

Principal Financial Group

Fourth Quarter 2018 Earnings Results

January 29, 2019

Use of non-GAAP financial measures

A non-GAAP financial measure is a numerical measure of performance, financial position, or cash flow that includes adjustments from a comparable financial measure presented in accordance with U.S. GAAP.

The company uses a number of non-GAAP financial measures management believes are useful to investors because they illustrate the performance of the company's normal, ongoing operations which is important in understanding and evaluating the company's financial condition and results of operations. While such measures are also consistent with measures utilized by investors to evaluate performance, they are not, however, a substitute for U.S. GAAP financial measures. Therefore, the company has provided reconciliations of the non-GAAP financial measures to the most directly comparable U.S. GAAP financial measure within the slides. The company adjusts U.S. GAAP financial measures for items not directly related to ongoing operations. However, it is possible these adjusting items have occurred in the past and could recur in future reporting periods. Management also uses non-GAAP financial measures for goal setting, as a basis for determining employee and senior management awards and compensation, and evaluating performance on a basis comparable to that used by investors and securities analysts.

The company also uses a variety of other operational measures that do not have U.S. GAAP counterparts, and therefore do not fit the definition of non-GAAP financial measures. Assets under management is an example of an operational measure that is not considered a non-GAAP financial measure.

Forward looking statements

Certain statements made by the company which are not historical facts may be considered forward-looking statements, including, without limitation, statements as to non-GAAP operating earnings, net income attributable to PFG, net cash flow, 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, 2017, and in the company's quarterly report on Form 10-Q for the quarter ended Sep. 30, 2018, 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; changes in laws, regulations or accounting standards; 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 Iowa insurance laws impose on Principal Life; 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, including from companies that may have greater financial resources, broader arrays of products, higher ratings and stronger financial performance; technological and societal changes may disrupt the company's business model and impair its ability to maintain profitability; a downgrade in the company's financial strength or credit ratings; client terminations, withdrawals or changes in investor preferences; inability to attract and retain qualified employees and sales representatives and develop new distribution sources; an interruption in telecommunication, information technology or other systems, or a failure to maintain the confidentiality, integrity or availability of data residing on such systems; international business risks; fluctuations in foreign currency exchange rates; risks arising from participation in joint ventures; the company may need to fund deficiencies in its "Closed Block" assets; the company's reinsurers could default on their obligations or increase their rates; risks arising from acquisitions of businesses; and loss of key vendor relationships or failure of a vendor to protect information of our customers or employees.

4Q and full year 2018 results

Despite a challenging quarter, full year results reflect strong execution

- Record full year 2018 non-GAAP operating earnings¹ of \$1.6B, up 8% over prior year, and record full year 2018 non-GAAP operating earnings per diluted share¹ of \$5.53, up 10% over prior year
- Quarterly non-GAAP operating earnings¹ of \$316M and quarterly non-GAAP operating earnings per diluted share¹ of \$1.11
- AUM of \$627B; total company quarterly net cash flow of \$(3.3)B primarily driven by retail mutual fund withdrawals
- Unfavorable macroeconomics impacted quarterly non-GAAP pre-tax operating earnings by \$(68)M
- Significant variances in non-GAAP operating earnings for 4Q18 included (additional details on slide 5):
 - Higher DAC amortization in RIS-Fee due to equity market performance
 - Lower actual versus expected encaje performance and Brazil inflation in PI
 - Additional expenses, primarily severance related, in PGI, RIS-Fee, and PI
- Continued to generate and deploy capital to create long-term shareholder value
 - Deployed \$1.4B of capital in 2018, above the guided range of \$900M - \$1.3B
 - Deployed \$372M of capital in 4Q18 through \$210M of share repurchases, \$152M of common stock dividends, and \$10M of M&A
 - Announced 1Q19 common stock dividend of \$0.54 per share, a 6% increase over 1Q18

4Q18 significant variances and other impacts

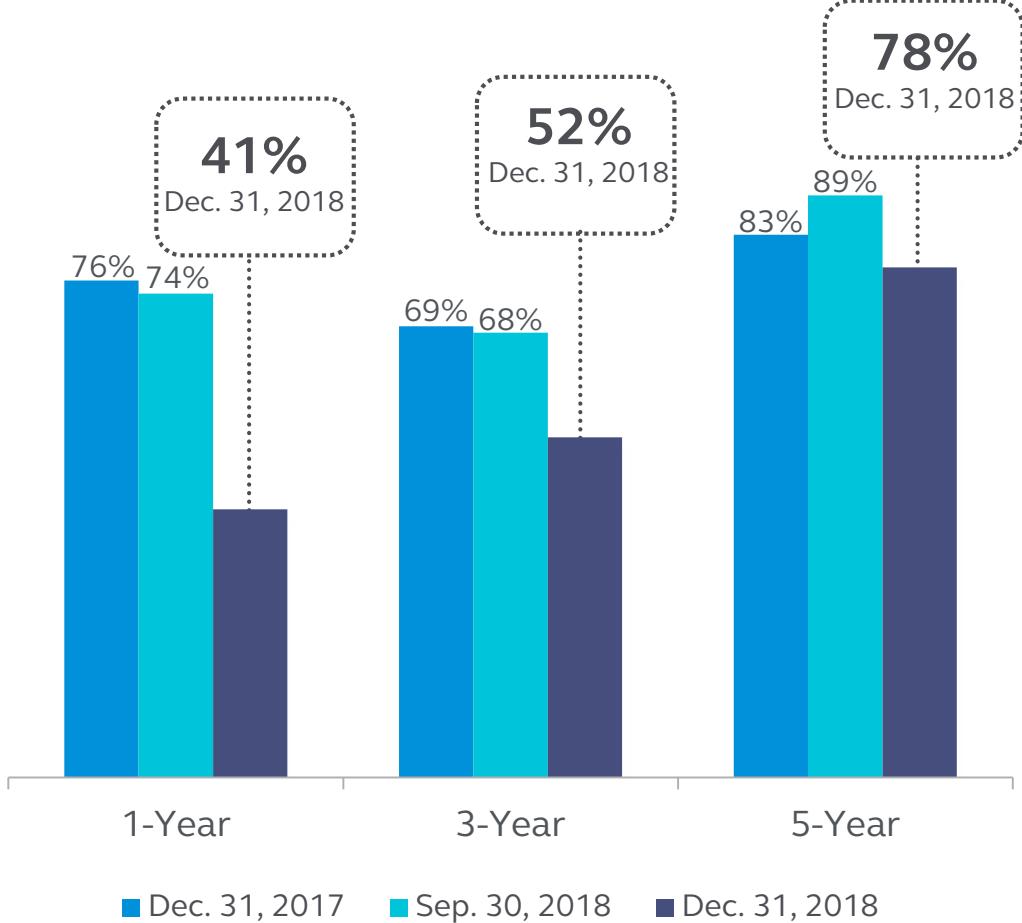
4Q18 non-GAAP pre-tax operating earnings were impacted by **\$(82)M** of significant variances and other impacts...

...including **\$(68)M** from unfavorable macroeconomics

| Significant variances (\$ in millions) | Macro-economic driven | Impact to non-GAAP operating earnings |
|---|-----------------------|---------------------------------------|
| | | Pre-tax After-tax |
| Equity markets - DAC amortization impacts <ul style="list-style-type: none"> Higher RIS-Fee DAC amortization | ✓ | \$(15) \$(12) |
| Encaje <ul style="list-style-type: none"> Actual vs. expected encaje | ✓ | \$(17) \$(12) |
| Inflation <ul style="list-style-type: none"> Actual vs. expected inflation in Brazil | ✓ | \$(8) \$(4) |
| Additional expenses, primarily severance related <ul style="list-style-type: none"> PGI RIS-Fee Principal International | | \$(9) \$(3) \$(2) |
| Total | | \$(14) \$(10) |
| Total significant variances | | \$(54) \$(38) |
| Other impacts (modeling considerations) | | |
| Equity markets – revenue and expense impacts | | |
| RIS-Fee: \$(18) lower revenue partially offset by \$5 lower variable expenses | ✓ | \$(13) |
| PGI: \$(21) lower revenue partially offset by \$6 lower variable expenses | ✓ | \$(15) |
| Total other impacts | | \$(28) \$(21) |
| Total significant variances and other impacts | | \$(82) \$(59) |

Investment performance

Equal weighted¹



Asset weighted²

73%

of rated fund AUM has
a 4 or 5 star rating
from Morningstar

| | |
|---------------------|------------|
| 4 or 5 stars | 73% |
| 3 stars | 23% |
| 2 stars | 2% |
| 1 stars | 2% |

¹ Percentage of Principal actively managed mutual funds, exchange traded funds (ETFs), insurance separate accounts, and collective investment trusts (CITs) in the top two Morningstar quartiles. Excludes Money Market, Stable Value, Liability Driven Investment (Short, Intermediate and Extended Duration), Hedge Fund Separate Account, & US Property Separate Account.

² Includes only funds with ratings assigned by Morningstar; non-rated funds excluded (78 total funds with I-shares, 74 are ranked)

Retirement and Income Solutions – Fee (RIS – Fee)

Highlights

- Pre-tax operating earnings excluding significant variances¹ decreased as unfavorable equity market performance caused a decline in fees and other revenues
- Full year net cash flow of \$2.9B driven by strong sales, favorable retention, and recurring deposit growth
- Quarterly recurring deposits grew 11% and full year grew 9%, driven by underlying employment growth, increased deferral rates, and double digit growth in employer matches

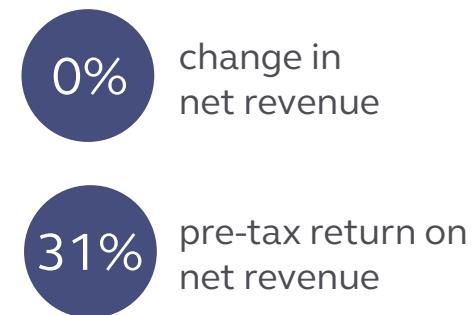
| | Reported pre-tax operating earnings (\$M) | Significant variances ¹ (\$M) | Pre-tax operating earnings ex significant variances (\$M) |
|--------|---|--|---|
| 4Q18 | \$92 | +\$18 | \$110 |
| 4Q17 | \$127 | | \$127 |
| Change | -\$35 (-27%) | | -\$17 (-13%) |

Net revenue (\$M)

Quarterly basis



Trailing twelve month basis²



¹ Higher DAC amortization and additional expenses, primarily severance related.

² Excludes impacts of 3Q18 and 3Q17 actuarial assumption reviews.

All financial information rounded to the nearest million. Change and growth rates calculated using data from financial supplement.

Retirement and Income Solutions - Spread (RIS – Spread)

Highlights

- Pre-tax operating earnings increased primarily due to higher net revenue from growth in the business
- Quarterly sales of \$1.9B, including \$1.0B of pension risk transfer and \$0.8B of fixed annuity sales
- Pension risk transfer pipeline remains healthy; continue to exercise pricing discipline across all Spread products

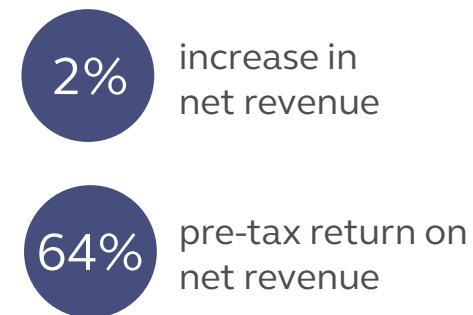
| Reported pre-tax operating earnings (\$M) | |
|--|------------|
| 4Q18 | \$79 |
| 4Q17 | \$75 |
| Change | +\$4 (+6%) |

Net revenue (\$M)

Quarterly basis



Trailing twelve month basis¹



¹ Excludes impacts of 3Q18 and 3Q17 actuarial assumption reviews.
All financial information rounded to the nearest million. Change and growth rates calculated using data from financial supplement.

Principal Global Investors

Highlights

- Pre-tax operating earnings excluding significant variances¹ decreased primarily due to lower revenues driven by unfavorable markets and negative net cash flow
- AUM of \$394B, including PGI sourced AUM of \$189B, decreased 9% compared to the prior year quarter due to unfavorable market performance, negative net cash flow, and the impact of operations disposed

| | Reported pre-tax operating earnings (\$M) | Significant variances ¹ (\$M) | Pre-tax operating earnings ex significant variances (\$M) |
|--------|---|--|---|
| 4Q18 | \$101 | +\$9 | \$110 |
| 4Q17 | \$124 | | \$124 |
| Change | -\$24 (-19%) | | -\$14 (-12%) |

¹Additional expenses, primarily severance related.

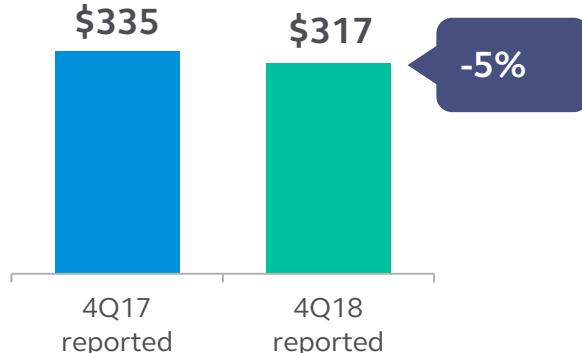
²This is a non-GAAP financial measure; see reconciliation in appendix.

³Excludes accelerated real estate performance fee.

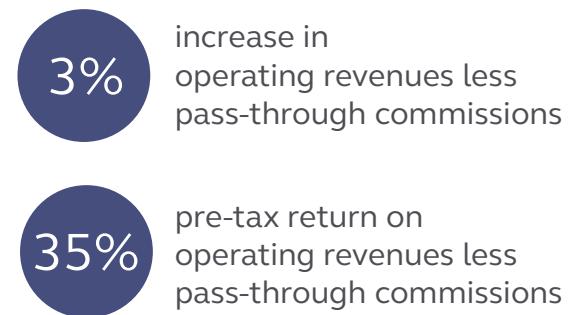
All financial information rounded to the nearest million. Change and growth rates calculated using data from financial supplement.

Operating revenues less pass-through commissions² (\$M)

Quarterly basis



Trailing twelve month basis³



Principal International

Highlights

- Pre-tax operating earnings and combined¹ net revenue (at PFG share)² excluding significant variances³ decreased from the prior year quarter, as underlying growth in the business was more than offset by foreign currency translation headwinds of \$9M and \$16M, respectively
- Reported AUM of \$156B increased 8% compared to prior year quarter on a constant currency basis⁴, not including China AUM of \$149B
- Net cash flow of \$0.7B for the quarter and \$5.1B for the full year; 4Q18 marks the 41st consecutive quarter of positive net cash flow driven by strong net cash flow in Brazil

| | Reported pre-tax operating earnings (\$M) | Significant variances ³ (\$M) | Pre-tax operating earnings ex significant variances (\$M) |
|--------|---|--|---|
| 4Q18 | \$54 | +\$26 | \$80 |
| 4Q17 | \$78 | +\$6 | \$84 |
| Change | -\$24 (-31%) | | -\$4 (-5%) |

¹Combined basis includes all Principal International companies at 100%.

²This is a non-GAAP financial measure; see reconciliation in appendix.

³Includes actual vs. expected encaje, 4Q18 actual vs. expected Brazil inflation and 4Q18 additional expenses, primarily severance related.

⁴Prior period results translated using foreign exchange rates from the current period.

⁵Excludes impacts of 3Q18 and 3Q17 actuarial assumption reviews and the impact of actual vs. expected encaje.

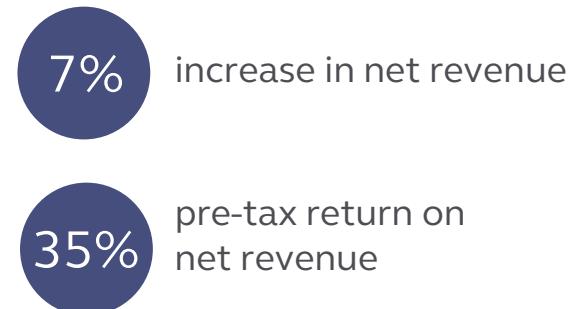
10 All financial information rounded to the nearest million. Change and growth rates calculated using data from financial supplement.

Combined net revenue (at PFG share)² (\$M)

Quarterly basis



Trailing twelve month combined basis⁵ (at PFG share)



Specialty Benefits

Highlights

- Pre-tax operating earnings increased due to favorable claims experience and growth in the business
- Strong full year premium and fees growth of 7% over the prior year reflects continued strong retention, record sales, and record employment growth
- Favorable loss ratio reflects pricing and underwriting discipline

| Reported pre-tax operating earnings (\$M) | |
|---|--------------|
| 4Q18 | \$75 |
| 4Q17 | \$63 |
| Change | +\$12 (+19%) |

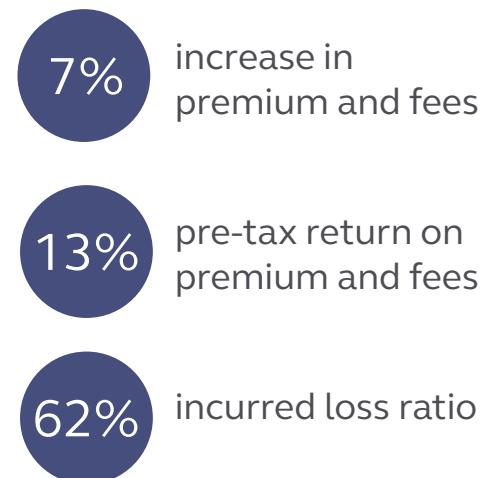
¹Excludes impacts of 3Q18 and 3Q17 actuarial assumption reviews.
All financial information rounded to the nearest million. Change and growth rates calculated using data from financial supplement.

Premium and fees (\$M)

Quarterly basis



Trailing twelve month basis¹



Individual Life

Highlights

- Pre-tax operating earnings decreased due to unfavorable claims experience in 4Q18 versus favorable claims experience in the prior year quarter
- While claims experience was higher in 4Q18 due to quarterly volatility, full year 2018 claims experience was better than expected
- Business market represented over 60% of sales in the quarter and full year

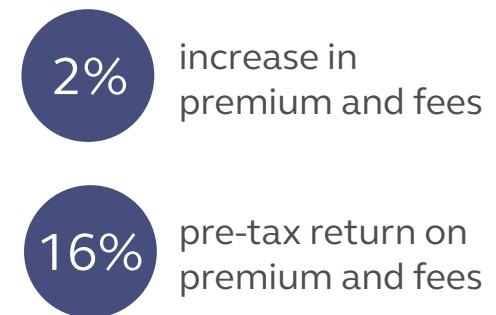
| Reported pre-tax operating earnings (\$M) | |
|---|--------------|
| 4Q18 | \$33 |
| 4Q17 | \$48 |
| Change | -\$15 (-31%) |

Premium and fees (\$M)

Quarterly basis

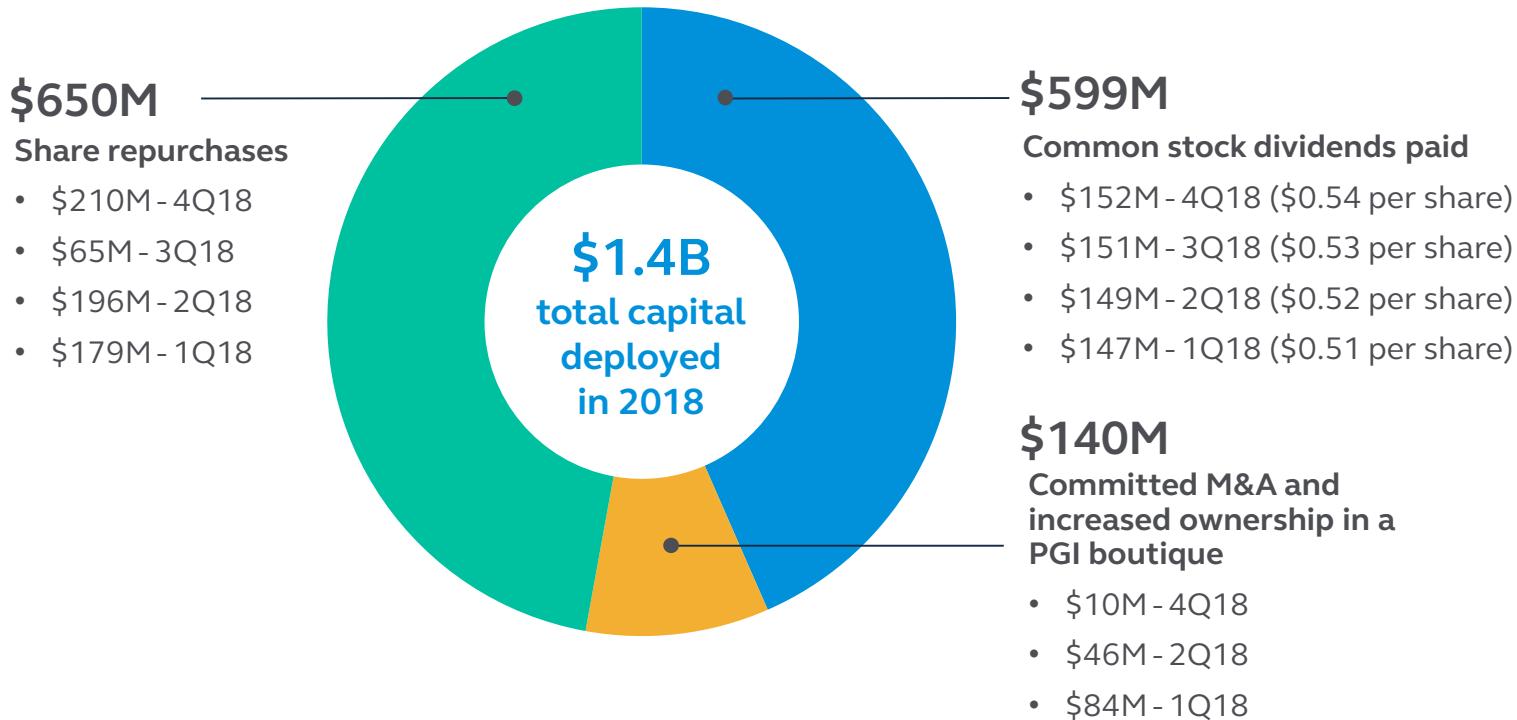


Trailing twelve month basis¹



¹Excludes impacts of 3Q18 and 3Q17 actuarial assumption reviews.
All financial information rounded to the nearest million. Change and growth rates calculated using data from financial supplement.

Capital deployment



Deployed above our guided range of \$900M to \$1.3B of capital in 2018

Announced 1Q19 common stock dividend of \$0.54 per share, or \$2.13 for 1Q19 TTM;
a 10% increase compared to 1Q18 TTM

High quality investment portfolio

U.S. Fixed Maturities portfolio

| | 12/31/08 | 12/31/18 |
|------------|----------|----------|
| NAIC 1 | 57% | 69% |
| NAIC 2 | 38% | 27% |
| NAIC 3 – 6 | 5% | 4% |

Commercial Mortgage quality

| | 12/31/08 | 12/31/18 |
|---|----------|----------|
| Bond Equivalent Rating (A and above) | 61% | 92% |
| Current loan-to-value | 62% | 45% |
| Current debt service coverage | 1.7x | 2.5x |

Exposure to alternatives

- Our consolidated investment portfolio has \$4.3B of other investments
- Of this, 1/3 is traditional alternative investments (e.g. hedge funds, private equity, and real estate)
 - Similar to peers, some of these alternative investments report on a lag, which can range from 1-3 months
- The remainder of the other investments¹ do not create material volatility in non-GAAP operating earnings

¹Investment in unconsolidated operating entities, such as BrasilPrev, direct financing leases, seed money, membership shares in FHLB, derivative assets, etc.

As of 12/31/18

Appendix

Non-GAAP financial measure reconciliations

| | (in millions) | | | (in millions) | |
|--|--------------------|----------|--|--|----------|
| | Three Months Ended | | | Three Months Ended | |
| | 12/31/18 | 12/31/17 | | 12/31/18 | 12/31/17 |
| Principal Global Investors Operating Revenues Less Pass-Through Commissions | | | | | |
| Principal Global Investors operating revenues | \$355.4 | \$375.5 | | | |
| Principal Global Investors commission expense | (38.5) | (40.2) | | | |
| Principal Global Investors operating revenues less pass-through commissions | \$316.9 | \$335.3 | | | |
| Non-GAAP Operating Earnings (Losses) | | | | | |
| Net income attributable to PFG | \$236.5 | \$841.8 | | | |
| Net realized capital (gains) losses, as adjusted | 79.6 | 33.5 | | | |
| Other after-tax adjustments | - | (524.5) | | | |
| Non-GAAP operating earnings | \$316.1 | \$350.8 | | | |
| Principal International Combined Net Revenue (at PFG Share) | | | | | |
| | (in millions) | | | Per diluted share | |
| | Three Months Ended | | | Three Months Ended | |
| | 12/31/18 | 12/31/17 | | 12/31/18 | 12/31/17 |
| Principal International pre-tax operating earnings | \$54.2 | \$78.3 | | \$0.83 | \$2.87 |
| Principal International combined operating expenses other than pass-through commissions (at PFG share) | 158.3 | 159.8 | | 0.28 | 0.11 |
| Principal International combined net revenue (at PFG share) | \$212.5 | \$238.1 | | - | (1.79) |
| Diluted Earnings Per Common Share | | | | | |
| Net income | | | | \$1.11 | \$1.19 |
| Net realized capital (gains) losses, as adjusted | | | | Weighted-average diluted common shares outstanding (in millions) | |
| Other after-tax adjustments | | | | 285.2 | 293.5 |
| Non-GAAP operating earnings | | | | | |

Definitions

Variable investment income includes certain types of investment returns such as prepayment fees and income (loss) from certain elements of our alternative asset classes, including results of value-add real estate sales activity.

Appendix

Non-GAAP financial measure reconciliations

| | (in millions) | |
|--|---------------------|-----------|
| | Twelve Months Ended | |
| Non-GAAP Operating Earnings (Losses) | 12/31/18 | 12/31/17 |
| Net income attributable to PFG | \$1,546.5 | \$2,310.4 |
| Net realized capital (gains) losses, as adjusted | 51.0 | (307.3) |
| Other after-tax adjustments | - | (524.5) |
| Non-GAAP operating earnings | \$1,597.5 | \$1,478.6 |

| | Per diluted share | |
|--|---------------------|----------|
| | Twelve Months Ended | |
| Diluted Earnings Per Common Share | 12/31/18 | 12/31/17 |
| Net income | \$5.36 | \$7.88 |
| Net realized capital (gains) losses, as adjusted | 0.17 | (1.05) |
| Other after-tax adjustments | - | (1.79) |
| Non-GAAP operating earnings | \$5.53 | \$5.04 |
| Weighted-average diluted common shares outstanding (in millions) | 288.8 | 293.1 |