around the world, are under-saved, under-insured and unadvised. We'll continue to do more to be part of the solution, to help more people live their best lives today and tomorrow. We'll continue to advocate for retirement systems that are structured and financed in ways that help more people maintain their lifestyle in retirement. We'll continue to promote investment diversification and the importance of savings discipline. We'll continue to stress the value of insurance in achieving more holistic financial security.

### My sincere thanks

As one final reality check, we recognize there are a lot of other companies in which you could invest. On behalf of Principal, my sincere thanks for your continued support. The future presents both challenges and opportunities for us, which we take on from a position of strength. We'll continue to strive to become an even stronger organization, and to create long-term value for you and each of our stakeholders.

Dan Houston  
Chairman, president and chief executive officer



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We were pleased with company performance in 2016, and with the management transition.

Elizabeth Tallett, lead director

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## To our shareholders

Our charge as your Board of Directors is clear: Oversee management's strategy and assess and monitor company performance – in particular, the company's ability to create long-term value for shareholders. In a changing world, this requires management to continuously address new challenges and capitalize on emerging opportunities. We take our responsibilities very seriously. On behalf of the Board, I'm pleased to provide an update on our key areas of focus, and share some thoughts on company performance.

**Strategic oversight** – The Board not only evaluates company strategy, but also shares perspectives, provides advice, and monitors and assesses management's implementation. Each quarter, and at our annual strategy retreat with management, we discuss and debate topics critical to the company's long-term success. At our 2016 retreat, we focused on growth strategies for our global businesses and capital planning. This involved an in-depth look at key challenges including shifting customer demand, technology and data trends, low interest rates and industry regulation. We're confident management is continuing to evolve and refine company strategy, invest in growth and take appropriate actions to further strengthen its competitive positioning.

**Risk oversight** – Protection of shareholder value is as central to Board discussions as is creating long-term value. We have a coordinated, comprehensive approach to overseeing the enterprise-wide risk management responsibilities – identifying, assessing, monitoring and managing risk exposures. The Board regularly reviews strategic threats, opportunities, and risks (including credit, market, liquidity, product, operational and cybersecurity risk). Leadership is fully engaged in risk management and has made it a fundamental aspect of company strategy, operations and culture.

**Talent and succession planning** – Our role in talent and succession applies to both the Board and company leadership. In July 2016, we added Scott Mills, executive vice president and chief administrative officer of Viacom, Inc., to the Principal Board of Directors. Scott brings expertise in accounting and finance, capital markets, operations, business development and strategic planning. We continue to strive for balance between introducing new perspectives and maintaining experience and continuity. Our Board includes 10 independent directors with broad and diverse expertise, skills and viewpoints to help the company advance its strategy.

In September 2016, as part of our management succession process, we announced Deanna Strable would assume the role of chief financial officer, replacing Terry Lillis. Since joining the company in 1990, Deanna has held positions of increasing responsibility, including president of U.S. Insurance Solutions. Deanna brings strong financial expertise and deep experience running one of the company's most successful businesses. The Board would like to express our sincere thanks to Terry who retired as chief financial officer in February 2017, after 35 years with the company. Terry played a critical role in guiding the company through difficult times and positioning Principal for a strong and successful future.

**2016 performance** – We, too, were pleased with company performance in 2016, and with the management transition, as Dan Houston completed his first year as CEO. The Board's focus remains firmly on long-term performance, and the company continued to make strategic investments in the business and important strides in meeting customers' needs.

Let me close by thanking you for your continued support. I appreciate the opportunity to serve as your lead director. Please contact me with your questions, thoughts and opinions at [principal.com/contactliz](http://principal.com/contactliz).

Sincerely,



Elizabeth Tallett

Lead director, Principal Financial Group

During 2016, we focused on balancing growth and profitability, while continuing to invest in our businesses.

We delivered record net income available to common stockholders and operating earnings<sup>1</sup> of more than \$1.3 billion. Importantly, we achieved this record despite a challenging start to the year with strong headwinds from equity markets and foreign currency, low interest rates and uncertainties associated with Brexit, regulatory changes and the U.S. presidential election.

We grew assets under management by 12 percent to \$592 billion at the close of 2016. It was our seventh consecutive year of positive total company net cash flows, reflecting competitive performance and expanding sources of demand for our investment solutions. Clearly, we benefit from substantial diversification — by investor type, asset class and geography. And strong integration of our businesses enables us to better meet the needs of investors as they transition from accumulation to retirement.

<sup>1</sup>This is a non-GAAP financial measure. See non-GAAP financial measure reconciliations on page 28.

Change is a challenge in the real world. But we see it as a catalyst for inspiration, innovation and opportunity.

Our deep understanding of the marketplace and our customers yields insights that are transforming the company. And the lives of those we serve.

We are reaching customers in new ways — and on their terms. We are creating new solutions and new partnerships. We are focused on empowering our people and communities in innovative and exciting ways. Our experience is tried and true. But our future is disruptive and new.

A man in a dark blue suit and tie is smiling and looking towards the left. He is standing in a meeting room with a large window in the background. Another person is partially visible in the foreground, out of focus.

“

ETFs are disrupting the  
asset management industry.  
Now we're disrupting ETFs.

Paul Kim, managing director, ETF Strategy,  
developer of our new smart beta ETFs

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# Get ready for a new generation of investing possibilities.

We're continually working to identify and develop investment products, strategies and services that serve our clients well. We've built a long and successful history in asset allocation, active management and alternative strategies. Our multi-boutique approach translates our worldwide market reach and core capabilities into small, specialized boutiques that can move quickly to seize opportunities.

Exchange-traded funds (ETFs) present such an opportunity. They have become increasingly popular among investors seeking transparency, value and opportunity. They're primarily passively managed and can fill key niches in investment portfolios. And their low cost brings the markets and diversification within reach of even the smallest investors.

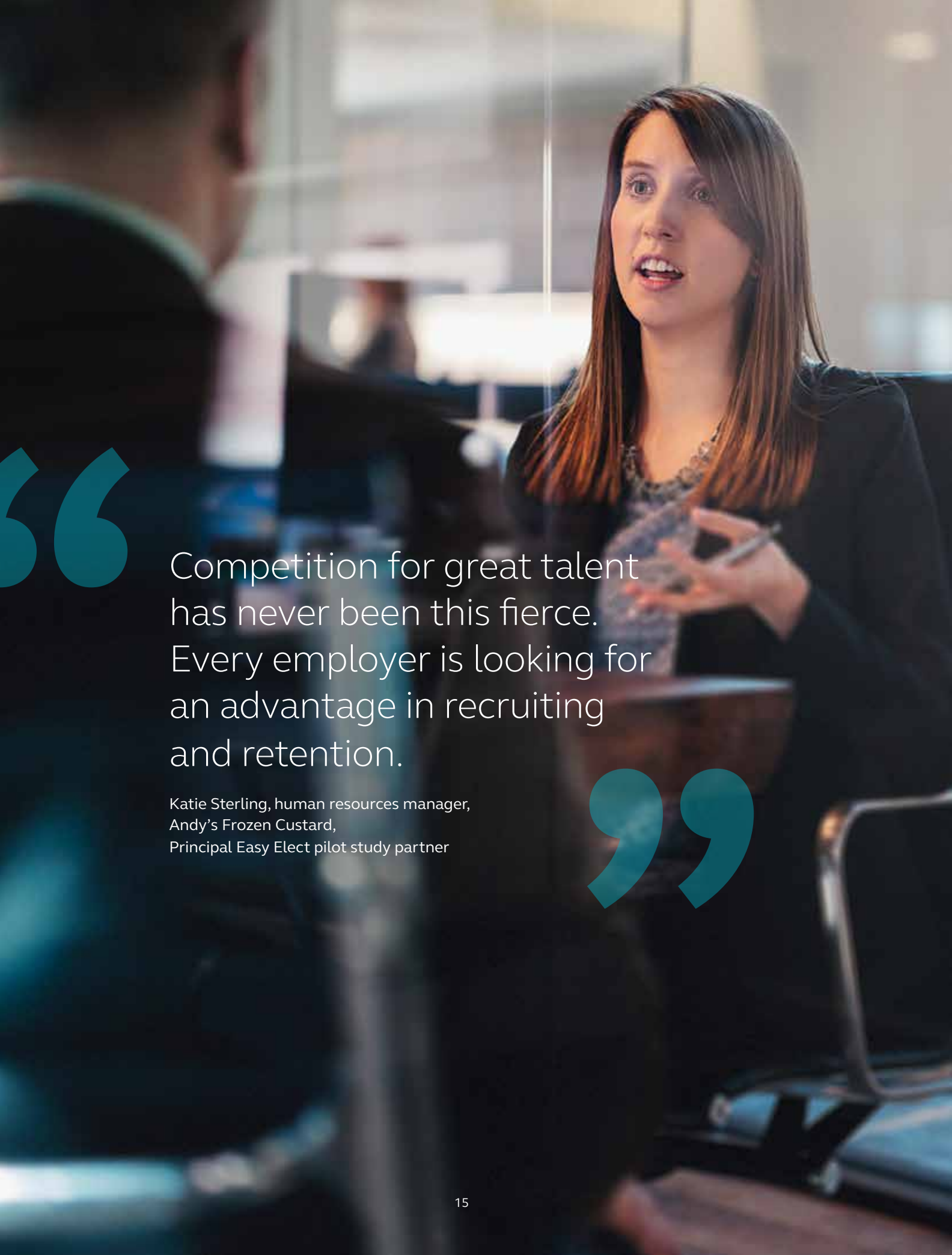
We asked ourselves, what if they could be engineered with an active management twist? Or themed to emerging business and cultural shifts? These insights led to our introduction of five new strategic beta ETFs in 2016. They're built on the passive management structure of most ETFs, but overlaid with the active management experience that has made Principal a leader in the global investment community.

Our highly advanced and proprietary data analytics system enables us to crunch data on thousands of companies. In the blink of an eye. It gives our portfolio managers deep, real-time understanding of what's driving market risk and value. And it speeds the creation of new products, like strategic beta ETFs, to capture emerging market potential.

Our Principal U.S. Small Cap Index ETF (PSC) was created with significant input from the same portfolio managers who oversee our active small cap portfolios. They know the challenges and opportunities of the sector – inside and out. They bring additional potential value to the equation. But with a competitive expense ratio of 0.38 percent.

The Principal Millennials Index ETF (GENY) leverages our active management expertise to find and build value among companies that may benefit from the increasing wealth and spending power of the Millennial generation. The sheer size and focused consumption patterns of this generation are already creating market disruption. And the fund's holdings will adjust over time, reflecting shifting preferences and business models as Millennials age.

In a world where change is constant, our experience, vigilance and creativity drive opportunity for all generations of investors.

A woman with long brown hair, wearing a dark blazer over a patterned top, is speaking in a meeting. She is holding a pen and gesturing with her hand. The background is a blurred office environment with other people and computer monitors.

“

Competition for great talent has never been this fierce. Every employer is looking for an advantage in recruiting and retention.

Katie Sterling, human resources manager,  
Andy's Frozen Custard,  
Principal Easy Elect pilot study partner

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# Winning means being in the right place. At the right time.

The digital revolution is not a revolution anymore. It's a fact. A way of life. A global disruption that puts the customer squarely in charge of nearly every transaction. While many companies are challenged by this new reality, we don't see it that way. We embrace it as a natural extension of our customer-focused culture. So rather than keep up, we lead.

For example, we know that most small businesses want to offer great benefits to their employees. But they don't always have the resources to make it happen – especially when it comes to voluntary benefits like life or disability insurance. Many struggle to meet participation requirements. Others can't enroll employees in remote locations.

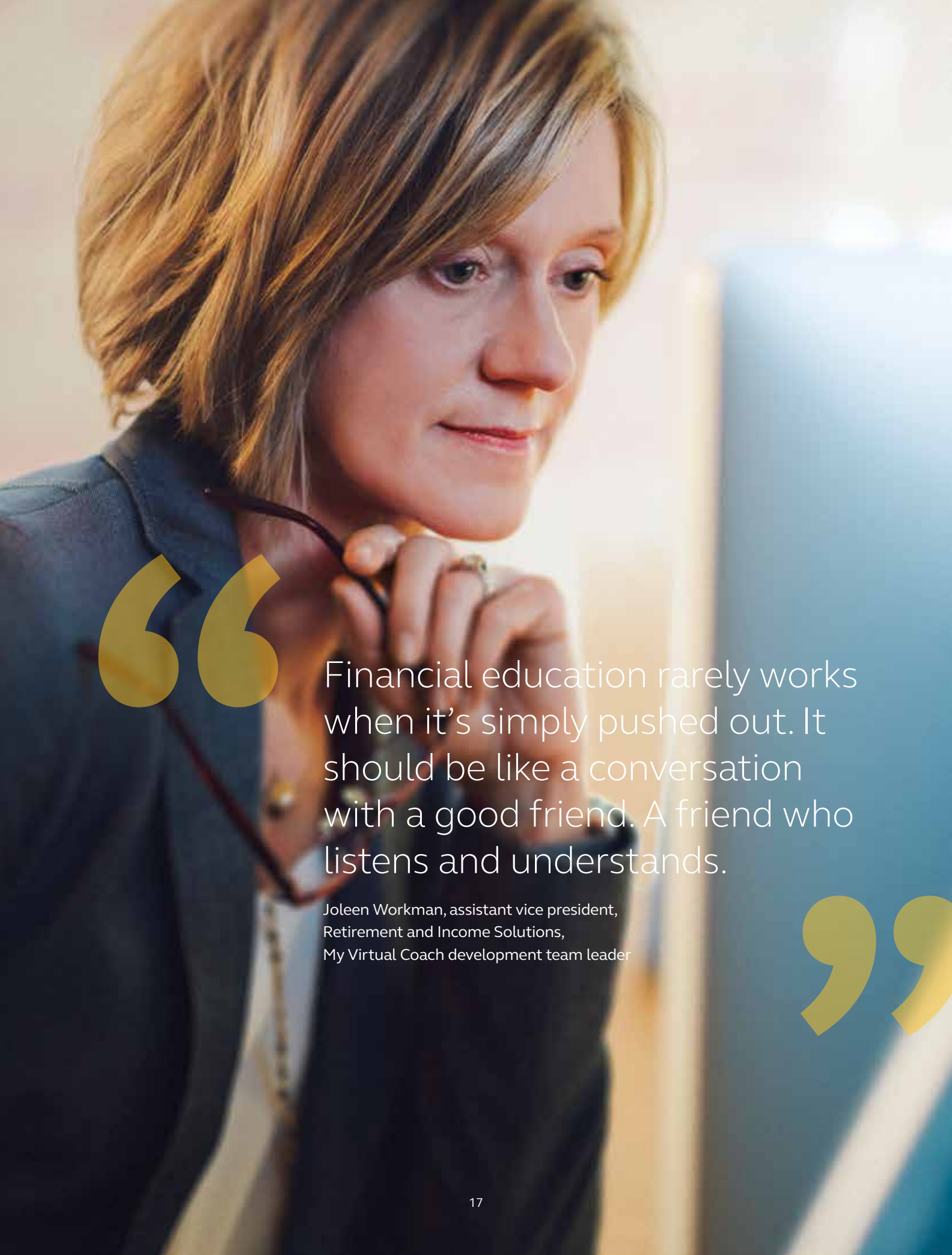
So we reached out with Easy Elect, a first-of-its-kind online enrollment system for voluntary benefits. It's tailored for small businesses. And it's unique, so it's patented.

It's appreciated, too. In our 2016 pilot study, we found that Easy Elect saved time for employers and advisors, made it easier and more intuitive for employees to make benefit decisions and boosted enrollment in voluntary benefits. To date, employers using Easy Elect achieved 10 percent higher enrollment than those who didn't. And we're rolling it out nationwide in 2017.

Additional new distribution pathways are helping customers around the world access Principal products and services through institutions and advisors they already know and trust.

That's why we began working with Daiwa SB Investments in Japan, an affiliate of Daiwa Securities Group and Sumitomo Mitsui Financial Group. While they have strong distribution, their investment capabilities lean toward Japanese equities and bonds. Principal Global Investors is working with Daiwa to serve customers who want to invest outside of Japan. By the end of 2016, this relationship had produced more than \$2.7 billion in assets under management across multiple strategies and continues to grow.

The global marketplace is changing dramatically. Disruption is the order of the day. But our commitment to meeting customers – when, where and how they prefer – is enabling us to uncover new opportunities for leadership in serving their growing needs.



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Financial education rarely works when it's simply pushed out. It should be like a conversation with a good friend. A friend who listens and understands.

Joleen Workman, assistant vice president,  
Retirement and Income Solutions,  
My Virtual Coach development team leader

”

# Knowing the answer isn't enough. You have to know the customer.

We know that education and engagement are the keys to creating successful retirement outcomes. And most people will tell you they want to know more about saving and retirement. There's no shortage of available information. So where is the disconnect? Why do so many struggle to adequately save and prepare?

Is it the mind-numbing complexity of financial topics? Is it fear of making the wrong decisions? Is it the momentum of real life? Or is it something simpler – that can be understood and resolved to help our customers move forward? Something as simple as short attention spans?

Our behavioral finance research revealed that many customers don't engage for long with financial education. They prefer quick answers, simpler decisions and timely alerts personalized to their needs.

So in 2015, we introduced My Virtual Coach, an interactive enrollment tool that helps people to save for retirement – one short, simple step at a time. In 2016, we expanded its capabilities with an annual Checkup and other tools to help people explore options when changing jobs or transitioning to retirement, streamline retirement income planning and see at a glance if they're on track for retirement. My Virtual Coach is available 24-7. It's mobile and designed to meet people where they are. Most importantly, it works. In 2016 participants who used My Virtual Coach deferred, on average, nearly 20% more than our active participant base.<sup>1</sup>

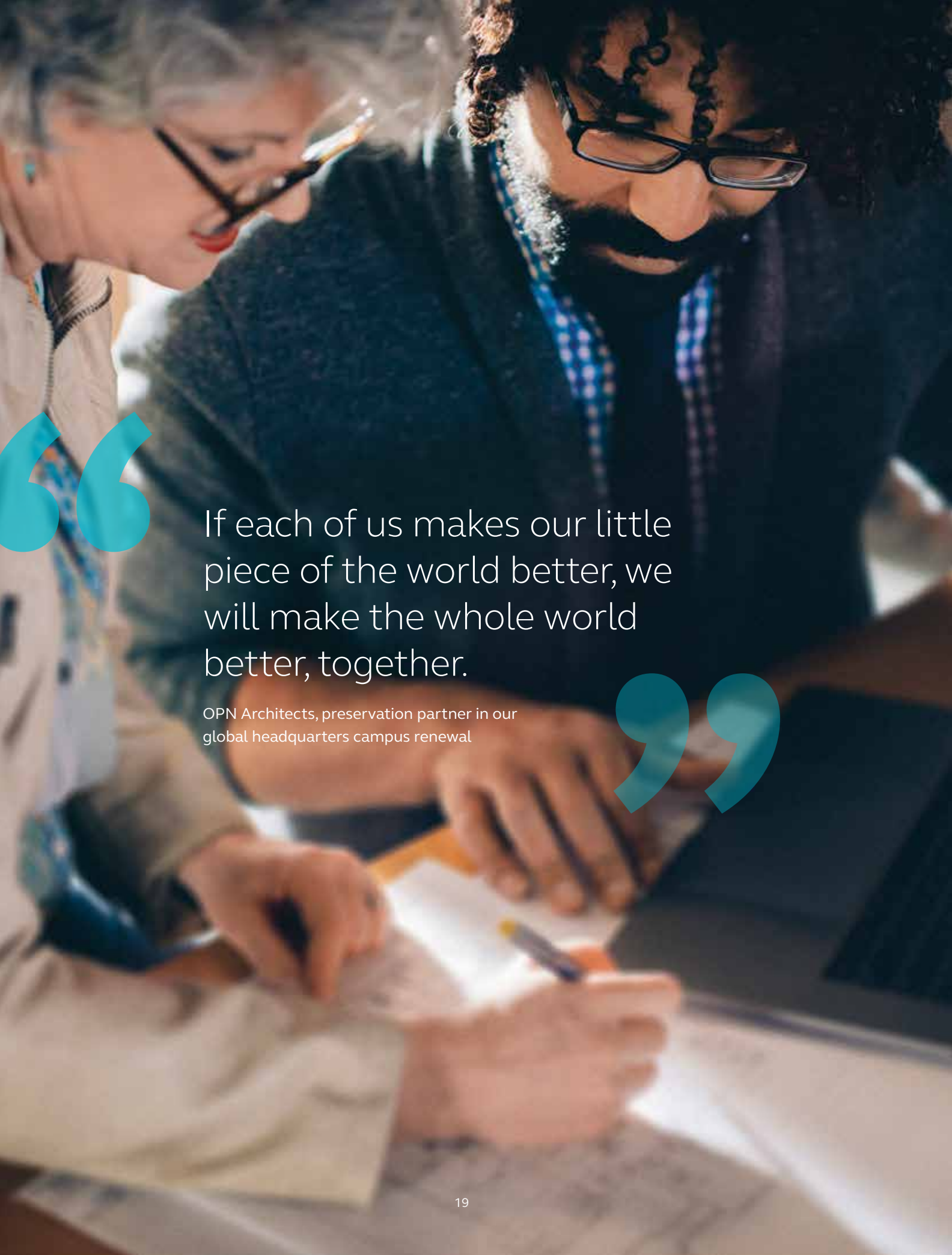
We also noticed that retirement plan participation among U.S. Hispanic employees was lower than among other employees – especially among first-generation Hispanics in the early stages of acculturation. Our research revealed several cultural issues in play. A tendency to rely on family for retirement income. Unfamiliarity with financial concepts. And a healthy skepticism of government and financial institutions.

Using these insights, we created a customized Hispanic enrollment program that includes bi-cultural educational experiences online, at home and in person. The program is already producing promising results. More than half of Hispanic plan participants enrolled or increased their deferral after meeting with a bi-cultural specialist.

Better knowing the customer helps the customer know better. Who knew?

<sup>1</sup>Principal reporting from 01/01/2016 to 12/31/2016 for the following conversations: Enrollment, Checkup, Welcome to Principal, and Retirement Income.





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If each of us makes our little piece of the world better, we will make the whole world better, together.

OPN Architects, preservation partner in our global headquarters campus renewal

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# We live our best lives only by helping others live theirs.

Giving back has always been a huge part of our culture. As individuals and as a company, we are committed to improving peoples' lives by enhancing their financial security and building strong communities. In 2016, our commitment was evident – and growing – in communities around the world, as we made \$13.2 million in donations to more than 700 organizations in 12 different countries.

Our annual volunteer week became a global event, beginning on December 5, the United Nations' long-standing International Volunteer Day. The goal was to empower employees, worldwide, to give back locally. More than 1,000 engaged. And the results were satisfying.

Principal Mexico partnered with World Vision, an organization that helps communities in Mexico and around the world live free of poverty and malnutrition. Through the partnership, 38 employee volunteers worked side-by-side in the community of Toluca to build 10 granges, each of which housed 13 chickens. Quality animal protein is in short supply in the area. But the chickens will help 10 families produce their own food.

Volunteering is just part of the story. In the United States, we achieved our fourth consecutive record year of donations to United Way. Contributions totaled more than \$8.3 million, with 73 percent of employees participating. Sixteen of our 22 domestic business units met or exceeded one or both of their United Way goals.

As a result of these global efforts – and more – we were recently recognized by Great Places to Work, ranking #21 in their listing of Best Workplaces for Giving Back in 2017.

We're also working to improve communities through global sustainability initiatives that are reducing our carbon footprint, using water and energy more efficiently and better managing waste and recycling. In 2016, we reduced carbon emissions by 25 percent – far exceeding our goal to reduce baseline 2011 carbon emissions by 10 percent.

Principal Real Estate Investors (PrinRE) was named ENERGY STAR® Partner of the Year, underscoring its long-standing commitment to corporate stewardship. More than 80 PrinRE buildings around the world are either ENERGY STAR or LEED certified. We are completing LEED certification for two buildings being renovated as part of our revitalized corporate campus project. More than 90 percent of the materials removed have been recycled.

Corporate responsibility – on a global scale – is a key part of our DNA and our future. We are focused on helping our customers, partners, neighbors and employees live their best lives.

# 2016 financial highlights

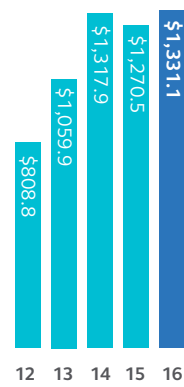
Total assets under management  
(in billions)



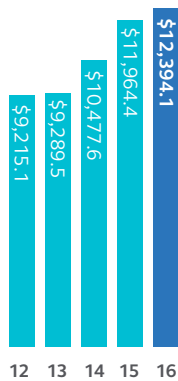
Net income available to common stockholders  
(in millions)



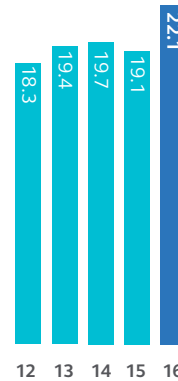
Operating earnings<sup>1</sup>  
(in millions)



Total revenue  
(in millions)



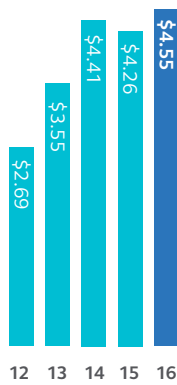
Total customers<sup>2</sup>  
(in millions)



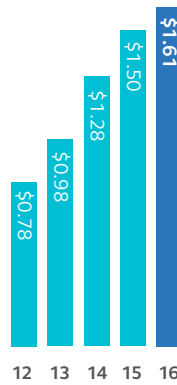
<sup>1</sup>This is a non-GAAP financial measure. See non-GAAP financial measure reconciliations on page 28.

<sup>2</sup>The number of customers to whom we provide a product or service, including employees and their dependents; some duplication occurs.

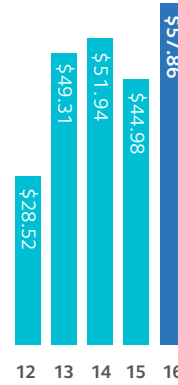
Operating earnings per diluted common share<sup>3</sup>  
(in dollars)



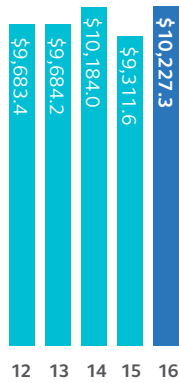
Dividends declared per common share  
(in dollars)



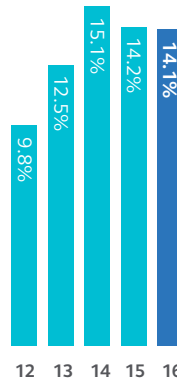
Closing PFG common stock price  
(in dollars, as of 12/31)



Total stockholders' equity attributable to PFG  
(in millions)



Operating ROE available to common stockholders, excluding AOCI other than foreign currency translation adjustment<sup>3,4</sup>



<sup>3</sup>This is a non-GAAP financial measure. See non-GAAP financial measure reconciliations on page 28.

<sup>4</sup>Operating return on equity equals trailing twelve months operating earnings divided by average stockholders' equity available to common stockholders excluding accumulated other comprehensive income (loss) other than foreign currency translation adjustment.



## Executive management group

Pictured left to right

### Karen Shaff

Executive vice president,  
general counsel and secretary

### Beth Brady

Senior vice president and  
chief marketing officer

### Terry Lillis

Executive vice president  
(retired as chief financial officer  
February 2017)

### Luis Valdés

President and chief executive officer  
Principal International

### Nora Everett

President, Retirement and  
Income Solutions

### Deanna Strable

Executive vice president and  
chief financial officer

### Dan Houston

Chairman, president and  
chief executive officer

### Gary Scholten

Executive vice president and  
chief information officer

### Tim Dunbar

Executive vice president and  
chief investment officer

### Greg Elming

Senior vice president and  
chief risk officer

### Beth Raymond

Senior vice president and  
chief human resources officer

### Jim McCaughan

President, Global Asset Management  
and chief executive officer  
Principal Global Investors



## Board of directors

Pictured left to right

### Michael T. Dan

Retired chairman, president and chief executive officer  
The Brink's Company

### Scott M. Mills

Executive vice president and chief administrative officer  
Viacom, Inc.

### Betsy J. Bernard

Past president  
AT&T

### Dennis H. Ferro

Retired president and chief executive officer  
Evergreen Investment Management Company

### Elizabeth E. Tallett

Independent consultant and past principal  
Hunter Partners, LLC

### Daniel J. Houston

Chairman, president and chief executive officer  
Principal Financial Group

### Jocelyn Carter-Miller

President  
TechEd Ventures

### Roger C. Hochschild

President and chief operating officer  
Discover Financial Services

### Sandra L. Helton

Past executive vice president and chief financial officer  
Telephone and Data Systems, Inc.

### C. Daniel Gelatt

President  
NMT Corporation

### Blair C. Pickerell

Retired chairman, Asia  
Nikko Asset Management  
Hong Kong, Ltd.

# Principal® at a glance

## Retirement and Income Solutions

### Segment overview

Lead the industry in helping more U.S.-based clients save enough for and have enough in retirement—working together with third party administrators, advisors and plan sponsors.

### Products & services

- Full service accumulation products and services:
  - Defined contribution retirement plans [including 401(k) and 403(b) plans]
  - Defined benefit pension plans
- Employee stock ownership plans
- Nonqualified executive benefit plans
- Annuities
- Pension risk transfer
- Investment only
- Bank and trust services

### 2016 financial highlights

- 2016 pre-tax operating earnings of \$795 million
- Total account value was \$231 billion as of Dec. 31, 2016
- Total net cash flows of \$7.4 billion
- RIS-Fee net cash flows of \$4.2 billion, or 2.4 percent of beginning of year account values
- Pension risk transfer sales were a record \$2.0 billion

### Recognition & accomplishments

- PLANADVISER, a leading retirement industry magazine for financial professionals, recognized Principal as a top-five provider for service to micro, small, mid and large defined contribution plans. Principal was also ranked No. 3 in best overall service to small plans, value added advisor services and best wholesaler. (October 2016)
- Chatham Partners Client Satisfaction Survey of defined contribution plan sponsors<sup>1</sup> revealed Principal as a top performer in the following customer satisfaction attributes, surpassing 12 other leading defined contribution retirement services providers:
  - Would highly recommend
  - Flexible solutions for clients' needs
  - Committed to technology
  - Simplifies plan administration
  - Easy to do business with

## Principal Global Investors

### Segment overview

Provide investment management capabilities to institutional, retirement and retail investors through a network of specialized boutique asset managers. More than 500 investment professionals around the world with clients in more than 70 countries.

### Products & services

- Broad range of specialist investment capabilities spanning equities, fixed income, real estate and alternatives
- Industry leader in delivering customized solutions, including multi-asset, multi-manager solutions, to meet specific investor objectives or outcomes
- Capabilities offered in a wide variety of legal vehicles to address differences in investor preferences and regulatory regimes
- Equities
  - Global & all-country
  - International (ex-U.S.)
  - Emerging markets
  - U.S.
  - Small-cap
  - Geographic and objective
  - Tailored solutions
  - Blue chip
  - MidCap
- Fixed income
  - High yield
  - Investment-grade credit
  - Opportunistic
  - Liability-driven investments/long duration
  - Multi-sector fixed income
  - Preferred securities

<sup>1</sup>2016 Chatham Partners Client Satisfaction Survey of defined contribution plans with greater than \$50 million in plan assets.



- Real estate
  - Private equity (core, value-added and opportunistic properties)
  - Public equity (real estate investment trust securities)
  - Private debt (commercial mortgages, bridge and mezzanine loans)
  - Public debt (commercial mortgage-backed securities)
- Asset allocation
  - Strategic asset allocation
  - Dynamic outcome
  - Dynamic asset allocation
- Alternatives and structured investment strategies
- Currency management

#### 2016 financial highlights

- 2016 pre-tax operating earnings of \$444 million
- Total assets under management of \$391 billion at year-end 2016 and full year net cash flows of \$9.0 billion
- 2016 pre-tax return on operating revenues less pass-through commissions<sup>1</sup> increased to 37 percent

#### Recognition & accomplishments

- For the fifth year in a row, Principal has earned a top spot in its category in *Pensions & Investments'* annual survey of the Best Places to Work in Money Management.<sup>2</sup>
- Principal Global Investors received strong scores in environmental, social and governance (ESG) based on the 2016 Principles for Responsible Investment (PRI) Pilot Assessment Report. For the second year, Principal Global Investors (Direct-Property) received an "A" rating (47 out of 51 points), outperforming the median score of "C."

## Principal International

#### Segment overview

Offer long-term savings, asset management and retirement solutions in select Latin American and Asian emerging markets:

- Brazil
- Chile
- China
- Hong Kong SAR
- India
- Indonesia
- Malaysia
- Mexico
- Singapore
- Thailand

#### Products & services

- Pensions
- Mutual funds
- Asset management
- Islamic mutual funds
- Islamic asset management
- Retirement advisory services
- Annuities

#### Joint venture partners

- Banco do Brasil (Brazil)
- China Construction Bank (China)
- CIMB Group (Southeast Asia)
- Punjab National Bank (India)

#### Mutual fund/asset management/boutique

- Claritas (Brazil)

<sup>1</sup>Pre-tax return on operating revenues less pass-through commissions equals pre-tax operating earnings, adjusted for noncontrolling interest divided by operating revenues less pass-through commissions. Operating revenues less pass-through commissions is a non-GAAP financial measure the company has determined is more representative of underlying operating revenues growth for Principal Global Investors.

<sup>2</sup>Pensions & Investments, "The Best Places to Work in Money Management among companies with 1,000 or more employees," 12/14/16.

It is not known whether the clients mentioned in this report on page 16 approve or disapprove of Principal Global Investors or the advisory services provided.

# Principal® at a glance

## 2016 financial highlights

- 2016 pre-tax operating earnings of \$288 million
- Reported assets under management of \$137 billion at year-end (excluding \$101 billion of AUM in our joint venture in China, which is not reported in AUM or net cash flows)
- Reported net cash flows of \$9.1 billion
- Combined pre-tax return on net revenue (at Principal's share)<sup>1</sup> increased to 36 percent

## Recognition & accomplishments

- Signed a Memorandum of Understanding with China Construction Bank regarding our mutual desire to explore a new pension and asset management partnership. (March 2016)
- Principal ranked first in voluntary pensions (APV) in Chile according to the Superintendencia de Valores y Seguros. (December 2016)
- Brasilprev ranked No. 1 in net deposits and market share. (Fenaprevi December 2016)
- Principal Hong Kong received 2016 MPF Scheme of the Year for one of its Mandatory Provident Funds, in addition to Gold Ratings for two Mandatory Provident Funds at the 2016 MPF Awards. (March 2016)

## U.S. Insurance Solutions

### Segment overview

Help businesses and individuals by offering solutions that grow and protect their assets.

### Products & services

- Specialty benefits: Employer-paid and voluntary work-site solutions
  - Group dental, vision, life and disability insurance
  - Individual disability insurance
  - Individual discount dental
- Individual life insurance: Protection, accumulation and deferred compensation solutions
  - Business solutions to meet the needs of business owners, executives, and key employees
  - Individual universal, variable, and term life insurance
  - Retail universal, variable universal, and traditional life insurance
  - Nonqualified deferred compensation

## 2016 financial highlights

- 2016 pre-tax operating earnings of \$361 million
- Record pre-tax operating earnings for Specialty Benefits, driven by benefits of scale with strong retention and record sales, as well as 7 percent growth in premium and fees
- Individual Life premium and fees grew 3 percent over 2015, reflecting underlying growth in the business

## Recognition & accomplishments

- Ranked No. 5 provider of group benefit (dental, life and disability) insurance on fully insured employer contracts in-force, No. 3 provider of non-cancelable individual disability income insurance new sale premium, and No. 20 provider of total life insurance new sale premium, based on LIMRA 2016 data.
- Recognized by *PlanSponsor* magazine as the No. 1 non-qualified deferred compensation provider based on number of plans. (July 2016)

<sup>1</sup>Combined pre-tax return on net revenue (at Principal's share) equals pre-tax operating earnings divided by combined net revenue (at Principal's share). Combined basis equals all Principal International companies at 100% ownership. Combined net revenue (at Principal's share) is a non-GAAP financial measure the company has determined is more representative of underlying net revenue growth for Principal International as it reflects our proportionate share of consolidated and equity method subsidiaries. In addition, using this net revenue metric provides a more meaningful representation of our profit margins.

# Non-GAAP financial measures

Principal Financial Group, Inc.

(in millions, except as indicated)

	For the year ended Dec. 31				
	2016	2015	2014	2013	2012
<b>Net income available to common stockholders</b>					
Net income available to common stockholders	\$ 1,316.5	\$ 1,209.3	\$ 1,111.1	\$ 879.7	\$ 773.6
Net realized capital (gains) losses <sup>1</sup>	(37.4)	133.8	100.5	179.1	(39.0)
Other after-tax adjustments	52.0	(72.6)	106.3	1.1	74.2
Operating earnings	\$ 1,331.1	\$ 1,270.5	\$ 1,317.9	\$ 1,059.9	\$ 808.8
<sup>1</sup> This is a non-GAAP financial measure. See reconciliation below.					
<b>Net realized capital gains (losses)</b>					
Net realized capital gains (losses)	\$ 171.1	\$ (51.1)	\$ 14.7	\$ (225.2)	\$ 114.1
Recognition of front-end fee revenues	0.2	(0.1)	0.7	(0.9)	(0.2)
Market value adjustments to fee revenues	(2.5)	(1.1)	-	-	(0.3)
Net realized capital gains (losses) related to equity method investments	0.1	-	-	-	-
Derivative and hedging-related adjustments	(94.1)	(111.7)	(92.8)	(93.9)	(98.9)
Sponsored investment fund adjustments	6.1	1.3	-	-	-
Amortization of deferred acquisition costs	(66.2)	(12.2)	(37.7)	32.3	28.8
Capital gains distributed - operating expenses	3.7	15.4	(10.6)	(23.6)	(11.6)
Amortization of other actuarial balances	(11.2)	(1.8)	(11.6)	14.8	7.8
Market value adjustments of embedded derivatives	50.0	(0.2)	4.8	18.4	(0.6)
Capital gains distributed - cost of interest credited	(10.9)	(9.2)	(10.6)	(2.2)	(0.6)
Net realized capital gains (losses) tax adjustments	6.6	45.6	43.6	101.4	8.6
Net realized capital gains (losses) attributable to noncontrolling interest, after-tax	(15.5)	(8.8)	(1.0)	(0.2)	(8.3)
Net realized capital gains (losses) associated with exited group medical insurance business, after-tax	-	0.1	-	-	0.2
Total net realized capital gains (losses)	\$ 37.4	\$ (133.8)	\$ (100.5)	\$ (179.1)	\$ 39.0
<b>Diluted earnings per common share</b>					
Net income	\$ 4.50	\$ 4.06	\$ 3.65	\$ 2.95	\$ 2.58
Net realized capital (gains) losses	(0.13)	0.44	0.34	0.60	(0.14)
Other after-tax adjustments	0.18	(0.24)	0.36	-	0.25
Adjustment for redeemable noncontrolling interest	-	-	0.06	-	-
Operating earnings	\$ 4.55	\$ 4.26	\$ 4.41	\$ 3.55	\$ 2.69
<b>Stockholders' equity</b>					
Stockholders' equity	\$ 10,293.8	\$ 9,377.4	\$ 10,232.0	\$ 9,777.0	\$ 9,703.4
Noncontrolling interest	(66.5)	(65.8)	(48.0)	(92.8)	(20.0)
Stockholders' equity attributable to Principal Financial Group, Inc.	10,227.3	9,311.6	10,184.0	9,684.2	9,683.4
Net unrealized capital (gains) losses	(827.0)	(715.9)	(1,148.3)	(700.6)	(1,235.7)
Net unrecognized postretirement benefit obligation	408.4	450.2	411.1	155.9	488.5
Preferred stock, at par	-	-	(0.1)	(0.1)	(0.1)
Paid-in capital - preferred stock	-	-	(541.9)	(541.9)	(541.9)
Stockholders' equity, x-AOCI other than foreign currency translation adjustment, available to common stockholders	\$ 9,808.7	\$ 9,045.9	\$ 8,904.8	\$ 8,597.5	\$ 8,394.2

## Non-GAAP financial measures - continued

Principal Financial Group, Inc.  
(in millions, except as indicated)

	For the year ended Dec. 31				
	2016	2015	2014	2013	2012
<b>Net income ROE available to common stockholders (including AOCI)</b>					
Net income ROE available to common stockholders (including AOCI)	13.5%	12.8%	11.8%	9.6%	8.8%
Net unrealized capital gains (losses)	1.1%	1.3%	1.2%	1.2%	1.0%
Net unrecognized postretirement benefit obligation	-0.6%	-0.6%	-0.3%	-0.4%	-0.4%
Net income ROE available to common stockholders (x-AOCI, other than foreign currency translation adjustment)	14.0%	13.5%	12.7%	10.4%	9.4%
Net realized capital (gains) losses	-0.5%	1.5%	1.2%	2.1%	-0.5%
Other after-tax adjustments	0.6%	-0.8%	1.2%	0.0%	0.9%
Operating earnings ROE (x-AOCI, other than foreign currency translation adjustment)	14.1%	14.2%	15.1%	12.5%	9.8%

## Principal funds

Organized by Principal Life Insurance Company  
as of Dec. 31, 2016

### Principal Funds, Inc.

Blue Chip Fund  
Bond Market Index Fund  
California Municipal Fund  
Capital Securities Fund  
Core Plus Bond Fund  
Diversified International Fund  
Diversified Real Asset Fund  
Dynamic High Yield Explorer Fund  
EDGE MidCap Fund  
Equity Income Fund  
Finisterre Unconstrained Emerging Markets Bond Fund  
Global Diversified Income Fund  
Global Multi-Strategy Fund  
Global Opportunities Fund  
Global Opportunities Equity Hedged Fund  
Global Real Estate Securities Fund  
Government & High Quality Bond Fund  
High Yield Fund  
High Yield Fund I  
Income Fund  
Inflation Protection Fund  
International Emerging Markets Fund  
International Equity Index Fund  
International Fund I  
International Small Company Fund  
LargeCap Growth Fund  
LargeCap Growth Fund I  
LargeCap Growth Fund II  
LargeCap S&P 500 Index Fund  
LargeCap Value Fund  
LargeCap Value Fund III  
MidCap Fund  
MidCap Growth Fund  
MidCap Growth Fund III

MidCap S&P 400 Index Fund  
MidCap Value Fund I  
MidCap Value Fund III  
Money Market Fund  
Multi-Manager Equity Long/Short Fund  
Opportunistic Municipal Fund  
Origin Emerging Markets Fund  
Overseas Fund  
Preferred Securities Fund  
Principal Capital Appreciation Fund  
Principal LifeTime 2010 Fund  
Principal LifeTime 2015 Fund  
Principal LifeTime 2020 Fund  
Principal LifeTime 2025 Fund  
Principal LifeTime 2030 Fund  
Principal LifeTime 2035 Fund  
Principal LifeTime 2040 Fund  
Principal LifeTime 2045 Fund  
Principal LifeTime 2050 Fund  
Principal LifeTime 2055 Fund  
Principal LifeTime 2060 Fund  
Principal LifeTime Strategic Income Fund  
Principal LifeTime Hybrid 2015 Fund  
Principal LifeTime Hybrid 2020 Fund  
Principal LifeTime Hybrid 2025 Fund  
Principal LifeTime Hybrid 2030 Fund  
Principal LifeTime Hybrid 2035 Fund  
Principal LifeTime Hybrid 2040 Fund  
Principal LifeTime Hybrid 2045 Fund  
Principal LifeTime Hybrid 2050 Fund  
Principal LifeTime Hybrid 2055 Fund  
Principal LifeTime Hybrid 2060 Fund  
Principal LifeTime Hybrid Income Fund  
Real Estate Allocation Fund  
Real Estate Debt Income Fund  
Real Estate Securities Fund  
SAM Balanced Portfolio

SAM Conservative Balance Portfolio  
SAM Conservative Growth Portfolio  
SAM Flexible Income Portfolio  
SAM Strategic Growth Portfolio  
Short-Term Income Fund  
SmallCap Fund  
SmallCap Growth Fund I  
SmallCap S&P 600 Index Fund  
SmallCap Value Fund II  
Small-MidCap Dividend Income Fund  
SystematEx International Fund  
SystematEx Large Value Fund  
Tax-Exempt Bond Fund

### Principal Exchange-Traded Funds

Principal EDGE Active Income ETF  
Principal Healthcare Innovators Index ETF  
Principal Millennials Index ETF  
Principal Price Setters Index ETF  
Principal Shareholder Yield Index ETF  
Principal U.S. Small Cap Index ETF

### Principal Variable Contracts Funds, Inc.

The Principal Variable Contracts Fund investment options are available in certain variable annuity and variable life insurance contracts.

Mutual funds and variable contracts are distributed by Principal Funds Distributor, Inc., a member of the Principal Financial Group, Des Moines, Iowa 50392-0200. Phone 1-800-222-5852.

## Principal Financial Group, Inc.

Corporate headquarters  
711 High St.  
Des Moines, Iowa 50392  
1-800-986-3343

### Principal.com

Principal website at [www.principal.com](http://www.principal.com) is your source for a vast array of information including company news releases, investment and savings tools and details on our product and service solutions.

The Investor Relations portion of the site provides up-to-the-minute information for shareholders and the investment community, including access to Securities and Exchange Commission filings, stock information, overview of corporate responsibility, dividend history and credit ratings. It also includes information of interest on the governance of Principal Financial Group, Inc., including:

- Board of directors
- Corporate governance guidelines
- Board committee charters
- Director independence standards
- Global code of business conduct and ethics

### Annual meeting

The Annual meeting of Shareholders will convene at 9 a.m. CT, May 16, 2017, at the corporate headquarters of Principal Financial Group, Inc.  
750 Park St.  
Des Moines, Iowa 50392

### Contact Investor Relations

If you have a question for Investor Relations, please contact:

Principal Financial Group – Investor Relations  
711 High Street, G-029-S30  
Des Moines, Iowa 50392  
Phone: 1-800-986-3343  
Email: [investor-relations@principal.com](mailto:investor-relations@principal.com)

### Transfer agent

Principal Financial Group, Inc. shareholder inquiries should be addressed to our transfer agent, Computershare. Computershare can assist shareholders with a variety of services, including: signing up for the direct deposit of dividends, dividend reinvestment, address changes, certificate issuance, account statements, balance inquiries, dividend inquiries and selling of shares. You can call or write to the transfer agent at:

Principal Financial Group, Inc.  
c/o Computershare  
P.O. Box 30170  
College Station, TX 77842-3170

Toll-free phone: 866-781-1368  
Phone for hearing impaired: 312-588-4110  
Online: [www.computershare.com/contactus](http://www.computershare.com/contactus)

Registered shareholders can also access information about their Principal Financial Group, Inc. common stock accounts online at [www.computershare.com/contactus](http://www.computershare.com/contactus). Principal does not maintain or provide information directly to this site, makes no representations or warranties with respect to the information contained therein and takes no responsibility for supplementing, correcting or updating any such information.

### A special thanks

A special thanks to our 295,000 registered shareholders, who have owned Principal Financial Group, Inc. common stock since our initial public offering.

### Top 15 holders of Principal Financial Group, Inc. common stock, as of Dec. 31, 2016

- The Vanguard Group, Inc.
- Nissay Asset Management Corporation
- Wellington Management Company, LLP
- Capital Research Global Investors (U.S.)
- State Street Global Advisors (SSgA)
- BlackRock Fund Advisors
- Northern Trust Investments, Inc.
- Fidelity Management & Research Company
- Harris Associates, L.P.
- Newton Investment Management, LTD
- Mellon Capital Management Corporation
- Dimensional Fund Advisors, L.P. (U.S.)
- Mairs & Power, Inc.
- Geode Capital Management, LLC
- TIAA-CREF Investment Management, LLC



Principal Financial Group®  
711 High Street  
Des Moines, Iowa 50392

principal.com

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**LISTED**  
**NYSE**

#### **Forward looking and cautionary statements**

Certain statements made by the company which are not historical facts may be considered forward-looking statements, including, without limitation, statements as to operating earnings, net income available to common stockholders, net cash flows, realized and unrealized gains and losses, capital and liquidity positions, sales and earnings trends, and management's beliefs, expectations, goals and opinions. The company does not undertake to update these statements, which are based on a number of assumptions concerning future conditions that may ultimately prove to be inaccurate. Future events and their effects on the company may not be those anticipated, and actual results may differ materially from the results anticipated in these forward-looking statements. The risks, uncertainties and factors that could cause or contribute to such material differences are discussed in the company's annual report on Form 10-K for the year ended Dec. 31, 2016, filed by the company with the U.S. Securities and Exchange Commission, as updated or supplemented from time to time in subsequent filings. These risks and uncertainties include, without limitation: adverse capital and credit market conditions may significantly affect the company's ability to meet liquidity needs, access to capital and cost of capital; conditions in the global capital markets and the economy generally; volatility or declines in the equity, bond or real estate markets; changes in interest rates or credit spreads or a sustained low interest rate environment; the company's investment portfolio is subject to several risks that may diminish the value of its invested assets and the investment returns credited to customers; the company's valuation of investments and the determination of the amount of allowances and impairments taken on such investments may include methodologies, estimations and assumptions that are subject to differing interpretations; any impairments of or valuation allowances against the company's deferred tax assets; the company's actual experience could differ significantly from its pricing and reserving assumptions; the pattern of amortizing the company's DAC and other actuarial balances on its universal life-type insurance contracts, participating life insurance policies and certain investment contracts may change; the company may not be able to protect its intellectual property and may be subject to infringement claims; the company's ability to pay stockholder dividends and meet its obligations may be constrained by the limitations on dividends or distributions Iowa insurance laws impose on Principal Life; changes in laws, regulations or accounting standards; results of litigation and regulatory investigations; from time to time the company may become subject to tax audits, tax litigation or similar proceedings, and as a result it may owe additional taxes, interest and penalties in amounts that may be material; applicable laws and the company's certificate of incorporation and by-laws may discourage takeovers and business combinations that some stockholders might consider in their best interests; competition from companies that may have greater financial resources, broader arrays of products, higher ratings and stronger financial performance; a downgrade in the company's financial strength or credit ratings; changes in investor preferences; inability to attract and retain qualified employees and sales representatives and develop new distribution sources; international business risks; fluctuations in foreign currency exchange rates; the company may need to fund deficiencies in its "Closed Block" assets that support participating ordinary life insurance policies that had a dividend scale in force at the time of Principal Life's 1998 conversion into a stock life insurance company; the company's reinsurers could default on their obligations or increase their rates; risks arising from acquisitions of businesses; and a computer system failure or security breach could disrupt the company's business and damage its reputation.

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