

**FEDERAL INCOME TAX INFORMATION**  
**PRINCIPAL VARIABLE CONTRACTS FUNDS, INC.**  
**December 31, 2016**

**Long-Term Capital Gain Dividends.** Certain accounts distributed long-term capital gain dividends during the fiscal year ended December 31, 2016. Unless otherwise designated, long-term capital gain dividends are subject to a maximum tax rate of 20-percent, 15-percent, or 0-percent, depending on the shareholder's taxable income. To the extent necessary to distribute such capital gains, certain accounts may also utilize, and hereby designate, earnings and profits distributed to shareholders on redemptions of shares as part of the dividends paid deduction.

**Dividend Received Deduction.** For corporate shareholders, the percentage of ordinary income distributions (dividend income and short-term gains, if any) for the year ended December 31, 2016, that qualifies for the dividend received deduction are as follows:

	<u>Deductible Percentage</u>		<u>Deductible Percentage</u>
Balanced Account	53.76%	Principal Capital Appreciation Account	100.00%
Core Plus Bond Account	0.91%	Principal LifeTime 2010 Account	16.37%
Diversified Balanced Account	48.03%	Principal LifeTime 2020 Account	24.37%
Diversified Balanced Managed Volatility Account	16.96%	Principal LifeTime 2030 Account	33.66%
Diversified Growth Account	60.96%	Principal LifeTime 2040 Account	40.25%
Diversified Growth Managed Volatility Account	24.30%	Principal LifeTime 2050 Account	45.40%
Diversified Income Account	36.80%	Principal LifeTime 2060 Account	53.21%
Equity Income Account	83.32%	Principal LifeTime Strategic Income Account	9.46%
LargeCap Growth Account	100.00%	SAM Balanced Portfolio	32.75%
LargeCap S&P 500 Index Account	100.00%	SAM Conservative Balanced Portfolio	18.05%
LargeCap S&P 500 Managed Volatility Index Account	86.02%	SAM Conservative Growth Portfolio	61.44%
LargeCap Value Account	100.00%	SAM Flexible Income Portfolio	13.71%
MidCap Account	100.00%	SAM Strategic Growth Portfolio	71.19%
Multi-Asset Income Account	10.81%	SmallCap Account	100.00%

**Foreign Taxes Paid.** The following accounts elect under the Internal Revenue Code Section ("IRC") 853 to pass through foreign taxes paid to their shareholders. The total amounts of foreign taxes passed through to shareholders on a per share basis for the year ended December 31, 2016, are as follows:

	<u>Foreign Taxes Per Share</u>	<u>Foreign Source Income</u>
Diversified International Account	\$ 0.0592	100.00%
International Emerging Markets Account	\$ 0.0498	99.99%

The accounts may receive a refund of taxes that can result in a redetermination of historical foreign taxes paid in accordance with IRC Section 905(c). The accounts will provide by February 28th annually, when applicable, any foreign tax redetermination on Principal's Tax Center website under the Principal Variable Contracts Funds, Inc.'s Foreign Tax Redetermination Notices.

The latest tax reporting supplement is available on Principal's Tax Center website.  
 Website: <https://www.principalfunds.com/individual-investor/customer-support/tax-center>

Please consult your tax advisor if you have any questions.

**Principal Variable Contracts Funds, Inc.  
2016 Year End Tax Reporting Information**

Fund Name	Share Class	CUSIP	Record Date	Ex-Dividend Date	Payable Date	(G+H+I)	(G)	(H)	(I)	Long-Term Capital Gain Distribution	Unrecaptured Sec 1250 Gain	Dividend Received Deduction %
						Total Ordinary Distribution per share	Income Dividend	Short Term Capital Gain	Foreign Tax Paid*			
Principal Variable Contracts Funds, Inc. - Balanced Account	Class 1	742969306	08/19/2016	08/19/2016	08/19/2016	0.3651	0.3651	-	-	1.0061	-	53.76%
Principal Variable Contracts Funds, Inc. - Bond Market Index Account	Class 1	742969223	08/19/2016	08/19/2016	08/19/2016	0.1893	0.1893	-	-	-	-	0.00%
Principal Variable Contracts Funds, Inc. - Core Plus Bond Account	Class 1	742969405	08/19/2016	08/19/2016	08/19/2016	0.3601	0.3601	-	-	-	-	0.91%
Principal Variable Contracts Funds, Inc. - Core Plus Bond Account	Class 2	74256T102	08/19/2016	08/19/2016	08/19/2016	0.3498	0.3498	-	-	-	-	0.91%
Principal Variable Contracts Funds, Inc. - Diversified Balanced Account	Class 2	742969249	08/19/2016	08/19/2016	08/19/2016	0.1899	0.1817	0.0082	-	0.1325	-	48.03%
Principal Variable Contracts Funds, Inc. - Diversified Balanced Managed Volatility Account	Class 2	742969181	08/19/2016	08/19/2016	08/19/2016	0.0753	0.0750	0.0003	-	0.0625	-	16.96%
Principal Variable Contracts Funds, Inc. - Diversified Growth Account	Class 2	742969231	08/19/2016	08/19/2016	08/19/2016	0.1972	0.1944	0.0028	-	0.1767	-	60.96%
Principal Variable Contracts Funds, Inc. - Diversified Growth Managed Volatility Account	Class 2	742969173	08/19/2016	08/19/2016	08/19/2016	0.0660	0.0657	0.0003	-	0.0786	-	24.30%
Principal Variable Contracts Funds, Inc. - Diversified Income Account	Class 2	742969215	08/19/2016	08/19/2016	08/19/2016	0.1227	0.1201	0.0026	-	0.0687	-	36.80%
Principal Variable Contracts Funds, Inc. - Diversified International Account	Class 1	742969868	08/19/2016	08/19/2016	08/19/2016	0.3784	0.3192	-	0.0592	-	-	0.00%
Principal Variable Contracts Funds, Inc. - Diversified International Account	Class 2	742969538	08/19/2016	08/19/2016	08/19/2016	0.3438	0.2846	-	0.0592	-	-	0.00%
Principal Variable Contracts Funds, Inc. - Equity Income Account	Class 1	742969579	08/19/2016	08/19/2016	08/19/2016	0.6364	0.6364	-	-	1.1678	-	83.32%
Principal Variable Contracts Funds, Inc. - Equity Income Account	Class 2	742969561	08/19/2016	08/19/2016	08/19/2016	0.5755	0.5755	-	-	1.1678	-	83.32%
Principal Variable Contracts Funds, Inc. - Government & High Quality Bond Account	Class 1	742969439	08/19/2016	08/19/2016	08/19/2016	0.3692	0.3674	0.0018	-	-	-	0.00%
Principal Variable Contracts Funds, Inc. - Government & High Quality Bond Account	Class 2	742969421	08/19/2016	08/19/2016	08/19/2016	0.3526	0.3508	0.0018	-	-	-	0.00%
Principal Variable Contracts Funds, Inc. - Income Account	Class 1	742969470	08/19/2016	08/19/2016	08/19/2016	0.4929	0.4929	-	-	-	-	0.00%
Principal Variable Contracts Funds, Inc. - Income Account	Class 2	742969462	08/19/2016	08/19/2016	08/19/2016	0.4700	0.4700	-	-	-	-	0.00%
Principal Variable Contracts Funds, Inc. - International Emerging Markets Account	Class 1	742969728	08/19/2016	08/19/2016	08/19/2016	0.2081	0.1583	-	0.0498	-	-	0.00%
Principal Variable Contracts Funds, Inc. - International Emerging Markets Account	Class 2	74256T201	08/19/2016	08/19/2016	08/19/2016	0.2012	0.1514	-	0.0498	-	-	0.00%
Principal Variable Contracts Funds, Inc. - LargeCap Growth Account	Class 1	742969801	08/19/2016	08/19/2016	08/19/2016	0.0691	0.0691	-	-	-	-	100.00%
Principal Variable Contracts Funds, Inc. - LargeCap Growth Account	Class 2	742969553	08/19/2016	08/19/2016	08/19/2016	0.0192	0.0192	-	-	-	-	100.00%
Principal Variable Contracts Funds, Inc. - LargeCap Growth Account I	Class 1	742969108	08/19/2016	08/19/2016	08/19/2016	-	-	-	-	2.1297	-	0.00%
Principal Variable Contracts Funds, Inc. - LargeCap Growth Account I	Class 2	74256T409	08/19/2016	08/19/2016	08/19/2016	-	-	-	-	2.1297	-	0.00%
Principal Variable Contracts Funds, Inc. - LargeCap S&P 500 Index Account	Class 1	742969751	08/19/2016	08/19/2016	08/19/2016	0.2524	0.2514	0.0010	-	0.3682	-	100.00%
Principal Variable Contracts Funds, Inc. - LargeCap S&P 500 Index Account	Class 2	74256T300	08/19/2016	08/19/2016	08/19/2016	0.2491	0.2481	0.0010	-	0.3682	-	100.00%
Principal Variable Contracts Funds, Inc. - LargeCap S&P 500 Managed Volatility Index Account	Class 1	742969165	08/19/2016	08/19/2016	08/19/2016	0.1735	0.1232	0.0503	-	0.1033	-	86.02%
Principal Variable Contracts Funds, Inc. - LargeCap Value Account	Class 1	742969504	08/19/2016	08/19/2016	08/19/2016	0.5626	0.5626	-	-	0.9077	-	100.00%
Principal Variable Contracts Funds, Inc. - LargeCap Value Account	Class 2	74256T508	08/19/2016	08/19/2016	08/19/2016	0.5307	0.5307	-	-	0.9077	-	100.00%
Principal Variable Contracts Funds, Inc. - MidCap Account	Class 2	742969256	08/19/2016	08/19/2016	08/19/2016	0.0821	0.0821	-	-	9.6726	-	100.00%
Principal Variable Contracts Funds, Inc. - MidCap Account	Class 1	742969603	08/19/2016	08/19/2016	08/19/2016	0.2406	0.2406	-	-	9.6726	-	100.00%
Principal Variable Contracts Funds, Inc. - Money Market Account	Class 1	742969876	-	Total Daily Dividend	-	-	-	-	-	-	-	0.00%
Principal Variable Contracts Funds, Inc. - Money Market Account	Class 2	742969520	-	Total Daily Dividend	-	-	-	-	-	-	-	0.00%
Principal Variable Contracts Funds, Inc. - Multi-Asset Income Account	Class 1	74256T607	08/19/2016	08/19/2016	08/19/2016	0.2330	0.2330	-	-	0.0210	-	10.81%
Principal Variable Contracts Funds, Inc. - Multi-Asset Income Account	Class 2	74256T706	08/19/2016	08/19/2016	08/19/2016	0.2330	0.2330	-	-	0.0210	-	10.81%
Principal Variable Contracts Funds, Inc. - Principal Capital Appreciation Account	Class 1	742969272	08/19/2016	08/19/2016	08/19/2016	0.2605	0.2605	-	-	0.1767	-	100.00%
Principal Variable Contracts Funds, Inc. - Principal Capital Appreciation Account	Class 2	742969264	08/19/2016	08/19/2016	08/19/2016	0.2063	0.2063	-	-	0.1767	-	100.00%
Principal Variable Contracts Funds, Inc. - Principal LifeTime 2010 Account	Class 1	742969645	08/19/2016	08/19/2016	08/19/2016	0.2686	0.2686	-	-	0.0727	-	16.37%
Principal Variable Contracts Funds, Inc. - Principal LifeTime 2020 Account	Class 1	742969637	08/19/2016	08/19/2016	08/19/2016	0.2671	0.2520	0.0151	-	0.4409	-	24.37%
Principal Variable Contracts Funds, Inc. - Principal LifeTime 2020 Account	Class 2	742969140	08/19/2016	08/19/2016	08/19/2016	0.2509	0.2358	0.0151	-	0.4409	-	24.37%
Principal Variable Contracts Funds, Inc. - Principal LifeTime 2030 Account	Class 1	742969629	08/19/2016	08/19/2016	08/19/2016	0.2060	0.1920	0.0140	-	0.4638	-	33.66%
Principal Variable Contracts Funds, Inc. - Principal LifeTime 2030 Account	Class 2	742969132	08/19/2016	08/19/2016	08/19/2016	0.2007	0.1867	0.0140	-	0.4638	-	33.66%
Principal Variable Contracts Funds, Inc. - Principal LifeTime 2040 Account	Class 1	742969611	08/19/2016	08/19/2016	08/19/2016	0.2229	0.2044	0.0185	-	0.5215	-	40.25%
Principal Variable Contracts Funds, Inc. - Principal LifeTime 2040 Account	Class 2	742969124	08/19/2016	08/19/2016	08/19/2016	0.2125	0.1940	0.0185	-	0.5215	-	40.25%
Principal Variable Contracts Funds, Inc. - Principal LifeTime 2050 Account	Class 1	742969595	08/19/2016	08/19/2016	08/19/2016	0.1946	0.1757	0.0189	-	0.5394	-	45.40%
Principal Variable Contracts Funds, Inc. - Principal LifeTime 2050 Account	Class 2	742969116	08/19/2016	08/19/2016	08/19/2016	0.1802	0.1613	0.0189	-	0.5394	-	45.40%
Principal Variable Contracts Funds, Inc. - Principal LifeTime 2060 Account	Class 1	742969199	08/19/2016	08/19/2016	08/19/2016	0.1365	0.1314	0.0051	-	0.3791	-	53.21%
Principal Variable Contracts Funds, Inc. - Principal LifeTime Strategic Income Account	Class 1	742969587	08/19/2016	08/19/2016	08/19/2016	0.2847	0.2847	-	-	-	-	9.46%
Principal Variable Contracts Funds, Inc. - Real Estate Securities Account	Class 1	742969827	08/19/2016	08/19/2016	08/19/2016	0.3243	0.3243	-	-	1.9272	0.0515	0.00%
Principal Variable Contracts Funds, Inc. - Real Estate Securities Account	Class 2	742969512	08/19/2016	08/19/2016	08/19/2016	0.2899	0.2899	-	-	1.9272	0.0515	0.00%
Principal Variable Contracts Funds, Inc. - SAM Balanced Portfolio	Class 1	742969389	08/19/2016	08/19/2016	08/19/2016	0.3235	0.3216	0.0019	-	0.9254	-	32.75%
Principal Variable Contracts Funds, Inc. - SAM Balanced Portfolio	Class 2	742969371	08/19/2016	08/19/2016	08/19/2016	0.2851	0.2832	0.0019	-	0.9254	-	32.75%
Principal Variable Contracts Funds, Inc. - SAM Conservative Balanced Portfolio	Class 1	742969363	08/19/2016	08/19/2016	08/19/2016	0.3036	0.3014	0.0022	-	0.4504	-	18.05%
Principal Variable Contracts Funds, Inc. - SAM Conservative Balanced Portfolio	Class 2	742969355	08/19/2016	08/19/2016	08/19/2016	0.2735	0.2713	0.0022	-	0.4504	-	18.05%
Principal Variable Contracts Funds, Inc. - SAM Conservative Growth Portfolio	Class 1	742969348	08/19/2016	08/19/2016	08/19/2016	0.2572	0.2569	0.0003	-	0.9414	-	61.44%
Principal Variable Contracts Funds, Inc. - SAM Conservative Growth Portfolio	Class 2	742969330	08/19/2016	08/19/2016	08/19/2016	0.2136	0.2133	0.0003	-	0.9414	-	61.44%
Principal Variable Contracts Funds, Inc. - SAM Flexible Income Portfolio	Class 1	742969322	08/19/2016	08/19/2016	08/19/2016	0.4344	0.4323	0.0021	-	0.2505	-	13.71%
Principal Variable Contracts Funds, Inc. - SAM Flexible Income Portfolio	Class 2	742969314	08/19/2016	08/19/2016	08/19/2016	0.4004	0.3983	0.0021	-	0.2505	-	13.71%
Principal Variable Contracts Funds, Inc. - SAM Strategic Growth Portfolio	Class 1	742969298	08/19/2016	08/19/2016	08/19/2016	0.2866	0.2756	0.0110	-	1.0231	-	71.19%
Principal Variable Contracts Funds, Inc. - SAM Strategic Growth Portfolio	Class 2	742969280	08/19/2016	08/19/2016	08/19/2016	0.2399	0.2289	0.0110	-	1.0231	-	71.19%
Principal Variable Contracts Funds, Inc. - Short-Term Income Account	Class 1	742969413	08/19/2016	08/19/2016	08/19/2016	0.0545	0.0545	-	-	-	-	0.00%
Principal Variable Contracts Funds, Inc. - Short-Term Income Account	Class 2	742969397	08/19/2016	08/19/2016	08/19/2016	0.0510	0.0510	-	-	-	-	0.00%
Principal Variable Contracts Funds, Inc. - SmallCap Account	Class 1	742969819	08/19/2016	08/19/2016	08/19/2016	0.0352	0.0352	-	-	0.6008	-	100.00%
Principal Variable Contracts Funds, Inc. - SmallCap Account	Class 2	742969157	08/19/2016	08/19/2016	08/19/2016	0.0109	0.0109	-	-	0.6008	-	100.00%

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**Principal Variable Contracts Funds, Inc.  
2016 Year End Tax Reporting Information**

**FOREIGN SOURCE INCOME**

	Foreign Source Income	Foreign Tax Paid*
Diversified Intl Account	100.00%	0.0592
Intl Emerging Mkts Account	99.99%	0.0498

**PERCENTAGE OF GOVT INCOME BY SECURITY**

<b>Fund</b>	<b>UST</b>	<b>Fed Farm</b>	<b>FHLB</b>	<b>SLMA</b>	<b>TVA</b>	<b>Other Dir</b>	<b>GNMA</b>	<b>FNMA</b>	<b>FHLMC</b>	<b>Other Ind</b>
Balanced Account	5.49%	0.00%	0.00%	0.00%	0.00%	0.00%	1.08%	5.59%	2.82%	0.00%
Bond & Mortgage Securities Account	6.69%	0.00%	0.00%	0.00%	0.00%	0.00%	2.67%	9.48%	3.56%	0.00%
Bond Market Index Account	23.77%	0.00%	0.00%	0.00%	0.00%	0.00%	7.98%	12.80%	8.91%	0.00%
Diversified Balanced Account	11.45%	0.00%	0.00%	0.00%	0.00%	0.00%	3.84%	6.17%	4.29%	0.00%
Diversified Balanced Managed Volatility Account	12.16%	0.00%	0.00%	0.00%	0.00%	0.00%	4.08%	6.55%	4.56%	0.00%
Diversified Growth Account	8.04%	0.00%	0.00%	0.00%	0.00%	0.00%	2.70%	4.33%	3.01%	0.00%
Diversified Growth Managed Volatility Account	8.47%	0.00%	0.00%	0.00%	0.00%	0.00%	2.84%	4.56%	3.17%	0.00%
Diversified Income Account	15.21%	0.00%	0.00%	0.00%	0.00%	0.00%	5.11%	8.19%	5.70%	0.00%
Diversified International Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Equity Income Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Government & High Quality Bond Account	4.33%	0.00%	0.00%	0.00%	0.00%	0.00%	6.73%	28.40%	11.01%	0.00%
Income Account	7.53%	0.00%	0.00%	0.00%	0.00%	0.00%	0.05%	12.27%	4.14%	0.00%
International Emerging Markets Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
LargeCap Growth Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
LargeCap Growth Account I	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
LargeCap S&P 500 Index Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
LargeCap S&P 500 Managed Volatility Index Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
LargeCap Value Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
MidCap Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Money Market Account	0.05%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.48%	0.00%
Multi-Asset Income Account	0.02%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.07%	0.01%	0.00%
Principal Capital Appreciation Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Principal LifeTime 2010 Account	6.11%	0.00%	0.00%	0.00%	0.00%	0.00%	1.26%	3.55%	1.60%	0.00%
Principal LifeTime 2020 Account	4.65%	0.00%	0.00%	0.00%	0.00%	0.00%	1.09%	3.14%	1.40%	0.00%
Principal LifeTime 2030 Account	3.61%	0.00%	0.00%	0.00%	0.00%	0.00%	0.85%	2.44%	1.09%	0.00%
Principal LifeTime 2040 Account	2.28%	0.00%	0.00%	0.00%	0.00%	0.00%	0.68%	1.83%	0.86%	0.00%
Principal LifeTime 2050 Account	1.41%	0.00%	0.00%	0.00%	0.00%	0.00%	0.38%	1.03%	0.48%	0.00%
Principal LifeTime 2060 Account	1.07%	0.00%	0.00%	0.00%	0.00%	0.00%	0.26%	0.71%	0.33%	0.00%
Principal LifeTime Strategic Income Account	6.94%	0.00%	0.00%	0.00%	0.00%	0.00%	1.53%	4.36%	1.95%	0.00%
Real Estate Securities Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
SAM Balanced Portfolio	2.76%	0.00%	0.00%	0.00%	0.00%	0.00%	0.53%	5.14%	1.84%	0.00%
SAM Conservative Balanced Portfolio	3.59%	0.00%	0.00%	0.00%	0.00%	0.00%	0.85%	7.41%	2.67%	0.00%
SAM Conservative Growth Portfolio	1.33%	0.00%	0.00%	0.00%	0.00%	0.00%	0.28%	2.59%	0.93%	0.00%
SAM Flexible Income Portfolio	4.29%	0.00%	0.00%	0.00%	0.00%	0.00%	0.69%	7.55%	2.69%	0.00%
SAM Strategic Growth Portfolio	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Short-Term Income Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.06%	0.20%	0.02%	0.00%
SmallCap Blend Account	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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